TrueBlue, Inc.
Form 10-Q
October 28, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: September 27, 2013
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	91-1287341
(State of Incorporation)	(IRS Employer ID)
1015 A Street, Tacoma, Washington	98402
(Address of principal executive offices)	(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 ý 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 ý 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 ý 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 ý
As of October 18, 2013, there were 41,052,055 shares of the registrant's common stock outstanding.

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Part I. Financial Information

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
TRUEBLUE, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except par value data)

	September 27, 2013 (UNAUDITED)	December 28, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 109,544	$ 129,513
Marketable securities	29,342	—
Accounts receivable, net of allowance for doubtful accounts of $6,013 and $4,999	213,193	167,292
Prepaid expenses, deposits and other current assets	12,158	8,541
Income tax receivable	513	6,373
Deferred income taxes	5,525	5,447
Total current assets	370,275	317,166
Property and equipment, net	55,765	58,171
Restricted cash and investments	138,457	136,259
Deferred income taxes	4,177	2,562
Goodwill	74,629	48,079
Intangible assets, net	24,829	16,554
Other assets, net	30,381	22,952
Total assets	$ 698,513	$ 601,743
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable and other accrued expenses	$ 25,932	$ 27,292
Accrued wages and benefits	51,303	35,102
Current portion of workers' compensation claims reserve	47,596	44,652
Other current liabilities	2,542	6,510
Total current liabilities	127,373	113,556
Workers’ compensation claims reserve, less current portion	160,159	150,937
Note payable, less current portion	30,222	—
Other long-term liabilities	3,923	3,576
Total liabilities	321,677	268,069
Commitments and contingencies (Note 9)		
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; 41,063 and 40,220 shares issued and outstanding	1	1
Accumulated other comprehensive income	2,342	2,818
Retained earnings	374,493	330,855
Total shareholders’ equity	376,836	333,674
Total liabilities and shareholders’ equity	$ 698,513	$ 601,743

See accompanying notes to consolidated financial statements

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TRUEBLUE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(UNAUDITED)
(in thousands, except per share data)

	Thirteen weeks ended		Thirty-nine weeks ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
Revenue from services	$451,169	$ 379,467	$1,219,977	$ 1,044,915
Cost of services	327,641	274,237	897,937	766,914
Gross profit	123,528	105,230	322,040	278,001
Selling, general and administrative expenses	90,767	77,634	268,538	221,243
Depreciation and amortization	4,771	4,660	15,133	14,156
Income from operations	27,990	22,936	38,369	42,602
Interest expense	(350)	(266)	(919)	(900)
Interest and other income	766	675	2,086	1,986
Interest and other income, net	416	409	1,167	1,086
Income before tax expense	28,406	23,345	39,536	43,688
Income tax expense	9,454	8,998	9,124	17,474
Net income	$18,952	$ 14,347	$30,412	$ 26,214
Net income per common share:				
Basic	$0.47	$ 0.36	$0.76	$ 0.66
Diluted	$0.47	$ 0.36	$0.75	$ 0.66
Weighted average shares outstanding:				
Basic	40,330	39,516	40,085	39,547
Diluted	40,670	39,858	40,395	39,841
Total other comprehensive income (loss), net of tax	$79	$ 504	$(476)	$ 372
Comprehensive income	$19,031	$ 14,851	$29,936	$ 26,586

See accompanying notes to consolidated financial statements

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TRUEBLUE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	Thirty-nine weeks ended	
	September 27, 2013	September 28, 2012
Cash flows from operating activities:		
Net income	$30,412	$26,214
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	15,133	14,156
Provision for doubtful accounts	8,785	4,305
Stock-based compensation	6,428	6,268
Deferred income taxes	(1,694)	1,191
Other operating activities	1,213	1,196
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(24,776)	(33,528)
Income taxes	6,580	2,206
Other assets	(4,703)	(592)
Accounts payable and other accrued expenses	(6,728)	(2,906)
Accrued wages and benefits	11,419	8,248
Workers’ compensation claims reserve	2,785	5,930
Other liabilities	423	280
Net cash provided by operating activities	45,277	32,968
Cash flows from investing activities:		
Capital expenditures	(10,350)	(13,930)
Acquisition of businesses, net of cash acquired	(54,872)	—
Purchases of marketable securities	(35,300)	—
Maturities of marketable securities	205	—
Change in restricted cash and cash equivalents	(1,338)	487
Purchases of restricted investments	(9,175)	(18,153)
Maturities of restricted investments	13,337	14,418
Other	—	(250)
Net cash used in investing activities	(97,493)	(17,428)
Cash flows from financing activities:		
Purchases and retirement of common stock	—	(4,386)
Net proceeds from stock option exercises and employee stock purchase plans	8,731	3,806
Common stock repurchases for taxes upon vesting of restricted stock	(2,653)	(2,076)
Proceeds from note payable	34,000	—
Payments on debt and other liabilities	(8,115)	(3,987)
Other	719	764
Net cash provided by (used in) financing activities	32,682	(5,879)
Effect of exchange rates on cash	(435)	369
Net change in cash and cash equivalents	(19,969)	10,030
CASH AND CASH EQUIVALENTS, beginning of period	129,513	109,311
CASH AND CASH EQUIVALENTS, end of period	$109,544	$119,341

See accompanying notes to consolidated financial statements

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Notes to Consolidated Financial Statements

NOTE 1: ACCOUNTING PRINCIPLES AND PRACTICES
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.
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 28, 2012. The results of operations for the thirteen and thirty-nine weeks ended September 27, 2013 are not necessarily indicative of the results expected for the full fiscal year or for any other fiscal period.
Cash and Cash Equivalents and Marketable Securities
We consider all highly liquid instruments purchased with an original maturity of three months or less at date of purchase to be cash equivalents. Investments with original maturities greater than three months are classified as marketable securities. Our marketable securities consist of variable-rate demand notes and certificate of deposits. All of our marketable securities are classified as available-for-sale and are reported at fair value, with any unrealized gains and losses, net of tax, recorded in Other comprehensive income (loss). We manage our cash equivalents and marketable securities as a single portfolio of highly liquid securities.
Recently Issued Accounting Pronouncements not yet Adopted
In July 2013, the FASB issued authoritative guidance for the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance 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 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 guidance will be effective for our first quarter of fiscal 2014. Management does not expect the adoption of this guidance to have a material impact on our financial statements.
NOTE 2: ACQUISITIONS
We account for our business acquisitions using the purchase method of accounting in accordance with ASC 805, Business Combinations. 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 net operating assets, property and equipment, intangible assets, useful lives of property and equipment and amortizable lives for acquired intangible assets. Any excess of the purchase consideration over the identified fair value of the assets and liabilities acquired 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.
Effective February 4, 2013, we acquired substantially all of the assets and assumed certain liabilities of MDT Personnel, LLC and its subsidiaries ("MDT") for $53.4 million in cash. 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. We expect the acquisition of MDT to enhance TrueBlue's national position as the leading provider of blue-collar temporary labor.

We have fully integrated and blended MDT's operations with our existing service lines. MDT was primarily integrated into the Labor Ready service line. The integration of the MDT sales and branch operations was completed during the first quarter of 2013. We consolidated 65 branches, blended our sales and service teams and fully integrated all former MDT locations into our enterprise

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Notes to Consolidated Financial Statements—(Continued)

systems to optimize our combined operational efficiencies during the first quarter of 2013. We completed the integration of all remaining administrative services during the second quarter of 2013. We incurred restructuring costs related to our integration of MDT of $2.8 million for the thirty-nine weeks ended September 27, 2013. No restructuring costs were incurred during the thirteen weeks ended September 27, 2013. These activities consisted of integrating our branch network capacity, sales and services teams and infrastructure and included closing, consolidating and relocating certain branch offices and administrative operations, eliminating redundant assets, and reducing excess administrative workforce and capacity. These integration 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 27, 2013, we have a liability for incurred but not yet paid integration costs of $0.2 million included in accounts payable and other accrued expenses in our Consolidated Balance Sheets.

Purchase price allocation

The following table summarizes the final allocation of the purchase price, based on the estimated fair value of the assets acquired and liabilities assumed as of the acquisition date of February 4, 2013 (in millions):

	Purchase Price Allocation February 4, 2013
Cash	$0.4
Accounts receivable (1)	29.9
Prepaid expenses, deposits and other current assets	0.6
Property and equipment	0.3
Restricted cash	6.9
Intangible assets	10.2
Total assets acquired	48.3
Accounts payable and other accrued expenses	6.3
Accrued wages and benefits	4.8
Workers' compensation claims reserve	9.4
Other long-term liabilities	0.1
Total liabilities assumed	20.6
Net identifiable assets acquired	27.7
Goodwill (2)	25.7
Net assets acquired	$53.4

(1) The gross contractual amount of accounts receivable was $32.9 million of which $3.0 million was estimated to be uncollectible.

(2) The goodwill acquired is deductible for income tax purposes.

Intangibles assets include identifiable intangible assets for customer relationships, the trade name/trademarks and a non-compete agreement. We estimated the fair value of the acquired identifiable intangible assets, which are subject to amortization using the income approach. No residual value is estimated for any of the intangible assets. The following table sets forth the components of identifiable intangible assets and their estimated useful lives as of February 4, 2013 (in millions, except for estimated useful lives, in years):

	Estimated Fair Value	Estimated Useful Life
Customer relationships	$7.8	8.0
Trade name/trademarks	1.0	1.5

Non-compete agreement	1.4	5.0

The acquired assets and liabilities of MDT are included in our Consolidated Balance Sheets as of September 27, 2013 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 from February 4, 2013.

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Notes to Consolidated Financial Statements—(Continued)

MDT operations have been fully integrated with our existing operations and our customers, temporary workforce, field employees and locations have been merged. The nature of the customers and the services provided by TrueBlue and the former MDT are substantially the same. We competed in the marketplace for the same customers, temporary workers, sales and service personnel. Accordingly, subsequent to merging our operations, it is not possible to segregate and to accurately estimate the revenues and expenses related exclusively to the former MDT operations.

Pro forma financial information

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

The pro forma financial information combines our results of operations with the unaudited financial information of MDT used by MDT management for internal reporting purposes. Any changes required by an audit of the MDT financial information could be material. The 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 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, differences in our operating costs structure, and any costs of restructuring and integration associated with the acquisition. It does include differences in workers' compensation and certain payroll taxes for temporary employees, and amortization of finite-lived intangible assets.

Pro forma financial data is presented below (in millions, except per share data).

	Thirteen weeks ended		Thirty-nine weeks ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
Revenue from services	$451.2	$ 438.0	$1,244.1	$ 1,207.2
Net income	19.0	13.6	34.5	22.6
Net income per common share - diluted	0.47	0.34	0.85	0.57

Other immaterial acquisition

We acquired certain assets of Crowley Transportation Services, LLC ("Crowley") in June 2013. The total cost of the acquisition was $2.4 million, including contingent consideration of $0.6 million. The Crowley operations were integrated with the Centerline Drivers service line during the second quarter ended June 28, 2013.

NOTE 3: 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 primarily consist of variable-rate demand notes ("VRDNs") and certificate of deposits ("CD"), and restricted investments, which primarily consist of municipal debt-securities, corporate-debt securities, asset-backed securities, and U.S. agency debentures. Our Level 2 liability is a term loan. 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 currently have no Level 3 assets or liabilities.

The carrying value of our cash and cash equivalents, marketable securities, restricted cash, other restricted investments and accounts receivable 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.

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Notes to Consolidated Financial Statements—(Continued)

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

	September 27, 2013				
	Carrying Value	Total Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents (1)	$109.5	$109.5	$109.5	$—	$—
Marketable securities classified as available-for-sale (2)	35.1	35.1	—	35.1	—
Restricted cash and cash equivalents (1)	47.4	47.4	47.4	—	—
Other restricted assets (3)	5.8	5.8	5.8	—	—
Restricted investments classified as held-to-maturity (4)	85.3	85.7	—	85.7	—
Financial liabilities:					
Term loan (5)	32.5	32.5	—	32.5	—

	December 28, 2012				
	Carrying Value	Total Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents (1)	$129.5	$129.5	$129.5	$—	$—
Restricted cash and cash equivalents (1)	38.1	38.1	38.1	—	—
Other restricted assets (3)	7.0	7.0	7.0	—	—
Restricted investments classified as held-to-maturity (4)	91.2	92.7	—	92.7	—

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(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 and VRDNs, which are classified as available-for-sale. Our CDs include $5.8 million with maturities greater than one year and 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 investments primarily consist of deferred compensation investments, which are comprised of mutual funds. We have an offsetting accrued liability related to the deferred compensation plan.

(4) Restricted investments classified as held-to-maturity consist of highly rated investment grade securities, primarily in municipal-debt securities, corporate-debt securities, asset-backed securities, and U.S. agency debentures.

(5) In connection with our acquisition of MDT effective February 4, 2013, we entered into an unsecured Term Loan Agreement with Synovus Bank. The Term Loan has a variable interest rate and approximates fair value. See Note 9: Commitments and Contingencies for further discussion.

NOTE 4. MARKETABLE SECURITIES

Marketable securities consist of variable-rate demand notes ("VRDN") and certificate of deposits ("CD"), which are classified as available-for-sale. VRDNs are long-term municipal and corporate securities with an interest rate that is reset frequently. All of the VRDNs currently in our portfolio are backed by a Letter of Credit from a bank. Our VRDNs may be tendered at any time with a typical settlement date of less than one week. We did not hold any marketable securities at December 28, 2012.

The following table presents the amortized cost and fair value of our available-for-sale investments, which are carried at fair value (in millions):

	September 27, 2013	
	Amortized Cost	Fair Value
Certificates of deposit	$9.5	$9.5
Variable-rate demand notes	25.6	25.6
	$35.1	$35.1

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Notes to Consolidated Financial Statements—(Continued)

Unrealized gains and losses for our CDs were de minimis for the thirty-nine weeks ended September 27, 2013. We held no available-for-sale securities during the fifty-two weeks ended December 28, 2012.
The amortized cost and fair value by contractual maturity of our available-for-sale investments are as follows (in millions):

	September 27, 2013	
	Amortized Cost	Fair Value
Due in one year or less (1)	$29.3	$29.3
Due after one year (2)	5.8	5.8
	$35.1	$35.1

(1) Amounts due in one year or less include CDs and VRDNs. The VRDNs have contractual terms ranging from two to 26 years. Although these securities are issued as long-term securities, they are priced and traded as short-term instruments because of the high liquidity provided through the tender feature. It is not our intent to hold to maturity.

(2) Amounts due after one year include CDs with maturities between one and two years and are recorded in Other assets on the Consolidated Balance Sheets.

Subsequent to the issuance of our unaudited Consolidated Financial Statements for the twenty-six weeks ended June 28, 2013, we discovered a misclassification error in the classification of VRDNs in our financial statements. The VRDNs, in the amount of $19.9 million, were inappropriately reported in Cash and cash equivalents on the unaudited Consolidated Balance Sheets for the period ended June 28, 2013, which also resulted in a corresponding understatement of Marketable securities. The misclassification also resulted in an overstatement of Cash and cash equivalents and understatement of Net cash used in investing activities of $19.9 million in the unaudited Consolidated Statements of Cash Flows for the twenty-six weeks ended June 28, 2013. This misclassification in our unaudited Consolidated Financial Statements did not affect the unaudited Consolidated Statements of Operations and Comprehensive Income or Net income per share.

The misclassification also resulted in VRDNs being inappropriately reported as Level 1 financial assets in the notes to our unaudited Consolidated Financial Statements. All VRDNs are now properly reported as Level 2 financial assets in the notes to our unaudited Consolidated Financial Statements. We do not consider the classification error to be material to the Company's previously issued unaudited Consolidated Financial Statements.

The VRDNs have been properly reported and separately disclosed as Marketable securities on the unaudited Consolidated Balance Sheets and unaudited Consolidated Statement of Cash Flows for the period ended September 27, 2013.

NOTE 5: 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, asset-backed securities and U.S. agency debentures. Our investments have not resulted in any other-than-temporary impairments. The majority of our collateral obligations are held in a trust ("Trust") at the Bank of New York Mellon.

The following is a summary of restricted cash and investments (in millions):

	September 27, 2013	December 28, 2012
Cash collateral held by insurance carriers	$24.4	$21.5

Cash and cash equivalents held in Trust (1)	21.2	14.8
Investments held in Trust	85.3	91.2
Cash collateral backing letters of credit	1.8	1.8
Other (2)	5.8	7.0
Total restricted cash and investments	$138.5	$136.3

(1) Included in this amount is $0.8 million and $0.9 million of accrued interest at September 27, 2013 and December 28, 2012, respectively.

(2) Primarily consists of restricted cash in money market accounts and 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 millions):

	September 27, 2013			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Municipal debt securities	$56.1	$0.7	$(0.4)	$56.4
Corporate debt securities	15.6	0.2	(0.2)	15.6
Asset-backed securities	13.6	0.2	(0.1)	13.7
	$85.3	$1.1	$(0.7)	$85.7