TrueBlue, Inc.
Form 10-Q
April 29, 2019

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: March 31, 2019
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

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes 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 ¨
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 April 15, 2019, there were 40,152,708 shares of the registrant's common stock outstanding.

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

(in thousands, except par value data)	March 31, 2019	December 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$26,328	$46,988
Accounts receivable, net of allowance for doubtful accounts of $4,832 and $5,026	327,038	355,373
Prepaid expenses, deposits and other current assets	24,291	22,141
Income tax receivable	8,329	5,325
Total current assets	385,986	429,827
Property and equipment, net	57,898	57,671
Restricted cash and investments	229,743	235,443
Deferred income taxes, net	1,177	4,388
Goodwill	238,006	237,287
Intangible assets, net	86,541	91,408
Operating lease right-of-use assets	38,717	—
Workers' compensation claims receivable, net	45,694	44,915
Other assets, net	16,254	13,905
Total assets	$1,100,016	$1,114,844
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued expenses	$51,420	$62,045
Accrued wages and benefits	66,832	77,098
Current portion of workers' compensation claims reserve	74,073	76,421
Operating lease current liabilities	14,638	—
Other current liabilities	8,358	9,962
Total current liabilities	215,321	225,526
Workers' compensation claims reserve, less current portion	187,993	190,025
Long-term debt, less current portion	42,200	80,000
Long-term deferred compensation liabilities	25,023	21,747
Operating lease long-term liabilities	26,723	—
Other long-term liabilities	4,469	6,107
Total liabilities	501,729	523,405
Commitments and contingencies (Note 5)		
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; 40,152 and 40,054 shares issued and outstanding	1	1
Accumulated other comprehensive loss	(13,323)	(14,649)
Retained earnings	611,609	606,087
Total shareholders' equity	598,287	591,439

Total liabilities and shareholders’ equity	$ 1,100,016	$ 1,114,844

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	
	March 31, 2019	April 1, 2018
Revenue from services	$552,352	$554,388
Cost of services	403,976	411,120
Gross profit	148,376	143,268
Selling, general and administrative expense	129,661	125,763
Depreciation and amortization	9,952	10,090
Income from operations	8,763	7,415
Interest expense	(722)	(890)
Interest and other income	1,275	3,094
Interest and other income (expense), net	553	2,204
Income before tax expense	9,316	9,619
Income tax expense	1,040	864
Net income	$8,276	$8,755
Net income per common share:		
Basic	$0.21	$0.22
Diluted	$0.21	$0.22
Weighted average shares outstanding:		
Basic	39,366	40,443
Diluted	39,735	40,694
Other comprehensive income:		
Foreign currency translation adjustment	$1,326	$(1,384)
Comprehensive income	$9,602	$7,371

See accompanying notes to consolidated financial statements

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

(in thousands)	Thirteen weeks ended March 31, 2019	April 1, 2018
Cash flows from operating activities:		
Net income	$8,276	$8,755
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,952	10,090
Provision for doubtful accounts	1,778	2,209
Stock-based compensation	3,606	3,409
Deferred income taxes	3,209	1,370
Non-cash lease expense	3,565	—
Other operating activities	(1,841)	(572)
Changes in operating assets and liabilities:		
Accounts receivable	26,558	42,679
Income tax receivable	(3,645)	(2,842)
Other assets	(5,274)	(1,964)
Accounts payable and other accrued expenses	(9,878)	(5,232)
Accrued wages and benefits	(10,266)	(10,125)
Workers' compensation claims reserve	(4,380)	(4,579)
Operating lease liabilities	(3,414)	—
Other liabilities	3,268	1,637
Net cash provided by operating activities	21,514	44,835
Cash flows from investing activities:		
Capital expenditures	(5,862)	(1,911)
Divestiture of business	—	8,500
Purchases of restricted investments	(3,070)	(3,299)
Maturities of restricted investments	10,337	6,417
Net cash provided by investing activities	1,405	9,707
Cash flows from financing activities:		
Purchases and retirement of common stock	(5,303)	—
Net proceeds from employee stock purchase plans	380	395
Common stock repurchases for taxes upon vesting of restricted stock	(1,438)	(2,086)
Net change in revolving credit facility	(37,800)	(46,301)
Payments on debt	—	(567)
Other	(69)	—
Net cash used in financing activities	(44,230)	(48,559)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	314	(760)
Net change in cash, cash equivalents and restricted cash	(20,997)	5,223
Cash, cash equivalents and restricted cash, beginning of period	102,450	73,831
Cash, cash equivalents and restricted cash, end of period	$81,453	$79,054
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$667	$827
Income taxes	1,448	2,342

Operating lease liabilities	4,344	—
Non-cash transactions:		
Property and equipment purchased but not yet paid	807	581
Divestiture non-cash consideration	—	1,957
Right-of-use assets obtained in exchange for new operating lease liabilities	4,698	—

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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") and rules and regulations of the Securities and Exchange Commission for interim financial information. 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 30, 2018. The results of operations for the thirteen weeks ended March 31, 2019, are not necessarily indicative of the results expected for the full fiscal year or for any other fiscal period.

Reclassifications

Certain immaterial prior year amounts have been reclassified within current liabilities on our Consolidated Balance Sheets and Consolidated Statements of Cash Flows to conform to current year presentation.

Leases

We conduct our branch office operations from leased locations. We also lease office spaces for our centralized support functions, vehicles and equipment. Many leases require variable payments of property taxes, insurance, and common area maintenance, in addition to base rent. The variable portion of these lease payments is not included in our right-of-use assets or lease liabilities. Rather, variable payments, other than those dependent upon an index or rate, are expensed when the obligation for those payments is incurred and are included in lease expense in selling, general and administrative expense on our Consolidated Statements of Operations and Comprehensive Income. The terms of our lease agreements generally range from three to five years, some containing options to renew or cancel. We determine if an arrangement meets the definition of a lease at inception, at which time we also perform an analysis to determine whether the lease qualifies as operating or financing.

Operating leases are included in operating lease right-of-use assets and operating lease current and long-term liabilities on our Consolidated Balance Sheets. Lease expense for operating leases is recognized on a straight-line basis over the lease term, and is included in selling, general and administrative expense on our Consolidated Statements of Operations and Comprehensive Income.

Financing leases are included in property and equipment, net, other current liabilities, and other long-term liabilities on our Consolidated Balance Sheets. Lease expense for financing leases is recognized as depreciation of the right-of-use asset and interest expense.

Lease right-of-use assets and lease liabilities are measured using the present value of future minimum lease payments over the lease term at commencement date. The right-of-use asset also includes any lease payments made on or before the commencement date of the lease, less any lease incentives received. As the rate implicit in the lease is not readily determinable in our leases, we use our incremental borrowing rates based on the information available at the lease commencement date in determining the present value of lease payments. The incremental borrowing rates used are estimated based on what we would be required to pay for a collateralized loan over a similar term. We have lease agreements with lease and non-lease components, which are accounted for as a single lease component.

For leases with an initial non-cancelable lease term of less than one year and no option to purchase, we have elected not to recognize the lease on our Consolidated Balance Sheets and instead recognize rent payments on a straight-line basis over the lease term in selling, general and administrative expense on our Consolidated Statements of Operations and Comprehensive Income. In addition, for those leases where the right to cancel the lease is available to both TrueBlue (as the lessee) and the lessor, the lease term is the initial non-cancelable period plus the notice period, which is typically 90 days, and not greater than one year.

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Recently adopted accounting standards

Intangibles-goodwill and other-internal-use software

In August 2018, the Financial Accounting Standards Board ("FASB") issued new guidance on accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The standard aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Previously, we expensed the cost of internal development labor as incurred.

The new guidance now requires these costs be capitalized with the related amortization recorded in selling, general and administrative expense. In addition, capitalized development costs are required to be recorded as a prepaid asset rather than a fixed asset, and license fees incurred during the development period are expensed as incurred.

The standard is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. We elected to early adopt this new standard prospectively as of the first day of our fiscal first quarter in 2019. There was no impact on our consolidated financial statements upon adoption.

Leases

In February 2016, the FASB issued guidance on lease accounting. The new guidance continues to classify leases as either finance or operating, but results in the lessee recognizing most operating leases on the balance sheet as right-of-use assets and lease liabilities. This guidance was effective for annual and interim periods beginning after December 15, 2018 (Q1 2019 for TrueBlue), with early adoption permitted. In July 2018, the FASB amended the standard to provide transition relief for comparative reporting, allowing companies to adopt the provisions of the new standard using a modified retrospective transition method on the adoption date, with a cumulative-effect adjustment to retained earnings recorded on the date of adoption. We have elected to adopt the standard using the transition relief provided in the July amendment. In preparation for adoption of the standard, we have implemented internal controls and key system functionality to enable the preparation of financial information.

We have elected the three practical expedients allowed for implementation of the new standard, but have not utilized the hindsight practical expedient. Accordingly, we did not reassess: 1) whether any expired or existing contracts are or contain leases; 2) the lease classification for any expired or existing leases; 3) initial direct costs for any existing leases. We have also elected the practical expedient to not separate non-lease components from the lease components to which they relate, and instead account for each as a single lease component, for all underlying asset classes. Accordingly, all expenses associated with a lease contract are accounted for as lease expenses.

Adoption of the new standard resulted in the recording of operating right-of-use assets and lease liabilities of $39 million and $41 million, respectively, as of the first day of our fiscal first quarter of 2019. The difference between the right-of-use assets and lease liabilities relates to the deferred rent liability balance as of the end of fiscal 2018 associated with the leases capitalized. The deferred rent liability, which was the difference between the straight-line lease expense and cash paid, reduced the right-of-use asset upon adoption. Our accounting for finance leases remained substantially unchanged. The standard did not materially impact our Consolidated Statements of Operations and Comprehensive Income or our Consolidated Statements of Cash Flows.

Recently issued accounting pronouncements not yet adopted

In June 2016, the FASB issued guidance on accounting for credit losses on financial instruments. This guidance sets forth a current expected credit loss model, which requires measurement of all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable supportable forecasts. This guidance replaces the incurred loss impairment methodology under current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and

supportable information to inform credit loss estimates. We will be required to use a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. This guidance is effective for fiscal years beginning after December 15, 2019 (Q1 2020 for TrueBlue) with early adoption permitted no sooner than Q1 2019. A modified retrospective approach is required for all investments, except debt securities for which an other-than-temporary impairment had been recognized prior to the effective date, which will require a prospective transition approach. We plan to adopt this guidance on the effective date and are currently evaluating the impact of this standard on our consolidated financial statements, including accounting policies, processes, systems, and internal controls.

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: FAIR VALUE MEASUREMENT

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

	March 31, 2019			
(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)
Cash and cash equivalents	$26,328	$26,328	$—	$ —
Restricted cash and cash equivalents	55,125	55,125	—	—
Cash, cash equivalents and restricted cash (1)	$81,453	$81,453	$—	$ —
Municipal debt securities	$75,794	$—	$ 75,794	$ —
Corporate debt securities	69,777	—	69,777	—
Agency mortgage-backed securities	2,235	—	2,235	—
U.S. government and agency securities	1,012	—	1,012	—
Restricted investments classified as held-to-maturity	$148,818	$—	$ 148,818	$ —
Deferred compensation mutual funds classified as available-for-sale	$26,969	$26,969	$—	$ —

	December 30, 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)
Cash and cash equivalents	$46,988	$46,988	$—	$ —
Restricted cash and cash equivalents	55,462	55,462	—	—
Cash, cash equivalents and restricted cash (1)	$102,450	$102,450	$—	$ —
Municipal debt securities	$76,690	$—	$ 76,690	$ —
Corporate debt securities	75,432	—	75,432	—
Agency mortgage-backed securities	2,531	—	2,531	—
U.S. government and agency securities	988	—	988	—
Restricted investments classified as held-to-maturity	$155,641	$—	$ 155,641	$ —

Deferred compensation mutual funds classified as available-for-sale	$23,363	$23,363	$—	$ —

(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 thirteen weeks ended March 31, 2019 nor April 1, 2018.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: RESTRICTED CASH AND INVESTMENTS

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

(in thousands)	March 31, 2019	December 30, 2018
Cash collateral held by insurance carriers	$ 24,366	$ 24,182
Cash and cash equivalents held in Trust	30,354	28,021
Investments held in Trust	147,649	156,618
Deferred compensation mutual funds	26,969	23,363
Other restricted cash and cash equivalents	405	3,259
Total restricted cash and investments	$ 229,743	$ 235,443

Held-to-maturity

Restricted cash and investments include 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").

The amortized cost and estimated fair value of our held-to-maturity investments held in Trust, aggregated by investment category as of March 31, 2019 and December 30, 2018, were as follows:

	March 31, 2019			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Municipal debt securities	$ 74,657	$ 1,261	$ (124)	$ 75,794
Corporate debt securities	69,756	305	(284)	69,777
Agency mortgage-backed securities	2,237	14	(16)	2,235
U.S. government and agency securities	999	13	—	1,012
Total held-to-maturity investments	$ 147,649	$ 1,593	$ (424)	$ 148,818

	December 30, 2018			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Municipal debt securities	$ 76,750	$ 456	$ (516)	$ 76,690
Corporate debt securities	76,310	30	(908)	75,432
Agency mortgage-backed securities	2,559	5	(33)	2,531
U.S. government and agency securities	999	—	(11)	988
Total held-to-maturity investments	$ 156,618	$ 491	$ (1,468)	$ 155,641

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 March 31, 2019 and December 30, 2018, were as follows:

March 31, 2019		
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	$—	$ —	$14,255	$ (124)	$14,255	$ (124)
Corporate debt securities	2,015	(2)	40,689	(282)	42,704	(284)
Agency mortgage-backed securities	—	—	1,237	(16)	1,237	(16)
Total held-to-maturity investments	$2,015	$ (2)	$56,181	$ (422)	$58,196	$ (424)

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	December 30, 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	$12,803	$ (74)	$22,638	$ (442)	$35,441	$ (516)
Corporate debt securities	22,567	(277)	44,463	(631)	67,030	(908)
Agency mortgage-backed securities	385	—	1,375	(33)	1,760	(33)
U.S. government and agency securities	988	(11)	—	—	988	(11)
Total held-to-maturity investments	$36,743	$ (362)	$68,476	$ (1,106)	$105,219	$ (1,468)

The total number of held-to-maturity securities in an unrealized loss position as of March 31, 2019 and December 30, 2018 were 54 and 93, respectively. The unrealized losses were the result of interest rate increases. Since the decline in estimated fair value is attributable to changes in interest rates and not credit quality, and the company has the intent and ability to hold these debt securities until recovery of amortized cost or until maturity, we do not consider these investments other than temporarily impaired.

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

	March 31, 2019	
(in thousands)	Amortized cost	Fair value
Due in one year or less	$18,964	$18,912
Due after one year through five years	86,051	86,524
Due after five years through ten years	42,634	43,382
Total held-to-maturity investments	$147,649	$148,818

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. We have no significant concentrations of counterparties in our held-to-maturity investment portfolio.

Available-for-sale

We hold mutual funds classified as available-for-sale to support our deferred compensation liability. Unrealized gains and losses related to equity investments still held at March 31, 2019 and April 1, 2018, were a $2.4 million gain, and a $0.1 million loss, for the thirteen weeks then ended respectively, and are included in selling, general and administrative expense on the Consolidated Statements of Operations and Comprehensive Income.

NOTE 4: 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.

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 discount rate was 2.1% and 2.0% at March 31, 2019 and December 30, 2018, respectively. Payments made against self-insured claims are made over a weighted average period of approximately 4.5 years as of March 31, 2019.

The following table presents a reconciliation of the undiscounted workers' compensation reserve to the discounted workers' compensation reserve for the periods presented:

(in thousands)	March 31, 2019	December 30, 2018
Undiscounted workers' compensation reserve	$280,385	$ 284,625
Less discount on workers' compensation reserve	18,319	18,179
Workers' compensation reserve, net of discount	262,066	266,446
Less current portion	74,073	76,421
Long-term portion	$187,993	$ 190,025

Payments made against self-insured claims were $15.3 million and $17.2 million for the thirteen weeks ended March 31, 2019 and April 1, 2018, respectively.

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. At March 31, 2019 and December 30, 2018, the weighted average rate was 3.0% and 2.9%, respectively. The claim payments are made and the corresponding reimbursements from our insurance carriers are received over an estimated weighted average period of approximately 16 years. The discounted workers' compensation reserve for excess claims was $46.6 million and $48.2 million as of March 31, 2019 and December 30, 2018, respectively. The discounted receivables from insurance companies, net of valuation allowance, were $45.7 million and $44.9 million as of March 31, 2019 and December 30, 2018, respectively.

Workers' compensation expense of $11.9 million and $16.6 million was recorded in cost of services on our Consolidated Statements of Operations and Comprehensive Income for the thirteen weeks ended March 31, 2019 and April 1, 2018, respectively.

NOTE 5: COMMITMENTS AND CONTINGENCIES

Workers' compensation commitments

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

(in thousands)	March 31, 2019	December 30, 2018
Cash collateral held by workers' compensation insurance carriers	$22,800	$ 22,264
Cash and cash equivalents held in Trust	30,354	28,021
Investments held in Trust	147,649	156,618
Letters of credit (1)	6,677	6,691
Surety bonds (2)	21,881	21,881
Total collateral commitments	$229,361	$ 235,475

(1) We have agreements with certain financial institutions to issue letters of credit as collateral.

(2) Our surety bonds are issued by independent insurance companies on our behalf and bear annual fees based on a percentage of the bond, which are determined by each independent surety carrier. These fees do not exceed 2.0% of the bond amount, subject to a minimum charge.

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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.

Legal contingencies and developments

We are involved in various proceedings arising in the normal course of conducting business. We believe the liabilities included in our financial statements reflect the probable loss that can be reasonably estimated. The resolution of those proceedings is not expected to have a material effect on our results of operations or financial condition.

Operating leases

We have contractual commitments in the form of operating leases related to office space, vehicles and equipment. Our leases have remaining terms of up to 14 years. Most leases include one or more options to renew, which can extend the lease term up to 10 years. The exercise of lease renewal options are at our sole discretion. Typically, at the commencement of a lease, we are not reasonably certain we will exercise renewal options, and accordingly they are not considered in determining the initial lease term. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. We rent or sublease real estate to third parties in limited circumstances.

Operating lease costs were comprised of the following:

(in thousands)	Thirteen weeks ended March 31, 2019
Operating lease costs	$ 4,272
Short-term lease costs	1,890
Other lease costs (1)	1,486
Total lease costs	$ 7,648

(1) Other lease costs include immaterial variable lease costs and sublease income.

Other information related to our operating leases was as follows:

	Thirteen weeks ended March 31, 2019
Weighted average remaining lease term in years	3.5
Weighted average discount rate	5.1%

Future non-cancelable minimum lease payments under our operating lease commitments as of March 31, 2019, are as follows for each of the next five years and thereafter:

(in thousands)	
Remainder of 2019	$12,680
2020	14,209
2021	10,045
2022	5,298
2023	3,045
2024	853
Thereafter	1,374
Total undiscounted future non-cancelable minimum lease payments (1)	47,504
Less: Imputed interest (2)	6,143

Present value of lease liabilities	$41,361

(1) Operating lease payments exclude approximately $2 million of legally binding minimum lease payments for leases signed but not yet commenced.

(2) Amount necessary to reduce net minimum lease payments to present value calculated using our incremental borrowing rates, which are consistent with the lease terms at adoption date (for those leases in existence as of the adoption date of the new lease standard) or lease inception (for those leases entered into after the adoption date).

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Future non-cancelable minimum lease payments under our operating lease commitments as of December 30, 2018 were as follows for each of the next five years and thereafter:

(in thousands)	
2019	$8,337
2020	7,192
2021	4,990
2022	2,442
2023	1,324
Thereafter	699
Total future non-cancelable minimum lease payments	$24,984

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: SHAREHOLDERS' EQUITY

Changes in shareholders' equity

Changes in the balance of each component of shareholders' equity during the reporting periods were as follows:

(in thousands)	Thirteen weeks ended March 31, 2019	April 1, 2018
Common stock shares		
Beginning balance	40,054	41,098
Purchases and retirement of common stock	(234)	—
Issuances under equity plans, including tax benefits	308	218
Stock-based compensation	24	18
Ending balance	40,152	41,334
Common stock amount		
Beginning balance	$1	$1
Current period activity	—	—
Ending balance	1	1
Retained earnings		
Beginning balance	606,087	561,650
Net income	8,276	8,755
Purchases and retirement of common stock (1)	(5,303)	—
Issuances under equity plans, including tax benefits	(1,057)	(1,691)
Stock-based compensation	3,606	3,409
Change in accounting standard cumulative-effect adjustment (2)	—	1,525
Ending balance	611,609	573,648
Accumulated other comprehensive loss		
Beginning balance, net of tax	(14,649)	(6,804)
Foreign currency translation adjustment	1,326	(1,384)
Change in accounting standard cumulative-effect adjustment (2)	—	(1,525)
Ending balance, net of tax	(13,323)	(9,713)
Total shareholders' equity ending balance	$598,287	$563,936

(1) Under applicable Washington State law, shares purchased are not displayed separately as treasury stock on our Consolidated Balance Sheets and are treated as authorized but unissued shares. It is our accounting policy to first record these purchases as a reduction to our common stock account. Once the common stock account has been reduced to a nominal balance, remaining purchases are recorded as a reduction to our retained earnings. Furthermore, activity in our common stock account related to stock-based compensation is also recorded to retained earnings until such time as the reduction to retained earnings due to stock repurchases has been recovered.

(2)

As a result of our adoption of the accounting standard for equity investments issued by the FASB in January 2016, $1.5 million in unrealized gains, net of tax on available-for-sale equity securities were reclassified from accumulated other comprehensive loss to retained earnings as of the beginning of fiscal 2018. There were no material reclassifications out of accumulated other comprehensive loss during the thirteen weeks ended March 31, 2019.

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NOTE 7: INCOME TAXES

Our income tax provision or benefit 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 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 by jurisdiction, tax credits, government audit developments, changes in laws, regulations and administrative practices, and relative changes in 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 for the thirteen weeks ended March 31, 2019 was 11.2%. The difference between the statutory federal income tax rate of 21.0% and our effective income tax rate results primarily from the federal Work Opportunity Tax Credit. This tax credit is designed to encourage employers to hire workers from certain targeted groups with higher than average unemployment rates. Other differences between the statutory federal income tax rate of 21.0% and our effective tax rate result from state and foreign income taxes, certain non-deductible expenses, tax exempt interest, and tax effects of share based compensation.

NOTE 8: NET INCOME PER SHARE

Diluted common shares were calculated as follows:

(in thousands, except per share data)	Thirteen weeks ended March 31, 2019	April 1, 2018
Net income	$8,276	$8,755
Weighted average number of common shares used in basic net income per common share	39,366	40,443
Dilutive effect of non-vested restricted stock	369	251
Weighted average number of common shares used in diluted net income per common share	39,735	40,694
Net income per common share:		
Basic	$0.21	$0.22
Diluted	$0.21	$0.22
Anti-dilutive shares	336	548

NOTE 9: SEGMENT INFORMATION

Our operating segments are based on the organizational structure for which financial results are regularly reviewed by our chief operating decision-maker, our Chief Executive Officer, to determine resource allocation and assess performance. Our operating segments, also referred to as service lines, and reportable segments are described below:

Our PeopleReady reportable segment provides blue-collar, contingent staffing through the PeopleReady operating segment. PeopleReady provides on-demand and skilled labor in a broad range of industries that include construction, manufacturing and logistics, warehousing and distribution, waste and recycling, hospitality, general labor and others.

Our PeopleManagement reportable segment provides contingent labor and outsourced industrial workforce solutions, primarily on-premise at the client’s facility, through the following operating segments, which we have aggregated into one reportable segment in accordance with U.S. GAAP:

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- Staff Management | SMX: Exclusive recruitment and on-premise management of a facility’s contingent industrial workforce;
- SIMOS Insourcing Solutions: On-premise management and recruitment of warehouse/distribution operations; and
- Centerline Drivers: Recruitment and management of temporary and dedicated drivers to the transportation and distribution industries.

Effective March 12, 2018, we divested the PlaneTechs business within our PeopleManagement reportable segment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Our PeopleScout reportable segment provides high-volume, permanent employee recruitment process outsourcing, and management of outsourced labor service providers through the following operating segments, which we have aggregated into one reportable segment in accordance with U.S. GAAP:
- PeopleScout: Outsourced recruitment of permanent employees on behalf of clients; and
- PeopleScout MSP: Management of multiple third party staffing vendors on behalf of clients.

Effective June 12, 2018, we acquired TMP Holdings LTD ("TMP") through PeopleScout. Accordingly, the results associated with the acquisition are included in our PeopleScout operating segment. 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 evaluate performance based on segment revenue and segment profit. Inter-segment revenue is minimal. Segment profit includes revenue, related cost of services, and ongoing operating expenses directly attributable to the reportable segment. Segment profit excludes goodwill and intangible impairment charges, depreciation and amortization expense, unallocated corporate general and administrative expense, interest, other income and expense, income taxes, and costs not considered to be ongoing costs of the segment.
The following table presents a reconciliation of segment revenue from services to total company revenue:

(in thousands)	Thirteen weeks ended March 31, 2019	April 1, 2018
Revenue from services:		
PeopleReady	$326,868	$316,835
PeopleManagement	158,044	183,892
PeopleScout	67,440	53,661
Total company	$552,352	$554,388

The following table presents a reconciliation of Segment profit to income before tax expense:

(in thousands)	Thirteen weeks ended March 31, 2019	April 1, 2018
Segment profit:		
PeopleReady	$11,470	$9,525
PeopleManagement	2,306	5,649
PeopleScout	10,427	11,905
	24,203	27,079
Corporate unallocated	(7,277)	(7,664)
Work Opportunity Tax Credit processing fees	(240)	(195)
Acquisition/integration costs	(577)	—
Other benefits (costs)	2,606	(1,715)
Depreciation and amortization	(9,952)	(10,090)
Income from operations	8,763	7,415
Interest and other income (expense), net	553	2,204
Income before tax expense	$9,316	$9,619

Asset information by reportable segment is not presented since we do not manage our segments on a balance sheet basis.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Disaggregated revenue

The following tables present our revenue disaggregated by major source and segment:

	Thirteen weeks ended		March 31, 2019	
(in thousands)	PeopleReady	PeopleManagement	PeopleScout	Consolidated
Revenue from services:				
Contingent staffing	$326,868	$ 158,044	$—	$ 484,912
Human resource outsourcing	—	—	67,440	67,440
Total company	$326,868	$ 158,044	$67,440	$ 552,352

	Thirteen weeks ended		April 1, 2018	
(in thousands)	PeopleReady	PeopleManagement	PeopleScout	Consolidated
Revenue from services:				
Contingent staffing	$316,835	$ 183,892	$—	$ 500,727
Human resource outsourcing	—	—	53,661	53,661
Total company	$316,835	$ 183,892	$53,661	$ 554,388

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

COMMENT ON FORWARD LOOKING STATEMENTS

Certain statements in this Form 10-Q, 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 involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "future," "opportunity "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-lool statements are based on current expectations and assumptions that are subject to risks and uncertainties, which may cause actual results to differ materially from those expressed or implied in our forward-looking statements, including the risks and uncertainties described in "Risk Factors" (Part II, Item 1A of this Form 10-Q), "Quantitative and Qualitative Disclosures about Market Risk" (Part I, Item 3 of this Form 10-Q), and "Management's Discussion and Analysis" (Part I, Item 2 of this Form 10-Q). We undertake no duty to update or revise publicly any of the forward-looking statements after the date of this report or to conform such statements to actual results or to changes in our expectations, whether because of new information, future events, or otherwise.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide the reader of our accompanying unaudited consolidated financial statements ("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. 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 30, 2018, and our financial statements and the accompanying notes to our financial statements.

We report our business as three distinct segments: PeopleReady, PeopleManagement and PeopleScout. See Note 9: Segment information, to our consolidated financial statements found in Item 1 of this Quarterly Report on Form 10-Q,

for additional details of our operating segments and reportable segments.

OVERVIEW

Global employment trends are reshaping and redefining traditional employment models, sourcing strategies and human resource capability requirements. In response, the industry has accelerated its evolution from commercial into specialized staffing, and has expanded into outsourced solutions. Client demand for contingent staffing services is dependent on the overall strength of the labor market and trends toward greater workforce flexibility. Improving economic growth typically results in increasing demand for labor, resulting in greater demand for our staffing services. This may create volatility based on overall economic conditions.

TrueBlue, Inc. (the "company," "TrueBlue," "we," "us" and "our") is a leading provider of specialized workforce solutions tha help clients achieve growth and improve productivity. We connected approximately 730,000 people with work during fiscal 2018, and served approximately 151,000 clients in a wide variety of industries through our PeopleReady segment which offers industrial staffing services, our PeopleManagement segment which offers contingent and productivity-based on-site industrial staffing and distribution services, and our PeopleScout segment which offers recruitment process outsourcing ("RPO") and managed service provider ("MSP") services.

Fiscal first quarter of 2019 highlights

Revenue from services

Total company revenue remained relatively flat at $552 million for the thirteen weeks ended March 31, 2019, compared to the same period in the prior year. PeopleReady, our largest segment, experienced revenue growth of 3.2%. PeopleScout, our highest margin segment, delivered 25.7% revenue growth. During the second quarter of 2018, we acquired TMP Holdings LTD ("TMP"), increasing PeopleScout's ability to compete for more multi-continent business. TMP represented a 26.6% increase in PeopleScout's revenue compared to the prior year. PeopleManagement, our lowest margin segment, declined primarily due to the loss of a significant customer and the divestiture of PlaneTechs in mid-March 2018, which further concentrated our focus on more profitable, higher-growth markets.

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Gross profit

Total company gross profit as a percentage of revenue for the thirteen weeks ended March 31, 2019 was 26.9%, compared to 25.8% for the same period in the prior year. Gross margin improved primarily due to lower workers' compensation costs of 0.7% from additional insurance coverage in our staffing business associated with former workers' compensation carriers that are in liquidation. Due to improvements in their balance sheets, these carriers are now covering a larger proportion of outstanding claims. Our focus on lowering cost of services helped produce our thirteenth consecutive quarter of gross margin expansion.

Selling, general and administrative ("SG&A") expense

Total company SG&A expense increased by $4 million to $130 million, or 23.5% as a percent of revenue for the thirteen weeks ended March 31, 2019, compared to $126 million, or 22.7% as a percent of revenue for the same period in the prior year. The increase in SG&A expense is primarily due to $2 million of net operating costs added by the acquisition of TMP, partially offset by costs eliminated with the PlaneTechs divestiture, together with transaction and associated costs of the integration and divestiture. Additionally, the increased SG&A expense included continued investment in strategic initiatives to support continued growth in the business.

Income from operations

Total company income from operations grew to $9 million, or 1.6% as a percent of revenue, for the thirteen weeks ended March 31, 2019, compared to $7 million, or 1.3% as a percent of revenue for the same period in the prior year. The growth in income from operations was driven by the increase in gross profit, which was partially offset by the increase in SG&A expense.

Net income

Net income was $8 million, or $0.21 per diluted share for the thirteen weeks ended March 31, 2019, compared to $9 million, or $0.22 per diluted share for the same period in the prior year. The decline to net income was primarily due to the gain on divestiture of PlaneTechs of $1 million, net of tax, in mid-March 2018.

Additional highlights

We believe we are taking the right steps to expand our operating margin and produce long-term growth for shareholders. We also believe we are in a strong financial position to fund working capital needs for growth opportunities. As of March 31, 2019, we had cash and cash equivalents of $26 million and $251 million available under our revolving credit agreement ("Revolving Credit Facility") for total liquidity of $277 million.

We continue to return cash to shareholders through our stock buyback program. On September 15, 2017, our Board of Directors authorized a $100 million share repurchase program of our outstanding common stock. We repurchased an additional $5 million of common stock during the thirteen weeks ended March 31, 2019. As of March 31, 2019, $53 million remains available for repurchase of common stock under the current authorization.

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RESULTS OF OPERATIONS

Total company results

The following table presents selected financial data:

	Thirteen weeks ended			
(in thousands, except percentages and per share data)	March 31, 2019	% of revenue	April 1, 2018	% of revenue
Revenue from services	$552,352		$554,388	
Total revenue decline %	(0.4)%		(2.4)%	
Gross profit	$148,376	26.9 %	$143,268	25.8 %
Selling, general and administrative expense	129,661	23.5 %	125,763	22.7 %
Depreciation and amortization	9,952	1.8 %	10,090	1.8 %
Income from operations	8,763	1.6 %	7,415	1.3 %
Interest and other income (expense), net	553		2,204	
Income before tax expense	9,316		9,619	
Income tax expense	1,040		864	
Net income	$8,276	1.5 %	$8,755	1.6 %
Net income per diluted share	$0.21		$0.22	

Our year-over-year trends are significantly impacted by the following acquisition and divestiture:

- Effective June 12, 2018, we acquired TMP, a mid-sized RPO and employer branding services 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. The acquired operations expand and complement our PeopleScout services and will be fully integrated into this service line.
- Effective March 12, 2018, we divested the PlaneTechs business from our PeopleManagement reportable segment.

We report our business as three distinct segments: PeopleReady, PeopleManagement and PeopleScout. See Note 9: Segment information, to our consolidated financial statements found in Item 1 of this Quarterly Report on Form 10-Q, for additional details on our service lines and reportable segments.

- PeopleReady provides access to reliable workers in the United States, Canada and Puerto Rico through a wide range of staffing solutions for on-demand contingent general and skilled labor. PeopleReady connects people to work in a broad range of industries that include construction, manufacturing and logistics, warehousing and distribution, waste and recycling, energy, retail, hospitality, general labor, and others. As of December 30, 2018, we had a network of 620 branches across all 50 states, Canada and Puerto Rico. Complementing our branch network is our mobile application, JobStack™, which connects workers with jobs, creates a virtual exchange between our workers and clients, and allows our branch resources to expand their recruiting and sales efforts and service delivery. JobStack is helping to competitively differentiate our services, expanding our reach into new demographics, and improving both service delivery and work order fill rates as we lead our business into a digital future.
- PeopleManagement predominantly encompasses our on-site placement and management services and provides a wide range of workforce management solutions for blue-collar, contingent, on-premise staffing and management of a facility’s workforce. We use distinct brands to market our PeopleManagement contingent workforce solutions and operate as Staff Management | SMX (“Staff Management”), SIMOS Insourcing Solutions (“SIMOS”), and Centerline Drivers (“Centerline”). Staff Management specializes in exclusive recruitment and on-premise management of a

facility’s contingent industrial workforce. SIMOS specializes in exclusive recruitment and on-premise management of warehouse/distribution operations to meet the growing demand for e-commerce and scalable supply chain solutions. Centerline specializes in dedicated and temporary truck drivers to the transportation and distribution industries.

- PeopleScout provides permanent employee RPO for our clients for all major industries and jobs. Our RPO solution delivers improved talent quality, faster hiring, increased scalability, reduced turnover, lower cost of recruitment, greater flexibility, and increased compliance. We leverage our proprietary candidate applicant tracking system, along with dedicated service delivery teams to work as an integrated partner with our clients in providing end-to-end talent acquisition services from sourcing candidates through onboarding employees. The solution is highly scalable and flexible, allowing for outsourcing of all or a

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MANAGEMENT'S DISCUSSION AND ANALYSIS

subset of skill categories across a series of recruitment processes and onboarding steps. Our PeopleScout segment also includes a managed service provider business, which provides clients with improved quality and spend management of their contingent labor vendors. Market interest in our new talent acquisition technology, Affinix™ remains high. Affinix is PeopleScout's proprietary talent acquisition technology for sourcing, screening and delivering a permanent workforce, bringing together talent acquisition technology into a single, integrated platform. Affinix uses artificial intelligence and machine learning to search the web and source candidates, which means we can create the first slate of candidates for a job posting within minutes rather than days. We have already seen evidence of higher candidate conversion rates, reduced time to fill positions, and increased client satisfaction as we lead our business into a digital future.

Revenue from services

Revenue from services by reportable segment was as follows:

	Thirteen weeks ended				
(in thousands, except percentages)	March 31, 2019	Growth (decline) %	Segment % of total	April 1, 2018	Segment % of total
Revenue from services:					
PeopleReady	$326,868	3.2 %	59.2 %	$316,835	57.2 %
PeopleManagement	158,044	(14.1)	28.6	183,892	33.2
PeopleScout	67,440	25.7	12.2	53,661	9.7
Total company	$552,352	(0.4)%	100.0 %	$554,388	100.0 %

PeopleReady

PeopleReady revenue grew to $327 million for the thirteen weeks ended March 31, 2019, a 3.2% increase compared to the same period in the prior year. The revenue growth was broad-based across most industries and geographies primarily driven by improvements to local business development activities and the strength of our service offering and our strategic use of technology. Our industry-leading JobStack mobile app that connects workers with jobs is leading our business into a digital future. During the quarter, PeopleReady dispatched more than 800,000 shifts via JobStack and achieved a digital fill rate of more than 40%. The mobile app is used by 15,000 customers with 80% worker adoption.

Wage growth has accelerated due to various minimum wage increases and a need for higher wages to attract talent in tight labor markets. We have increased bill rates for the higher wages, payroll burdens and our traditional mark-ups. While we believe our pricing strategy is the right long-term decision, these actions can have an impact on our revenue trends in the near term.

PeopleManagement

PeopleManagement revenue declined to $158 million for the thirteen weeks ended March 31, 2019, a 14.1% decrease compared to the same period in the prior year. The decline was primarily due to the divestiture of our PlaneTechs business in mid-March 2018, which accounted for a 4.4% decline and the loss of Amazon's Canadian business in the second half of fiscal 2018 when they insourced the recruitment and management of contingent labor for their warehouse fulfillment centers, which accounted for a 6.4% decline compared to the same period in the prior year. The remaining decline of 3.3% was primarily due to lower volume and price reductions with an existing client.

PeopleScout

PeopleScout revenue grew to $67 million for the thirteen weeks ended March 31, 2019, a 25.7% increase compared to the same period in the prior year. During the second quarter of 2018, PeopleScout purchased TMP, which represented a 26.6% increase in PeopleScout’s revenue for the thirteen weeks ended March 31, 2019, compared to the same period

in the prior year. Revenue growth for the first quarter of 2019 was constrained by loss of one client that was acquired by a strategic buyer in the prior year and lower volumes on a large account that was re-priced to reflect a multi-year arrangement. Market interest in our RPO services remains strong and has been accentuated by our new talent acquisition technology, Affinix. Affinix is PeopleScout’s proprietary talent acquisition technology, which we believe has been well received by both current and prospective clients.

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Gross profit

Gross profit was as follows:

(in thousands, except percentages)	Thirteen weeks ended March 31, 2019	April 1, 2018
Gross profit	$148,376	$143,268
Percentage of revenue	26.9 %	25.8 %

Total company gross profit as a percentage of revenue for the thirteen weeks ended March 31, 2019 was 26.9%, compared to 25.8% for the same period in the prior year. Our focus on lowering cost of services helped produce our thirteenth consecutive quarter of gross margin expansion. Gross margin improved primarily due to lower workers' compensation costs of 0.7% from additional insurance coverage in our staffing business associated with former workers' compensation carriers that are in liquidation. Due to improvements in their balance sheets, these carriers are now covering a larger proportion of outstanding claims. Gross margin further improved in our staffing business as a result of our continued efforts to manage the cost of claims and reduce workplace accidents. Continued favorable adjustments to our workers' compensation liabilities are dependent on our ability to continue to lower accident rates and claim costs. Improvements to the gross margin of our staffing businesses were partially offset by declines to the PeopleScout gross margin due to client mix and TMP. Client mix margins were impacted by lower margins on a large client that was re-priced to reflect a multi-year arrangement and TMP margins which are lower than those of PeopleScout due to the pass through nature of media-related purchases on behalf of certain clients.

Selling, general and administrative expense

SG&A expense was as follows:

(in thousands, except percentages)	Thirteen weeks ended March 31, 2019	April 1, 2018
Selling, general and administrative expense	$129,661	$125,763
Percentage of revenue	23.5 %	22.7 %

Total company SG&A expense increased by $4 million to $130 million, or 23.5% as a percent of revenue for the thirteen weeks ended March 31, 2019, compared to $126 million, or 22.7% as a percent of revenue for the same period in the prior year. The increase in SG&A expense is primarily due to $2 million of net operating costs added by the acquisition of TMP, partially offset by costs eliminated with the PlaneTechs divestiture, together with transaction and associated costs of the integration and divestiture. Additionally, the increased SG&A expense included continued investment in strategic initiatives to support continued growth in the business.

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Income taxes

The income tax expense and the effective income tax rate were as follows:

(in thousands, except percentages)	Thirteen weeks ended March 31, 2019	Thirteen weeks ended April 1, 2018
Income tax expense	$1,040	$864
Effective income tax rate	11.2 %	9.0 %

Our effective tax rate for the thirteen weeks ended March 31, 2019 and April 1, 2018 was 11.2% and 9.0%, respectively. For the thirteen weeks ended March 31, 2019 we recognized $0.3 million of discrete tax benefits from prior year hiring credits.

Our tax provision and our effective tax rate are subject to variation due to several factors, including variability in accurately predicting our pre-tax and taxable income and loss by jurisdiction, tax credits, government audit developments, changes in laws, 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 tax credits and non-deductible expenses on our effective tax rate is greater when our pre-tax income is lower.

A significant driver of fluctuations in our effective income tax rate is the Work Opportunity Tax Credit (“WOTC”). WOTC is designed to encourage hiring of workers from certain disadvantaged targeted categories, and is generally calculated as a percentage of wages over a twelve month period up to worker maximums by targeted category. Based on historical results and business trends, we estimate the amount of WOTC we expect to earn related to wages of the current year. However, the estimate is subject to variation because 1) a small percentage of our workers qualify for one or more of the many targeted categories; 2) the targeted categories are subject to different incentive credit rates and limitations; 3) credits fluctuate depending on economic conditions and qualified worker retention periods; and 4) state and federal offices can delay their credit certification processing and have inconsistent certification rates. We recognize additional prior year hiring credits if credits in excess of original estimates have been certified by government offices. WOTC was restored through December 31, 2019, as a result of the Protecting Americans from Tax Hikes Act of 2015.

Changes to our effective tax rate as a result of hiring credits were as follows:

	Thirteen weeks ended March 31, 2019	Thirteen weeks ended April 1, 2018
Effective income tax rate without adjustments below	27.3 %	25.9 %
Hiring credits estimate from current year wages	(12.4)	(13.8)
Additional hiring credits from prior year wages	(3.7)	(3.1)
Effective income tax rate	11.2 %	9.0 %

Segment performance

We evaluate performance based on segment revenue and segment profit. Segment profit includes revenue, related cost of services, and ongoing operating expenses directly attributable to the reportable segment. Segment profit excludes goodwill and intangible impairment charges, depreciation and amortization expense, unallocated corporate general and administrative expense, interest, other income and expense, income taxes, and costs not considered to be ongoing costs of the segment. See Note 9: Segment information, to our consolidated financial statements found in Item 1 of

this Quarterly Report on Form 10-Q, for additional details of our reportable segments, as well as a reconciliation of segment profit to income before tax expense.

Segment profit should not be considered a measure of financial performance in isolation or as an alternative to net income in the Consolidated Statements of Operations and Comprehensive Income in accordance with accounting principles generally accepted in the United States of America, and may not be comparable to similarly titled measures of other companies.

PeopleReady segment performance was as follows:

(in thousands, except for percentages)	Thirteen weeks ended March 31, 2019	April 1, 2018
Revenue from services	$326,868	$316,835
Segment profit	11,470	9,525
Percentage of revenue	3.5 %	3.0 %

PeopleReady segment profit grew to $11 million, or 3.5% of revenue for the thirteen weeks ended March 31, 2019, compared to $10 million, or 3.0% of revenue for the same period in the prior year. This was primarily due to broad-based revenue growth across most industries and geographies and lower workers' compensation costs as a result of our continued efforts to manage the cost of claims and reduce workplace accidents.

PeopleManagement segment performance was as follows:

(in thousands, except for percentages)	Thirteen weeks ended March 31, 2019	April 1, 2018
Revenue from services	$158,044	$183,892
Segment profit	2,306	5,649
Percentage of revenue	1.5 %	3.1 %

PeopleManagement segment profit decreased 59.2% to $2 million, or 1.5% of revenue for the thirteen weeks ended March 31, 2019, compared to $6 million, or 3.1% of revenue for the same period in the prior year. The decline in segment profit and related margin was primarily due to the loss of Amazon's Canadian business in the second half of fiscal 2018 and volume and price reductions at another industrial workforce client. We continue to focus on our programs to reduce the cost of services and control SG&A expense in connection with declining revenues while also investing in growth initiatives.

PeopleScout segment performance was as follows:

(in thousands, except for percentages)	Thirteen weeks ended March 31, 2019	April 1, 2018
Revenue from services	$67,440	$53,661
Segment profit	10,427	11,905
Percentage of revenue	15.5 %	22.2 %

PeopleScout segment profit decreased to $10 million, or 15.5% of revenue for the thirteen weeks ended March 31, 2019, compared to $12 million, or 22.2% of revenue for the same period in the prior year. The segment profit decline was driven primarily by client mix and TMP. Client mix margins were impacted by less volume and lower margins on a large client that was re-priced to reflect a multi-year arrangement and loss of a higher margin client which was acquired by a strategic buyer in late 2018. TMP margins

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are lower than those of PeopleScout due to the pass through nature of media-related purchases on behalf of certain clients, which is partially offset by continued efficiency gains in sourcing and recruiting activities.

FUTURE OUTLOOK

We have limited visibility into future demand for our services. However, we believe there is value in providing highlights of our expectations for future financial performance. The following highlights represent our expectations regarding operating trends for fiscal 2019. These expectations are subject to revision as our business changes with the overall economy.

- We expect revenue growth for the second quarter of 2019 to range between negative one percent to positive one percent, compared to the same period in the prior year, due to certain prior year events which are absent from our outlook. Prior year PeopleManagement results included Amazon's Canadian staffing business. In September 2018, we lost the Amazon Canadian business when they insourced the recruitment and management of contingent labor for their warehouse fulfillment centers. Prior year PeopleScout results included a long-term RPO customer which was acquired by a strategic buyer in late 2018.
- Our top priority continues to be the production of solid organic revenue and gross profit growth while leveraging our cost structure to increase income from operations as a percentage of revenue. Through disciplined pricing and management of increasing minimum wages, taxes and benefits, we expect to pass through the higher cost of our temporary workers. Likewise, cost management programs to lower the cost of services and control operating expenses are key priorities in the short-term and to position the business for strong operating leverage and profitable long-term growth in the future.
- We are committed to technological innovation to transform our business for a digital future that makes it easier for our clients to do business with us and easier to connect people to work. We continue making investments in online and mobile applications to improve access, speed and ease of connecting our clients and workers for our staffing businesses and candidates for our recruitment process outsourcing business. We expect these investments will increase the competitive differentiation of our services over the long-term, improve the efficiency of our service delivery, and reduce our PeopleReady dependence on local branches to find temporary workers and connect them with work. Examples include our new JobStack mobile application in the PeopleReady business and our new Affinix talent acquisition technology in the PeopleScout business.
- PeopleScout is a recognized industry leader of RPO services, which is in the early stages of that industry’s adoption cycle. Due to the industry growth rate for RPO services, our market leading position, and our advances in technology, we expect the revenue growth of this business to continue to exceed the growth of our other segments. We expect our acquisition of TMP to increase our ability to win multi-continent engagements by adding a physical presence in Europe, referenceable clients and employer branding capabilities.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

(in thousands)	Thirteen weeks ended March 31, 2019	April 1, 2018
Net income	$8,276	$8,755
Adjustments to reconcile net income to net cash provided by operating activities:		
Changes in operating assets and liabilities	(7,031)	19,574
All other changes	20,269	16,506
Net cash provided by operating activities	$21,514	$44,835

Net cash provided by investing activities	$1,405	$9,707
Net cash used in financing activities	$(44,230)	$(48,559)

Cash flows from operating activities

Net cash provided by operating activities was $22 million for the thirteen weeks ended March 31, 2019, compared to $45 million for the same period in the prior year.

The change in operating assets and liabilities for the thirteen weeks ended March 31, 2019 was primarily due to cash provided by accounts receivable of $27 million due to normal seasonal deleveraging which occurs in our fiscal first quarter. This decrease was partially offset by an increase in our days sales outstanding due to mix of business with longer payment terms. Net cash provided

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by accounts receivable for the first quarter of the prior year was $43 million due to normal seasonal deleveraging and declining staffing business revenues. This was partially offset by an increase in days sales outstanding due to growth in our PeopleScout business, which has longer payment terms.

Cash provided by accounts receivable for the thirteen weeks ended March 31, 2019 was more than offset by additional changes in operating assets and liabilities. The largest of these changes were due to the declines in accrued expenses of $10 million and accrued payroll and benefits of $10 million associated with cost control programs, normal seasonal patterns, and timing of payments.

The increase in all other changes is primarily due to new guidance on accounting for leases to increase transparency and comparability among organizations by requiring the recognition of right-of-use assets and lease liabilities on the balance sheet. Amortization of the right-of-use asset of $4 million for the first quarter of 2019 has been included as a non-cash adjustment to net income. The reduction to the lease liability of $3 million for the first quarter of 2019 has been included in changes in operating assets and liabilities.

Cash flows from investing activities

Net cash provided by investing activities was $1 million for the thirteen weeks ended March 31, 2019, compared to $10 million for the same period in the prior year.

Effective March 12, 2018, the company divested substantially all the assets and certain liabilities of its PlaneTechs business for a purchase price of $11 million, of which $9 million was paid in cash during that same quarter.

Cash flows from financing activities

Net cash used in financing activities was $44 million for the thirteen weeks ended March 31, 2019, compared to $49 million for the same period in the prior year.

Net cash used in financing activities was primarily due to net repayments on our Revolving Credit Facility of $38 million for the first quarter of 2019 and $46 million for the comparable quarter in the prior year. We also repurchased $5 million of common stock during the thirteen weeks ended March 31, 2019. As of March 31, 2019, $53 million remains available for repurchase of common stock under the current authorization.

CAPITAL RESOURCES

Revolving credit facility

On July 13, 2018, we entered into a credit agreement with Bank of America, N.A., Wells Fargo Bank, N.A., PNC Bank, N.A., KeyBank, N.A. and HSBC Bank USA, N.A. The agreement provides for a revolving line of credit of up to $300 million with an option, subject to lender approval, to increase the amount to $450 million, and matures in five years.

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 March 31, 2019, we had restricted cash and investments totaling $230 million. The majority of our collateral obligations are held in a trust at the Bank of New York Mellon ("Trust"). See Note 3: Restricted cash and investments, to our consolidated financial statements found in Item 1 of this Quarterly Report on Form 10-Q, for details of our restricted cash and investments.

We established investment policy directives for the Trust with the first priority to preserve capital, second to ensure sufficient liquidity to pay workers' compensation claims, third to diversify the investment portfolio, and fourth 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 nationally recognized statistical rating organizations the minimum ratings at time of purchase are:

	S&P	Moody's	Fitch
Short-term rating	A-1/SP-1	P-1/MIG-1	F-1
Long-term rating	A	A2	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 million deductible limit, on a "per occurrence" basis and accordingly, we are 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 PeopleReady in 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.

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MANAGEMENT'S
DISCUSSION
AND ANALYSIS

Our total collateral commitments were made up of the following components for the fiscal period end dates presented:

(in thousands)	March 31, 2019	December 30, 2018
Cash collateral held by workers’ compensation insurance carriers	$22,800	$ 22,264
Cash and cash equivalents held in Trust	30,354	28,021
Investments held in Trust	147,649	156,618
Letters of credit (1)	6,677	6,691
Surety bonds (2)	21,881	21,881
Total collateral commitments	$229,361	$ 235,475

(1) We have agreements with certain financial institutions to issue letters of credit as collateral.

(2) 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 fiscal period end dates presented:

(in thousands)	March 31, 2019	December 30, 2018
Total workers’ compensation reserve	$262,066	$ 266,446
Add back discount on workers’ compensation reserve (1)	18,319	18,179
Less excess claims reserve (2)	(46,574)	(48,229)
Reimbursable payments to insurance provider (3)	5,062	7,866
Other (4)	(9,512)	(8,787)
Total collateral commitments	$229,361	$ 235,475

(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 the difference between the self-insured reserves and collateral commitments.

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. We discount our workers’ compensation liability as we believe the estimated future cash outflows are readily determinable.

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;
- changes in mix 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 March 31, 2019, the weighted average discount rate was 2.1%. 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 self-insured 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 March 31, 2019, the weighted average rate was 3.0%. The claim payments are made and the corresponding reimbursements from our insurance carriers are received over an estimated weighted average period of approximately 16 years. The discounted workers’ compensation reserve for excess claims and the corresponding receivable for the insurance on excess claims were $47 million and $48 million as of March 31, 2019 and December 30, 2018, respectively.

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.

Future outlook

We believe we are taking the right steps to expand our operating margin and produce long-term growth for shareholders. We also believe we are in a strong financial position to fund working capital needs for growth opportunities. As of March 31, 2019, we had cash and cash equivalents of $26 million and $251 million available under our Revolving Credit Facility for total liquidity of $277 million.

We continue to return cash to shareholders through our stock buyback program. During the thirteen weeks ended March 31, 2019, we repurchased $5 million of common stock. As of March 31, 2019, $53 million remains available for repurchase under the current authorization.

We believe that cash provided from operations and our capital resources will be adequate to meet our cash requirements for the foreseeable future.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

There have been no material changes during the period covered by this Quarterly Report on Form 10-Q, outside of the ordinary course of business, to the contractual obligations specified in the table of contractual obligations found in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the fiscal year ended December 30, 2018.

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

Our critical accounting estimates are discussed in Part II, 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 30, 2018.

NEW ACCOUNTING STANDARDS

See Note 1: Summary of significant accounting policies, to our consolidated financial statements found in Item 1 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 II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the fiscal year ended December 30, 2018.

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 our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

During the fiscal first quarter of 2019, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, as of March 31, 2019.

During fiscal 2018, we prepared for implementation of an enterprise resource planning ("ERP") system, culminating with our transition to the new ERP system on December 31, 2018. The new ERP system was designed and implemented, in part, to enhance the overall system of internal controls over financial reporting through further automation and integration of business processes. In connection with implementation, we modified the design and documentation of certain internal control processes and procedures, as necessary, to accommodate related changes to our accounting procedures and business processes. Transition to this system also included significant testing efforts prior to system implementation, including training of employees who will be using the system and updating of operational processes and procedures impacted by the implementation.

With the exception of the ERP system implementation described above, there were no other material changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recently completed fiscal quarter that materially affected or are reasonably likely to materially affect internal control over financial reporting.

The certifications required by Rule 13a-14 of the Exchange Act 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 5: Commitments and contingencies, to our consolidated financial statements found in Part I, Item 1 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. If any of the events described below occur, our business, financial condition, results of operations, liquidity, or access to the capital markets could be materially and adversely affected.

Demand for our workforce solutions is significantly affected by fluctuations in general economic conditions.

The demand for workforce solutions is highly dependent upon the state of the economy and upon the workforce needs of our clients, which creates uncertainty and volatility. National and global economic activity can be slowed by many factors, including rising interest rates and global trade uncertainties. As economic activity slows, companies tend to reduce their use of temporary workers and reduce their recruitment of new employees. Significant declines in demand of any region or industry in which we have a major 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 an adverse impact on our clients' ability to pay for services we have already provided.

It is difficult for us to forecast future demand for our services due to the inherent uncertainty in forecasting the direction and strength of economic cycles and the project nature of our staffing assignments. The uncertainty can be exacerbated by volatile economic conditions, which may cause clients to reduce or defer projects for which they utilize our services. The negative impact to our business can occur before a decline in economic activity is seen in the broader economy. When it is difficult for us to accurately forecast future demand, we may not be able to determine the optimal level of personnel and investment necessary to profitably take advantage of growth opportunities.

We may be unable to attract sufficient qualified candidates to meet the needs of our clients.

We compete to meet our clients' needs for workforce solutions and, therefore, we must continually attract qualified candidates to fill positions. Attracting qualified candidates depends on factors such as desirability of the assignment, location, and the associated wages and other benefits. We have experienced shortages of qualified candidates and we may experience such shortages in the future. Further, if there is a shortage, the cost to employ or recruit these individuals could increase. If we are unable to pass those costs through to our clients, 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 not achieve the intended effects of our business strategy which could negatively impact our results.

Our business strategy focuses on driving growth in our PeopleReady, PeopleManagement and PeopleScout business lines by investing in innovative technology, acquisitions, and initiatives which drive organic growth. Our investments and acquisitions may not achieve our desired returns and the results of our initiatives may not be as expected or may be impacted by matters outside of our control. If we are unsuccessful in executing any of these strategies, we may not achieve our goal of revenue and profitability growth, which could negatively impact financial results.

Our workforce solutions are subject to extensive government regulation and the imposition of additional regulations, which could materially harm our future earnings.

Our workforce solutions are subject to extensive government regulation. The cost to comply, and any inability to comply with government regulation, could have a material adverse effect on our business and financial results. Increases or changes in 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.

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Our temporary staffing services employ temporary workers. The wage rates we pay to temporary workers are based on many factors including government-mandated minimum wage requirements, payroll-related taxes and benefits. If we are not able to increase the fees charged to clients to absorb any increased costs related to these factors, our results of operations and financial condition could be adversely affected.

We offer our temporary workers in the United States government-mandated health insurance in compliance with the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the "ACA"). Because the requirements, regulations, and interpretations of the ACA may change, the ultimate financial effect of the ACA is not yet known, and changes in its requirements and interpretations could increase or change our costs. In addition, because of the uncertainty surrounding a potential repeal or replacement of the ACA, we cannot predict with any certainty the likely impact of the ACA's repeal or the adoption of any other health care reform legislation on our financial condition or operating results. Whether or not there is a change in health care legislation in the United States, there is likely to be significant disruption to the health care market in the future, and the costs of our health care expenditures may increase. If we are unable to comply with changes to the ACA, or any future health care legislation in the United States, or sufficiently raise the rates we charge our clients to cover any additional costs, such noncompliance or increases in costs could materially harm our business.

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

We are in the business of employing people in the workplaces of our clients. We incur a risk of liability for claims for personal injury, wage and hour violations, immigration, discrimination, harassment, and other liabilities arising from the actions of our clients and/or temporary workers. Some or all of these claims may give rise to negative publicity, litigation, settlements, or investigations. We may incur costs, charges or other material adverse impacts on our financial statements 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 some potential claims and costs with deductibles. We cannot be certain that our insurance will be available, or if available, will be 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 our insurance providers will be able to pay claims we make under such policies.

We are dependent on workers' compensation insurance coverage at commercially reasonable terms. Unexpected changes in claim trends on our workers' compensation may negatively impact our financial condition.

Our temporary staffing services employ workers for which we provide workers' compensation insurance. 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 operating as a staffing services 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.

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 clients 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 workers’ compensation related service providers. These activities have had a positive impact creating favorable adjustments to workers’ compensation liabilities recorded in prior periods. The benefit of these adjustments are likely to decline and 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.

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We operate in a highly competitive industry and may be unable to retain clients or market share.
Our industry is highly competitive and rapidly innovating, with low barriers to entry. We compete in global, national, regional and local markets with full-service and specialized temporary staffing companies as well as business process outsourcing companies that also offer our services. Our competitors offer a variety of flexible workforce solutions. Therefore, there is no assurance that we will be able to retain clients 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 maintain our current profit margins.
Advances in technology may disrupt the labor and recruiting markets.
We expect the increased use of internet-based and mobile technology will attract additional technology-oriented companies and resources to the staffing industry. Our candidates and clients increasingly demand technological innovation to improve the access to and delivery of our services. Our clients increasingly rely on automation, artificial intelligence and other new technologies to reduce their dependence on labor needs, which may reduce demand for our services and impact our operations. We face extensive pressure for lower prices and new service offerings and must continue to invest in and implement new technology and industry developments in order to remain relevant to our clients and candidates. If we are unable to do so, our business and results of operations may decline materially.
We are at risk of damage to our brands and reputation, which is important to our success.
Our ability to attract and retain clients, temporary workers, candidates, and employees is affected by external perceptions of our brands and reputation. Negative perceptions or publicity could damage our reputation with current or perspective clients and employees. Negative perceptions or publicity regarding our vendors, clients, or business partners may adversely affect our brand and reputation. We may not be successful in detecting, preventing, or negating all changes in or impacts upon our reputation.
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 credit agreement (“Revolving Credit Facility”) are limited. Our Revolving Credit Facility contains restrictive covenants that require us to maintain certain financial conditions. Our failure to comply with these restrictive covenants 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. We may not have sufficient funds on hand to repay these loans, and 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 principal sources of liquidity are funds generated from operating activities, available cash and cash equivalents, and borrowings under our Revolving 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 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 disadvantage compared to competitors with less debt.
The loss of, or substantial decline in revenue from, larger clients could have a material adverse effect on our revenues, profitability and liquidity.
We experience revenue concentration with large clients. Generally our contracts do not contain guarantees of minimum duration, revenue levels, or profitability and our clients may terminate their contracts or materially reduce their requested levels of service at any time. The loss of, or reduced demand for our services from, larger clients has had, and in the future could have, a material adverse effect on our business, financial condition and results of operations. In addition, client concentration exposes us to concentrated credit risk, as a significant portion of our accounts receivable may be from a small number of clients. If we are unable to collect our receivables or are required

to take additional reserves, our results and cash flows will be adversely affected.

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Failure of our information technology systems could adversely affect our operating results.
The efficient operation of our business is dependent on our information technology systems. We rely on our information technology systems to monitor and control our operations, adjust to changing market conditions, implement strategic initiatives, and provide services to clients. We rely heavily on proprietary and third-party information technology systems, mobile device technology and related services, and other technology, which may not yield the intended results. Our systems may experience problems with functionality and associated delays. The failure of our systems to perform as anticipated 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 information technology systems may need to be updated or replaced.
We occasionally implement, modify, retire and change our systems. For example, we are in the process of implementing new cloud-based enterprise resource planning and human capital management systems in 2019. These changes to our information technology systems may be disruptive, take longer than desired, be more expensive than anticipated, be distracting to management, or fail, causing our business and results of operations to suffer materially.
The improper disclosure of, or access to, our confidential and/or proprietary information, or a failure to adequately protect this information, could materially harm our business.
Our business requires the use, processing, and storage of confidential information about applicants, candidates, temporary workers, other employees and clients. We experience cyberattacks, computer viruses, social engineering schemes and other means of unauthorized access to our systems. The security controls over sensitive or confidential information and other practices we and our third-party vendors follow may not prevent the improper access to, disclosure of, or loss of such information. We may fail to implement practices and procedures that comply with increasing international and domestic privacy regulations, such as the General Data Protection Regulations or the California Consumer Privacy Act. Failure to protect the integrity and security of such confidential and/or proprietary information could expose us to regulatory fines, litigation, contractual liability, damage to our reputation and increased compliance costs.
A data breach, or improper disclosure of, or access to our clients' information could materially harm our business.
Our temporary workers and employees may have access to or exposure to confidential information about applicants, candidates, temporary workers, other employees and clients. The security controls over sensitive or confidential information and other practices we, clients and our third-party vendors follow may not prevent the improper access to, disclosure of, or loss of such information. Failure to protect the integrity and security of such confidential and/or proprietary information could expose us to regulatory fines, litigation, contractual liability, damage to our reputation and increased compliance costs.
Our facilities, operations and information technology systems are vulnerable to damage and interruption.
Our primary computer systems, headquarters, support facilities and operations are vulnerable to damage or interruption from power outages, computer and telecommunications failures, computer viruses, employee errors, security breaches, natural disasters and catastrophic events. Failure of our systems or damage to our facilities may cause significant interruption to our business, and require significant additional capital and management resources to resolve, causing material harm to our business.
Acquisitions and new business initiatives may have an adverse effect on our business.
We expect to continue making acquisitions, adjusting the composition of our business lines, and entering into new business initiatives as part of our business strategy. This strategy may be impeded, however, and we may not achieve our long-term growth goals if we cannot identify suitable acquisition candidates or new business initiatives, or if acquisition candidates are not available under acceptable terms.
Future acquisitions could result in incurring additional debt and contingent liabilities, an increase in interest expense, amortization expense, and charges related to integration costs. Additional indebtedness could also include covenants or other restrictions that would impede our ability to manage our operations. We may also issue equity securities to pay for an acquisition, which could result in dilution to our shareholders. Any acquisitions we announce could be viewed negatively by investors, which may adversely affect the price of our common stock.

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New business initiatives and changes in the composition of our business mix can be distracting to our management and disruptive to our operations, causing our business and results of operations to suffer materially. We may have difficulty managing growth or integrating acquired companies into our operating, financial planning, and financial reporting systems. Acquisitions and new business initiatives, including initiatives outside of our workforce solutions business, in new markets, or new geographies, could involve significant unanticipated challenges and risks including not advancing our business strategy, not realizing our anticipated return on investment, experiencing difficulty in implementing initiatives or integrating acquired operations, or directing management's attention from our other businesses. The potential loss of key executives, employees, clients, suppliers, vendors, and other business partners of businesses we acquire may adversely impact the value of the assets, operations, or business we acquire. These events could cause material harm to our business, operating results, or financial condition.

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 who are able to meet the needs of our clients. We believe our competitive advantage is providing unique solutions for each client, 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 and quality of our strategy execution and planned growth. 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 have additional tax liabilities that exceed our estimates.

We are subject to federal taxes, a multitude of state and local taxes in the United States, and taxes in foreign jurisdictions. We face continued uncertainty surrounding the 2017 Tax Cuts and Jobs Act and any reduction or change in tax credits which we utilize, such as the Work Opportunity Tax Credit. 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. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing intercompany arrangements or may change their laws, which could increase our worldwide effective tax rate and harm our financial position and results of operations.

We cannot guarantee that we will repurchase our common stock pursuant to our share repurchase program or that our share repurchase program will enhance long-term shareholder value.

In September 2017, our Board of Directors authorized a share repurchase program. Under the program, we are authorized to repurchase shares of common stock for an aggregate purchase price not to exceed $100 million, excluding fees, commissions and other ancillary expenses. Although the Board of Directors has authorized a share repurchase program, the share repurchase program does not obligate the company to repurchase any specific dollar amount or to acquire any specific number of shares. The timing and amount of the repurchases, if any, will depend upon several factors, including market and business conditions, the trading price of the company's common stock and the nature of other investment opportunities. The repurchase program may be limited, suspended or discontinued at any time without prior notice. In addition, repurchases of our common stock pursuant to our share repurchase program could affect our stock price and increase its volatility. The existence of a share repurchase program could cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. Additionally, our share repurchase program could diminish our cash reserves, which may impact our ability to finance future growth and to pursue possible future strategic opportunities and acquisitions. There can be no assurance that these share repurchases will enhance shareholder value because the market price of our common stock may decline below the level at which we repurchased shares of stock. Although our share repurchase program is intended to enhance long-term shareholder value, there is no assurance that it will do so and short-term stock price fluctuations could reduce the program's effectiveness.

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, including those over our third-party vendors, or if our independent registered public accounting firm cannot render an opinion on the effectiveness of our internal controls 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.

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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 applications, and electronic pay solutions, to provide certain back office support activities, and to support business process outsourcing for our clients. Accordingly, we are subject to the risks associated with the vendors' ability to provide these services in a manner that meets our needs. If the cost of these services is more than expected, if we or the vendors are unable to adequately protect our data and information is lost, or if our ability to deliver our services is interrupted, then our business and results of operations may be negatively impacted.

If our acquired intangible assets become impaired we may be required to record a significant charge to earnings.

We regularly 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: macroeconomic conditions, such as deterioration in general economic conditions; industry and market considerations, such as deterioration in the environment in which we operate; cost factors, such as increases in labor or other costs that have a negative effect on earnings and cash flows; our financial performance, such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods; other relevant entity-specific events, such as changes in management, key personnel, strategy, or clients; and sustained decreases in share price. 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, therefore negatively impacting our financial results.

Our stock price may be volatile.

Our stock price may experience substantial fluctuation based on a variety of factors, several of which are beyond our control. Some of these factors include general economic conditions; actual or anticipated variations in our quarterly operating results; changes in financial estimates by securities analysts; changes or volatility in the financial markets; announcements by our competitors related to new services or acquisitions; and shareholder activism. Fluctuations in our stock price could mean that investors will not be able to sell their shares at or above the price they paid and may impair our ability in the future to offer common stock as a source of additional capital.

We face risks in operating internationally.

A portion of our business operations and support functions are located outside of the United States. These international operations are subject to a number of risks, including political and economic conditions in those foreign countries, the burden of complying with various foreign laws and technical standards, unpredictable changes in foreign regulations, U.S. legal requirements governing U.S. companies operating in foreign countries, legal and cultural differences in the conduct of business, potential adverse tax consequences and difficulty in staffing and managing international operations. We recently acquired operations in the United Kingdom, which could be negatively impacted as clients in the United Kingdom encounter uncertainties related to the potential exit from the European Union. We could also be exposed to fines and penalties under U.S. or foreign laws prohibiting improper payments to governmental officials and others for the purpose of obtaining or retaining business. Although we have implemented policies and procedures designed to ensure compliance with these laws, we cannot be sure that our employees, contractors or agents will not violate such policies. Any such violations could materially damage our reputation, brands, business and operating results. Further, changes in U.S. laws and policies governing foreign investment and use of foreign operations or workers, and any negative sentiments towards the United States as a result of such changes, could adversely affect our operations.

Foreign currency fluctuations may have a material adverse effect on our operating results.

We report our results of operations in U.S. dollars. The majority of our revenues are generated in the United States. Our international operations are denominated in currencies other than the U.S. dollar, and unfavorable fluctuations in foreign currency exchange rates could have an adverse effect on our reported financial results. Increases or decreases in the value of the U.S. dollar against other major currencies could affect our revenues, operating profit and the value

of balance sheet items denominated in foreign currencies. Our exposure to foreign currencies could have an adverse effect on our business, financial condition, cash flow and/or results of operations. Furthermore, the volatility of currencies may impact year-over-year comparability.

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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 March 31, 2019.

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 (3)	Maximum number of shares (or approximate dollar value) that may yet be purchased under plans or programs at period end (4)
12/31/2018 through 01/27/2019	1,006	$22.18	—	$57.8 million
01/28/2019 through 02/24/2019	60,671	$22.75	—	$57.8 million
02/25/2019 through 03/31/2019	1,515	$23.42	233,800	$52.5 million
Total	63,192	$22.75	233,800	

(1) During the thirteen weeks ended March 31, 2019, we purchased 63,192 shares in order to satisfy employee tax 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.

(3) The weighted average price per share for shares repurchased under the share repurchase program during the period was $22.68.

(4) On September 15, 2017, our Board of Directors authorized a $100 million share repurchase program of our outstanding common stock. The share repurchase program does not obligate us to acquire any particular amount of common stock and does not have an expiration date. As of March 31, 2019, $52.5 million remains available for repurchase under the current authorization.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

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Item 6. INDEX TO EXHIBITS

Exhibit number	Exhibit description	Filed herewith	Incorporated by reference		
			Form	File no.	Date of first filing
3.1	Amended and Restated Articles of Incorporation.		8-K	001-14543	05/12/2016
3.2	Amended and Restated Bylaws.		10-Q	001-14543	10/30/2017
31.1	Certification of A. Patrick Beharelle, 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.	X			
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.	X			
32.1	Certification of A. Patrick Beharelle, 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.	X			
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/ A. Patrick Beharelle	4/29/2019
	Signature	Date
By:	A. Patrick Beharelle, Director, President and Chief Executive Officer	
	/s/ Derrek L. Gafford	4/29/2019
	Signature	Date
By:	Derrek L. Gafford, Chief Financial Officer and Executive Vice President	
	/s/ Norman H. Frey	4/29/2019
	Signature	Date
By:	Norman H. Frey, Chief Accounting Officer and Senior Vice President	