TrueBlue, Inc.
Form 10-Q
July 30, 2018

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: July 1, 2018
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)	(I.R.S. Employer Identification No.)
1015 A Street, Tacoma, Washington	98402
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock no par value	The New York Stock Exchange

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x Accelerated filer	¨ Non-accelerated filer	¨ (Do not check if a smaller reporting company)
Smaller reporting company	¨ Emerging growth company	¨	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of July 16, 2018, there were 40,627,334 shares of the registrant's common stock outstanding.

TrueBlue, Inc.
Table of Contents

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. CONSOLIDATED FINANCIAL STATEMENTS
TRUEBLUE, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)

(in thousands, except par value data)	July 1, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$33,408	$ 28,780
Accounts receivable, net of allowance for doubtful accounts of $6,153 and $4,344	370,588	374,273
Prepaid expenses, deposits and other current assets	21,006	20,605
Income tax receivable	7,964	4,621
Total current assets	432,966	428,279
Property and equipment, net	57,055	60,163
Restricted cash and investments	239,390	239,231
Deferred income taxes, net	1,005	3,783
Goodwill	239,380	226,694
Intangible assets, net	102,075	104,615
Other assets, net	52,349	46,266
Total assets	$1,124,220	$ 1,109,031
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued expenses	$69,515	$ 55,091
Accrued wages and benefits	77,113	76,894
Current portion of workers' compensation claims reserve	69,848	77,218
Other current liabilities	2,653	3,216
Total current liabilities	219,129	212,419
Workers' compensation claims reserve, less current portion	195,240	197,105
Long-term debt, less current portion	117,199	116,489
Long-term deferred compensation liabilities	23,268	21,866
Other long-term liabilities	6,083	6,305
Total liabilities	560,919	554,184
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; 40,595 and 41,098 shares issued and outstanding	1	1
Accumulated other comprehensive loss	(11,634)	(6,804)
Retained earnings	574,934	561,650
Total shareholders' equity	563,301	554,847
Total liabilities and shareholders' equity	$1,124,220	$ 1,109,031

See accompanying notes to consolidated financial statements

Table of Contents

TRUEBLUE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(unaudited)

(in thousands, except per share data)	Thirteen weeks ended		Twenty-six weeks ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Revenue from services	$614,301	$610,122	$1,168,689	$1,178,366
Cost of services	448,717	454,842	859,837	883,657
Gross profit	165,584	155,280	308,852	294,709
Selling, general and administrative expense	134,207	124,754	259,970	246,598
Depreciation and amortization	10,101	12,287	20,191	23,461
Income from operations	21,276	18,239	28,691	24,650
Interest expense	(1,355)	(1,296)	(2,245)	(2,528)
Interest and other income	387	1,451	3,481	2,757
Interest and other income (expense), net	(968)	155	1,236	229
Income before tax expense	20,308	18,394	29,927	24,879
Income tax expense	2,576	5,260	3,440	7,071
Net income	$17,732	$13,134	$26,487	$17,808
Net income per common share:				
Basic	$0.44	$0.32	$0.66	$0.43
Diluted	$0.44	$0.31	$0.65	$0.43
Weighted average shares outstanding:				
Basic	40,227	41,579	40,335	41,608
Diluted	40,469	41,856	40,576	41,875
Other comprehensive income:				
Foreign currency translation adjustment	$(1,921)	$540	$(3,305)	$2,340
Unrealized gain (loss) on investments, net of tax	—	(91)	—	646
Total other comprehensive income (loss), net of tax	(1,921)	449	(3,305)	2,986
Comprehensive income	$15,811	$13,583	$23,182	$20,794

See accompanying notes to consolidated financial statements

Table of Contents

TRUEBLUE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in thousands)	Twenty-six weeks ended July 1, 2018	July 2, 2017
Cash flows from operating activities:		
Net income	$26,487	$17,808
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,191	23,461
Provision for doubtful accounts	5,571	3,619
Stock-based compensation	5,983	5,146
Deferred income taxes	1,373	2,975
Other operating activities	102	2,022
Changes in operating assets and liabilities:		
Accounts receivable	888	11,925
Income tax receivable	(3,641)	8,828
Other assets	(3,522)	5,977
Accounts payable and other accrued expenses	3,767	(13,181)
Accrued wages and benefits	(1,423)	(4,560)
Workers' compensation claims reserve	(9,235)	767
Other liabilities	2,900	(580)
Net cash provided by operating activities	49,441	64,207
Cash flows from investing activities:		
Capital expenditures	(6,468)	(9,137)
Acquisition of business	(22,742)	—
Divestiture of business	8,800	—
Purchases of restricted investments	(10,730)	(20,712)
Maturities of restricted investments	13,044	13,546
Net cash used in investing activities	(18,096)	(16,303)
Cash flows from financing activities:		
Purchases and retirement of common stock	(19,065)	(15,530)
Net proceeds from stock option exercises and employee stock purchase plans	757	858
Common stock repurchases for taxes upon vesting of restricted stock	(2,403)	(2,873)
Net change in revolving credit facility	21,300	(25,303)
Payments on debt	(22,856)	(1,133)
Payment of contingent consideration at acquisition date fair value	—	(18,300)
Net cash used in financing activities	(22,267)	(62,281)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(919)	(154)
Net change in cash, cash equivalents and restricted cash	8,159	(14,531)
Cash, cash equivalents and restricted cash, beginning of period	73,831	103,222
Cash, cash equivalents and restricted cash, end of period	$81,990	$88,691
Supplemental disclosure of cash flow information:		
Cash paid (received) during the period for:		
Interest	$1,892	$1,549
Income taxes	5,696	(4,740)
Non-cash transactions:		

Property, plant, and equipment purchased but not yet paid	726	2,888
Divestiture non-cash consideration	1,657	—

See accompanying notes to consolidated financial statements

Table of Contents

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," "TrueBlue," "we," "us," and "our") are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. 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 U.S. 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 31, 2017. The results of operations for the thirteen and twenty-six weeks ended July 1, 2018, are not necessarily indicative of the results expected for the full fiscal year or for any other fiscal period.

Goodwill and indefinite-lived intangible assets

We evaluate goodwill and indefinite-lived intangible assets for impairment on an annual basis as of the first day of our fiscal second quarter, and more frequently if an event occurs or circumstances change that would indicate impairment may exist. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, customer engagement, or sale or disposition of a significant portion of a reporting unit. We monitor the existence of potential impairment indicators throughout the fiscal year.

Based on our annual goodwill impairment test performed as of the first day of our fiscal second quarter, all reporting units' fair values were substantially in excess of their respective carrying values. We consider a reporting unit's fair value to be substantially in excess of its carrying value at a 20% premium or greater. Accordingly, no impairment loss was recognized for the thirteen weeks ended July 1, 2018 nor July 2, 2017.

We performed our annual indefinite-lived intangible asset impairment test as of the first day of our fiscal second quarter and determined that the estimated fair values exceeded the carrying amounts for our indefinite-lived trade names. Accordingly, no impairment loss was recognized for the thirteen weeks ended July 1, 2018 nor July 2, 2017.

Recently adopted accounting standards

In May 2017, the Financial Accounting Standing Board ("FASB") issued guidance to provide clarity and reduce diversity in practice when accounting for a change to the terms or conditions of share-based payment awards. The objective was to reduce the scope of transactions that would require modification accounting. Disclosure requirements remain unchanged. This amended guidance was effective for our fiscal years and interim periods beginning after December 15, 2017 (Q1 2018 for TrueBlue), with early adoption permitted. We adopted this guidance for our fiscal first quarter of 2018. The adoption of the new standard did not have a material impact on our financial statements.

In January 2017, the FASB issued guidance clarifying the definition of a business, which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. This guidance was effective for fiscal years and interim periods beginning December 15, 2017 (Q1 2018 for TrueBlue) on a prospective basis. This standard did not have a material impact on our financial statements. In Q2 2018, we acquired all of the outstanding equity interests of TMP Holdings LTD ("TMP") and concluded that TMP represents a business based on this new guidance. See Note 3: Acquisition and divestiture, for further discussion of our acquisition of TMP.

In November 2016, the FASB issued guidance to amend the presentation of restricted cash and restricted cash equivalents on the statement of cash flows. The standard requires restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This amended guidance was effective for fiscal years and interim periods beginning after December 15, 2017 (Q1 2018 for TrueBlue). We adopted this guidance for our fiscal first quarter of 2018 using the retrospective transition method. Accordingly, the change in restricted cash and cash equivalents is no longer segregated in our statement of cash flows, and the $8.8 million previously presented in the investing section for the twenty-six weeks ended July 2, 2017 is now included when reconciling the beginning-of-period and end-of-period cash, cash equivalents and restricted cash shown on the statement of cash flows.

Table of Contents

NOTES TO
CONSOLIDATED
FINANCIAL
STATEMENTS

In October 2016, the FASB issued guidance on the accounting for income tax effects of intercompany sales or transfers of assets other than inventory. The guidance requires entities to recognize the income tax impact of an intra-entity sale or transfer of an asset other than inventory when the sale or transfer occurs, rather than when the asset has been sold to an outside party. This guidance was effective for fiscal years and interim periods beginning after December 15, 2017 (Q1 2018 for TrueBlue). The guidance requires a modified retrospective application with a cumulative catch-up adjustment to opening retained earnings. We adopted this guidance for our fiscal first quarter of 2018. The adoption of the new standard did not have a material impact on our financial statements.
In August 2016, the FASB issued guidance relating to how certain cash receipts and cash payments should be presented and classified in the statement of cash flows. The update was intended to reduce the existing diversity in practice. The amended guidance was effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 (Q1 2018 for TrueBlue). We adopted this guidance for our fiscal first quarter of 2018. The adoption of the new standard did not have an impact on our financial statements.
In January 2016, the FASB issued guidance on the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The guidance was effective for annual and interim periods beginning after December 15, 2017 (Q1 2018 for TrueBlue). Early adoption of the amendments in the guidance was not permitted, with limited exceptions. The guidance required a cumulative-effect adjustment be made to reclassify unrealized gains and losses related to available-for-sale equity securities from accumulated other comprehensive income, to retained earnings as of the beginning of the fiscal year of adoption. We adopted this guidance as of the first day of our fiscal first quarter of 2018 and reclassified from accumulated other comprehensive loss to retained earnings, $1.5 million in unrealized gains, net of tax on available-for-sale equity securities. Beginning in Q1 2018, change in market value for our available-for-sale equity securities is included in selling, general and administrative expense in the Consolidated Statements of Operation and Comprehensive Income.
In May 2014, the FASB issued guidance outlining a single comprehensive model for accounting for revenue arising from contracts with clients, which supersedes the current revenue recognition guidance. This guidance requires an entity to recognize revenue when it transfers promised goods or services to clients in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We adopted this new guidance as of January 1, 2018 using the modified retrospective transition method. The adoption of this new guidance did not have a material impact on our consolidated financial statements as of the adoption date, nor for the thirteen and twenty-six weeks ended July 1, 2018, except for expanded disclosures. Refer to Note 2: Revenue recognition for additional accounting policy and transition disclosures.
Recently issued accounting pronouncements not yet adopted
In February 2016, the FASB issued guidance on lease accounting. The new guidance will continue to classify leases as either finance or operating, but will result in the lessee recognizing a right-of-use asset and a corresponding lease liability on its balance sheet, with classification affecting the pattern of expense recognition in the statement of operations. This guidance is effective for annual and interim periods beginning after December 15, 2018 (Q1 2019 for TrueBlue), and early adoption is permitted. A modified retrospective approach is required for all leases existing or entered into after the beginning of the earliest comparative period in the consolidated financial statements. We plan to adopt the guidance on the effective date. We established a cross-functional implementation team consisting of representatives from various departments to review our current contracts, accounting policies and business practices to identify and quantify the potential impact of the new standard on our financial statements. We are completing this evaluation and expect that, upon adoption, a majority of our operating lease commitments will be recognized on our Consolidated Balance Sheets as operating lease liabilities and right-of-use assets. We do not expect the adoption to

have a material impact on the pattern of expense recognition in our Consolidated Statements of Operations and Comprehensive Income.
Other accounting standards that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our financial statements upon adoption.
NOTE 2: REVENUE RECOGNITION
Adoption of new revenue recognition guidance
On January 1, 2018, we adopted new revenue recognition guidance using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under the new revenue recognition guidance, while prior period amounts were not adjusted and continue to be reported in accordance with historic accounting guidance. The adoption of this new guidance did not have a material impact on our consolidated financial statements as of the adoption date, nor for the thirteen and twenty-six weeks ended July 1, 2018, except for expanded disclosures.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Revenue recognition

We account for a contract when both parties to the contract have approved the contract, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Revenues are recognized over time, using an output measure, as the control of the promised services is transferred to the client in an amount that reflects the consideration we expect to be entitled to in exchange for those services. The majority of our contracts are short-term in nature as they are filling the temporary staffing needs of our clients, or include termination clauses that allow either party to cancel within a short termination period, without cause. Revenue includes billable travel and other reimbursable costs and are reported net of sales, use, or other transaction taxes collected from clients and remitted to taxing authorities. Payment terms vary by client and the services offered. We consider payment terms that exceed one year to be extended payment terms, however we do not extend payment terms beyond one year. Substantially all of our contracts include payment terms of 90 days or less.

We primarily record revenue on a gross basis as a principal versus on a net basis as an agent in the Consolidated Statements of Operations and Comprehensive Income. We have determined that gross reporting as a principal is the appropriate treatment based upon the following key factors:

- We maintain the direct contractual relationship with the client and are responsible for fulfilling the service promised to the client.
- We maintain control over our workers while the services to the client are being performed.
- We establish our worker’s billing rate.

Contingent staffing

We recognize revenue for our contingent staffing services over time as services are performed in an amount that reflects the consideration we expect to be entitled to in exchange for our services, which is generally calculated as hours worked multiplied by the agreed-upon hourly bill rate. The client simultaneously receives and consumes the benefits of the services as they are provided. We do not incur costs to obtain our contingent staffing contracts. Costs are incurred to fulfill some contingent staffing contracts, however these costs are not material and are expensed as incurred.

Human resource outsourcing

We primarily recognize revenue for our outsourced recruitment of permanent employees over time in an amount that reflects the consideration we expect to be entitled to in exchange for our services. The client simultaneously receives and consumes the benefits of the services as they are provided. We do not incur costs to obtain our outsourced recruitment of permanent employees’ contracts. The costs to fulfill these contracts are not material and are expensed as incurred.

Unsatisfied performance obligations

As a practical expedient, we do not disclose the value of unsatisfied performance obligations for (i) contracts with an expected original duration of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

Disaggregated revenue

The following table presents our revenue disaggregated by major source:

	Thirteen weeks ended		July 1, 2018	
(in thousands)	PeopleReady	PeopleManagement	PeopleScout	Consolidated
Revenue from services:				
Contingent staffing	$377,460	$ 178,839	$—	$ 556,299
Human resource outsourcing	—	—	58,002	58,002
Total company	$377,460	$ 178,839	$58,002	$ 614,301

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Twenty-six weeks ended		July 1, 2018	
(in thousands)	PeopleReady	PeopleManagement	PeopleScout	Consolidated
Revenue from services:				
Contingent staffing	$694,295	$ 362,731	$—	$ 1,057,026
Human resource outsourcing	—	—	111,663	111,663
Total company	$694,295	$ 362,731	$111,663	$ 1,168,689

NOTE 3: ACQUISITION AND DIVESTITURE

Acquisition

Effective June 12, 2018, the company acquired all of the outstanding equity interests of TMP Holdings LTD (“TMP”), through its subsidiary PeopleScout, Inc. for a cash purchase price of $22.7 million, net of cash acquired of $7.0 million. TMP is a mid-sized recruitment process outsourcing (“RPO”) and employer branding service provider operating in the United Kingdom, which is the second largest RPO market in the world. This acquisition increases our ability to win multi-continent engagements by adding a physical presence in Europe, referenceable clients and employer branding capabilities.

We incurred acquisition and integration-related costs of $0.5 million, which are included in selling, general and administrative expense on the Consolidated Statements of Operations and Comprehensive Income for the thirteen and twenty-six weeks ended July 1, 2018 and cash flows from operating activities on the Consolidated Statements of Cash Flows for the twenty-six weeks ended July 1, 2018.

The following table reflects our preliminary allocation of the purchase price, net of cash acquired, to the fair value of the assets acquired and liabilities assumed:

(in thousands)	Purchase price allocation
Cash purchase price, net of cash acquired	$ 22,742
Purchase price allocated as follows:	
Accounts receivable	9,770
Prepaid expenses, deposits and other current assets	337
Property and equipment	435
Customer relationships	6,286
Trade names/trademarks	1,738
Total assets acquired	18,566
Accounts payable and other accrued expenses	9,139
Accrued wages and benefits	1,642
Income tax payable	205
Deferred income tax liability	1,444
Total liabilities assumed	12,430
Net identifiable assets acquired	6,136
Goodwill (1)	16,606
Total consideration allocated	$ 22,742

(1) Goodwill represents the expected synergies with our existing business, the acquired assembled workforce, potential new customers and future cash flows after the acquisition of TMP, and is non-deductible for income tax purposes.

Intangible assets include identifiable intangible assets for customer relationships and trade names/trademarks. We estimated the fair value of the acquired identifiable intangible assets, which are subject to amortization, using the income approach.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth the components of identifiable intangible assets, their estimated fair values and useful lives as of June 12, 2018:

(in thousands, except for estimated useful lives, in years)	Estimated fair value	Estimated useful life in years
Customer relationships	$ 6,286	3-7
Trade names/trademarks	1,738	14
Total acquired identifiable intangible assets	$ 8,024	

The acquired assets and assumed liabilities of TMP are included on our Consolidated Balance Sheet as of July 1, 2018, and the results of its operations and cash flows are reported on our Consolidated Statements of Operations and Comprehensive Income and Consolidated Statements of Cash Flows for the period from June 12, 2018 to July 1, 2018. The amount of revenue from TMP included in our Consolidated Statements of Operations and Comprehensive Income was $2.9 million from the acquisition date to July 1, 2018. The acquisition of TMP was not material to our consolidated results of operations and as such, pro forma financial information was not required.

Divestiture

Effective March 12, 2018, the company entered into an asset purchase agreement to sell substantially all the assets and certain liabilities of the PlaneTechs business to Launch Technical Workforce Solutions (“Launch”) for a purchase price of $11.4 million, of which $8.5 million was paid in cash, and $1.6 million in a note receivable due within six months following the closing date. The note receivable has monthly principal payments of $0.1 million beginning April 2018 with the remainder due in September 2018, which is included in prepaid expenses, deposits and other current assets on the Consolidated Balance Sheets. The remaining purchase price balance consists of the preliminary working capital adjustment, which is expected to be paid in cash during the fiscal third quarter of 2018 and is included in prepaid expenses, deposit and other current assets on the Consolidated Balance Sheets. The company recognized a preliminary pre-tax gain on the divestiture of $1.1 million, which is included in interest and other income on the Consolidated Statements of Operations and Comprehensive Income for the twenty-six weeks ended July 1, 2018. Fiscal first quarter revenue through the closing date of the divestiture for the PlaneTechs business of $8.0 million was reported in the PeopleManagement reportable segment.

The divestiture of PlaneTechs did not represent a strategic shift with a major effect on the company’s operations and financial results and, therefore was not reported as discontinued operations in the Consolidated Balance Sheets or Consolidated Statements of Operations and Comprehensive Income for the periods presented.

The company has agreed to provide certain transition services to Launch for a period not to exceed seven months, which includes various back office services to support the PlaneTechs branch offices until personnel and systems are transferred to Launch.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: FAIR VALUE MEASUREMENT

Our assets and liabilities measured at fair value on a recurring basis consisted of the following:

	July 1, 2018			
(in thousands)	Total fair value	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Financial assets:				
Cash and cash equivalents	$ 33,408	$ 33,408	$ —	$ —
Restricted cash and cash equivalents	48,582	48,582	—	—
Cash, cash equivalents and restricted cash (1)	$ 81,990	$ 81,990	$ —	$ —
Deferred compensation mutual funds classified as available-for-sale	$ 24,384	$ 24,384	$ —	$ —
Municipal debt securities	$ 78,190	$ —	$ 78,190	$ —
Corporate debt securities	82,238	—	82,238	—
Agency mortgage-backed securities	3,229	—	3,229	—
U.S. government and agency securities	975	—	975	—
Restricted investments classified as held-to-maturity	$ 164,632	$ —	$ 164,632	$ —

	December 31, 2017			
(in thousands)	Total fair value	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Financial assets:				
Cash and cash equivalents	$ 28,780	$ 28,780	$ —	$ —
Restricted cash and cash equivalents	45,051	45,051	—	—
Cash, cash equivalents and restricted cash (1)	$ 73,831	$ 73,831	$ —	$ —
Deferred compensation mutual funds classified as available-for-sale	$ 22,428	$ 22,428	$ —	$ —
Municipal debt securities	$ 83,366	$ —	$ 83,366	$ —
Corporate debt securities	83,791	—	83,791	—
Agency mortgage-backed securities	4,062	—	4,062	—
U.S. government and agency securities	1,019	—	1,019	—

Restricted investments classified as held-to-maturity	$ 172,238	$ —	$ 172,238	$ —

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

There were no material transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the twenty-six weeks ended July 1, 2018 nor July 2, 2017.

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 debt and asset-backed securities. The majority of our collateral obligations are held in a trust at the Bank of New York Mellon ("Trust").

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the carrying value of our restricted cash and investments:

(in thousands)	July 1, 2018	December 31, 2017
Cash collateral held by insurance carriers	$22,726	$ 22,926
Cash and cash equivalents held in Trust	25,447	16,113
Investments held in Trust	166,424	171,752
Deferred compensation mutual funds	24,384	22,428
Other restricted cash and cash equivalents	409	6,012
Total restricted cash and investments	$239,390	$ 239,231

The amortized cost and estimated fair value of our held-to-maturity investments held in trust, aggregated by investment category are as follows:

	July 1, 2018			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Municipal debt securities	$78,675	$ 304	$ (789)	$78,190
Corporate debt securities	83,481	5	(1,248)	82,238
Agency mortgage-backed securities	3,269	6	(46)	3,229
U.S. government and agency securities	999	—	(24)	975
Total held-to-maturity investments	$166,424	$ 315	$ (2,107)	$164,632

	December 31, 2017			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Municipal debt securities	$82,770	$ 974	$ (378)	$83,366
Corporate debt securities	83,916	309	(434)	83,791
Agency mortgage-backed securities	4,066	22	(26)	4,062
U.S. government and agency securities	1,000	19	—	1,019
Total held-to-maturity investments	$171,752	$ 1,324	$ (838)	$172,238

The estimated fair value and gross unrealized losses of all investments classified as held-to-maturity, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of July 1, 2018 and December 31, 2017, were as follows:

	July 1, 2018					
	Less than 12 months		12 months or more		Total	
(in thousands)	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
Municipal debt securities	$37,263	$ (350)	$9,329	$ (439)	$46,592	$ (789)
Corporate debt securities	69,369	(1,042)	8,980	(206)	78,349	(1,248)
Agency mortgage-backed securities	1,397	(15)	976	(31)	2,373	(46)
U.S. government and agency securities	975	(24)	—	—	975	(24)
Total held-to-maturity investments	$					