
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: September 29, 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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, no par value	TBI	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 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 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

As of October 14, 2019, there were 38,955,288 shares of the registrant's common stock outstanding.

TrueBlue, Inc.
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PART I. FINANCIAL INFORMATION**Item 1. CONSOLIDATED FINANCIAL STATEMENTS**

TRUEBLUE, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)

<i>(in thousands, except par value data)</i>	September 29, 2019	December 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23,557	\$ 46,988
Accounts receivable, net of allowance for doubtful accounts of \$4,617 and \$5,026	367,038	355,373
Prepaid expenses, deposits and other current assets	26,836	22,141
Income tax receivable	8,559	5,325
Total current assets	425,990	429,827
Property and equipment, net	61,218	57,671
Restricted cash and investments	227,043	235,443
Deferred income taxes, net	3,469	4,388
Goodwill	235,646	237,287
Intangible assets, net	77,338	91,408
Operating lease right-of-use assets	36,794	—
Workers' compensation claims receivable, net	46,393	44,915
Other assets, net	17,154	13,905
Total assets	\$ 1,131,045	\$ 1,114,844
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued expenses	\$ 54,467	\$ 62,045
Accrued wages and benefits	76,957	77,098
Current portion of workers' compensation claims reserve	73,509	76,421
Operating lease current liabilities	14,161	—
Other current liabilities	7,385	9,962
Total current liabilities	226,479	225,526
Workers' compensation claims reserve, less current portion	185,761	190,025
Long-term debt	43,800	80,000
Long-term deferred compensation liabilities	25,476	21,747
Operating lease long-term liabilities	24,896	—
Other long-term liabilities	3,968	6,107
Total liabilities	510,380	523,405
Commitments and contingencies (Note 6)		
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; 38,932 and 40,054 shares issued and outstanding	1	1
Accumulated other comprehensive loss	(15,673)	(14,649)
Retained earnings	636,337	606,087
Total shareholders' equity	620,665	591,439
Total liabilities and shareholders' equity	\$ 1,131,045	\$ 1,114,844

See accompanying notes to consolidated financial statements

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

<i>(in thousands, except per share data)</i>	Thirteen weeks ended		Thirty-nine weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Revenue from services	\$ 636,793	\$ 680,371	\$ 1,777,739	\$ 1,849,060
Cost of services	467,671	496,053	1,301,924	1,355,890
Gross profit	169,122	184,318	475,815	493,170
Selling, general and administrative expense	131,187	145,382	388,447	405,352
Depreciation and amortization	8,749	10,586	28,528	30,777
Income from operations	29,186	28,350	58,840	57,041
Interest expense	(715)	(1,357)	(2,097)	(3,602)
Interest and other income	1,186	1,017	3,948	4,498
Interest and other income (expense), net	471	(340)	1,851	896
Income before tax expense	29,657	28,010	60,691	57,937
Income tax expense	2,981	3,630	6,333	7,070
Net income	\$ 26,676	\$ 24,380	\$ 54,358	\$ 50,867
Net income per common share:				
Basic	\$ 0.69	\$ 0.61	\$ 1.39	\$ 1.27
Diluted	\$ 0.68	\$ 0.61	\$ 1.38	\$ 1.26
Weighted average shares outstanding:				
Basic	38,741	39,743	39,090	40,138
Diluted	39,213	40,073	39,479	40,417
Other comprehensive income:				
Foreign currency translation adjustment	\$ (1,657)	\$ (595)	\$ (1,024)	\$ (3,900)
Comprehensive income	\$ 25,019	\$ 23,785	\$ 53,334	\$ 46,967

See accompanying notes to consolidated financial statements

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

(in thousands)	Thirty-nine weeks ended	
	September 29, 2019	September 30, 2018
Cash flows from operating activities:		
Net income	\$ 54,358	\$ 50,867
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,528	30,777
Provision for doubtful accounts	5,997	10,140
Stock-based compensation	8,119	9,552
Deferred income taxes	1,058	2,638
Non-cash lease expense	11,087	—
Other operating activities	(1,701)	526
Changes in operating assets and liabilities:		
Accounts receivable	(17,616)	(17,960)
Income tax receivable	(3,982)	(5,389)
Other assets	(9,449)	(12,110)
Accounts payable and other accrued expenses	(6,970)	3,179
Accrued wages and benefits	(141)	4,549
Workers' compensation claims reserve	(7,176)	(8,405)
Operating lease liabilities	(11,297)	—
Other liabilities	1,723	262
Net cash provided by operating activities	52,538	68,626
Cash flows from investing activities:		
Capital expenditures	(18,297)	(10,313)
Acquisition of business	—	(22,742)
Divestiture of business	215	10,414
Purchases of restricted investments	(22,597)	(11,747)
Maturities of restricted investments	28,976	17,021
Net cash used in investing activities	(11,703)	(17,367)
Cash flows from financing activities:		
Purchases and retirement of common stock	(31,316)	(24,818)
Net proceeds from employee stock purchase plans	1,023	1,146
Common stock repurchases for taxes upon vesting of restricted stock	(1,934)	(2,539)
Net change in revolving credit facility	(36,200)	12,000
Payments on debt	—	(22,855)
Other	(203)	—
Net cash used in financing activities	(68,630)	(37,066)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	732	(583)
Net change in cash, cash equivalents and restricted cash	(27,063)	13,610
Cash, cash equivalents and restricted cash, beginning of period	102,450	73,831
Cash, cash equivalents and restricted cash, end of period	\$ 75,387	\$ 87,441
<i>Supplemental disclosure of cash flow information:</i>		
Cash paid during the period for:		
Interest	\$ 1,767	\$ 3,395
Income taxes	9,230	9,832
Operating lease liabilities	13,280	—
Non-cash transactions:		
Property and equipment purchased but not yet paid	945	1,229
Divestiture non-cash consideration	—	971
Right-of-use assets obtained in exchange for new operating lease liabilities	10,825	—

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 and thirty-nine weeks ended September 29, 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 (“SG&A”) 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 SG&A 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 SG&A 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Internal-use software

We capitalize implementation costs incurred in a cloud computing arrangement that is a service contract. Capitalized implementation costs are recorded as a prepaid asset in other assets, net on our Consolidated Balance Sheets, with the related amortization recorded in SG&A expense. Software license fees incurred during the development period are expensed as incurred.

Goodwill and indefinite-lived intangible assets

We evaluate goodwill for impairment on an annual basis as of the first day of our fiscal second quarter, and whenever events or circumstances make it more likely than not that an impairment may have occurred. These events or circumstances could include a significant change in the business climate, operating performance indicators, competition, client engagement, legal factors, or sale or disposition of a significant portion of a reporting unit. We monitor the existence of potential impairment indicators throughout the fiscal year. We test for goodwill impairment at the reporting unit level. We consider our operating segments to be our reporting units for goodwill impairment testing. Our operating segments are PeopleReady, Centerline, Staff Management, SIMOS, PeopleScout, and PeopleScout MSP. The impairment test involves comparing the fair value of each reporting unit to its carrying value, including goodwill. Fair value reflects the price a market participant would be willing to pay in a potential sale of the reporting unit. If the fair value exceeds the carrying value, we conclude that no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its fair value, we recognize an impairment loss in an amount equal to the excess, not to exceed the carrying value of the goodwill.

Determining the fair value of a reporting unit involves the use of significant estimates and assumptions to evaluate the impact of operational and macroeconomic changes on each reporting unit. The fair value of each reporting unit is a weighted average of the income and market valuation approaches. The income approach applies a fair value methodology based on discounted cash flows. This analysis requires significant estimates and judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted average cost of capital, which is risk-adjusted to reflect the specific risk profile of the reporting unit being tested. We also apply a market approach, which identifies similar publicly traded companies and develops a correlation, referred to as a multiple, to apply to the operating results of the reporting units. The primary market multiples to which we compare are revenue and earnings before interest, taxes, depreciation, and amortization. The income and market approaches were equally weighted in our most recent annual impairment test. We base fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. We consider a reporting unit's fair value to be substantially in excess of its carrying value at a 20% premium or greater.

Based on our 2019 annual impairment test, the estimated fair value of our SIMOS reporting unit was in excess of its carrying value by approximately 10%. The current value of goodwill is \$35 million. There are two key clients that individually account for more than 10% of revenue for the SIMOS reporting unit. For each client, we service multiple sites. The loss of a key client, loss of a significant number of key sites, or a downturn in the economy could give rise to an impairment. Should any one of these events occur, we may need to record an impairment loss to goodwill for the amount by which the carrying value exceeds the reporting unit's fair value, not to exceed the total amount of goodwill. We will continue to closely monitor the operational performance of this reporting unit. All other reporting units' fair values were substantially in excess of their respective carrying values. Accordingly, there was no impairment loss recognized for the thirty-nine weeks ended September 29, 2019. Based on our 2018 annual impairment test, all reporting units' fair values were substantially in excess of their respective carrying values. Accordingly, there was no impairment loss recognized for the thirty-nine weeks ended September 30, 2018.

We performed our annual indefinite-lived intangible asset impairment test for 2019 and 2018, and determined that the estimated fair values exceeded the carrying amounts for our indefinite-lived trade names. Accordingly, no impairment loss was recognized for the thirty-nine weeks ended September 29, 2019 or September 30, 2018.

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 SG&A 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. 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 the measurement of credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The guidance requires the application of a current expected credit loss model, which is a new impairment model based on expected losses. Under this model, an entity recognizes an allowance for expected credit losses based on historical experience, current conditions and forecasted information rather than the current methodology of delaying recognition of credit losses until it is probable a loss has been incurred. This guidance is effective for fiscal years beginning after December 15, 2019 (Q1 2020 for TrueBlue) with early adoption permitted. Although the impact upon adoption will depend on the financial instruments held at that time, we do not anticipate a significant impact on our financial statements based on the restricted held-to-maturity investments currently held, as described further in Note 4: *Restricted Cash and Investments*, and our historical experience of bad debt expense relating to trade accounts receivable. We plan to adopt this guidance on the effective date and are currently evaluating the impact on our accounting policies, processes, systems, and internal controls.

No other new accounting pronouncement issued or effective during the fiscal year had, or is expected to have, a significant impact on our financial statements and related disclosures.

NOTE 2: ACQUISITION

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

We incurred acquisition and integration-related costs of \$0.4 million and \$1.2 million for the thirteen weeks ended September 29, 2019 and September 30, 2018, respectively, and \$1.6 million and \$1.7 million for the thirty-nine weeks ended September 29, 2019 and September 30, 2018, respectively, which are included in SG&A expense on the Consolidated Statements of Operations and Comprehensive Income and cash flows from operating activities on the Consolidated Statements of Cash Flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

<i>(in thousands, except for estimated useful lives, in years)</i>	Estimated fair value	Estimated useful life in years
Customer relationships - other	\$ 2,809	3
Customer relationships - RPO	3,477	7
Trade names/trademarks	1,738	14
Total acquired identifiable intangible assets	\$ 8,024	

The results of TMP's operations and cash flows reported for 2018 on our Consolidated Statements of Operations and Comprehensive Income and Consolidated Statements of Cash Flows relate to the period from June 12, 2018 to September 30, 2018. Revenue from TMP included in our Consolidated Statements of Operations and Comprehensive Income was \$17.9 million from the acquisition date to September 30, 2018, and \$13.8 million and \$40.7 million for the thirteen and thirty-nine weeks ended September 29, 2019, respectively. The acquisition of TMP was not material to our consolidated results of operations and as such, pro forma financial information was not required.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: FAIR VALUE MEASUREMENT

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

(in thousands)	September 29, 2019			
	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	\$ 23,557	\$ 23,557	—	\$ —
Restricted cash and cash equivalents	51,830	51,830	—	—
Cash, cash equivalents and restricted cash (1)	\$ 75,387	\$ 75,387	—	\$ —
Municipal debt securities	\$ 75,349	\$ —	\$ 75,349	\$ —
Corporate debt securities	72,477	—	72,477	—
Agency mortgage-backed securities	1,640	—	1,640	—
U.S. government and agency securities	1,062	—	1,062	—
Restricted investments classified as held-to-maturity	\$ 150,528	\$ —	\$ 150,528	\$ —
Deferred compensation mutual funds	\$ 27,859	\$ 27,859	—	\$ —
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)
	\$ 46,988	\$ 46,988	—	\$ —
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	\$ 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 thirty-nine weeks ended September 29, 2019 nor September 30, 2018.

NOTE 4: RESTRICTED CASH AND INVESTMENTS

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

(in thousands)	September 29, 2019	December 30, 2018
Cash collateral held by insurance carriers	\$ 24,797	\$ 24,182
Cash and cash equivalents held in Trust	23,459	28,021
Investments held in Trust	147,354	156,618
Deferred compensation mutual funds	27,859	23,363
Other restricted cash and cash equivalents	3,574	3,259
Total restricted cash and investments	\$ 227,043	\$ 235,443

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 September 29, 2019 and December 30, 2018, were as follows:

<i>(in thousands)</i>	September 29, 2019			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Municipal debt securities	\$ 73,358	\$ 1,991	\$ —	\$ 75,349
Corporate debt securities	71,375	1,129	(27)	72,477
Agency mortgage-backed securities	1,622	21	(3)	1,640
U.S. government and agency securities	999	63	—	1,062
Total held-to-maturity investments	\$ 147,354	\$ 3,204	\$ (30)	\$ 150,528

<i>(in thousands)</i>	December 30, 2018			
	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 September 29, 2019 and December 30, 2018, were as follows:

<i>(in thousands)</i>	September 29, 2019					
	Less than 12 months		12 months or more		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
Municipal debt securities	\$ 1,692	\$ —	\$ —	\$ —	\$ 1,692	\$ —
Corporate debt securities	8,609	(13)	7,802	(14)	16,411	(27)
Agency mortgage-backed securities	293	(1)	308	(2)	601	(3)
Total held-to-maturity investments	\$ 10,594	\$ (14)	\$ 8,110	\$ (16)	\$ 18,704	\$ (30)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands)	December 30, 2018					
	Less than 12 months		12 months or more		Total	
	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 September 29, 2019 and December 30, 2018 were 19 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:

(in thousands)	September 29, 2019	
	Amortized cost	Fair value
Due in one year or less	\$ 21,257	\$ 21,277
Due after one year through five years	86,044	87,712
Due after five years through ten years	40,053	41,539
Total held-to-maturity investments	\$ 147,354	\$ 150,528

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.

Equity investments

We hold mutual funds to support our deferred compensation liability. Unrealized gains and losses related to equity investments still held at September 29, 2019 and September 30, 2018, were \$0.1 million unrealized losses, and \$0.6 million unrealized gains, for the thirteen weeks then ended, respectively, and are included in SG&A expense on the Consolidated Statements of Operations and Comprehensive Income. Unrealized gains related to equity investments still held at September 29, 2019 and September 30, 2018, were \$3.1 million and \$0.6 million for the thirty-nine weeks then ended, respectively.

NOTE 5: 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 September 29, 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 September 29, 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

<i>(in thousands)</i>	September 29, 2019	December 30, 2018
Undiscounted workers' compensation reserve	\$ 277,395	\$ 284,625
Less discount on workers' compensation reserve	18,125	18,179
Workers' compensation reserve, net of discount	259,270	266,446
Less current portion	73,509	76,421
Long-term portion	\$ 185,761	\$ 190,025

Payments made against self-insured claims were \$47.3 million and \$50.7 million for the thirty-nine weeks ended September 29, 2019 and September 30, 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 September 29, 2019 and December 30, 2018, the weighted average rate was 2.7% 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 and the corresponding receivable for the insurance on excess claims was \$47.3 million and \$48.2 million as of September 29, 2019 and December 30, 2018, respectively.

Workers' compensation expense of \$18.0 million and \$17.8 million was recorded in cost of services on our Consolidated Statements of Operations and Comprehensive Income for the thirteen weeks ended September 29, 2019 and September 30, 2018, respectively. Workers' compensation expense of \$46.2 million and \$52.2 million was recorded in cost of services on our Consolidated Statements of Operations and Comprehensive Income for the thirty-nine weeks ended September 29, 2019 and September 30, 2018, respectively.

NOTE 6: COMMITMENTS AND CONTINGENCIES

Workers' compensation commitments

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

<i>(in thousands)</i>	September 29, 2019	December 30, 2018
Cash collateral held by workers' compensation insurance carriers	\$ 22,456	\$ 22,264
Cash and cash equivalents held in Trust	23,459	28,021
Investments held in Trust	147,354	156,618
Letters of credit (1)	6,677	6,691
Surety bonds (2)	22,462	21,881
Total collateral commitments	\$ 222,408	\$ 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. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

<i>(in thousands)</i>	Thirteen weeks ended	Thirty-nine weeks ended
	September 29, 2019	
Operating lease costs	\$ 4,350	\$ 12,985
Short-term lease costs	1,790	5,453
Other lease costs (1)	1,458	4,546
Total lease costs	\$ 7,598	\$ 22,984

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

Other information related to our operating leases was as follows:

	September 29, 2019
Weighted average remaining lease term in years	3.5
Weighted average discount rate	5.0%

Future non-cancelable minimum lease payments under our operating lease commitments as of September 29, 2019, are as follows for each of the next five years and thereafter:

<i>(in thousands)</i>	\$	4,219
Remainder of 2019	\$ 4,219	
2020	15,283	
2021	11,195	
2022	6,356	
2023	4,123	
2024	1,551	
Thereafter	1,476	
Total undiscounted future non-cancelable minimum lease payments (1)	44,203	
Less: Imputed interest (2)	5,146	
Present value of lease liabilities	\$ 39,057	

- (1) Operating lease payments exclude approximately \$1.9 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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7: SHAREHOLDERS' EQUITY

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

(in thousands)	Thirteen weeks ended		Thirty-nine weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Common stock shares				
Beginning balance	40,058	40,595	40,054	41,098
Purchases and retirement of common stock	(1,115)	(203)	(1,505)	(961)
Issuances under equity plans, including tax benefits	(11)	87	355	316
Stock-based compensation	—	(7)	28	19
Ending balance	38,932	40,472	38,932	40,472
Common stock amount				
Beginning balance	\$ 1	\$ 1	\$ 1	\$ 1
Current period activity	—	—	—	—
Ending balance	1	1	1	1
Retained earnings				
Beginning balance	629,022	574,934	606,087	561,650
Net income	26,676	24,380	54,358	50,867
Purchases and retirement of common stock (1)	(22,239)	(5,752)	(31,316)	(24,818)
Issuances under equity plans, including tax benefits	19	249	(911)	(1,396)
Stock-based compensation	2,859	3,572	8,119	9,555
Change in accounting standard cumulative-effect adjustment (2)	—	—	—	1,525
Ending balance	636,337	597,383	636,337	597,383
Accumulated other comprehensive loss				
Beginning balance, net of tax	(14,016)	(11,634)	(14,649)	(6,804)
Foreign currency translation adjustment	(1,657)	(595)	(1,024)	(3,900)
Change in accounting standard cumulative-effect adjustment (2)	—	—	—	(1,525)
Ending balance, net of tax	(15,673)	(12,229)	(15,673)	(12,229)
Total shareholders' equity ending balance	\$ 620,665	\$ 585,155	\$ 620,665	\$ 585,155

(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 equity securities previously classified as available-for-sale 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 and thirty-nine weeks ended September 29, 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8: 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 thirty-nine weeks ended September 29, 2019 was 10.4%. 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 stock-based compensation.

NOTE 9: NET INCOME PER SHARE

Diluted common shares were calculated as follows:

<i>(in thousands, except per share data)</i>	Thirteen weeks ended		Thirty-nine weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Net income	\$ 26,676	\$ 24,380	\$ 54,358	\$ 50,867
Weighted average number of common shares used in basic net income per common share	38,741	39,743	39,090	40,138
Dilutive effect of non-vested restricted stock	472	330	389	279
Weighted average number of common shares used in diluted net income per common share	39,213	40,073	39,479	40,417
Net income per common share:				
Basic	\$ 0.69	\$ 0.61	\$ 1.39	\$ 1.27
Diluted	\$ 0.68	\$ 0.61	\$ 1.38	\$ 1.26
Anti-dilutive shares	220	414	245	500

NOTE 10: 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:

- *Staff Management | SMX and SIMOS Insourcing Solutions:* On-premise management and recruitment for the contingent industrial workforce of manufacturing, warehouse, and distribution facilities; 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.

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 through PeopleScout. Accordingly, the results associated with the acquisition are included in our PeopleScout operating segment. TMP is a mid-sized 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 other adjustments not considered to be ongoing.

The following table presents our revenue disaggregated by major source and segment and a reconciliation of segment revenue from services to total company revenue:

(in thousands)	Thirteen weeks ended		Thirty-nine weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Revenue from services:				
Contingent staffing				
PeopleReady	\$ 413,132	\$ 428,665	\$ 1,109,261	\$ 1,122,960
PeopleManagement	159,315	181,199	470,889	543,930
Human resource outsourcing				
PeopleScout	64,346	70,507	197,589	182,170
Total company	\$ 636,793	\$ 680,371	\$ 1,777,739	\$ 1,849,060

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

(in thousands)	Thirteen weeks ended		Thirty-nine weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Segment profit:				
PeopleReady	\$ 30,878	\$ 31,230	\$ 64,143	\$ 63,953
PeopleManagement	3,381	6,169	9,815	16,530
PeopleScout	10,774	12,478	32,424	35,703
	45,033	49,877	106,382	116,186
Corporate unallocated	(5,769)	(6,469)	(16,680)	(20,001)
Work Opportunity Tax Credit processing fees	(240)	(241)	(720)	(700)
Acquisition/integration costs	(362)	(1,226)	(1,612)	(1,683)
Other costs	(727)	(3,005)	(2)	(5,984)
Depreciation and amortization	(8,749)	(10,586)	(28,528)	(30,777)
Income from operations	29,186	28,350	58,840	57,041
Interest and other income (expense), net	471	(340)	1,851	896
Income before tax expense	\$ 29,657	\$ 28,010	\$ 60,691	\$ 57,937

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: SUBSEQUENT EVENT

On October 16, 2019, 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.

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

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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," "goal," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which may cause actual results to differ materially from 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 10: *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 due to changing demographics, worker shortages, employee preferences, and employer workforce needs. In response, the staffing industry has accelerated its evolution from commercial staffing into specialized and outsourced staffing solutions. Client demand for 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 that 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 driver staffing services, and our PeopleScout segment which offers recruitment process outsourcing ("RPO") and managed service provider ("MSP") services.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue from services

Total company revenue declined 6.4% to \$637 million for the thirteen weeks ended September 29, 2019, compared to the same period in the prior year, primarily due to less demand for our services attributable to lower volumes within the businesses of our clients. PeopleReady, our largest segment, experienced a revenue decline of 3.6%. PeopleManagement, our lowest margin segment, experienced a revenue decline of 12.1%. PeopleScout, our highest margin segment, experienced a revenue decline of 8.7%. In addition to less demand from existing clients, as previously reported, PeopleManagement continues to experience the impact of the loss of several key clients in the prior year and PeopleScout continues to experience the impact of the loss of a client in the prior year after being acquired by a strategic buyer, as well as substantially reduced project based recruiting volumes at another large industrial client due to adverse business conditions.

Gross profit

Total company gross profit as a percentage of revenue for the thirteen weeks ended September 29, 2019 was 26.6%, compared to 27.1% for the same period in the prior year. The decrease was primarily due to client mix and an increase in worker's compensation expense.

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

Total company SG&A expense decreased by \$14 million to \$131 million representing 20.6% of revenue for the thirteen weeks ended September 29, 2019, compared to \$145 million, or 21.4% of revenue for the same period in the prior year. The decrease in SG&A expense is primarily due to cost control programs, while continuing to invest in our digital growth initiatives.

Income from operations

Total company income from operations grew to \$29 million, or 4.6% of revenue, for the thirteen weeks ended September 29, 2019, compared to \$28 million, or 4.2% of revenue for the same period in the prior year. The decrease in gross profit from the decline in revenue was more than offset by the decrease in SG&A expense due to cost control programs.

Net income

Net income was \$27 million, or \$0.68 per diluted share for the thirteen weeks ended September 29, 2019, compared to \$24 million, or \$0.61 per diluted share for the same period in the prior year. The net income growth was primarily driven by improved operating results and lower interest expense as we have reduced our total debt to \$44 million at the end of the third quarter of 2019 compared to \$108 million at the end of the third quarter of 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 September 29, 2019, we had cash and cash equivalents of \$24 million and \$250 million available under our revolving credit agreement ("Revolving Credit Facility") for total liquidity of \$274 million.

We continue to return cash to shareholders through our share repurchase program. We repurchased an additional \$22 million of common stock during the thirteen weeks ended September 29, 2019. As of September 29, 2019, \$27 million remains available for repurchase of common stock under the current authorization. Additionally, our Board of Directors authorized an additional \$100 million of share repurchases on October 16, 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Total company results

The following table presents selected financial data:

<i>(in thousands, except percentages and per share data)</i>	Thirteen weeks ended				Thirty-nine weeks ended			
	September 29, 2019	% of revenue	September 30, 2018	% of revenue	September 29, 2019	% of revenue	September 30, 2018	% of revenue
Revenue from services	\$ 636,793		\$ 680,371		\$ 1,777,739		\$ 1,849,060	
Total revenue growth (decline) %	(6.4)%			3.0%		(3.9)%		0.5%
Gross profit	\$ 169,122	26.6%	\$ 184,318	27.1%	\$ 475,815	26.8%	\$ 493,170	26.7%
Selling, general and administrative expense	131,187	20.6%	145,382	21.4%	388,447	21.9%	405,352	21.9%
Depreciation and amortization	8,749	1.4%	10,586	1.6%	28,528	1.6%	30,777	1.7%
Income from operations	29,186	4.6%	28,350	4.2%	58,840	3.3%	57,041	3.1%
Interest and other income (expense), net	471		(340)		1,851		896	
Income before tax expense	29,657		28,010		60,691		57,937	
Income tax expense	2,981		3,630		6,333		7,070	
Net income	\$ 26,676	4.2%	\$ 24,380	3.6%	\$ 54,358	3.1%	\$ 50,867	2.8%
Net income per diluted share	\$ 0.68		\$ 0.61		\$ 1.38		\$ 1.26	

We report our business as three distinct segments: PeopleReady, PeopleManagement and PeopleScout. See Note 10: *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, expand our reach into new demographics, and improve both service delivery and work order fill rates as we lead our business into a digital future.
- **PeopleManagement** predominantly provides a wide range of on-premise contingent staffing and workforce management solutions to larger multi-site manufacturing and distribution clients. 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 recruitment and on-premise management of a facility’s contingent industrial workforce. SIMOS specializes in 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 recruitment process outsourcing (“RPO”) to improve talent quality, faster hiring, increased scalability, lower cost of recruitment, greater flexibility, and increased compliance. Our clients outsource the recruitment process to PeopleScout in all major industries and jobs. We leverage our new proprietary candidate applicant tracking system Affinix™, 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 subset of skill categories across a series of recruitment processes and onboarding steps. 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.

Our PeopleScout segment also includes a managed service provider business, which provides clients with improved quality and spend management of their contingent labor vendors.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our thirty-nine weeks ended year-over-year trends are impacted by our acquisition on June 12, 2018 of 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. We believe 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 are in the process of being fully integrated into this service line.

Revenue from services

Revenue from services by reportable segment was as follows:

<i>(in thousands, except percentages)</i>	Thirteen weeks ended				
	September 29, 2019	Growth (decline) %	Segment % of total	September 30, 2018	Segment % of total
Revenue from services:					
PeopleReady	\$ 413,132	(3.6)%	64.9%	\$ 428,665	63.0%
PeopleManagement	159,315	(12.1)	25.0	181,199	26.6
PeopleScout	64,346	(8.7)	10.1	70,507	10.4
Total company	\$ 636,793	(6.4)%	100.0%	\$ 680,371	100.0%

<i>(in thousands, except percentages)</i>	Thirty-nine weeks ended				
	September 29, 2019	Growth (decline) %	Segment % of total	September 30, 2018	Segment % of total
Revenue from services:					
PeopleReady	\$ 1,109,261	(1.2)%	62.4%	\$ 1,122,960	60.7%
PeopleManagement	470,889	(13.4)	26.5	543,930	29.4
PeopleScout	197,589	8.5	11.1	182,170	9.9
Total company	\$ 1,777,739	(3.9)%	100.0%	\$ 1,849,060	100.0%

PeopleReady

PeopleReady revenue declined to \$413 million for the thirteen weeks ended September 29, 2019, a 3.6% decrease compared to the same period in the prior year, primarily due to slowing demand across most geographies and industries which is attributable to lower volumes within the businesses of our clients.

PeopleReady revenue declined to \$1.1 billion for the thirty-nine weeks ended September 29, 2019, a 1.2% decrease compared to the same period in the prior year. Revenue growth in the first quarter of 2019 was more than offset by broad based declines across most industries and geographies during the second and third quarter of 2019. PeopleReady experienced slowing of demand primarily attributable to lower volumes within the businesses of our clients. We believe the decline was partially offset by the strategic use of our technology. Our industry-leading JobStack mobile application that connects workers with jobs is leading our business into a digital future. During the quarter, PeopleReady dispatched 1 million shifts via JobStack and achieved a digital fill rate of 40%. The mobile application is used by 19,000 clients with 87% 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 \$159 million for the thirteen weeks ended September 29, 2019, a 12.1% decrease compared to the same period in the prior year. The decline included 3.2% due to 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 and 1.8% due to lower volume and price reductions with an existing retail client. The remaining decline of 7.1% was primarily due to slowing demand attributable to lower volumes within the business of our existing clients.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PeopleManagement revenue declined to \$471 million for the thirty-nine weeks ended September 29, 2019, a 13.4% decrease compared to the same period in the prior year. The decline included 4.4% due to the loss of Amazon's Canadian business, 2.7% due to substantially reduced volumes and price reductions with a large existing retail client, and 1.5% due to the divestiture of our PlaneTechs business in mid-March 2018. The remaining decline of 4.8% was primarily due to slowing demand attributable to lower volumes within the business of our existing clients.

PeopleScout

PeopleScout revenue declined to \$64 million for the thirteen weeks ended September 29, 2019, an 8.7% decrease compared to the same period in the prior year. The decline included 7.3% due to substantially reduced project based recruiting volumes at a large client due to adverse business conditions and 1.9% due to the loss of a client that was acquired by a strategic buyer in the prior year.

PeopleScout revenue grew to \$198 million for the thirty-nine weeks ended September 29, 2019, an 8.5% increase compared to the same period in the prior year. The increase is due primarily to the acquisition of TMP during the second quarter of 2018, which represents a 13.5% increase in PeopleScout's revenue for the thirty-nine weeks ended September 29, 2019, compared to the same period in the prior year. Revenue growth was constrained primarily due to the loss of one client after being acquired by a strategic buyer in the prior year and substantially reduced project based recruiting volumes at another large industrial client due to adverse business conditions. Market interest in our RPO services remains strong and has been accentuated by our new talent acquisition technology, Affinix.

Gross profit

Gross profit was as follows:

<i>(in thousands, except percentages)</i>	Thirteen weeks ended		Thirty-nine weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Gross profit	\$ 169,122	\$ 184,318	\$ 475,815	\$ 493,170
Percentage of revenue	26.6 %	27.1 %	26.8 %	26.7 %

Total company gross profit as a percentage of revenue for the thirteen weeks ended September 29, 2019 was 26.6%, compared to 27.1% for the same period in the prior year. The decrease was primarily due to client mix and an increase in worker's compensation expense at PeopleReady.

Total company gross profit as a percentage of revenue for the thirty-nine weeks ended September 29, 2019 was relatively flat at 26.8%, compared to 26.7% for the same period in the prior year. Gross margin improved due to lower workers' compensation costs of 0.2% 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. Improvements to the gross margin of our staffing businesses were partially offset by declines to the PeopleScout gross margin due to lower margins with the acquired TMP business as a result of the pass-through nature of recruitment media purchases made on behalf of certain clients.

We continue to manage the rising cost of claims by reducing workplace accidents. Continued favorable adjustments to our workers' compensation liabilities are dependent on our ability to continue to lower accident rates and claim costs.

Selling, general and administrative expense

SG&A expense was as follows:

<i>(in thousands, except percentages)</i>	Thirteen weeks ended		Thirty-nine weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Selling, general and administrative expense	\$ 131,187	\$ 145,382	\$ 388,447	\$ 405,352
Percentage of revenue	20.6 %	21.4 %	21.9 %	21.9 %

Total company SG&A expense decreased by \$14 million to \$131 million, or 20.6% of revenue for the thirteen weeks ended September 29, 2019, compared to \$145 million, or 21.4% of revenue for the same period in the prior year. The decrease in SG&A expense is primarily due to cost control programs, while continuing to invest in our digital growth initiatives.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Total company SG&A expense decreased by \$17 million to \$388 million, or 21.9% of revenue for the thirty-nine weeks ended September 29, 2019, compared to \$405 million, or 21.9% of revenue for the same period in the prior year. SG&A expense decreased primarily due to the impact of cost control programs, \$2 million in costs eliminated with the PlaneTechs divestiture and accelerated stock compensation costs in the prior year associated with the CEO transition of \$2 million. This decrease was partially offset by \$3 million of net operating costs added by the acquisition of TMP and continuing investment in our digital growth initiatives.

Depreciation and amortization

Depreciation and amortization was as follows:

<i>(in thousands, except percentages)</i>	Thirteen weeks ended		Thirty-nine weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Depreciation and amortization	\$ 8,749	\$ 10,586	\$ 28,528	\$ 30,777
Percentage of revenue	1.4 %	1.6 %	1.6 %	1.7 %

Depreciation and amortization decreased primarily due to several intangible assets that were fully amortized in the second quarter of 2019, which resulted in a decline in amortization expense for the thirteen and thirty-nine weeks ended September 29, 2019.

Income taxes

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

<i>(in thousands, except percentages)</i>	Thirteen weeks ended		Thirty-nine weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Income tax expense	\$ 2,981	\$ 3,630	\$ 6,333	\$ 7,070
Effective income tax rate	10.1 %	13.0 %	10.4 %	12.2 %

Our effective tax rate for the thirty-nine weeks ended September 29, 2019 and September 30, 2018 was 10.4% and 12.2%, respectively. For the thirty-nine weeks ended September 29, 2019, we recognized \$1.3 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. Approval from Congress will be required to extend WOTC beyond December 31, 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Effective income tax rate without adjustments below	26.3 %	28.0 %	27.3 %	27.7 %
Hiring credits estimate from current year wages	(14.8)	(14.0)	(14.8)	(14.0)
Additional hiring credits from prior year wages	(1.4)	(1.0)	(2.1)	(1.5)
Effective income tax rate	10.1 %	13.0 %	10.4 %	12.2 %

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 other adjustments not considered to be ongoing. See Note 10: *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:

<i>(in thousands, except for percentages)</i>	Thirteen weeks ended		Thirty-nine weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Revenue from services	\$ 413,132	\$ 428,665	\$ 1,109,261	\$ 1,122,960
Segment profit	30,878	31,230	64,143	63,953
Percentage of revenue	7.5%	7.3%	5.8%	5.7%

PeopleReady segment profit remained relatively flat at \$31 million, or 7.5% of revenue for the thirteen weeks ended September 29, 2019, compared to \$31 million, or 7.3% of revenue for the same period in the prior year. Revenue decline was primarily due to a slowing demand for our services which is attributable to lower volumes within the businesses of our clients. With the decline in revenue, we put in place additional cost control measures and have reduced SG&A costs in line with our plans. The increase in segment profit as a percent of sales is largely due to our cost control programs outpacing the decline in revenue.

For the thirty-nine weeks ended September 29, 2019, PeopleReady segment profit remained relatively flat at \$64 million, or 5.8% of revenue, compared to \$64 million, or 5.7% of revenue for the same period in the prior year. Revenue growth during the first quarter of 2019 was largely offset by revenue declines during the second and third quarters of 2019. Through disciplined pricing, we have passed through the increased costs of our contingent worker wages in a tightening labor market. Additionally, our cost control programs have reduced our SG&A costs in line with our plans.

PeopleManagement segment performance was as follows:

<i>(in thousands, except for percentages)</i>	Thirteen weeks ended		Thirty-nine weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Revenue from services	\$ 159,315	\$ 181,199	\$ 470,889	\$ 543,930
Segment profit	3,381	6,169	9,815	16,530
Percentage of revenue	2.1%	3.4%	2.1%	3.0%

PeopleManagement segment profit decreased to \$3 million, or 2.1% of revenue for the thirteen weeks ended September 29, 2019, compared to \$6 million, or 3.4% of revenue for the same period in the prior year. The decline in revenue and related segment profit was primarily due to the loss of Amazon's Canadian business in the second half of fiscal 2018 and volume and price reductions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

at another industrial workforce client. Additionally, PeopleManagement has been experiencing a slowing of demand attributable to lower volumes within the businesses of our clients. With the decline in revenue, we put in place additional cost control measures and have reduced SG&A costs in line with our plans while investing in targeted growth initiatives.

For the thirty-nine weeks ended September 29, 2019, PeopleManagement segment profit decreased to \$10 million, or 2.1% of revenue, compared to \$17 million, or 3.0% of revenue for the same period in the prior year. The decline in revenue and related segment profit 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 large industrial workforce client. Additionally, PeopleManagement has been experiencing a slowing of demand attributable to lower volumes within the businesses of our clients. With the decline in revenue, we put in place cost control measures and have reduced SG&A costs in line with our plans.

PeopleScout segment performance was as follows:

<i>(in thousands, except for percentages)</i>	Thirteen weeks ended		Thirty-nine weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Revenue from services	\$ 64,346	\$ 70,507	\$ 197,589	\$ 182,170
Segment profit	10,774	12,478	32,424	35,703
Percentage of revenue	16.7 %	17.7 %	16.4 %	19.6 %

PeopleScout segment profit decreased to \$11 million, or 16.7% of revenue for the thirteen weeks ended September 29, 2019, compared to \$12 million, or 17.7% of revenue for the same period in the prior year. The decline in segment profit and profit margin is primarily driven by the acquisition of TMP and client mix, which is partially offset by continued efficiency gains in sourcing and recruiting activities. TMP margins are lower than those of PeopleScout due to the pass through nature of media-related purchases on behalf of certain clients. Client mix margins were impacted by substantially reduced project based recruiting volumes at a large industrial client due to adverse business conditions and loss of another higher margin client which was acquired by a strategic buyer in late 2018.

For the thirty-nine weeks ended September 29, 2019, PeopleScout segment profit decreased to \$32 million, or 16.4% of revenue, compared to \$36 million, or 19.6% of revenue for the same period in the prior year. The decline in segment profit and profit margin is primarily driven by the lower margins of TMP, substantially reduced project based recruiting volumes at a large industrial client due to adverse business conditions and the loss of another higher margin client which was acquired by a strategic buyer in late 2018. The declines are partially offset by continued efficiency gains in sourcing and recruiting activities and cost control programs.

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 additional pressure on our revenue trends in the fourth quarter of 2019 due primarily to widespread lower same-client demand as clients continue to experience weaker volumes within their own businesses across most geographies and industries. PeopleReady, our largest segment, experienced year-over-year revenue declines in the third quarter of 2019 and experienced additional revenue pressure in October. PeopleScout, our highest margin segment, passed the one year anniversary of the TMP acquisition in June 2019. PeopleScout will experience further pressure due to the continued impact of the loss of a key client that was acquired by a strategic buyer and substantially reduced recruiting project volumes at another large industrial client due to adverse business conditions. PeopleManagement, our lowest margin segment, is experiencing less demand from existing clients and will continue to experience the impact of the loss of several key clients in the prior year who largely insourced services previously outsourced to PeopleManagement. Similar to PeopleReady, PeopleManagement experienced additional revenue pressure from same client demand declines.
- We believe there is a changing pace of underlying economic activity in some of the industries we serve. Our belief is based on our same client revenue trends and the softening demand for our PeopleReady services. Given the project-based nature of PeopleReady's business, we believe it is often an early indicator of changing demand patterns. We remain focused on client expansion and retention, disciplined cost management and investing in our digital strategies, to differentiate our service offerings.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- 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 to workers and candidates, as well as improve the 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 Affinix talent acquisition technology in our PeopleScout business.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

<i>(in thousands)</i>	Thirty-nine weeks ended	
	September 29, 2019	September 30, 2018
Net income	\$ 54,358	\$ 50,867
Adjustments to reconcile net income to net cash provided by operating activities	(1,820)	17,759
Net cash provided by operating activities	\$ 52,538	\$ 68,626
Net cash used in investing activities	\$ (11,703)	\$ (17,367)
Net cash used in financing activities	\$ (68,630)	\$ (37,066)

Cash flows from operating activities

Net cash provided by operating activities was \$53 million for the thirty-nine weeks ended September 29, 2019, compared to \$69 million for the same period in the prior year. Net cash provided by operating activities is primarily due to net income of \$54 million for the thirty-nine weeks ended September 29, 2019 and \$51 million for the thirty-nine weeks ended September 30, 2018. Net cash used for accounts receivable remained largely unchanged from the prior year. However, accounts payable and accrued expenses decreased for the thirty-nine weeks ended September 29, 2019 compared to the same period in the prior year due primarily to timing of payments to facilitate the transition to our new enterprise resource planning system at the beginning of 2019 and timing of payments related to our workers compensation insurance program. Additionally, our cost control programs in response to slowing demand for our services further reduced accounts payable and accrued wages and benefits.

Cash flows from investing activities

Net cash used in investing activities was \$12 million for the thirty-nine weeks ended September 29, 2019, primarily due to increased investment in software technology, consistent with our overall digital strategy.

Net cash used in investing activities was \$17 million for the thirty-nine weeks ended September 30, 2018, primarily due to an acquisition which was partially offset by a divestiture. Effective June 12, 2018, the company acquired all of the outstanding equity interests of TMP, through its subsidiary PeopleScout for a cash purchase price of \$23 million, net of cash acquired of \$7 million. See Note 2:*Acquisition*, to our consolidated financial statements found in Item 1 of this Quarterly Report on Form 10-Q, for additional details on the purchase of TMP. 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 \$10 million was received in cash during the thirty-nine weeks ended September 30, 2018.

Cash flows from financing activities

Net cash used in financing activities was \$69 million for the thirty-nine weeks ended September 29, 2019, compared to \$37 million for the same period in the prior year. Net cash used in financing activities was primarily due to increased net repayments on our Revolving Credit Facility of \$36 million for the thirty-nine weeks ended September 29, 2019 as compared to net draws of \$12 million for the comparable period in the prior year. The draws on the Revolving Credit Facility enabled the pre-payment of the outstanding balance of our existing long-term debt of \$22 million with Synovus Bank on June 25, 2018. Additionally, we repurchased \$31 million of common stock during the thirty-nine weeks ended September 29, 2019 as compared to \$25 million for the same period in the prior year. As of September 29, 2019, \$27 million remains available for repurchase of common stock under the current authorization.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 September 29, 2019, we had restricted cash and investments totaling \$227 million. The majority of our collateral obligations are held in a trust at the Bank of New York Mellon ("Trust"). See Note 4: *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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

<i>(in thousands)</i>	September 29, 2019	December 30, 2018
Cash collateral held by workers' compensation insurance carriers	\$ 22,456	\$ 22,264
Cash and cash equivalents held in Trust	23,459	28,021
Investments held in Trust	147,354	156,618
Letters of credit (1)	6,677	6,691
Surety bonds (2)	22,462	21,881
Total collateral commitments	\$ 222,408	\$ 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:

<i>(in thousands)</i>	September 29, 2019	December 30, 2018
Total workers' compensation reserve	\$ 259,270	\$ 266,446
Add back discount on workers' compensation reserve (1)	18,125	18,179
Less excess claims reserve (2)	(47,278)	(48,229)
Reimbursable payments to insurance provider (3)	4,318	7,866
Other (4)	(12,027)	(8,787)
Total collateral commitments	\$ 222,408	\$ 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our workers' compensation claims reserves are discounted to their estimated net present value using discount rates based on returns of "risk-free" U.S. Treasury instruments with maturities comparable to the weighted average lives of our workers' compensation claims. At September 29, 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 September 29, 2019, the weighted average rate was 2.7%. 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 September 29, 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 the current and 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 September 29, 2019, we had cash and cash equivalents of \$24 million and \$250 million available under our Revolving Credit Facility for total liquidity of \$274 million.

We continue to return cash to shareholders through our share repurchase program. During the thirty-nine weeks ended September 29, 2019, we repurchased \$31 million of common stock. As of September 29, 2019, \$27 million remains available for repurchase under the current authorization. Additionally, our Board of Directors authorized an additional \$100 million of share repurchases on October 16, 2019.

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. The following has been updated to reflect the results of our annual goodwill and indefinite-lived intangible asset impairment analyses.

Goodwill and indefinite-lived intangible assets

We evaluate goodwill and indefinite-lived intangible assets for impairment on an annual basis as of the first day of our fiscal second quarter, and whenever events or circumstances make it more likely than not that an impairment may have occurred. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, client engagement, or sale or disposition of a significant portion of a reporting unit. We monitor the existence of potential impairment indicators throughout the fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Goodwill

We test for goodwill impairment at the reporting unit level. We consider our operating segments to be our reporting units for goodwill impairment testing. Our operating segments are PeopleReady, Centerline, Staff Management, SIMOS, PeopleScout, and PeopleScout MSP. The impairment test involves comparing the fair value of each reporting unit to its carrying value, including goodwill. Fair value reflects the price a market participant would be willing to pay in a potential sale of the reporting unit. If the fair value exceeds the carrying value, we conclude that no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its fair value, we recognize an impairment loss in an amount equal to the excess, not to exceed the carrying value of the goodwill.

Determining the fair value of a reporting unit involves the use of significant estimates and assumptions to evaluate the impact of operational and macroeconomic changes on each reporting unit. The fair value of each reporting unit is a weighted average of the income and market valuation approaches. The income approach applies a fair value methodology based on discounted cash flows. This analysis requires significant estimates and judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted average cost of capital, which is risk-adjusted to reflect the specific risk profile of the reporting unit being tested. Our weighted average cost of capital for our most recent annual impairment test ranged from 11.5% to 12.5%. We also apply a market approach, which identifies similar publicly traded companies and develops a correlation, referred to as a multiple, to apply to the operating results of the reporting units. The primary market multiples to which we compare are revenue and earnings before interest, taxes, depreciation, and amortization. The income and market approaches were equally weighted in our most recent annual impairment test. These combined fair values are reconciled to our aggregate market value of our shares of common stock outstanding on the date of valuation, resulting in a reasonable control premium of 15.2%. We base fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. We consider a reporting unit's fair value to be substantially in excess of its carrying value at a 20% premium or greater.

Based on our 2019 annual impairment test, the estimated fair value of our SIMOS reporting unit was in excess of its carrying value by approximately 10%. The current value of goodwill is \$35 million. There are two key clients that individually account for more than 10% of revenue for the SIMOS reporting unit. For each client we service multiple sites. The loss of a key client, loss of a significant number of key sites, or a downturn in the economy could give rise to an impairment. Should any one of these events occur, we may need to record an impairment loss to goodwill for the amount by which the carrying value exceeds the reporting unit's fair value, not to exceed the total amount of goodwill.

A discount rate of 12.5% was used in calculating the fair value of this reporting unit. In the event that the discount rate increases by approximately 1 percentage point, the forecasted revenue growth rate declines by approximately 3 percentage points, or gross margin as a percentage of revenue declines by approximately 1 percentage point, the carrying value of the reporting unit would exceed its fair value. Should any one of these events occur, we may need to record an impairment loss to goodwill for the amount by which the carrying value exceeds the reporting unit's fair value, not to exceed the total amount of goodwill. We will continue to closely monitor the operational performance of this reporting unit.

All other reporting units' fair values were substantially in excess of their respective carrying values. Accordingly, there was no impairment loss recognized for the thirty-nine weeks ended September 29, 2019. Based on our 2018 annual impairment test, all reporting units' fair values were substantially in excess of their respective carrying values. Accordingly, there was no impairment loss recognized for the thirty-nine weeks ended September 30, 2018.

Indefinite-lived intangible assets

We have indefinite-lived intangible assets related to our Staff Management and PeopleScout trade names. We test our trade names annually for impairment, and when indicators of potential impairment exist. We utilize the relief from royalty method to determine the fair value of each of our trade names. If the carrying value exceeds the fair value, we recognize an impairment loss in an amount equal to the excess, not to exceed the carrying value. Management uses considerable judgment to determine key assumptions, including projected revenue, royalty rates and appropriate discount rates.

We performed our annual indefinite-lived intangible asset impairment test for 2019 and 2018, and determined that the estimated fair values exceeded the carrying amounts for our indefinite-lived trade names. Accordingly, no impairment loss was recognized for the thirty-nine weeks ended September 29, 2019 or September 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.

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 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 third 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 September 29, 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 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 our 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.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

See Note 6: *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 is 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 reduces the demand for our services and thereby significantly decreases 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 has caused and may continue to cause clients to reduce or defer projects for which they utilize our services. The negative impact to our business sometimes occurs 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.

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 obtaining 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 is a risk that we will not 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.

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.

The increased use of internet-based and mobile technology is attracting 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 prospective 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.

In the event that our debt levels increase, it 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 continued reduction 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.

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. 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, our 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. Acquisitions can also result in the addition of goodwill and intangible assets to our financial statements, which we regularly review for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. 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 goodwill and intangible assets has occurred, which would negatively impact our financial results.

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 diverting 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 with tax authorities 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.

Our Board of Directors has authorized a share repurchase program. Under the program, we are authorized to repurchase shares of common stock for a set aggregate purchase price. 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.

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. These relationships 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. We are subject to the risks associated with the vendors' inability 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 fail 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.

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, foreign currency fluctuations, 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 United Kingdom's potential exit from the European Union. We could also be exposed to fines and penalties under U.S. or foreign laws, for instance, the Foreign Corrupt Practices Act, 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 resulting from such changes, could adversely affect our operations.

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

The table below includes repurchases of our common stock pursuant to publicly announced plans or programs and those not made pursuant to publicly announced plans or programs during the thirteen weeks ended September 29, 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)
07/01/2019 through 07/28/2019	3,862	\$21.72	—	\$48.8 million
07/29/2019 through 08/25/2019	1,706	\$19.72	578,314	\$37.3 million
08/26/2019 through 09/29/2019	9,194	\$20.23	525,923	\$26.7 million
Total	14,762	\$20.56	1,104,237	

- (1) During the thirteen weeks ended September 29, 2019, we purchased 14,762 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 \$19.95.
- (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 September 29, 2019, \$26.7 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.

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	The following financial statements from the Company's 10-Q, formatted as Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to consolidated financial statements.		X		
104	Cover page interactive data file - The cover page from this Quarterly Report on Form 10-Q is formatted as Inline XBRL		X		

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

Signature

10/28/2019

Date

By: A. Patrick Beharelle, Director, President and Chief Executive Officer

/s/ Derrek L. Gafford

Signature

10/28/2019

Date

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

/s/ Norman H. Frey

Signature

10/28/2019

Date

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

CERTIFICATION

I, A. Patrick Beharelle, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of TrueBlue, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2019

/s/ A. Patrick Beharelle

A. Patrick Beharelle
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Derrek L. Gafford, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of TrueBlue, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2019

/s/ Derrek L. Gafford

Derrek L. Gafford
Chief Financial Officer (Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

We, A. Patrick Beharelle, the chief executive officer of TrueBlue, Inc. (the “company”), and Derrek L. Gafford, the chief financial officer of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Quarterly Report of the company on Form 10-Q, for the fiscal period ended September 29, 2019 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the company.

/s/ A. Patrick Beharelle

A. Patrick Beharelle
Chief Executive Officer
(Principal Executive Officer)

/s/ Derrek L. Gafford

Derrek L. Gafford
Chief Financial Officer
(Principal Financial Officer)

October 28, 2019

A signed original of this written statement required by Section 906 has been provided to TrueBlue, Inc. and will be retained by TrueBlue, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.