

TrueBlue, Inc.
Form 10-Q
October 27, 2014

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 26, 2014

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 001-14543

TrueBlue, Inc.

(Exact name of Registrant as specified in its charter)

Washington

(State of Incorporation)

91-1287341

(IRS Employer ID)

1015 A Street, Tacoma, Washington

(Address of principal executive offices)

98402

(Zip Code)

Registrant's telephone number, including area code: (253) 383-9101

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Smaller reporting company

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No
As of October 13, 2014, there were 42,515,269 shares of the registrant's common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

TRUEBLUE, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except par value data)

| | September 26, 2014 | December 27, 2013 |
|--|-----------------------|----------------------|
| | (unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$29,244 | \$122,003 |
| Marketable securities | 1,746 | 14,745 |
| Accounts receivable, net of allowance for doubtful accounts of \$7,712 and \$5,710 | 310,926 | 199,519 |
| Prepaid expenses, deposits and other current assets | 17,522 | 9,491 |
| Income tax receivable | 7,934 | 3,060 |
| Deferred income taxes | 10,173 | 7,640 |
| Total current assets | 377,545 | 356,458 |
| Property and equipment, net | 62,110 | 54,473 |
| Restricted cash and investments | 152,281 | 154,558 |
| Deferred income taxes | — | 4,213 |
| Goodwill | 232,293 | 82,239 |
| Intangible assets, net | 142,069 | 31,505 |
| Other assets, net | 34,429 | 36,015 |
| Total assets | \$1,000,727 | \$719,461 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and other accrued expenses | \$47,697 | \$29,850 |
| Accrued wages and benefits | 69,749 | 39,094 |
| Current portion of workers' compensation claims reserve | 57,739 | 49,942 |
| Other current liabilities | 2,773 | 2,523 |
| Total current liabilities | 177,958 | 121,409 |
| Workers' compensation claims reserve, less current portion | 176,204 | 164,887 |
| Long-term debt, less current portion | 174,950 | 29,656 |
| Deferred income taxes | 19,321 | — |
| Other long-term liabilities | 12,328 | 10,149 |
| Total liabilities | 560,761 | 326,101 |
| Commitments and contingencies (Note 11) | | |
| Shareholders' equity: | | |
| Preferred stock, \$0.131 par value, 20,000 shares authorized; No shares issued and outstanding | — | — |
| Common stock, no par value, 100,000 shares authorized; 41,505 and 41,085 shares issued and outstanding | 1 | 1 |
| Accumulated other comprehensive income | 1,408 | 2,033 |
| Retained earnings | 438,557 | 391,326 |
| Total shareholders' equity | 439,966 | 393,360 |
| Total liabilities and shareholders' equity | \$1,000,727 | \$719,461 |

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See accompanying notes to consolidated financial statements

TRUEBLUE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

| | Thirteen weeks ended | | Thirty-nine weeks ended | |
|---|-----------------------|-----------------------|-------------------------|-----------------------|
| | September 26, 2014 | September 27, 2013 | September 26, 2014 | September 27, 2013 |
| Revenue from services | \$633,365 | \$451,169 | \$1,482,655 | \$1,219,977 |
| Cost of services | 473,766 | 327,641 | 1,103,914 | 897,937 |
| Gross profit | 159,599 | 123,528 | 378,741 | 322,040 |
| Selling, general and administrative expenses | 120,318 | 90,767 | 308,654 | 268,538 |
| Depreciation and amortization | 9,719 | 4,771 | 20,126 | 15,133 |
| Income from operations | 29,562 | 27,990 | 49,961 | 38,369 |
| Interest expense | (1,140) |) (350) |) (1,725) |) (919) |
| Interest and other income | 731 | 766 | 2,110 | 2,086 |
| Interest and other income (expense), net | (409) |) 416 | 385 | 1,167 |
| Income before tax expense | 29,153 | 28,406 | 50,346 | 39,536 |
| Income tax expense | 8,243 | 9,454 | 11,696 | 9,124 |
| Net income | \$20,910 | \$18,952 | \$38,650 | \$30,412 |
| Net income per common share: | | | | |
| Basic | \$0.51 | \$0.47 | \$0.95 | \$0.76 |
| Diluted | \$0.51 | \$0.47 | \$0.94 | \$0.75 |
| Weighted average shares outstanding: | | | | |
| Basic | 40,793 | 40,330 | 40,701 | 40,085 |
| Diluted | 41,038 | 40,670 | 40,971 | 40,395 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment, net of tax | \$(1,087) |) \$109 | \$ (997) |) \$ (439) |
| Unrealized gain (loss) on investments, net of tax | (81) |) (30) |) 372 |) (37) |
| Total other comprehensive income (loss), net of tax | (1,168) |) 79 | (625) |) (476) |
| Comprehensive income | \$19,742 | \$19,031 | \$38,025 | \$29,936 |

See accompanying notes to consolidated financial statements

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TRUEBLUE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

| | Thirty-nine weeks ended | |
|--|-------------------------|--------------------|
| | September 26, 2014 | September 27, 2013 |
| Cash flows from operating activities: | | |
| Net income | \$38,650 | \$30,412 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation and amortization | 20,126 | 15,133 |
| Provision for doubtful accounts | 9,619 | 8,785 |
| Stock-based compensation | 8,902 | 6,428 |
| Deferred income taxes | 6,077 | (1,694) |
| Other operating activities | (148) |) 1,213 |
| Changes in operating assets and liabilities, net of acquisition: | | |
| Accounts receivable | (26,391) |) (24,776) |
| Income taxes | (3,179) |) 6,580 |
| Other assets | (6,510) |) (4,703) |
| Accounts payable and other accrued expenses | (1,687) |) (6,728) |
| Accrued wages and benefits | 11,373 | 11,419 |
| Workers' compensation claims reserve | 532 | 2,785 |
| Other liabilities | 2,539 | 423 |
| Net cash provided by operating activities | 59,903 | 45,277 |
| Cash flows from investing activities: | | |
| Capital expenditures | (10,213) |) (10,350) |
| Acquisition of businesses, net of cash acquired | (307,972) |) (54,872) |
| Purchases of marketable securities | (25,057) |) (35,300) |
| Sales and maturities of marketable securities | 43,917 | 205 |
| Change in restricted cash and cash equivalents | 10,020 | (1,338) |
| Purchases of restricted investments | (18,196) |) (9,175) |
| Maturities of restricted investments | 10,588 | 13,337 |
| Net cash used in investing activities | (296,913) |) (97,493) |
| Cash flows from financing activities: | | |
| Net proceeds from stock option exercises and employee stock purchase plans | 1,673 | 8,731 |
| Common stock repurchases for taxes upon vesting of restricted stock | (3,021) |) (2,653) |
| Proceeds from long-term debt | 186,994 | 34,000 |
| Payments on debt and other liabilities | (41,700) |) (8,115) |
| Other | 1,242 | 720 |
| Net cash provided by financing activities | 145,188 | 32,683 |
| Effect of exchange rates on cash | (937) |) (435) |
| Net change in cash and cash equivalents | (92,759) |) (19,968) |
| CASH AND CASH EQUIVALENTS, beginning of period | 122,003 | 129,513 |
| CASH AND CASH EQUIVALENTS, end of period | \$29,244 | \$109,545 |
| See accompanying notes to consolidated financial statements | | |

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Notes to Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial statement preparation

The accompanying unaudited consolidated financial statements (“financial statements”) of TrueBlue, Inc. (the “Company”, “we”, “us”, “our”, and “TrueBlue”) are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures usually found in financial statements prepared in accordance with GAAP have been condensed or omitted. The financial statements reflect all adjustments which, in the opinion of management, are necessary to fairly state the financial statements for the interim periods presented. We follow the same accounting policies for preparing both quarterly and annual financial statements.

Effective June 30, 2014, we completed the acquisition of all of the outstanding equity interests of Staffing Solutions Holdings, Inc., (“Seaton”) a Chicago-based corporation, for a cash purchase price of approximately \$308.0 million, net of cash acquired. The Seaton acquisition expanded the scope of our services from specialized temporary blue-collar staffing services. Seaton provides high-volume permanent employee recruitment process outsourcing, outsourced workforce management, and management of outsourced labor service providers through its PeopleScout, hrX, and Staff Management | SMX service lines. Seaton's customers include a broad range of industries such as airline, financial services, retail, manufacturing, and transportation. Seaton's operations will continue to be managed and supported from Chicago.

The consolidated financial statements include the results of operations and cash flows of Seaton from the acquisition date to September 26, 2014 and not from any prior periods, except with respect to the Supplemental Unaudited Pro Forma Information included in Note 2: Acquisition.

These financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 27, 2013. The results of operations for the thirteen and thirty-nine weeks ended September 26, 2014 are not necessarily indicative of the results expected for the full fiscal year or for any other fiscal period.

Fiscal period end

Our fiscal period ends on the last Friday of the month. Seaton has a fiscal period end of the last Sunday of the month. Seaton’s results for the thirteen weeks ended September 28, 2014 have been combined with TrueBlue’s results for the thirteen weeks ended September 26, 2014.

Goodwill and intangible assets

We have historically evaluated our goodwill for impairment at the reporting unit level annually as of the last day of our fiscal third quarter or when indications of potential impairment exist. In the first quarter of 2014, we changed the date of our annual assessment of goodwill impairment to the first day of our fiscal second quarter of each year. This is a change in method of applying an accounting principle, which management believes is preferable because it better aligns the timing of the assessment with our planning and forecasting process and alleviates constraints on accounting resources during our annual reporting process. The change in the assessment date does not delay, accelerate, or avoid a potential impairment charge. Due to significant judgments and estimates utilized in our goodwill impairment analysis, management has determined that it is impracticable to objectively determine projected cash flows and related valuation estimates that would have been used as of the first day of the second quarter of each prior reporting period

without the use of hindsight. As of the first day of our fiscal second quarter of 2014, we performed our annual assessment of goodwill impairment. Based on our assessment, all of our reporting units' fair values were significantly in excess of their carrying values. We consider a reporting unit's fair value to be substantially in excess of its carrying value at 20% or greater. Accordingly, no impairment loss was required to be recognized.

Recently adopted accounting standards

Effective December 28, 2013, we adopted the accounting standard regarding the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The standard requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax

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asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent when, for certain reasons, it is not available. The adoption of this standard did not have a material impact on our financial statements.

Effective December 28, 2013, we early adopted the accounting standard regarding reporting discontinued operations and disposals of components of an entity. Under the new guidance, only disposals representing a strategic shift in operations or that have a major effect on a company's operations and results of operations should be presented as discontinued operations. The standard amends the requirement for reporting discontinued operations and requires additional disclosures about disposals of individually material components that are not classified as discontinued operations. The standard is effective for fiscal year-ends beginning after December 15, 2014, however early adoption is permitted. The adoption of this standard did not have a material impact on our financial statements.

Recently issued accounting pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2014-09 related to revenue recognition. This guidance sets forth a five-step revenue recognition model, which supersedes the prior revenue recognition guidance, as well as most industry-specific revenue recognition guidance that previously existed in GAAP. The underlying principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. The ASU provides two methods of initial adoption: retrospective for all periods presented, or through a cumulative adjustment in the year of adoption. It is effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods. Early adoption is not permitted. We have not yet determined which method of adoption will be applied and are currently evaluating the impact that this standard will have on our consolidated financial statements.

NOTE 2: ACQUISITION

We account for our business acquisitions using the purchase method of accounting. The fair value of the net assets acquired and the results of the acquired business are included in the financial statements from the acquisition date forward. We are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and results of operations during the reporting period. Estimates are used in accounting for, among other things, the fair value of acquired property and equipment, intangible assets, useful lives of property and equipment and amortizable lives for acquired intangible assets, as well as liabilities for workers' compensation and legal contingencies. Any excess of the purchase consideration over the identified fair value of the assets acquired and liabilities assumed is recognized as goodwill. All acquisition related costs are expensed as incurred and recorded in operating expenses. Additionally, we recognize liabilities for anticipated restructuring costs that will be necessary due to the elimination of excess capacity, redundant assets, or unnecessary functions and record them as operating expenses. We estimate the preliminary fair value of acquired assets and liabilities as of the date of acquisition based on information available at that time. The valuation of these tangible and identifiable intangible assets and liabilities is subject to further management review and may change between the preliminary allocation and the final allocation. Any changes to these estimates may have a material impact on our operating results or financial condition. The excess of the purchase price over the estimated fair values of the net assets acquired was recorded as goodwill and is not deductible for tax purposes.

Effective June 30, 2014, we completed the acquisition of all of the outstanding equity interests of Staffing Solutions Holdings, Inc., ("Seaton") a Chicago-based corporation, for a cash purchase price of approximately \$308.0 million, net of cash acquired. The Seaton acquisition expanded the scope of our services from specialized temporary blue-collar staffing services. Seaton provides high-volume permanent employee recruitment process outsourcing, outsourced workforce management, and management of outsourced labor service providers through its PeopleScout, hrX, and Staff Management | SMX service lines. Seaton's customers include a broad range of industries such as

airline, financial services, retail, manufacturing, and transportation. Seaton's operations will continue to be managed and supported from Chicago.

Effective June 30, 2014, we entered into a Second Amended and Restated Credit Agreement for a secured revolving credit facility of up to a maximum of \$300.0 million, of which \$187.0 million was used to fund a portion of the acquisition price. See Note 10: Debt, for details of our Second Amended and Restated credit facility.

We incurred acquisition and integration-related costs of \$2.3 million and \$4.3 million for the thirteen and thirty-nine weeks ended September 26, 2014, respectively. These costs are included in Selling, general and administrative expenses in the Consolidated Statements of Operations and Comprehensive Income and Cash flows from operating activities in the Consolidated Statements of Cash Flows. At September 26, 2014, we have a liability for incurred but not yet paid integration costs of \$0.1 million included in Accounts payable and other accrued expenses in our Consolidated Balance Sheets.

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Notes to Consolidated Financial Statements—(Continued)

Purchase price allocation

The estimated purchase price allocation is based on preliminary estimates of fair values, net of cash acquired, as of the acquisition date of June 30, 2014, as follows (in thousands):

| | Purchase Price Allocation |
|---|------------------------------|
| Accounts receivable (1) | \$94,635 |
| Prepaid expenses, deposits and other current assets | 6,348 |
| Property and equipment | 9,424 |
| Other non-current assets | 1,230 |
| Intangible assets | 118,200 |
| Total assets acquired | 229,837 |
| Accounts payable and other accrued expenses | 37,247 |
| Workers' compensation liability | 18,584 |
| Deferred tax liability | 14,925 |
| Other long-term liabilities | 1,163 |
| Total liabilities assumed | 71,919 |
| Net identifiable assets acquired | 157,918 |
| Goodwill (2) | 150,054 |
| Net assets acquired | \$307,972 |

(1) The gross contractual amount of accounts receivable was \$96.7 million of which \$2.1 million was estimated to be uncollectible.

(2) Goodwill is attributable to the acquired workforce, the expected synergies and future cash flows after the acquisition of Seaton. The goodwill is not deductible for tax purposes.

Intangible assets include identifiable intangible assets for customer relationships and trade name/trademarks. We estimated the fair value of the acquired identifiable intangible assets, which are subject to amortization using the income approach. The following table sets forth the components of identifiable intangible assets and their estimated useful lives as of June 30, 2014, (in thousands, except for weighted average estimated useful lives, in years):

| | Estimated Fair Value | Weighted Average Estimated Useful Lives in Years |
|-------------------------|-------------------------|--|
| Trade name/trademarks | \$10,500 | Indefinite |
| Trade name/trademarks | 300 | 4.0 |
| Technologies | 18,300 | 4.0 |
| Customer relationships | 89,100 | 10.6 |
| Total intangible assets | \$118,200 | |

The acquired assets and liabilities of Seaton are included in our Consolidated Balance Sheets as of September 26, 2014 and the results of its operations and cash flows are reported in our Consolidated Statements of Operations and Comprehensive Income and Consolidated Statements of Cash Flows for the period from June 30, 2014 to September 26, 2014.

The amount of revenues and income from operations of Seaton included in our Consolidated Statements of Operations and Comprehensive Income were \$148.6 million and \$2.1 million, respectively, for the thirteen weeks ended September 26, 2014. Income from operations includes depreciation and amortization of \$4.6 million for acquired

finite-lived intangible assets and developed technology pushed down to Seaton.

Unaudited pro forma financial information

The following table reflects the pro forma consolidated results of operations for the periods presented, as though the acquisition of Seaton had occurred as of the beginning of the period being reported on, after giving effect to related income taxes.

The unaudited pro forma financial information combines our results of operations with the unaudited financial information of Seaton used by Seaton management for internal reporting purposes. Seaton acquired hrX, an Australian based company, on January

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Notes to Consolidated Financial Statements—(Continued)

31, 2014. The unaudited pro forma information of Seaton includes the results of operations for hrX as if it had been acquired at the beginning of the period being reported on. Any changes required by further procedures over the financial information of Seaton could be material. The unaudited pro forma financial information presented is for illustrative purposes only and is not indicative of the results of operations that would have been realized if the acquisition had been completed on the dates indicated, nor is it indicative of future operating results.

The unaudited pro forma consolidated results of operations includes differences in workers' compensation expense, interest expense on debt and amortization of debt issuance costs, amortization of developed technology and finite-lived intangible assets, and stock-based compensation. The unaudited pro forma consolidated results of operations do not include, among other items, the effects of potential losses in gross profit due to revenue attrition from combining the two companies, and differences in our operating costs structure and non-recurring costs of acquisition and integration related costs.

Unaudited pro forma financial data is presented below (in thousands, except per share data):

| | Thirteen weeks ended | | Thirty-nine weeks ended | |
|---------------------------------------|----------------------|--------------------|-------------------------|--------------------|
| | September 26, 2014 | September 27, 2013 | September 26, 2014 | September 27, 2013 |
| Revenue from services | \$633,365 | \$ 588,399 | \$1,929,537 | \$ 1,605,933 |
| Net income | 22,314 | 18,952 | 40,871 | 29,744 |
| Net income per common share - diluted | 0.54 | 0.47 | 1.00 | 0.74 |

NOTE 3: SEGMENT INFORMATION

We have historically operated as one reportable segment providing temporary blue-collar staffing services. We consider many factors including the nature of our services, customers served, and service delivery strategies in determining how to structure operating segments.

The Seaton acquisition expanded the scope of our services from specialized temporary staffing services to include specialized outsourcing solutions. Seaton provides high-volume permanent employee recruitment process outsourcing, outsourced workforce management, and management of outsourced labor service providers through its PeopleScout, hrX, and Staff Management | SMX service lines. Seaton's customers include a broad range of industries such as airline, financial services, retail, manufacturing, and transportation. Seaton's operations will continue to be managed and supported from Chicago. Results attributable to Seaton are being separately evaluated by management. We are in the process of integrating Seaton with our existing operations, therefore, for the quarter ended September 26, 2014, we are presenting our legacy TrueBlue reportable segment separately from the acquired Seaton results of operations.

Results from operations associated with legacy TrueBlue and acquired Seaton were as follows (in thousands):

| | Thirteen weeks ended | | | September 27, 2013 |
|--|----------------------|-----------|---------------|--------------------|
| | September 26, 2014 | | Total Company | Legacy TrueBlue |
| | Legacy TrueBlue | Seaton | | |
| Revenue from services | \$484,729 | \$148,636 | \$633,365 | \$451,169 |
| Earnings before interest depreciation and amortization | \$32,593 | \$6,688 | 39,281 | 32,761 |
| Depreciation and amortization | | | 9,719 | 4,771 |
| Income from operations | | | 29,562 | 27,990 |

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| | | |
|--|----------|----------|
| Interest and other income (expense), net | (409 |) 416 |
| Income before tax expense | 29,153 | 28,406 |
| Income tax expense | 8,243 | 9,454 |
| Net income | \$20,910 | \$18,952 |

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Notes to Consolidated Financial Statements—(Continued)

NOTE 4: FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We apply a fair value hierarchy that prioritizes the inputs used to measure fair value:

Level 1 inputs are valued using quoted market prices in active markets for identical assets or liabilities. Our Level 1 assets primarily include cash and cash equivalents and mutual funds.

Level 2 inputs are valued based upon quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active. Our Level 2 assets are marketable securities, which may consist of certificates of deposit ("CDs"), variable-rate demand notes ("VRDNs"), commercial paper, and restricted investments, which consist of municipal debt securities, corporate debt securities, asset-backed securities, and U.S. agency debentures. Our investments consist of highly rated investment grade debt securities, which are rated A1/P1 or higher for short-term securities and A- or higher for long-term securities, by nationally recognized statistical rating organizations. We obtain our inputs from quoted market prices and independent pricing vendors.

Level 3 inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. We have no Level 3 assets or liabilities.

The carrying value of our accounts receivable, accounts payable and other accrued expenses, and accrued wages and benefits approximates fair value due to their short-term nature. We also hold certain restricted investments which collateralize workers' compensation programs and are classified as held-to-maturity and carried at amortized cost on our Consolidated Balance Sheets.

The following tables present the fair value and hierarchy for our financial assets (in thousands):

| | September 26, 2014 | | | | |
|--|--------------------|------------------|-----------|---------|---------|
| | Carrying Value | Total Fair Value | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents (1) | \$29,244 | \$29,244 | \$29,244 | \$— | \$— |
| Marketable securities classified as available-for-sale (2) | 1,746 | 1,746 | — | 1,746 | — |
| Restricted cash and cash equivalents (1) | 50,313 | 50,313 | 50,313 | — | — |
| Other restricted assets (3) | 9,269 | 9,269 | 9,269 | — | — |
| Restricted investments classified as held-to-maturity | 92,699 | 93,751 | — | 93,751 | — |
| | December 27, 2013 | | | | |
| | Carrying Value | Total Fair Value | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents (1) | \$122,003 | \$122,003 | \$122,003 | \$— | \$— |
| Marketable securities classified as available-for-sale (2) | 20,650 | 20,650 | — | 20,650 | — |
| Restricted cash and cash equivalents (1) | 57,085 | 57,085 | 57,085 | — | — |
| Other restricted assets (3) | 10,795 | 10,795 | 10,795 | — | — |
| Restricted investments classified as held-to-maturity | 86,678 | 86,940 | — | 86,940 | — |

(1) Cash equivalents and restricted cash equivalents consist of money market funds, deposits, and investments with original maturities of three months or less.

(2) Marketable securities include CDs, VRDNs, and commercial paper, which are classified as available-for-sale. At September 26, 2014, all our marketable securities, which consist of CDs, had stated maturities of less than one year. At December 27, 2013, we had \$6.0 million of CDs with maturities greater than one year, which are classified as Other assets on our Consolidated Balance Sheets. VRDNs with contractual maturities beyond one year are classified as short-term based on their highly liquid nature and because they represent the investment of cash that is available for current operations. Despite the long-term nature of their stated contractual maturities, we

routinely buy and sell these securities and believe we have the ability to quickly sell them to the re-marketing agent at par value plus accrued interest in the event we decide to liquidate our investment in a particular VRDN.

- (3) Other restricted assets primarily consists of deferred compensation plan accounts, which are comprised of mutual funds.

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Notes to Consolidated Financial Statements—(Continued)

NOTE 5. MARKETABLE SECURITIES

The following tables present the amortized cost and fair value of our marketable securities, which are carried at fair value (in thousands):

| | September 26, 2014 | | December 27, 2013 | |
|-----------------------------|--------------------|------------|-------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Certificates of deposit (1) | \$1,750 | \$1,746 | \$10,000 | \$9,900 |
| Variable-rate demand notes | — | — | 5,750 | 5,750 |
| Commercial paper | — | — | 5,000 | 5,000 |
| | \$1,750 | \$1,746 | \$20,750 | \$20,650 |

(1) As of September 26, 2014, all our certificate of deposits were due within one year.

Gross unrealized gains and loss were de minimis for the thirteen and thirty-nine weeks ended September 26, 2014 and September 27, 2013. Our marketable securities have not resulted in any other-than-temporary impairments as of September 26, 2014.

NOTE 6: RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments consist principally of collateral that has been provided or pledged to insurance carriers for workers' compensation and state workers' compensation programs. Our insurance carriers and certain state workers' compensation programs require us to collateralize a portion of our workers' compensation obligation. The collateral typically takes the form of cash and cash equivalents and highly rated investment grade securities, primarily in municipal debt securities, corporate debt securities, and asset-backed securities. The majority of our collateral obligations are held in a trust at the Bank of New York Mellon ("Trust"). Our investments have not resulted in any other-than-temporary impairments.

The following is a summary our Restricted cash and investments (in thousands):

| | September 26, 2014 | December 27, 2013 |
|---|--------------------|-------------------|
| Cash collateral held by insurance carriers | \$22,643 | \$23,747 |
| Cash and cash equivalents held in Trust (1) | 25,806 | 31,474 |
| Investments held in Trust | 92,699 | 86,678 |
| Cash collateral backing letters of credit | 1,864 | 1,864 |
| Other (2) | 9,269 | 10,795 |
| Total restricted cash and investments | \$152,281 | \$154,558 |

(1) Included in this amount is \$0.9 million and \$0.8 million of accrued interest at September 26, 2014 and December 27, 2013, respectively.

(2) Primarily consists of deferred compensation plan accounts, which are comprised of mutual funds.

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Notes to Consolidated Financial Statements—(Continued)

The following tables present fair value disclosures for our held-to-maturity investments, which are carried at amortized cost (in thousands):

| | September 26, 2014 | | | Fair Value |
|---------------------------|--------------------|-----------------------|-----------------------|------------|
| | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | |
| Municipal debt securities | \$54,267 | \$988 | \$(86) |) \$55,169 |
| Corporate debt securities | 27,785 | 194 | (145) |) 27,834 |
| Asset-backed securities | 10,647 | 139 | (38) |) 10,748 |
| | \$92,699 | \$1,321 | \$(269) |) \$93,751 |
| | December 27, 2013 | | | Fair Value |
| | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | |
| Municipal debt securities | \$54,133 | \$722 | \$(398) |) \$54,457 |
| Corporate debt securities | 19,694 | 180 | (294) |) 19,580 |
| Asset-backed securities | 12,851 | 141 | (89) |) 12,903 |
| | \$86,678 | \$1,043 | \$(781) |) \$86,940 |

The amortized cost and fair value by contractual maturity of our held-to-maturity investments are as follows (in thousands):

| | September 26, 2014 | |
|--|--------------------|------------|
| | Amortized Cost | Fair Value |
| Due in one year or less | \$10,797 | \$10,853 |
| Due after one year through five years | 41,358 | 41,874 |
| Due after five years through ten years | 40,544 | 41,024 |
| | \$92,699 | \$93,751 |

Actual maturities may differ from contractual maturities because the issuers of certain debt securities have the right to call or prepay their obligations without penalty.

NOTE 7: PROPERTY AND EQUIPMENT, NET

Property and equipment are stated at cost and consist of the following (in thousands):

| | September 26, 2014 | December 27, 2013 |
|--|--------------------|-------------------|
| Buildings and land | \$28,377 | \$27,008 |
| Computers and software | 111,114 | 101,852 |
| Furniture and equipment | 11,373 | 10,444 |
| Construction in progress | 7,821 | 2,869 |
| | 158,685 | 142,173 |
| Less accumulated depreciation and amortization | (96,575) | (87,700) |
| | \$62,110 | \$54,473 |

Capitalized software costs, net of accumulated amortization, were \$29.5 million and \$30.6 million as of September 26, 2014 and December 27, 2013, respectively, excluding amounts in Construction in progress. Construction in progress consists primarily of purchased and internally developed software.

Depreciation expense of property and equipment totaled \$5.1 million and \$3.6 million for the thirteen weeks ended September 26, 2014 and September 27, 2013, respectively. Depreciation expense of property and equipment totaled \$12.5 million and \$11.7 million for the thirty-nine weeks ended September 26, 2014 and September 27, 2013, respectively.

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Notes to Consolidated Financial Statements—(Continued)

NOTE 8: GOODWILL AND INTANGIBLE ASSETS

Goodwill

We are currently in the process of evaluating our reportable segments as a result of our acquisition of Seaton, effective June 30, 2014. Refer to Note 3: Segment Information, for further details. Therefore, we have summarized the carrying value of our goodwill by legacy TrueBlue and acquired Seaton as follows (in thousands):

| | Legacy TrueBlue | Seaton | Total Company |
|-------------------------------|--------------------|------------|------------------|
| Balance at December 27, 2013 | | | |
| Goodwill before impairment | \$ 128,449 | \$— | \$ 128,449 |
| Accumulated impairment loss | (46,210 |) — | (46,210) |
| Goodwill, net | 82,239 | — | 82,239 |
| Balance at September 26, 2014 | | | |
| Goodwill before impairment | 128,449 | 150,054 | 278,503 |
| Accumulated impairment loss | (46,210 |) — | (46,210) |
| Goodwill, net | \$82,239 | \$ 150,054 | \$ 232,293 |

Intangible assets

The following table presents our purchased finite-lived intangible assets (in thousands):

| | September 26, 2014 | | | December 27, 2013 | | |
|--------------------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Finite-lived intangible assets (1): | | | | | | |
| Customer relationships | \$ 125,040 | \$ (19,194) | \$ 105,846 | \$ 35,940 | \$ (13,942) | \$ 21,998 |
| Trade name/trademarks | 4,572 | (2,816) | 1,756 | 5,172 | (2,708) | 2,464 |
| Non-compete agreements | 1,800 | (727) | 1,073 | 1,800 | (457) | 1,343 |
| Technologies | 18,300 | (1,106) | 17,194 | — | — | — |
| Total finite-lived intangible assets | \$ 149,712 | \$ (23,843) | \$ 125,869 | \$ 42,912 | \$ (17,107) | \$ 25,805 |

(1) Excludes assets that are fully amortized.

Intangible assets are amortized using the straight-line method over their estimated useful lives. Amortization of our finite-lived intangible assets was \$4.6 million and \$1.2 million for the thirteen weeks ended September 26, 2014 and September 27, 2013, respectively. Amortization of our finite-lived intangible assets was \$7.6 million and \$3.4 million for the thirty-nine weeks ended September 26, 2014 and September 27, 2013, respectively.

Finite-lived intangible assets include customer relationships, trade name/trademarks and technologies acquired of \$89.1 million, \$0.3 million and \$18.3 million, respectively, based on our preliminary purchase price allocation, for our acquisition of Seaton. Refer to Note 2: Acquisition for additional information regarding this acquisition.

The following table provides the estimated future amortization of finite-lived intangible assets as of September 26, 2014 (in thousands):

| | |
|-------------------|---------|
| Remainder of 2014 | \$4,501 |
| 2015 | 17,702 |
| 2016 | 17,266 |
| 2017 | 15,237 |
| 2018 | 12,456 |

| | |
|---------------------------|-----------|
| Thereafter | 58,707 |
| Total future amortization | \$125,869 |

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Notes to Consolidated Financial Statements—(Continued)

We also held indefinite-lived trade name/trademarks of \$16.2 million and \$5.7 million as of September 26, 2014 and December 27, 2013, respectively. Indefinite-lived trade name/trademarks acquired in 2014 of \$10.5 million are based on the preliminary purchase price allocation relating to our acquisition of Seaton.

We did not perform an interim impairment test of our goodwill and indefinite-lived intangible assets in the thirty-nine weeks ended September 26, 2014 as we noted no significant indicators of impairment as of September 26, 2014.

NOTE 9: WORKERS' COMPENSATION INSURANCE AND RESERVES

We provide workers' compensation insurance for our temporary and permanent employees. The majority of our current workers' compensation insurance policies cover claims for a particular event above a \$2.0 million deductible limit, on a "per occurrence" basis. This results in our being substantially self-insured.

For workers' compensation claims originating in Washington, North Dakota, Ohio, Wyoming, Canada, and Puerto Rico (our "monopolistic jurisdictions"), we pay workers' compensation insurance premiums and obtain full coverage under government-administered programs (with the exception of our Labor Ready service line in the state of Ohio where we have a self-insured policy). Accordingly, because we are not the primary obligor, our financial statements do not reflect the liability for workers' compensation claims in these monopolistic jurisdictions. Our workers' compensation reserve is established using estimates of the future cost of claims and related expenses that have been reported but not settled, as well as those that have been incurred but not reported. Our workers' compensation reserve for claims below the deductible limit is discounted to its estimated net present value using discount rates based on average returns of "risk-free" U.S. Treasury instruments available during the year in which the liability was incurred. The weighted average rate was 1.8% at September 26, 2014.

The table below presents a reconciliation of the undiscounted workers' compensation claims reserve to the discounted workers' compensation reserve for the periods presented as follows (in thousands):

| | September 26, 2014 | December 27, 2013 |
|--|-----------------------|----------------------|
| Undiscounted workers' compensation reserve | \$252,016 | \$234,453 |
| Less discount on workers' compensation reserve | 18,073 | 19,624 |
| Workers' compensation reserve, net of discount | 233,943 | 214,829 |
| Less current portion | 57,739 | 49,942 |
| Long-term portion | \$176,204 | \$164,887 |

Our workers' compensation reserve includes estimated expenses related to claims above our self-insured limits ("excess claims"), and we record a corresponding receivable for the insurance coverage on excess claims based on the contractual policy agreements we have with insurance carriers. We discount this reserve and corresponding receivable to its estimated net present value using the discount rates based on average returns of "risk-free" U.S. Treasury instruments available during the year in which the liability was incurred. The claim payments are made and the corresponding reimbursements from our insurance carriers are received over an estimated weighted average period of approximately 15.5 years. The discounted workers' compensation reserve for excess claims was \$34.6 million and \$34.1 million as of September 26, 2014 and December 27, 2013. The discounted receivables from insurance companies, net of valuation allowance, were \$30.3 million and \$28.4 million as of September 26, 2014 and December 27, 2013, respectively, and are included in Other assets, net on the accompanying Consolidated Balance Sheets.

Management evaluates the adequacy of the workers' compensation reserves in conjunction with an independent quarterly actuarial assessment. Factors considered in establishing and adjusting these reserves include, among other things:

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Notes to Consolidated Financial Statements—(Continued)

• changes in medical and time loss (“indemnity”) costs;
 • changes in mix between medical only and indemnity claims;
 • regulatory and legislative developments impacting benefits and settlement requirements;
 • type and location of work performed;
 • impact of safety initiatives; and
 • positive or adverse development of claims.

Workers’ compensation expense consists primarily of changes in self-insurance reserves net of changes in discount, monopolistic jurisdictions’ premiums, insurance premiums, and other miscellaneous expenses. Workers’ compensation expense of \$21.6 million and \$16.7 million was recorded in Cost of services for the thirteen weeks ended September 26, 2014 and September 27, 2013, respectively. Workers’ compensation expense of \$55.1 million and \$46.4 million was recorded in Cost of services for the thirty-nine weeks ended September 26, 2014 and September 27, 2013, respectively.

NOTE 10: LONG-TERM DEBT

The components of our borrowings were as follows (in thousands):

| | September 26, 2014 | December 27, 2013 |
|-----------------------------------|-----------------------|----------------------|
| Secured revolving credit facility | \$146,995 | \$— |
| Term loan | 30,222 | 31,923 |
| Total debt | 177,217 | 31,923 |
| Less: current portion | 2,267 | 2,267 |
| Long-term debt | \$174,950 | \$29,656 |

Second amended and restated credit agreement

Effective June 30, 2014, we entered into a Second Amended and Restated Credit Agreement for a secured revolving credit facility of \$300.0 million with Bank of America, N.A., Wells Fargo Bank, National Association, HSBC and PNC Capital Markets LLC (the "Amended Credit Facility") in connection with our acquisition of Seaton. The Amended Credit Facility, which matures June 30, 2019, amended and restated our previous credit facility, and replaced the Seaton credit facility.

The maximum amount we can borrow under the Amended Credit Facility is subject to certain borrowing limits. Specifically, we are limited to the sum of 90% of our eligible billed accounts receivable, plus 85% of our eligible unbilled accounts receivable limited to 15% of all our eligible receivables, plus the value of our Tacoma headquarters office building. The real estate lending limit is \$17.4 million, and is reduced quarterly by \$0.4 million beginning on October 1, 2014. As of September 26, 2014, the Tacoma headquarters office building liquidation value totaled \$17.4 million. The borrowing limit is further reduced by the sum of a reserve in an amount equal to the payroll and payroll taxes for our temporary employees for one payroll cycle and other reserves, if deemed applicable. At September 26, 2014, \$255.1 million was available under the Amended Credit Facility, \$147.0 million was utilized as a draw on the facility and \$20.8 million was utilized by outstanding standby letters of credit, leaving \$87.3 million available for additional borrowings. The letters of credit collateralize a portion of our workers' compensation obligation.

The Amended Credit Facility requires that we maintain an excess liquidity of \$37.5 million. Excess liquidity is an amount equal to the unused borrowing capacity under the Amended Credit Facility plus certain unrestricted cash, cash equivalents, and marketable securities. We are required to satisfy a fixed charge coverage ratio in the event we do not meet that requirement. The additional amount available to borrow at September 26, 2014 was \$87.3 million and the amount of cash, cash equivalents and certain marketable securities under control agreements was \$24.3 million for a

total of \$111.6 million, which is well in excess of the liquidity requirement. We are currently in compliance with all covenants related to the Amended Credit Facility.

Under the terms of the Amended Credit Facility, we pay a variable rate of interest on funds borrowed that is based on London Interbank Offered Rate (LIBOR) plus an applicable spread between 1.25% and 2.00%. Alternatively, at our option, we may pay interest based upon a base rate plus an applicable spread between 0.25% and 1.00%. The applicable spread is determined by certain liquidity to debt ratios. The base rate is the greater of the prime rate (as announced by Bank of America), the federal funds rate plus 0.50% or the one-month LIBOR rate plus 1.00%. Until October 1, 2014, the applicable spread on LIBOR was 1.75% and the applicable spread on the base rate was 0.75%. As of September 26, 2014, the interest rate was 2.00%.

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Notes to Consolidated Financial Statements—(Continued)

A fee on unused borrowing capacity of 0.375% when utilization is less than 25%, or 0.25% when utilization is greater than or equal to 25%, is applied against the unused portion of the Amended Credit Facility. Letters of credit are priced at the margin in effect for LIBOR loans, plus a fronting fee of 0.125%.

Obligations under the Amended Credit Facility are secured by substantially all our domestic personal property and our headquarters located in Tacoma, Washington. The Amended Credit Facility has variable rate interest and approximates fair value as of September 26, 2014.

Term loan agreement

On February 4, 2013, we entered into an unsecured Term Loan Agreement (the “Loan”) with Synovus Bank in the principal amount of \$34.0 million. The Loan has a five year maturity with fixed monthly principal payments, which total \$2.3 million annually based on a loan amortization term of 15 years. Interest accrues at the one-month LIBOR index rate plus an applicable spread of 1.50%, which is paid in addition to the principal payments. At our discretion, we may elect to extend the term of the Loan by five consecutive one-year extensions. At September 26, 2014, the interest rate for the Loan was 1.7%.

At September 26, 2014, the remaining balance of the Loan was \$30.2 million, of which \$2.3 million is short-term and is included in Other current liabilities on our Consolidated Balance Sheets. The Loan has variable rate interest and approximates fair value as of September 26, 2014.

Our obligations under the Loan may be accelerated upon the occurrence of an event of default under the Loan, which includes customary events of default, as well as cross-defaults related to indebtedness under our Revolving Credit Facility and other Loan specific defaults. The Loan contains customary negative covenants applicable to the Company and its subsidiaries such as indebtedness, certain dispositions of property, the imposition of restrictions on payments under the Loan, and other Loan specific covenants. We are currently in compliance with all covenants related to the Loan.

NOTE 11: COMMITMENTS AND CONTINGENCIES

Workers’ compensation commitments

Our insurance carriers and certain state workers’ compensation programs require us to collateralize a portion of our workers’ compensation obligation, for which they become responsible should we become insolvent. The collateral typically takes the form of cash and cash equivalents, highly rated investment grade debt securities, letters of credit and/or surety bonds. On a regular basis these entities assess the amount of collateral they will require from us relative to our workers’ compensation obligation. The majority of our collateral obligations are held in the Trust at the Bank of New York Mellon.

We have provided our insurance carriers and certain states with commitments in the form and amounts listed below (in thousands):

| | September 26, 2014 | December 27, 2013 |
|---|-----------------------|----------------------|
| Cash collateral held by insurance carriers | \$22,643 | \$23,747 |
| Cash and cash equivalents held in Trust (1) | 25,806 | 31,474 |
| Investments held in Trust | 92,699 | 86,678 |
| Letters of credit (2) | 22,573 | 7,867 |
| Surety bonds (3) | 15,742 | 16,099 |
| Total collateral commitments | \$179,463 | \$165,865 |

(1) Included in this amount is \$0.9 million and \$0.8 million of accrued interest at September 26, 2014 and December 27, 2013, respectively.

(2) We have agreements with certain financial institutions to issue letters of credit as collateral. We had \$1.9 million of restricted cash collateralizing our letters of credit at September 26, 2014 and December 27, 2013, respectively.

(3) Our surety bonds are issued by independent insurance companies on our behalf and bear annual fees based on a percentage of the bond, which is determined by each independent surety carrier. These fees do not exceed 2.0% of the bond amount, subject to a minimum charge. The terms of these bonds are subject to review and renewal every one to four years and most bonds can be canceled by the sureties with as little as 60 days notice.

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Notes to Consolidated Financial Statements—(Continued)

Legal contingencies and developments

We are involved in various proceedings arising in the normal course of conducting business. We believe the amounts provided in our financial statements are adequate in consideration of the probable and estimable liabilities. The resolution of those proceedings is not expected to have a material effect on our results of operations or financial condition.

NOTE 12: STOCK-BASED COMPENSATION

We record stock-based compensation expense for restricted and unrestricted stock awards, performance share units, stock options, and shares purchased under an employee stock purchase plan.

Our 2005 Long-Term Equity Incentive Plan, as amended and restated effective May 2013 ("Incentive Plan"), provides for the issuance or delivery of up to 7.95 million shares of our common stock over the full term of the Incentive Plan.

Restricted and unrestricted stock and performance share units

Under the Incentive Plan, restricted stock is granted to executive officers and key employees and vests annually over three or four years. Unrestricted stock granted to our board of directors vests immediately. Restricted and unrestricted stock-based compensation expense is calculated based on the grant-date market value. We recognize compensation expense on a straight-line basis over the vesting period, net of estimated forfeitures.

Performance share units have been granted to executive officers and certain key employees. Vesting of the performance share units is contingent upon the achievement of revenue and/or profitability growth goals at the end of each three year performance period. Each performance share unit is equivalent to one share of common stock. Compensation expense is calculated based on the grant-date market value of our stock and is recognized ratably over the performance period for the performance share units which are expected to vest. Our estimate of the performance units expected to vest is reviewed and adjusted as appropriate each quarter.

Restricted and unrestricted stock and performance share units activity for the thirty-nine weeks ended September 26, 2014 was as follows (shares in thousands):

| | Shares | Weighted- average grant-date price |
|-------------------------------------|--------|---|
| Non-vested at beginning of period | 1,544 | \$16.66 |
| Granted | 515 | \$26.11 |
| Vested | (414 |) \$17.78 |
| Forfeited | (39 |) \$18.58 |
| Non-vested at the end of the period | 1,606 | \$19.35 |

As of September 26, 2014, total unrecognized stock-based compensation expense related to non-vested restricted stock was approximately \$12.7 million, of which \$11.1 million is estimated to be recognized over a weighted average period of 1.81 years. As of September 26, 2014, total unrecognized stock-based compensation expense related to performance share units, assuming achievement of maximum financial goals, was approximately \$8.0 million, of which \$4.5 million is estimated to be recognized over a weighted average period of 1.76 years.

Stock options

Our Incentive Plan provides for both nonqualified stock options and incentive stock options (collectively, "stock options") for directors, officers, and certain employees. We issue new shares of common stock upon exercise of stock options. All of our stock options are vested and expire if not exercised within seven to ten years from the date of grant. Stock option activity was de minimis for the thirteen and thirty-nine weeks ended September 26, 2014.

Employee stock purchase plan

Our Employee Stock Purchase Plan ("ESPP") reserves for purchase 1.0 million shares of common stock. The plan allows eligible employees to contribute up to 10% of their earnings toward the monthly purchase of the Company's common stock. The employee's purchase price is the lesser of 85% of the fair market value of shares on either the first day or the last day of each month. We consider our ESPP to be a component of our stock-based compensation and accordingly we recognize compensation expense over the requisite service period for stock purchases made under the plan. The requisite service period begins on the enrollment date and ends on the purchase date, the duration of which is one month.

During the thirty-nine weeks ended September 26, 2014 and September 27, 2013, participants purchased 45,000 and 54,000 shares from the plan, for cash proceeds of \$1.0 million and \$0.9 million, respectively.

Stock-based compensation expense

Total stock-based compensation expense was \$3.9 million and \$8.9 million for the thirteen and thirty-nine weeks ended September 26, 2014 and \$1.8 million and \$6.4 million for the thirteen and thirty-nine weeks ended September 27, 2013, respectively.

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Notes to Consolidated Financial Statements—(Continued)

NOTE 13: DEFINED CONTRIBUTION PLANS

We offer both qualified and nonqualified defined contribution plans to eligible employees. Participating employees may elect to defer and contribute a portion of their eligible compensation. The plans offer discretionary matching contributions. The liability for the nonqualified plan was \$9.6 million and \$6.6 million as of September 26, 2014 and December 27, 2013, respectively. The current and non-current portion of the deferred compensation liability is included in Other current liabilities and Other long-term liabilities, respectively, on the Consolidated Balance Sheets, and is largely offset by restricted investments recorded in Restricted cash and investments on the Consolidated Balance Sheets.

NOTE 14: INCOME TAXES

Our tax provision or benefit from income taxes for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes, we make a cumulative adjustment. Our quarterly tax provision, and our quarterly estimate of our annual effective tax rate, is subject to variation due to several factors, including variability in accurately predicting our pre-tax and taxable income and loss and the mix of jurisdictions to which they relate, audit developments, changes in law, regulations and administrative practices, and relative changes of expenses or losses for which tax benefits are not recognized. Additionally, our effective tax rate can be more or less volatile based on the amount of pre-tax income. For example, the impact of discrete items, tax credits, and non-deductible expenses on our effective tax rate is greater when our pre-tax income is lower.

Our effective tax rate on earnings for the thirty-nine weeks ended September 26, 2014, was 23.2%. The principal difference between the statutory federal income tax rate of 35.0% and our effective income tax rate of 23.2%, results from the Work Opportunity Tax Credit ("WOTC") earned in 2014 for prior year hires. We generated substantially more prior year credits because more veterans with higher credits were certified than expected, our qualified workers worked longer generating more credits than expected, and many states processed a backlog of credit applications with higher than expected certification rates. These factors generated additional WOTC benefits of approximately \$8 million, which were recognized as of September 26, 2014. This tax credit benefit decreased our effective tax rate on income for the thirty-nine weeks ended September 26, 2014 from our expected 2014 rate of 38.9% to 23.2%. WOTC expired in 2013 and has not been renewed by Congress for 2014 new hires. Other differences between the statutory federal income tax rate of 35.0% result from state and foreign income taxes and certain non-deductible expenses.

The effective tax rate of 23.1% on income for the thirty-nine weeks ended September 27, 2013, was due primarily to the retroactive restoration of the WOTC. The American Taxpayer Relief Act of 2012 ("the Act") was signed into law on January 2, 2013. The Act retroactively restored the WOTC. Because a change in tax law is accounted for in the period of enactment, the retroactive effect of the Act on our U.S. federal taxes for 2012 was recognized as of September 27, 2013. This tax credit benefit decreased our effective tax rate on income for the thirty-nine weeks ended September 27, 2013 from our expected 2013 rate of 33.6% to 23.1%.

As of September 26, 2014 and December 27, 2013, we had gross unrecognized tax benefits of \$2.0 million recorded in accordance with current accounting guidance on uncertain tax positions.

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Notes to Consolidated Financial Statements—(Continued)

NOTE 15. NET INCOME PER SHARE

Diluted common shares were calculated as follows (in thousands, except per share amounts):

| | Thirteen weeks ended | | Thirty-nine weeks ended | |
|--|----------------------|---------------|-------------------------|---------------|
| | September 26, | September 27, | September 26, | September 27, |
| | 2014 | 2013 | 2014 | 2013 |
| Net income | \$20,910 | \$ 18,952 | \$38,650 | \$ 30,412 |
| Weighted average number of common shares used in basic net income per common share | 40,793 | 40,330 | 40,701 | 40,085 |
| Dilutive effect of outstanding stock options and non-vested restricted stock | 245 | 340 | 270 | 310 |
| Weighted average number of common shares used in diluted net income per common share | 41,038 | 40,670 | 40,971 | 40,395 |
| Net income per common share: | | | | |
| Basic | \$0.51 | \$ 0.47 | \$0.95 | \$ 0.76 |
| Diluted | \$0.51 | \$ 0.47 | \$0.94 | \$ 0.75 |
| Anti-dilutive shares | 97 | — | 35 | — |

Basic net income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is calculated by dividing net income by the weighted average number of common shares and potential common shares outstanding during the period. Potential common shares include the dilutive effects of outstanding options, non-vested restricted stock, and performance share units, except where their inclusion would be anti-dilutive.

Anti-dilutive shares include unvested restricted stock, performance share units, and in-the-money options for which the sum of the assumed proceeds, including unrecognized compensation expense, exceeds the average stock price during the periods presented. Anti-dilutive shares associated with our stock options relate to those stock options with an exercise price higher than the average market value of our stock during the periods presented.

NOTE 16. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income is reflected as a net increase to shareholders' equity. Changes in the balance of each component of accumulated other comprehensive income during the thirty-nine weeks ended September 26, 2014 were as follows (in thousands):

| | Foreign currency translation adjustment | Unrealized gain (loss) on marketable securities (1) | Total other comprehensive income, net of tax |
|---|--|---|---|
| Balance at beginning of period | \$2,129 | \$(96) | \$ 2,033 |
| Current-period other comprehensive income (2) | (997) | 372 | (625) |
| Balance at end of period | \$1,132 | \$276 | \$ 1,408 |

Consists of deferred compensation plan accounts, which includes mutual funds and available-for-sale securities.

(1) Available-for-sale securities which give rise to gains and losses are limited to our investments in select certificates of deposit.

(2) The tax impact of the components of other comprehensive income was immaterial.

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Notes to Consolidated Financial Statements—(Continued)

NOTE 17: SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosure of cash flow information (in thousands):

| | Thirty-nine weeks ended | |
|----------------------------------|-------------------------|--------------------|
| | September 26, 2014 | September 27, 2013 |
| Cash paid during the period for: | | |
| Interest | \$951 | \$727 |
| Income taxes | \$10,653 | \$4,112 |

As of September 26, 2014 and September 27, 2013, we had acquired \$1.0 million and \$0.3 million of property, plant and equipment on account that was not yet paid. These are considered non-cash investing items.

NOTE 18: SUBSEQUENT EVENTS

We evaluated events and transactions occurring after the balance sheet date through the date the financial statements were issued, and noted no other events that were subject to recognition or disclosure.

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Item 2. **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Note About Forward-Looking Statements**

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report, including the following sections: "Management's Discussion and Analysis," and "Risk Factors." Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements. Actual events or results may differ materially. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "future," "opportunity," "plan," "may," "should," "be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. We describe risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements in "Risk Factors" (Part II, Item 1A of this Form 10-Q), "Quantitative and Qualitative Disclosures about Market Risk" (Part I, Item 3), and "Management's Discussion and Analysis" (Part I, Item 2). We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events, or otherwise.

OVERVIEW

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the results of operations and financial condition of TrueBlue. Our MD&A is provided as a supplement to, and should be read in conjunction with, our Annual Report on Form 10-K for the fiscal year ended December 27, 2013, and our subsequently filed Quarterly Reports on Form 10-Q. The MD&A is designed to provide the reader of our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity, and certain other factors that may affect future results. Our MD&A is presented in the following sections:

Results of Operations**Liquidity and Capital Resources****Contractual Obligations and Commitments****Summary of Critical Accounting Estimates****New Accounting Standards**

Revenue grew to \$633.4 million for the thirteen weeks ended September 26, 2014, a 40.4% increase compared to the same period in the prior year. The revenue increase is primarily due to the acquisition of Staffing Solutions Holdings, Inc. ("Seaton"). We completed the acquisition of all of the outstanding equity interests of Seaton effective June 30, 2014, the first business day of our third quarter. Revenue for Seaton was \$148.6 million for the thirteen weeks ended September 27, 2014 or 33% of our revenue growth. The Seaton acquisition expanded the scope of our services from temporary blue-collar staffing to include outsourced workforce management solutions:

Staff Management | SMX provides exclusive recruitment and on-premise management of a facility's contingent workforce (Outsourced Workforce Management or "OWM"). The dedicated on-premise teams are supported by centralized services for sourcing and screening candidates, drug testing, verification and compensation together with reporting and other administrative activities. Centralized recruiting and customer support services are based in Chicago with no branch network;

- Staff Management | SMX also provides management of multiple third party staffing vendors on behalf of their customers to manage contingent labor spend (Managed Service Provider or "MSP"); and, PeopleScout and Australia-based hrX provide high-volume outsourced recruitment of permanent employees on behalf of their customers (Recruitment Process Outsourcing or "RPO"). PeopleScout and hrX provide full turnkey solutions

for the entire sourcing through on-boarding recruiting process for both hourly and exempt employees. In 2013 they placed over 250,000 individuals into permanent jobs. Centralized recruiting and customer support services are based in Chicago with no branch network.

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Seaton offers outsourced workforce solutions as an integrated partner with their customers. They have dedicated teams on-site at their customers' facilities while leveraging centralized support services for sourcing and recruiting to the specialized needs of each customer. Seaton does not operate a branch network to service their customers and accordingly operates a more flexible centralized support structure.

Seaton is headquartered in Chicago and their operations will continue to be managed and supported from Chicago. See Note 2: Acquisition, to our Consolidated Financial Statements found in Item 1 of Part I of this Quarterly Report on Form 10-Q for additional details of our acquisition of Seaton. We are in the process of integrating Seaton and determining our operating segments and future segment reporting.

Approximately 5% of the revenue growth for the thirteen weeks ended September 26, 2014 was generated from the acquisition of The Work Connection, Inc. ("TWC") effective October 1, 2013. We acquired substantially all of the assets and assumed certain liabilities of TWC, a light industrial staffing provider with 37 branches located predominantly in the Midwest, which had minimal overlap with existing TrueBlue branch offices. TWC's operations were primarily integrated with those of our Spartan Staffing service line during the fourth quarter of 2013.

Organic revenue growth for the quarter was approximately 2%, or 5% excluding our energy practice. The immediate pipeline for new energy projects has not offset project completions. We expect this trend to continue into the first quarter of 2015, but believe there is opportunity for improvement as we enter warmer weather months in the second quarter of 2015.

Gross profit as a percentage of revenue for the thirteen weeks ended September 26, 2014 was 25.2% compared to 27.4% for the same period in 2013. The decline was largely due to the impact of the acquisition of Seaton and TWC, which carried lower gross margins in comparison with our blended company average. This was offset by improved gross margin in our organic business through disciplined pricing and management of our temporary labor wages, payroll taxes, and benefits.

Selling, general and administrative ("SG&A") spending increased \$29.6 million to \$120.3 million for the thirteen weeks ended September 26, 2014 compared to the same period in the prior year. The increase is primarily related to the acquired operations of Seaton of \$20.0 million. We completed the acquisition of Seaton on the first business day of our third quarter of 2014. We incurred \$2.3 million of costs related to our acquisition and integration of Seaton during the third quarter ended September 26, 2014 and expect to complete our integration by mid-2015. SG&A spending also increased by approximately \$2.6 million due to the acquired operations of TWC. We completed the acquisition of TWC in the beginning of our fourth quarter of 2013. We incurred \$0.6 million of costs related to our acquisition of TWC during the thirteen weeks ended September 27, 2013 and completed the integration in the fourth quarter of 2013.

The remaining increase is primarily due to variable SG&A expenses associated with organic revenue growth and continued investments in our strategy to align the dedicated sales, recruiting, and services of our branch-based service lines to better serve our customers and enable further branch consolidation and centralization of services, which we believe will continue to increase our operating efficiency.

SG&A as a percentage of revenue decreased to 19.0% for the thirteen weeks ended September 26, 2014 from 20.1% for the same period in 2013, primarily due to Seaton and their lower cost of doing business as a percent of sales. This was partially offset by the continued investments in our strategy to align the dedicated sales, recruiting, and services of our branch-based service lines, enable further branch consolidation and centralization of services, and continue to increase our operating efficiency. We consolidated 14 branches during this quarter and expect to consolidate additional branches in the future.

Depreciation and amortization increased \$4.9 million primarily due to acquired finite-lived tangible and intangible assets acquired through acquisitions for the thirteen weeks ended September 26, 2014.

Income tax expense for the thirteen weeks ended September 26, 2014 included increased Work Opportunity Tax Credit benefits of approximately \$2.9 million. The Work Opportunity Tax Credit program has not been renewed for 2014 new hires. However, we continue to generate benefits from prior year programs. The increased credits are

primarily due to qualified workers working longer, mix of workers generating higher credits, such as veterans, and states processing a backlog of credit applications with higher than expected certification rates.
Net income grew to \$20.9 million, or \$0.51 per diluted share, for the thirteen weeks ended September 26, 2014, compared to \$19.0 million, or \$0.47 per diluted share, for the same period in 2013.

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RESULTS OF OPERATIONS

The following table presents selected financial data (in thousands, except percentages and per share amounts):

Total company results

| | Thirteen weeks ended | | Thirty-nine weeks ended | | |
|--|----------------------|---------------|-------------------------|---------------|---|
| | September 26, | September 27, | September 26, | September 27, | |
| | 2014 | 2013 | 2014 | 2013 | |
| Revenue from services | \$633,365 | \$ 451,169 | \$1,482,655 | \$ 1,219,977 | |
| Total revenue growth % | 40.4 | % 18.9 | % 21.5 | % 16.8 | % |
| Gross profit | \$159,599 | \$ 123,528 | \$378,741 | \$ 322,040 | |
| Gross profit as a % of revenue | 25.2 | % 27.4 | % 25.5 | % 26.4 | % |
| Selling, general and administrative expenses | \$120,318 | \$ 90,767 | \$308,654 | \$ 268,538 | |
| Selling, general and administrative expenses as a % of revenue | 19.0 | % 20.1 | % 20.8 | % 22.0 | % |
| Depreciation and amortization | \$9,719 | \$ 4,771 | \$20,126 | \$ 15,133 | |
| Depreciation and amortization as % of revenue | 1.5 | % 1.1 | % 1.4 | % 1.2 | % |
| Income from operations | \$29,562 | \$ 27,990 | \$49,961 | \$ 38,369 | |
| Income from operations as a % of revenue | 4.7 | % 6.2 | % 3.4 | % 3.1 | % |
| Interest and other income (expense), net | \$(409) | \$ 416 | \$385 | \$ 1,167 | |
| Net income | \$20,910 | \$ 18,952 | \$38,650 | \$ 30,412 | |
| Net income per diluted share | \$0.51 | \$ 0.47 | \$0.94 | \$ 0.75 | |

Our business experiences seasonal fluctuations. Our quarterly operating results are affected by the seasonality of our customers' businesses as well as timing and duration of project work. Demand for our legacy TrueBlue blue-collar temporary staffing services is typically higher during the second and third quarters of the year with demand peaking in the third quarter and is lower during the first and fourth quarters, in part due to limitations to outside work during the winter months. Demand for Seaton OWM services is significantly higher during the fourth quarter in connection with manufacturing and distributing for the holiday season.

Our year over year trends are significantly impacted by acquisitions. Effective February 4, 2013, we acquired substantially all of the assets and assumed certain liabilities of MDT, the third-largest general-labor staffing provider in the United States. MDT supplied blue-collar labor to industries similar to those served by TrueBlue, including construction, event staffing, disaster recovery, hospitality, and manufacturing through its network of 105 branches in 25 states. MDT operations were primarily integrated with our Labor Ready service line. We consolidated 65 branch locations, blended our sales and service teams, and fully integrated all former MDT locations into our enterprise systems. The acquisition of MDT has both deepened our expertise and strengthened our position in the key industries we serve. The customers of MDT have been fully integrated with our existing customer base and are serviced by our blended operations. We completed the integration of all remaining administrative services during the second quarter of 2013. Due to full consolidation of the MDT branches, blending our sales and service teams, and fully integrating all former MDT locations into our enterprise systems, we cannot accurately segregate the acquisition revenue from our organic revenue growth.

Effective October 1, 2013, we acquired substantially all of the assets and assumed certain liabilities of TWC, a light industrial staffing provider with 37 branches located predominantly in the Midwest with minimal overlap with existing TrueBlue branch offices. TWC delivered specialized blue-collar staffing solutions for more than 25 years to customers in industries similar to those served by TrueBlue. TWC's operations were primarily integrated with those of our Spartan Staffing service line during the fourth quarter of 2013.

We completed the acquisition of all of the outstanding equity interests of Seaton effective June 30, 2014, the first business day of our third quarter. Revenue for Seaton was \$148.6 million for the thirteen weeks ended September 27, 2014 or 33% of our revenue growth. The Seaton acquisition expanded the scope of our services from temporary blue-collar staffing to include outsourced workforce management solutions:

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Staff Management | SMX provides exclusive recruitment and on-premise management of a facility's contingent workforce (Outsourced Workforce Management or "OWM"). The dedicated on-premise teams are supported by centralized services for sourcing and screening candidates, drug testing, verification and compensation together with reporting and other administrative activities. Centralized recruiting and customer support services are based in Chicago with no branch network;

- Staff Management | SMX also provides management of multiple third party staffing vendors on behalf of their customers to manage contingent labor spend (Managed Service Provider or "MSP"); and, PeopleScout and Australia-based hrX provide high-volume outsourced recruitment of permanent employees on behalf of their customers (Recruitment Process Outsourcing or "RPO"). PeopleScout and hrX provide full turnkey solutions for the entire sourcing through on-boarding recruiting process for both hourly and exempt employees. In 2013 they placed over 250,000 individuals into permanent jobs. Centralized recruiting and customer support services are based in Chicago with no branch network.

Seaton offers outsourced workforce solutions as an integrated partner with their customers. They have dedicated teams on-site at their customers' facilities while leveraging centralized support services for sourcing and recruiting to the specialized needs of each customer. Seaton does not operate a branch network to service their customers and accordingly operates a more flexible centralized support structure.

Seaton is headquartered in Chicago and its operations will continue to be managed and supported from Chicago. See Note 2: Acquisition, to our Consolidated Financial Statements found in Item 1 of Part I of this Quarterly Report on Form 10-Q for additional details of our acquisition of Seaton.

We are in the process of integrating Seaton and determining our segments and future segment reporting. We incurred \$2.3 million of costs related to our acquisition and integration of Seaton during the third quarter ended September 26, 2014 and expect to complete our integration by mid-2015.

The impact of Seaton on our consolidated results is highlighted as follows (in thousands):

| | 13 Weeks Ended | | | September 27, 2013 Legacy TrueBlue |
|--|--------------------|------------|---------------|---------------------------------------|
| | September 26, 2014 | | Total Company | |
| | Legacy TrueBlue | Seaton (1) | Total Company | Legacy TrueBlue |
| Revenue from services | \$484,729 | \$148,636 | \$633,365 | \$451,169 |
| Earnings before interest depreciation and amortization | \$32,593 | \$6,688 | 39,281 | 32,761 |
| Depreciation and amortization | | | 9,719 | 4,771 |
| Income from operations | | | 29,562 | 27,990 |
| Interest income (expense), net | | | (409) |) 416 |
| Income before tax expense | | | 29,153 | 28,406 |
| Provision for taxes | | | 8,243 | 9,454 |
| Net income | | | \$20,910 | \$18,952 |

(1) Seaton was acquired effective June 30, 2014. Therefore, the comparative prior year amounts are not presented.

Revenue from services

Revenue from services was as follows (in thousands, except percentages):

| | Thirteen weeks ended | | Thirty-nine weeks ended | | |
|------------------------|----------------------|--------------------|-------------------------|--------------------|---|
| | September 26, 2014 | September 27, 2013 | September 26, 2014 | September 27, 2013 | |
| Revenue from services | \$633,365 | \$451,169 | \$1,482,655 | \$1,219,977 | |
| Total revenue growth % | 40.4 | % 18.9 | % 21.5 | % 16.8 | % |

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Revenue grew to \$633.4 million for the thirteen weeks ended September 26, 2014, a 40.4% increase compared to the same period in the prior year. The revenue increase is primarily due to the acquisition of Seaton. Revenue for Seaton was \$148.6 million for the thirteen weeks ended September 26, 2014 or 33% of our revenue growth. Approximately 5% of the revenue growth was generated from the acquisition of TWC.

Organic revenue for the quarter was approximately 2%, or 5% excluding our energy practice. The immediate pipeline for new green energy projects has not offset project completions. We expect this trend to continue into the first quarter of 2015, but believe there is opportunity for improvement as we enter warmer weather months in the second quarter of 2015.

Revenue grew to \$1,482.7 million for the thirty-nine weeks ended September 26, 2014, a 21.5% increase compared to the same period in the prior year. The increase was due primarily to revenue generated from the acquisitions of MDT effective February 4, 2013, TWC effective October 1, 2013, and Seaton effective June 30, 2014. The remainder of our growth was generated from organic revenue growth across most geographies and industries we serve. The organic revenue growth was negatively impacted by a slowdown within the green energy sector. We continue to experience customer project delays and slowed investment. In addition, demand for our services slowed during the first quarter of 2014 due to severe weather conditions.

Gross profit

Gross profit was as follows (in thousands, except percentages):

| | Thirteen weeks ended September 26, 2014 | | Thirty-nine weeks ended September 27, 2014 | | September 27, 2013 | |
|-----------------------|---|------------|--|------------|-----------------------|---|
| Gross profit | \$ 159,599 | \$ 123,528 | \$ 378,741 | \$ 322,040 | | |
| Percentage of revenue | 25.2 | % 27.4 | % 25.5 | % 26.4 | | % |

Gross profit represents revenues from services less direct costs of services, which consist of payroll, payroll taxes, workers' compensation costs, and reimbursable costs. Gross profit as a percentage of revenue for the thirteen weeks ended September 26, 2014 was 25.2% compared to 27.4% for the same period in 2013. The decline was largely due to the impact of the acquisition of Seaton and TWC, which carried a lower gross margin in comparison with our blended company average. Excluding the impact of acquisitions on our blended company average, gross profit as a percentage of revenue improved through disciplined pricing and management of our temporary labor wages, payroll taxes, and benefits.

Gross profit as a percentage of revenue for the thirty-nine weeks ended September 26, 2014 was 25.5% compared to 26.4% for the same period in the prior year. This was due largely to the impact of the acquisitions of Seaton, TWC, and MDT, which carried lower gross margins in comparison with our blended company average, offset by the favorable impact from disciplined management of bill rates.

Workers' compensation expense as a percentage of revenue was 3.4% and 3.7% for the thirteen and thirty-nine weeks ended September 26, 2014, respectively, compared to 3.7% and 3.8%, respectively, for the same periods in the prior year. The decline is due in part to the acquisition of Seaton and the lower cost of workers compensation cost as a percentage of revenue due to the nature of their business. In addition, we continue to actively manage workers' compensation expense through the safety of our temporary workers with our safety programs and actively control costs with our network of service providers. These actions have had a positive impact creating favorable adjustments to workers' compensation liabilities recorded in prior periods. Continued favorable adjustments to our workers' compensation liabilities are dependent on our ability to continue to aggressively lower accident rates and costs of our claims. We expect diminishing favorable adjustments to our workers' compensation liabilities as the opportunity for significant reduction to frequency and severity of accident rates diminishes.

Selling, general and administrative expenses

Selling, general and administrative ("SG&A") expenses were as follows (in thousands, except percentages):

| | Thirteen weeks ended September 26, 2014 | | Thirty-nine weeks ended September 27, 2014 | | September 27, 2013 | |
|--|---|--|--|--|-----------------------|--|
| | | | | | | |

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| | | | | | |
|--|------------|-----------|------------|------------|---|
| Selling, general and administrative expenses | \$ 120,318 | \$ 90,767 | \$ 308,654 | \$ 268,538 | |
| Percentage of revenue | 19.0 | % 20.1 | % 20.8 | % 22.0 | % |

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SG&A spending increased \$29.6 million to \$120.3 million for the thirteen weeks ended September 26, 2014 compared to the same period in the prior year. The increase is primarily related to the acquired operations of Seaton of \$20.0 million. We completed the acquisition of Seaton on the first business day of our third quarter of 2014. We incurred \$2.3 million of costs related to our acquisition and integration of Seaton during the third quarter ended September 26, 2014 and expect to complete our integration by mid-2015. SG&A spending increased due to the acquired operations of TWC by approximately \$2.6 million. We completed the acquisition of TWC in the beginning of our fourth quarter of 2013. We incurred \$0.6 million of costs related to our acquisition of TWC during the third quarter ended September 27, 2013 and completed the integration in the fourth quarter of 2013.

The remaining increase is primarily due to variable SG&A expenses associated with organic revenue growth and continued investments in our strategy to align the dedicated sales, recruiting, and services of our branch-based service lines to better serve our customers and enable further branch consolidation and centralization of services, which we believe will continue to increase our operating efficiency.

Seaton offers outsourced workforce solutions as an integrated partner with their customers. They have dedicated teams on-site at their customers' facilities while leveraging centralized support services for sourcing and recruiting staff for the specialized needs of each customer. Seaton does not operate a branch network to service their customers and accordingly operates a more flexible centralized support structure with lower SG&A. The lower SG&A costs as a percent of sales offsets the lower gross margins of the OWM business, to deliver comparable results to those of our legacy TrueBlue blue-collar temporary staffing solutions.

SG&A as a percentage of revenue decreased to 19.0% for the thirteen weeks ended September 26, 2014 from 20.1% for the same period in 2013 primarily due to Seaton and their lower cost of doing business as a percent of sales. This was partially offset by the continued investments in our strategy to align the dedicated sales, recruiting, and services of our branch-based service lines, enable further branch consolidation and centralization, and continue to increase our operating efficiency. We consolidated 14 branches during this quarter and expect to consolidate additional branches in the future.

SG&A spending increased \$40.1 million to \$308.7 million for the thirty-nine weeks ended September 26, 2014. The increase is primarily related to acquired operations of Seaton, TWC, and MDT; and the variable costs associated with organic revenue growth and costs related to strategic initiatives. Increased spending was partially offset by a decline in non-recurring costs related to acquisitions. During the thirty-nine weeks ended September 26, 2014 we incurred \$4.3 million of costs related to our acquisition of Seaton compared to total non-recurring acquisition and integration costs for MDT and TWC of \$6.6 million during the thirty-nine weeks ended September 27, 2013.

We consolidated 52 branches during the thirty-nine weeks ended September 26, 2014 and expect to consolidate additional branches over the remainder of the year. We expect further leverage benefit from branch consolidations in the future. We continue to make investments in our strategy to align the dedicated sales, recruiting, and services of our branch-based service lines to better serve our customers and enable further branch consolidation and centralization of services, which will increase our operating efficiency.

Depreciation and amortization

Depreciation and amortization were as follows (in thousands, except percentages):

| | Thirteen weeks ended | | Thirty-nine weeks ended | | |
|-------------------------------|----------------------|---------------|-------------------------|---------------|---|
| | September 26, | September 27, | September 26, | September 27, | |
| | 2014 | 2013 | 2014 | 2013 | |
| Depreciation and amortization | \$9,719 | \$ 4,771 | \$20,126 | \$ 15,133 | |
| Percentage of revenue | 1.5 | % 1.1 | % 1.4 | % 1.2 | % |

Depreciation and amortization expense for the thirteen and thirty-nine weeks ended September 26, 2014 increased over the same periods in 2013 by \$4.9 million and \$5.0 million respectively, primarily from increased amortization related to the finite-lived intangible assets acquired through acquisitions.

Interest and other income (expense), net

Interest and other income (expense), net is as follows (in thousands):

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| | Thirteen weeks ended | | Thirty-nine weeks ended | |
|--|----------------------|---------------|-------------------------|---------------|
| | September 26, | September 27, | September 26, | September 27, |
| | 2014 | 2013 | 2014 | 2013 |
| Interest and other income (expense), net | \$(409 |) \$ 416 | \$385 | \$ 1,167 |

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Net interest expense for the thirteen weeks ended September 26, 2014 was \$0.4 million and net interest income for the thirty-nine weeks ended September 26, 2014 was \$0.4 million compared to net interest income of \$0.4 million and \$1.2 million over the same periods in 2013. The increase in interest expense is due to the debt assumed to acquire Seaton at the beginning of the third quarter.

Income taxes

The income tax expense and the effective income tax rate were as follows (in thousands, except percentages):

| | Thirteen weeks ended September 26, 2014 | | Thirty-nine weeks ended September 26, 2014 | | September 27, 2013 | | September 27, 2013 | |
|---------------------------|---|----------|--|----------|-----------------------|--|-----------------------|---|
| Income tax expense | \$8,243 | \$ 9,454 | \$11,696 | \$ 9,124 | | | | |
| Effective income tax rate | 28.3 | % 33.3 | % 23.2 | % 23.1 | | | | % |

Our tax provision or benefit from income taxes for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes, we make a cumulative adjustment. Our quarterly tax provision and our quarterly estimate of our annual effective tax rate are subject to variation due to several factors, including variability in accurately predicting our pre-tax and taxable income and loss and the mix of jurisdictions to which they relate, audit developments, changes in law, regulations and administrative practices, and relative changes of expenses or losses for which tax benefits are not recognized. Additionally, our effective tax rate can be more or less volatile based on the amount of pre-tax income. For example, the impact of discrete items, tax credits and non-deductible expenses on our effective tax rate is greater when our pre-tax income is lower.

Our effective tax rate on earnings for the thirteen and thirty-nine weeks ended September 26, 2014, was 28.3% and 23.2%, respectively, compared to 33.3% and 23.1%, respectively, for the same periods in 2013. The principal difference between the statutory federal income tax rate of 35.0% and our effective income tax rate results from the Work Opportunity Tax Credit ("WOTC"), state and foreign income taxes, and certain non-deductible expenses. WOTC expired in 2013 and has not yet been renewed by Congress for 2014 new hires.

Changes to our tax provision as a result of the WOTC were as follows:

| | Thirteen weeks ended September 26, 2014 | | Thirty-nine weeks ended September 26, 2014 | | September 27, 2013 | | September 27, 2013 | |
|---|---|---------|--|----------|-----------------------|--|-----------------------|----|
| Effective income tax rate without WOTC | 40.5 | % 40.9 | % 41.2 | % 41.2 | | | | % |
| WOTC estimate from current year wages | (2.3 |)% (7.6 |)% (2.3 |)% (7.6 | | | |)% |
| Effective income tax rate before discrete adjustments | 38.2 | % 33.3 | % 38.9 | % 33.6 | | | | % |
| Additional WOTC from prior year wages | (9.9 |)% — | % (15.7 |)% (10.5 | | | |)% |
| Effective income tax rate with WOTC | 28.3 | % 33.3 | % 23.2 | % 23.1 | | | | % |

The comparability of net income for the thirteen weeks ended September 26, 2014, to the same period in 2013, was impacted by discrete adjustments to income taxes for WOTC. This tax credit is designed to encourage employers to hire workers from certain targeted groups with higher than average unemployment rates. During the thirteen weeks ended September 26, 2014, we generated substantially more prior year credits because more veterans with higher credits were certified than expected, our qualified workers worked longer generating more credits than expected, and many states processed a backlog of credit applications with higher than expected certification rates. These factors generated additional WOTC benefits of approximately \$8 million, which were recognized during the thirty-nine weeks ended September 26, 2014. This tax credit benefit decreased our effective tax rate for the thirty-nine weeks ended September 26, 2014 from our expected 2014 rate of 38.9% to 23.2%.

The effective income tax rate in the prior year was due primarily to the retroactive restoration of the WOTC. The American Taxpayer Relief Act of 2012 ("the Act"), which was signed into law on January 2, 2013, retroactively restored the WOTC. Because a change in tax law is accounted for in the period of enactment, the retroactive effect of the Act on our U.S. federal taxes for 2012 was recognized in the thirty-nine weeks ended September 27, 2013. The effective tax rate was also favorably impacted by the estimated increase to our WOTC benefits from the IRS extension of the 2012 WOTC certification request deadline to April 29, 2013, and by receipt of additional WOTC certification approvals related to years prior to 2012. These factors generated additional worker opportunity tax credit benefits of \$4.2 million, which were recognized during the thirty-nine weeks ended September 27, 2013.

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This tax credit benefit decreased our effective tax rate for the thirty-nine weeks ended September 27, 2013 from our expected 2013 rate of 33.6% to 23.1%.

Results of Operations Future Outlook

The following highlights represent our expectations regarding operating trends for the remainder of fiscal year 2014. These expectations are subject to revision as our business changes with the overall economy:

Our top priority is to produce strong organic revenue and gross profit growth and leverage our cost structure to generate increasing operating income as a percentage of revenue. We will continue to invest in our specialized sales, recruiting, and customer service programs, which we believe will enhance our ability to capitalize on further revenue growth and customer retention. As with all of our investments, we will monitor the success of these investments and make adjustments if necessary. Where possible, we plan to expand the presence of our service lines by sharing existing locations to achieve cost synergies.

We experienced organic revenue growth across most of our business lines and geographies during 2014. However, organic revenue growth in the third quarter of 2014 was lower than expected due primarily to lower revenue from the energy sector of our business. The immediate pipeline of new projects has not offset project completions. We expect this trend to continue through the first quarter of 2015 resulting in a negative impact of \$5 to \$15 million of revenue per quarter, in comparison with comparable prior year periods. Thereafter, the lower revenue from the energy sector will be reflected in our quarterly run rates. We believe the future for the energy market continues to be bright and our opportunity to service that market will see improvement as we enter warmer weather months in the second quarter of 2015.

Acquisitions are a key element of our growth strategy. We have a proven track record of successfully acquiring and integrating companies and believe we have a strong business competence to continue to do so. On June 30, 2014, we completed the acquisition of Seaton and, as a result, we will be able to offer a broader range of outsourcing workforce solutions to all our customers. We can now do more for our customers through sourcing, screening, and on-boarding their on-premise temporary workers and permanent employees. Through the Seaton acquisition we added industry leaders People Scout, Staff Management | SMX, and Australia-based hrX to our service lines. We have been successful in retaining the leadership, customers and operations of Seaton. We will continue to operate Seaton from Chicago. The service offerings of Seaton are complementary to our legacy business. As such, there is little operational integration to be performed. Most integration efforts are focused on financial systems, efficiencies in common programs, and other administrative activities which we expect to be completed by the end of the second quarter of 2015.

Commencing in 2015, we will be required by the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the "ACA") to offer health care benefits to our temporary workers. While we currently offer health care benefits to our permanent employees, we do not currently offer health care benefits to the majority of our temporary workers. In order to comply with the ACA, we intend to begin offering health care coverage in 2015 to all temporary employees eligible for coverage under the ACA. We intend to increase our customer bill rates for the cost increases related to offering this healthcare coverage to our temporary workers. Our best estimate of this increased cost is approximately 0.1% to 0.4% of estimated 2015 revenue. This estimate of increased cost is based upon various assumptions regarding our temporary workers and their participation rates and related factors which may change. As the regulatory implementation requirements continue to be modified and clarified, any such modifications and clarifications may impact the estimated cost to us. We will continue to evaluate the requirements of the ACA and the costs related to implementing the ACA. Although we intend to pass on to our customers any cost increases related to our temporary workers, there is no assurance that we will be fully successful in doing so.

During 2014, we expect to deploy additional technology that will enhance our recruiting and service capabilities. When combined with the mobile dispatch technology deployed during 2013 and electronic pay the year prior, we expect to drive further productivity gains by increasing the size and quality of our applicant pool as well as the number and speed with which jobs are filled and workers paid. Our ability to reach a wide range of applicants is

expanding our geographic reach and enabling branch consolidation and centralization which we believe will increase our operating efficiency. We have consolidated 52 branches since the beginning of the year and intend to close additional branches in the future.

LIQUIDITY AND CAPITAL RESOURCES

As of September 26, 2014, our cash, cash equivalents, and marketable securities totaled \$31.0 million compared to \$142.7 million as of December 27, 2013, a decrease of \$111.7 million. This decrease in cash, cash equivalents, and marketable securities was primarily driven by cash used to purchase Seaton for a cash purchase price of \$308.0 million, net of cash acquired. We entered

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into a Second Amended and Restated Credit Agreement at the end of the second quarter for a secured revolving credit facility of up to a maximum of \$300.0 million, \$187.0 million of which was used to fund the Seaton acquisition in addition to \$121.0 million of existing cash.

The following discussion highlights our cash flow activities for the thirty-nine weeks ended September 26, 2014.

Cash flows from operating activities

Our cash flows from operating activities were as follows (in thousands):

| | Thirty-nine weeks ended | |
|--|-------------------------|--------------------|
| | September 26, 2014 | September 27, 2013 |
| Net income | \$38,650 | \$30,412 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation and amortization | 20,126 | 15,133 |
| Provision for doubtful accounts | 9,619 | 8,785 |
| Stock-based compensation | 8,902 | 6,428 |
| Deferred income taxes | 6,077 | (1,694) |
| Other operating activities | (148) | 1,213 |
| Changes in operating assets and liabilities, net of acquisition: | | |
| Accounts receivable | (26,391) | (24,776) |
| Income taxes | (3,179) | 6,580 |
| Accounts payable and other accrued expenses | 9,686 | 4,691 |
| Workers' compensation claims reserve | 532 | 2,785 |
| Other assets and liabilities | (3,971) | (4,280) |
| Net cash provided by operating activities | \$59,903 | \$45,277 |

Our principal source of liquidity is operating cash flows. Our net income and, consequently, our cash provided from operations are impacted by sales volume, timing of collections, seasonal sales patterns, and profit margins.

Net cash provided by operating activities was \$59.9 million for the thirty-nine weeks ended September 26, 2014, compared to \$45.3 million for the same period in 2013.

The increase in cash from operating activities is primarily due to net income of \$38.7 million.

Depreciation and amortization increased over 2013 by \$5.0 million primarily due to the amortization of acquired finite-lived intangible assets in connection with the acquisition of Seaton.

Stock based compensation increased for performance shares due to estimated improvements to company performance with the acquisition of Seaton.

Accounts receivable followed normal seasonal patterns through the third quarter of 2014 by increasing from the beginning of the year. The increase over the prior year is due to revenue growth. Our business experiences seasonal fluctuations. Demand for our legacy TrueBlue blue-collar temporary staffing services is higher during the second and third quarters of the year with demand peaking in the third quarter and is lower during the first and fourth quarters, in part due to limitations to outside work during the winter months.

Income taxes receivable increased in the current year primarily due to the utilization of acquired net operating losses from Seaton. In the prior year, the income tax receivable declined due to refunds of prior year amended returns due primarily to additional worker opportunity tax credits realized.

Accounts payable and accrued expenses followed normal seasonal patterns through the third quarter of 2014 by increasing from the beginning of the year. The increase over the prior year is primarily due to business expansion.

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Cash flows from investing activities

Our cash flows from investing activities were as follows (in thousands):

| | Thirty-nine weeks ended | |
|---|-------------------------|--------------------|
| | September 26, 2014 | September 27, 2013 |
| Capital expenditures | \$(10,213) | \$(10,350) |
| Acquisition of businesses, net of cash acquired | (307,972) | (54,872) |
| Purchases of marketable securities | (25,057) | (35,300) |
| Sales and maturities of marketable securities | 43,917 | 205 |
| Change in restricted cash and cash equivalents | 10,020 | (1,338) |
| Purchase of restricted investments | (18,196) | (9,175) |
| Maturities of restricted investments | 10,588 | 13,337 |
| Net cash used in investing activities | \$(296,913) | \$(97,493) |

Cash flows used in investing activities increased primarily due to the acquisition of Seaton for \$308 million. In the prior year, cash flows used in investing activities increased primarily due to our acquisition of MDT for \$53.4 million in cash, effective February 4, 2013.

Our marketable securities consisted of CDs, VRDNs, corporate debt securities, municipal debt securities, and commercial paper, which are classified as available-for-sale. We sold all of our VRDNs, corporate and municipal debt securities, and commercial paper during the thirteen weeks ended June 27, 2014, for our acquisition of Seaton.

Restricted cash and investments consist primarily of collateral that has been provided or pledged to insurance carriers and state workers' compensation programs. When combining the change in restricted cash and cash equivalents with purchases of restricted investments net of maturities of restricted investments, restricted cash and investments increased by \$2.4 million for the thirty-nine weeks ended September 26, 2014. This increase is primarily due to an increase in the collateral requirements by our workers' compensation insurance providers related to growth in operations, which was partially offset by claim payments.

Cash flows from financing activities

Our cash flows from financing activities were as follows (in thousands):

| | Thirty-nine weeks ended | |
|--|-------------------------|--------------------|
| | September 26, 2014 | September 27, 2013 |
| Net proceeds from stock option exercises and employee stock purchase plans | \$1,673 | \$8,731 |
| Common stock repurchases for taxes upon vesting of restricted stock | (3,021) | (2,653) |
| Proceeds from long-term debt | 186,994 | 34,000 |
| Payments on debt and other liabilities | (41,700) | (8,115) |
| Other | 1,242 | 720 |
| Net cash provided by (used in) financing activities | \$145,188 | \$32,683 |

The increase to net cash provided by financing activities is primarily due to financing a portion of the Seaton acquisition. We entered into a Second Amended and Restated Credit Agreement for a secured revolving credit facility of up to a maximum of \$300.0 million, of which \$187.0 million was used to fund a portion of the acquisition price effective June 30, 2014. See Note 10: Debt, to our Consolidated Financial Statements found in Item 1 of Part I of this Quarterly Report on Form 10-Q, for details of our Second Amended and Restated credit facility. The credit facility was partially repaid during the third quarter of 2014 in the amount of \$40.0 million.

In the prior year, the change in cash provided by financing activities was mainly due to proceeds from our Term Loan Agreement with Synovus Bank of \$34.0 million in connection with our acquisition of MDT in February 2013.

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Future outlook

Our cash-generating capability provides us with financial flexibility in meeting our operating and investing needs. Our current financial position is highlighted as follows:

On June 30, 2014, we entered into a credit facility with Bank of America, N.A., Wells Fargo Bank, National Association, and PNC Capital Markets LLC, for a secured revolving credit facility of up to a maximum of \$300.0 million (the "Amended Credit Facility"). The Amended Credit Facility amends and restates our existing Amended and Restated Credit Agreement dated as of September 30, 2011 with Bank of America and Wells Fargo Capital Finance, LLC and expires on June 30, 2019. We borrowed \$187.0 million under the Amended Credit Facility on June 30, 2014 to purchase Seaton. The Amended Credit Facility is an asset backed facility which is principally based on accounts receivable. The additional amount available to borrow at September 26, 2014 was \$87.3 million. We believe the Amended Credit Facility provides adequate borrowing availability.

We had cash, cash equivalents, and highly liquid marketable securities of \$31.0 million at September 26, 2014. We expect to operate with approximately \$30 million of cash and apply any excess cash towards the outstanding balance on our credit facility.

The majority of our workers' compensation payments are made from restricted cash rather than cash from operations. At September 26, 2014, we had restricted cash and investments totaling approximately \$152.3 million. We believe that cash provided from operations and our capital resources will be adequate to meet our cash requirements for the foreseeable future.

Capital resources

Revolving Credit Facility

See Note 10: Debt, to our Consolidated Financial Statements found in Item 1 of Part I of this Quarterly Report on Form 10-Q for a description of the Credit Facility, which was outstanding as of the quarter ended September 26, 2014.

Restricted Cash and Investments

Restricted cash and investments consist principally of collateral that has been provided or pledged to insurance carriers for workers' compensation and state workers' compensation programs. Our insurance carriers and certain state workers' compensation programs require us to collateralize a portion of our workers' compensation obligation. We have agreements with certain financial institutions that allow us to restrict cash and cash equivalents and investments for the purpose of providing collateral instruments to our insurance carriers to satisfy workers' compensation claims. At September 26, 2014, we had restricted cash and investments totaling approximately \$152.3 million. The majority of our collateral obligations are held in a trust at the Bank of New York Mellon ("Trust").

We established investment policy directives for the Trust, with the first priority to ensure sufficient liquidity to pay workers' compensation claims, second to maintain and ensure a high degree of liquidity, and third to maximize after-tax returns. Trust investments must meet minimum acceptable quality standards. The primary investments include U.S. Treasury securities, U.S. agency debentures, U.S. agency mortgages, corporate securities, and municipal securities. For those investments rated by the Nationally Recognized Statistical Rating Organizations the minimum ratings are:

| | S&P | Moody's | Fitch |
|-------------------|----------|-----------|-------|
| Short-term Rating | A-1/SP-1 | P-1/MIG-1 | F-1 |
| Long-term Rating | A- | A3 | A- |

Workers' compensation insurance, collateral and claims reserves

Workers' compensation insurance

We provide workers' compensation insurance for our temporary and permanent employees. The majority of our current workers' compensation insurance policies cover claims for a particular event above a \$2.0 million deductible limit, on a "per occurrence" basis. This results in our being substantially self-insured.

For workers' compensation claims originating in Washington, North Dakota, Ohio, Wyoming, Canada and Puerto Rico (our "monopolistic jurisdictions"), we pay workers' compensation insurance premiums and obtain full coverage under

government-

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administered programs (with the exception of our Labor Ready service line in the state of Ohio where we have a self-insured policy). Accordingly, because we are not the primary obligor, our financial statements do not reflect the liability for workers' compensation claims in these monopolistic jurisdictions.

Workers' compensation collateral

Our insurance carriers and certain state workers' compensation programs require us to collateralize a portion of our workers' compensation obligation, for which they become responsible should we become insolvent. The collateral typically takes the form of cash and cash-backed instruments, highly rated investment grade securities, letters of credit, and/or surety bonds. On a regular basis, these entities assess the amount of collateral they will require from us relative to our workers' compensation obligation. Such amounts can increase or decrease independent of our assessments and reserves. We generally anticipate that our collateral commitments will continue to grow as we grow our business. We pay our premiums and deposit our collateral in installments. The majority of the restricted cash and investments collateralizing our self-insured workers' compensation policies are held in the Trust.

Our total collateral commitments were made up of the following components (in thousands):

| | September 26, 2014 | December 27, 2013 |
|---|-----------------------|----------------------|
| Cash collateral held by insurance carriers | \$22,643 | \$23,747 |
| Cash and cash equivalents held in Trust (1) | 25,806 | 31,474 |
| Investments held in Trust | 92,699 | 86,678 |
| Letters of credit (2) | 22,573 | 7,867 |
| Surety bonds (3) | 15,742 | 16,099 |
| Total collateral commitments | \$179,463 | \$165,865 |

(1) Included in this amount is \$0.9 million and \$0.8 million of accrued interest at September 26, 2014 and December 27, 2013.

(2) We have agreements with certain financial institutions to issue letters of credit as collateral. We had \$1.9 million of restricted cash collateralizing our letters of credit as of September 26, 2014 and December 27, 2013.

(3) Our surety bonds are issued by independent insurance companies on our behalf and bear annual fees based on a percentage of the bond, which is determined by each independent surety carrier. These fees do not exceed 2.0% of the bond amount, subject to a minimum charge. The terms of these bonds are subject to review and renewal every one to four years and most bonds can be canceled by the sureties with as little as 60 days' notice.

Workers' compensation reserve

The following table provides a reconciliation of our collateral commitments to our workers' compensation reserve as of the period end dates presented (in thousands):

| | September 26, 2014 | December 27, 2013 |
|--|-----------------------|----------------------|
| Total workers' compensation reserve | \$233,943 | \$214,829 |
| Add back discount on workers' compensation reserve (1) | 18,073 | 19,624 |
| Less excess claims reserve (2) | (34,613) | (34,100) |
| Reimbursable payments to insurance provider (3) | 9,047 | 9,500 |
| Less portion of workers' compensation not requiring collateral (4) | (46,987) | (43,988) |
| Total collateral commitments | \$179,463 | \$165,865 |

(1) Our workers' compensation reserves are discounted to their estimated net present value while our collateral commitments are based on the gross, undiscounted reserve.

(2) Excess claims reserve includes the estimated obligation for claims above our deductible limits. These are the responsibility of the insurance carriers against which there are no collateral requirements.

(3) This amount is included in restricted cash and represents a timing difference between claim payments made by our insurance carrier and the reimbursement from cash held in the Trust. When claims are paid by our carrier, the

amount is removed from the workers' compensation reserve but not removed from collateral until reimbursed to the carrier.

- (4) Represents deductible and self-insured reserves where collateral is not required.

Our workers' compensation reserve is established using estimates of the future cost of claims and related expenses, which are discounted to their estimated net present value. The discounted workers' compensation claims reserve was \$233.9 million at September 26, 2014.

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Our workers' compensation reserve for deductible and self-insured claims is established using estimates of the future cost of claims and related expenses that have been reported but not settled, as well as those that have been incurred but not reported. Reserves are estimated for claims incurred in the current year, as well as claims incurred during prior years.

Management evaluates the adequacy of the workers' compensation reserves in conjunction with an independent quarterly actuarial assessment. Factors considered in establishing and adjusting these reserves include, among other things:

- Changes in medical and time loss (“indemnity”) costs;
- Mix changes between medical only and indemnity claims;
- Regulatory and legislative developments impacting benefits and settlement requirements;
- Type and location of work performed;
- The impact of safety initiatives; and
- Positive or adverse development of claims.

Our workers' compensation claims reserves are discounted to their estimated net present value using discount rates based on returns of “risk-free” U.S. Treasury instruments with maturities comparable to the weighted average lives of our workers' compensation claims. At September 26, 2014, the weighted average rate was 1.8%. The claim payments are made over an estimated weighted average period of approximately 4.5 years.

Our workers' compensation reserves include estimated expenses related to claims above our deductible limits (“excess claims”), and a corresponding receivable for the insurance coverage on excess claims based on the contractual policy agreements we have with insurance carriers. We discount this reserve and corresponding receivable to its estimated net present value using the discount rates based on average returns of “risk-free” U.S. Treasury instruments available during the year in which the liability was incurred. At September 26, 2014, the weighted average rate was 3.8%. The claim payments are made and the corresponding reimbursements from our insurance carriers are received over an estimated weighted average period of approximately 15.5 years. The discounted workers' compensation reserve for excess claims and the corresponding receivable for the insurance on excess claims were \$34.6 million and \$34.1 million as of September 26, 2014 and December 27, 2013, respectively.

Certain workers' compensation insurance companies with which we formerly did business are in liquidation and have failed to pay a number of excess claims to date. We have recorded a valuation allowance against all of the insurance receivables from the insurance companies in liquidation.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

There have been no material changes during the period covered by this quarterly report, except for our Second Amended and Restated Credit Agreement entered into in conjunction with our acquisition of Seaton discussed in detail at Note 10: Debt, to our Consolidated Financial Statements found in Item 1 of Part I of this Quarterly Report on Form 10-Q, outside of the ordinary course of our business, to the contractual obligations specified in the table of contractual obligations included in the section “Management's Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the fiscal year ended December 27, 2013.

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

Our critical accounting estimates are discussed in “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; Summary of Critical Accounting Estimates” in our Annual Report on Form 10-K for the fiscal year ended December 27, 2013.

NEW ACCOUNTING STANDARDS

See Note 1: Accounting Principles and Practices, to our Consolidated Financial Statements found in Item 1 of Part I of this Quarterly Report on Form 10-Q.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our quantitative and qualitative disclosures about market risk are discussed in Part 1, “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the fiscal year ended December 27, 2013.

Item 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that material information required to be disclosed in our periodic reports filed or submitted under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”) as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of management, including our CEO and CFO, of the effectiveness of the design and operation of the disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon that evaluation, our CEO and CFO concluded that, as of September 26, 2014, our disclosure controls and procedures are effective.

During the fiscal quarter ended September 26, 2014, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that materially affected or are reasonably likely to materially affect internal control over financial reporting.

The certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 are filed as exhibits 31.1 and 31.2, respectively, to this Quarterly Report on Form 10-Q.

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PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

See Note 11: Commitments and Contingencies, to our Consolidated Financial Statements found in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Item 1A. RISK FACTORS

Investing in our securities involves risk. The following risk factors and all other information set forth in this Quarterly Report on Form 10-Q should be considered in evaluating our future prospects. In particular, keep these risk factors in mind when you read “forward-looking” statements elsewhere in this report. Forward-looking statements relate to our expectations for future events and time periods. Generally, words such as “anticipate,” “believe,” “may,” “expect,” “intend,” “plan” and similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements. If any of the events described below occurs, our business, financial condition, reputation, results of operations, liquidity, access to the capital markets, or stock price could be materially and adversely affected. Our business is significantly affected by fluctuations in general economic conditions.

The demand for our workforce solutions is highly dependent upon the state of the economy and upon the workforce needs of our customers. As economic activity slows, companies tend to reduce their use of temporary employees and reduce their recruitment of new employees before terminating their permanent employees. Significant declines in demand and corresponding revenues can result in expense de-leveraging, which would result in lower profit levels. Any variation in the economic condition or unemployment levels of the United States, Puerto Rico, or Canada or in the economic condition of any region or specific industry in which we have a significant presence may severely reduce the demand for our services and thereby significantly decrease our revenues and profits. Deterioration in economic conditions or the financial or credit markets could also have adverse impacts on our customers' ability to pay us for services we have already provided.

Our business is subject to extensive government regulation that could materially harm our business.

Our business is subject to extensive regulation. The cost to comply, and any inability to comply, with government regulation could materially harm our business. Our business largely entails employing individuals on a temporary basis and placing such individuals in customers' workplaces. Increased government regulation of the workplace or of the employer-employee relationship, or judicial or administrative proceedings related to such regulation, could materially harm our business.

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the “ACA”) include various healthcare and insurance-related provisions to take effect through 2015, including requiring most individuals to have health insurance and establishing new regulations on health plans. Although the ACA does not mandate that employers offer health insurance, beginning in 2015, tax penalties will be assessed on large employers who do not offer health insurance that meets certain affordability or minimum value requirements. Providing such additional health insurance benefits to our temporary workers, or the payment of tax penalties if such coverage does not satisfy the requirements of the statute, will increase our costs. If we are unable to sufficiently raise the rates we charge our customers to cover these costs, such increases in costs could materially harm our business.

We may incur employment related and other claims that could materially harm our business.

In our business we employ individuals on a temporary basis and place them in our customers' workplaces. We have minimal control over our customers' workplace environments. As the employer of record of our temporary workers, we incur a risk of liability for various workplace events, including claims for personal injury, wage and hour violations, discrimination, harassment, and other liabilities arising from the actions of our customers and temporary workers. In addition, some or all of these claims may give rise to litigation including class action litigation. A material adverse impact on our financial statements could occur for the period in which the effect of an unfavorable final outcome becomes probable and can be reasonably estimated.

We maintain insurance with respect to certain of such claims. We cannot be certain that our insurance will be available, or if available, is in sufficient amount or scope to cover all claims that may be asserted against us. Should

the ultimate judgments or settlements exceed our insurance coverage, they could have a material effect on our business. We cannot be certain we will be able to obtain appropriate types or levels of insurance in the future, that adequate replacement policies will be available on acceptable terms, or at all, or that the companies from which we have obtained insurance will be able to pay claims we make under such policies.

Significant increases in payroll-related costs could adversely affect our business.

The wage rates we pay to temporary workers are based on many factors, including applicable minimum wage requirements. Increases in the minimum wage in regions across the country, or nationally, will increase our costs. With these wages, we pay a number of government mandated payroll-related costs and expenses, including unemployment insurance taxes. Unemployment insurance taxes paid by employers typically increase during periods of increased levels of unemployment. If we are not able to increase the fees charged to customers to absorb any increased costs related to minimum wages or other payroll-related costs and expenses, our results of operations and financial condition could be adversely affected.

We are dependent on workers' compensation insurance coverage at commercially reasonable terms.

We provide workers' compensation insurance for our temporary workers. Our workers' compensation insurance policies are renewed annually. The majority of our insurance policies are with AIG. Our insurance carriers require us to collateralize a significant portion of our workers' compensation obligation. The majority of collateral is held in trust by a third party for the payment of these claims. The loss or decline in value of the collateral could require us to seek additional sources of capital to pay our workers' compensation claims. We cannot be certain we will be able to obtain appropriate types or levels of insurance in the future or that adequate replacement policies will be available on acceptable terms. As our business grows or if our financial results deteriorate, the amount of collateral required will likely increase and the timing of providing collateral could be accelerated. Resources to meet these requirements may not be available. The loss of our workers' compensation insurance coverage would prevent us from doing business in the majority of our markets. Further, we cannot be certain that our current and former insurance carriers will be able to pay claims we make under such policies.

Unexpected changes in claim trends on our workers' compensation may negatively impact our financial condition.

We self-insure, or otherwise bear financial responsibility for, a significant portion of expected losses under our workers' compensation program. Unexpected changes in claim trends, including the severity and frequency of claims, changes in state laws regarding benefit levels and allowable claims, actuarial estimates, or medical cost inflation, could result in costs that are significantly different than initially reported. There can be no assurance that we will be able to increase the fees charged to our customers in a timely manner and in a sufficient amount to cover increased costs as a result of any changes in claims-related liabilities.

We actively manage the safety of our temporary workers with our safety programs and actively control costs with our network of service providers. These activities have had a positive impact creating favorable adjustments to workers' compensation liabilities recorded in prior periods. There can be no assurance that we will be able to continue to reduce accident rates and control costs to produce these results in the future.

Our level of debt and restrictions in our credit agreement could negatively affect our operations and limit our liquidity and our ability to react to changes in the economy.

Extensions of credit under our Amended Credit Facility are permitted based on a borrowing base, which is an agreed percentage of eligible accounts receivable, less required reserves and other adjustments. If the amount or quality of our accounts receivable deteriorates, then our ability to borrow under the Credit Facility will be directly affected. Our lenders can impose additional conditions which may reduce the amounts available to us under the Credit Facility.

Our principal sources of liquidity are funds generated from operating activities, available cash and cash equivalents, and borrowings under our Credit Facility. We must have sufficient sources of liquidity to meet our working capital requirements, fund our workers' compensation collateral requirements, service our outstanding indebtedness, and finance investment opportunities. Without sufficient liquidity, we could be forced to curtail our operations or we may not be able to pursue promising business opportunities.

Our failure to comply with the restrictive covenants under our revolving Credit Facility and/or term loan could result in an event of default, which, if not cured or waived, could result in our being required to repay these borrowings before their due date. If we are forced to refinance these borrowings on less favorable terms, or are unable to refinance at all, our results of operations and financial condition could be materially adversely affected by increased costs and rates.

Our increased debt levels could have significant consequences for the operation of our business, including: requiring us to dedicate a significant portion of our cash flow from operations to servicing our debt rather than using it for our operations; limiting our ability to obtain additional debt financing for future working capital, capital expenditures, or

other corporate purposes; limiting our ability to take advantage of significant business opportunities, such as acquisition opportunities; limiting our ability to react to changes in market or industry conditions; and putting us at a competitive disadvantage compared to competitors with less debt.

Acquisitions and new business initiatives may have an adverse effect on our business.

We expect to continue making acquisitions and entering into new business initiatives as part of our business strategy. This strategy may be impeded, however, if we cannot identify suitable acquisition candidates or new business initiatives, or if acquisition candidates are not available under terms that are acceptable to us. Future acquisitions could result in our incurring debt and contingent liabilities, an increase in interest expense, an increase in amortization expense, and/or significant charges related to integration costs. Acquisitions and new business initiatives involve significant challenges and risks, including that they may not advance our business strategy, we may not realize our anticipated return on our investment, we may experience difficulty in integrating operations, or management's attention may be diverted from our other business. These events could cause material harm to our business, operating results, or financial condition.

If our acquired intangible assets become impaired we may be required to record a significant charge to earnings. We may not realize all the economic benefit from our acquisitions, which could result in future impairment of acquired intangibles. Under accounting principles generally accepted in the United States, we review acquired intangible assets for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. We test goodwill and indefinite lived intangible assets for impairment at least annually. Factors that may be considered a change in circumstances, indicating that the carrying value of the intangible assets may not be recoverable, include a decline in stock price and market capitalization, reduced future cash flow estimates, and slower growth rates in our industry. We may be required to record a significant charge in our financial statements during the period in which we determine an impairment of our acquired intangible assets has occurred, negatively impacting our financial condition.

We operate in a highly competitive business and may be unable to retain customers or market share.

Our business is highly competitive, rapidly innovating, and the barriers to entry are low. Large, well-financed competitors, as well as small new competitors, may increase pricing pressures. We also experience competition from internet-based companies providing a variety of flexible workforce solutions. We expect this form of competition to grow in the future and require innovation and changes in the way we do business to remain relevant to our customers. In addition, long-term contracts form only a small portion of our revenue. Therefore, there can be no assurance that we will be able to retain customers or market share in the future. Nor can there be any assurance that we will, in light of competitive pressures, be able to remain profitable or, if profitable, maintain our current profit margins.

The loss of or substantial decline in revenue from a major customer could have a material adverse effect on our revenues, profitability, and liquidity.

We have experienced increased revenue concentration with large customers. The loss of, or reduced demand for our services related to major customers could have a material adverse effect on our business, financial condition and results of operations. In addition, customer concentration exposes us to concentrated credit risk, as a significant portion of our accounts receivable may be from a small number of customers.

Our management information systems may not perform as anticipated and are vulnerable to damage and interruption. The efficient operation of our business is dependent on our management information systems. We rely heavily on proprietary management information systems to manage our order entry, order fulfillment, pricing, and collections, as well as temporary worker recruitment, dispatch, and payment. Our management information systems, mobile device technology and related services, and other technology may not yield the intended results. Our systems may experience problems with functionality and associated delays. The failure of our systems to perform as we anticipate could disrupt our business and could result in decreased revenue and increased overhead costs, causing our business and results of operations to suffer materially. Our primary computer systems and operations are vulnerable to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, catastrophic events, and errors in usage by our employees. Failure of our systems to perform may require significant additional capital and management resources to resolve, causing material harm to our business.

Our results of operations could materially deteriorate if we fail to attract, develop and retain qualified employees. Our performance is dependent on attracting and retaining qualified employees and applicants who are able to meet the needs of our customers. We believe our competitive advantage is providing unique solutions for each individual customer, which requires us to have trained and engaged employees. Our success depends upon our ability to attract, develop and retain a sufficient number of qualified employees, including management, sales, recruiting, service and

administrative personnel. The turnover rate in the employment services industry is high, and qualified individuals of the requisite caliber and number needed to fill these positions may be in short supply. Our inability to recruit, train, and motivate a sufficient number of qualified individuals may delay or affect

the speed of our planned growth or strategy change. Delayed expansion, significant increases in employee turnover rates or significant increases in labor costs could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to attract, manage, and retain sufficient qualified temporary workers.

We compete with other temporary staffing companies to meet our customer needs and we must continually attract qualified temporary workers to fill positions. Attracting and retaining skilled temporary employees depends on factors such as desirability of the assignment, location, and the associated wages and other benefits. We have in the past experienced worker shortages and we may experience such shortages in the future. Further, if there is a shortage of temporary workers, the cost to employ these individuals could increase. If we are unable to pass those costs through to our customers, it could materially and adversely affect our business. Organized labor periodically engages in efforts to represent various groups of our temporary workers. If we are subject to unreasonable collective bargaining agreements or work disruptions, our business could be adversely affected.

We may have additional tax liabilities that exceed our estimates.

We are subject to federal taxes and a multitude of state and local taxes in the United States and taxes in foreign jurisdictions. In the ordinary course of our business, there are transactions and calculations where the ultimate tax determination is uncertain. We are regularly subject to audit by tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical tax provisions and accruals. The results of an audit or litigation could materially harm our business. Improper disclosure of, or access to, our confidential and/or proprietary information or our employees' or customers' information could materially harm our business.

Our business involves the use, storage, and transmission of information about applicants, employees, and customers. Additionally, our temporary workers may have access or exposure to confidential customer information. Failure to protect the integrity and security of such confidential and/or proprietary information, or applicants', employees', and customers' information, could expose us to litigation and materially damage our relationship with our employees and our customers. Further, data privacy is subject to frequently changing rules and regulations, which sometimes conflict among the various jurisdictions. Our failure to adhere to or successfully implement changes in response to the changing regulatory requirements could result in legal liability, additional compliance costs, and damage to our reputation.

Failure to maintain adequate financial and management processes and controls could lead to errors in our financial reporting.

If our management is unable to certify the effectiveness of our internal controls or if our independent registered public accounting firm cannot render an opinion on the effectiveness of our internal control over financial reporting, or if material weaknesses in our internal controls are identified, we could be subject to regulatory scrutiny and a loss of public confidence. In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to accurately report our financial performance on a timely basis, which could cause our stock price to fall.

Outsourcing certain aspects of our business could result in disruption and increased costs.

We have outsourced certain aspects of our business to third party vendors that subject us to risks, including disruptions in our business and increased costs. For example, we have engaged third parties to host and manage certain aspects of our data center, information and technology infrastructure, mobile texting and electronic pay solutions, to provide certain back office support activities, and to support business process outsourcing for our customers. Accordingly, we are subject to the risks associated with the vendor's ability to provide these services to meet our needs. If the cost of these services is more than expected, or if we or the vendor are unable to adequately protect our data and information is lost, or our ability to deliver our services is interrupted, then our business and results of operations may be negatively impacted.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below includes repurchases of our common stock pursuant to publicly announced plans or programs and those not made pursuant to publicly announced plans or programs during the thirteen weeks ended September 26, 2014.

| Period | Total number of shares purchased (1) | Weighted average price paid per share (2) | Total number of shares purchased as part of publicly announced plans or programs | Maximum number of shares (or approximate dollar value) that may yet be purchased under plans or programs at period end (3) |
|-------------------------|--------------------------------------|---|--|--|
| 6/28/14 through 7/25/14 | 4,116 | \$28.97 | — | \$35.2 million |
| 7/26/14 through 8/22/14 | 1,459 | \$26.76 | — | \$35.2 million |
| 8/23/14 through 9/26/14 | 7,540 | \$27.05 | — | \$35.2 million |
| Total | 13,115 | \$27.62 | — | |

During the thirteen weeks ended September 26, 2014, we purchased 13,115 shares in order to satisfy employee tax (1) withholding obligations upon the vesting of restricted stock. These shares were not acquired pursuant to any publicly announced purchase plan or program.

(2) Weighted average price paid per share does not include any adjustments for commissions.

Our Board of Directors authorized a \$75 million share repurchase program in July 2011 that does not have an (3) expiration date. As of September 26, 2014, \$35.2 million remains available for repurchase of our common stock under the current authorization.

Item 6. EXHIBITS

Exhibit Number Description of Exhibits

| | |
|---------|--|
| 31.1 | Certification of Steven C. Cooper, Chief Executive Officer of TrueBlue, Inc., Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Derrek L. Gafford, Chief Financial Officer of TrueBlue, Inc., Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Steven C. Cooper, Chief Executive Officer of TrueBlue, Inc. and Derrek L. Gafford, Chief Financial Officer of TrueBlue, Inc., Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase. |

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

TrueBlue, Inc.

| | |
|----------------------|------------|
| /s/ Steven C. Cooper | 10/27/2014 |
| Signature | Date |

By: Steven C. Cooper, Director, Chief Executive
Officer and President

| | |
|-----------------------|------------|
| /s/ Derrek L. Gafford | 10/27/2014 |
| Signature | Date |

By: Derrek L. Gafford, Chief Financial Officer and
Executive Vice President

| | |
|--------------------|------------|
| /s/ Norman H. Frey | 10/27/2014 |
| Signature | Date |

By: Norman H. Frey, Chief Accounting Officer
and
Sr. Vice President