

TrueBlue, Inc.  
Form 10-Q  
April 29, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: March 27, 2015

or

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

Commission File Number: 001-14543

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TrueBlue, Inc.

(Exact name of registrant as specified in its charter)

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Washington

(State of incorporation)

91-1287341

(IRS Employer Identification No.)

1015 A Street, Tacoma, Washington

(Address of principal executive offices)

98402

(Zip Code)

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

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

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

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

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

Smaller reporting company ¨

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý  
As of April 13, 2015, there were 41,941,221 shares of the registrant's common stock outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

## TRUEBLUE, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except par value data)

	March 27, 2015 (unaudited)	December 26, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$17,779	\$19,666
Marketable securities	—	1,500
Accounts receivable, net of allowance for doubtful accounts of \$6,629 and \$7,603	290,746	359,903
Prepaid expenses, deposits and other current assets	15,803	18,778
Income tax receivable	10,438	10,516
Deferred income taxes	7,700	5,444
Total current assets	342,466	415,807
Property and equipment, net	58,591	61,392
Restricted cash and investments	172,039	168,426
Goodwill	241,855	241,855
Intangible assets, net	131,409	136,560
Other assets, net	41,111	42,631
Total assets	\$987,471	\$1,066,671
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and other accrued expenses	\$53,769	\$50,256
Accrued wages and benefits	65,693	69,692
Current portion of workers' compensation claims reserve	61,784	64,556
Other current liabilities	2,582	2,726
Total current liabilities	183,828	187,230
Workers' compensation claims reserve, less current portion	181,214	178,283
Long-term debt, less current portion	110,817	199,383
Deferred income taxes	21,726	19,768
Other long-term liabilities	14,444	12,673
Total liabilities	512,029	597,337
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, \$0.131 par value, 20,000 shares authorized; No shares issued and outstanding	—	—
Common stock, no par value, 100,000 shares authorized; 41,939 and 41,530 shares issued and outstanding	1	1
Accumulated other comprehensive income (loss)	(374	) 871
Retained earnings	475,815	468,462
Total shareholders' equity	475,442	469,334
Total liabilities and shareholders' equity	\$987,471	\$1,066,671
See accompanying notes to consolidated financial statements		



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## TRUEBLUE, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

	Thirteen weeks ended	
	March 27, 2015	March 28, 2014
Revenue from services	\$573,315	\$396,063
Cost of services	443,479	296,504
Gross profit	129,836	99,559
Selling, general and administrative expenses	111,593	91,982
Depreciation and amortization	10,520	5,161
Income from operations	7,723	2,416
Interest expense	(1,166	) (263
Interest and other income	632	607
Interest and other income (expense), net	(534	) 344
Income before tax expense	7,189	2,760
Income tax expense	1,473	1,104
Net income	\$5,716	\$1,656
Net income per common share:		
Basic	\$0.14	\$0.04
Diluted	\$0.14	\$0.04
Weighted average shares outstanding:		
Basic	41,031	40,572
Diluted	41,362	40,891
Other comprehensive income (loss):		
Foreign currency translation adjustment, net of tax	\$(1,412	) \$(245
Unrealized gain on investments, net of tax	167	48
Total other comprehensive loss, net of tax	(1,245	) (197
Comprehensive income	\$4,471	\$1,459
See accompanying notes to consolidated financial statements		

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TRUEBLUE, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Thirteen weeks ended	
	March 27, 2015	March 28, 2014
Cash flows from operating activities:		
Net income	\$5,716	\$1,656
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	10,520	5,161
Provision for doubtful accounts	1,745	3,487
Stock-based compensation	3,389	2,876
Deferred income taxes	(299)	(1,433)
Other operating activities	(316)	(435)
Changes in operating assets and liabilities:		
Accounts receivable	67,411	9,949
Income taxes	943	3,567
Other assets	4,496	(331)
Accounts payable and other accrued expenses	4,369	(3,307)
Accrued wages and benefits	(3,999)	1,380
Workers' compensation claims reserve	159	261
Other liabilities	1,626	664
Net cash provided by operating activities	95,760	23,495
Cash flows from investing activities:		
Capital expenditures	(3,458)	(2,091)
Purchases of marketable securities	—	(25,057)
Sales and maturities of marketable securities	1,500	9,450
Change in restricted cash and cash equivalents	(8,215)	(1,491)
Maturities of restricted investments	4,288	4,215
Net cash used in investing activities	(5,885)	(14,974)
Cash flows from financing activities:		
Net proceeds from stock option exercises and employee stock purchase plans	411	602
Common stock repurchases for taxes upon vesting of restricted stock	(3,026)	(2,474)
Net change in revolving credit facility	(88,000)	—
Payments on debt and other liabilities	(566)	(567)
Other	865	973
Net cash used in financing activities	(90,316)	(1,466)
Effect of exchange rate changes on cash and cash equivalents	(1,446)	(240)
Net change in cash and cash equivalents	(1,887)	6,815
CASH AND CASH EQUIVALENTS, beginning of period	19,666	122,003
CASH AND CASH EQUIVALENTS, end of period	\$17,779	\$128,818
See accompanying notes to consolidated financial statements		

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TRUEBLUE, INC.

Notes to Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial statement preparation

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

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 26, 2014. The results of operations for the thirteen weeks ended March 27, 2015 are not necessarily indicative of the results expected for the full fiscal year or for any other fiscal period.

Recently issued accounting pronouncements not yet adopted

In April 2015, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance intended to simplify the presentation of debt issuance costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the presentation for debt discounts. The recognition and measurement guidance for debt issuance costs is not affected. This guidance is effective for annual periods beginning after December 15, 2015 (Q1 2016 for TrueBlue), including interim periods within those annual periods and must be applied on a retrospective basis with early adoption permitted. This guidance is not expected to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued new accounting guidance related to accounting for fees paid in a cloud computing arrangement. The new standard provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 (Q1 2016 for TrueBlue). Early adoption is permitted and may be applied retrospectively or prospectively to arrangements entered into, or materially modified, after the effective date. We are evaluating the impact, if any, that this standard will have on our consolidated financial statements.

In May 2014, the FASB issued new accounting guidance that sets forth a five-step revenue recognition model, which supersedes current revenue recognition guidance, including industry-specific revenue recognition guidance. The underlying principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. The ASU provides two methods of initial adoption: retrospective for all periods presented, or through a cumulative adjustment in the year of adoption. It is effective for annual periods beginning after December 15, 2016 (Q1 2017 for TrueBlue), including interim periods within those annual periods. Early adoption is not permitted. We have not yet determined which method of adoption will be

applied and are currently evaluating the impact that this standard will have on our consolidated financial statements.

**NOTE 2: FAIR VALUE MEASUREMENT**

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

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



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## Notes to Consolidated Financial Statements—(Continued)

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

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

The carrying values of our accounts receivable, accounts payable and other accrued expenses, and accrued wages and benefits approximate fair value due to their short-term nature. We also hold certain restricted investments which collateralize workers' compensation programs and are classified as held-to-maturity and carried at amortized cost on our Consolidated Balance Sheets. We hold long-term debt with variable interest rates that approximate fair value. For additional information, see Note 8: Long-term Debt.

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

	March 27, 2015				
	Carrying Value	Total Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents (1)	\$17,779	\$17,779	\$17,779	\$—	\$—
Restricted cash and cash equivalents (1)	75,427	75,427	75,427	—	—
Other restricted assets (3)	11,261	11,261	11,261	—	—
Restricted investments classified as held-to-maturity	85,351	86,945	—	86,945	—
	December 26, 2014				
	Carrying Value	Total Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents (1)	\$19,666	\$19,666	\$19,666	\$—	\$—
Marketable securities classified as available-for-sale (2)	1,500	1,500	—	1,500	—
Restricted cash and cash equivalents (1)	68,359	68,359	68,359	—	—
Other restricted assets (3)	9,972	9,972	9,972	—	—
Restricted investments classified as held-to-maturity	90,095	91,066	—	91,066	—

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

(2) At March 27, 2015 we held no marketable securities. At December 26, 2014, all our marketable securities, which consisted of CDs, had stated maturities of less than one year.

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

**NOTE 3: MARKETABLE SECURITIES**

We held no marketable securities as of March 27, 2015.

As of December 26, 2014, the amortized cost and fair value of our marketable securities, which were all CDs with stated maturities of less than one year, were \$1.5 million. Gross unrealized gains and losses were de minimis for the thirteen weeks ended March 28, 2014.

**NOTE 4: RESTRICTED CASH AND INVESTMENTS**

Restricted cash and investments consist principally of collateral that has been provided or pledged to insurance carriers for workers' compensation and state workers' compensation programs. Our insurance carriers and certain state workers' compensation programs require us to collateralize a portion of our workers' compensation obligation. The

collateral typically takes the form of cash and cash equivalents and highly rated investment grade securities, primarily in municipal debt securities, corporate debt securities, and asset-backed securities. The majority of our collateral obligations are held in a trust at the Bank of New York Mellon ("Trust"). Our investments have not resulted in any other-than-temporary impairments.

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## Notes to Consolidated Financial Statements—(Continued)

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

	March 27, 2015	December 26, 2014
Cash collateral held by insurance carriers	\$22,497	\$22,639
Cash and cash equivalents held in Trust	51,066	43,856
Investments held in Trust	85,351	90,095
Cash collateral backing letters of credit	1,864	1,864
Other (1)	11,261	9,972
Total restricted cash and investments	\$172,039	\$168,426

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

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

	March 27, 2015			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Municipal debt securities	\$49,353	\$1,002	\$(22)	) \$50,333
Corporate debt securities	26,646	469	(22)	) 27,093
Asset-backed securities	9,352	167	—	) 9,519
	\$85,351	\$1,638	\$(44)	) \$86,945
	December 26, 2014			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Municipal debt securities	\$52,406	\$882	\$(92)	) \$53,196
Corporate debt securities	27,715	179	(144)	) 27,750
Asset-backed securities	9,974	157	(11)	) 10,120
	\$90,095	\$1,218	\$(247)	) \$91,066

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

	March 27, 2015	
	Amortized Cost	Fair Value
Due in one year or less	\$8,649	\$8,691
Due after one year through five years	40,368	40,906
Due after five years through ten years	36,334	37,348
	\$85,351	\$86,945

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.

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## Notes to Consolidated Financial Statements—(Continued)

## NOTE 5: PROPERTY AND EQUIPMENT, NET

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

	March 27, 2015	December 26, 2014
Buildings and land	\$30,769	\$30,381
Computers and software	117,000	115,419
Furniture and equipment	11,629	11,690
Construction in progress	5,001	5,415
	164,399	162,905
Less accumulated depreciation	(105,808	) (101,513
	\$58,591	\$61,392

Capitalized software costs, net of accumulated depreciation, were \$28.7 million and \$30.2 million as of March 27, 2015 and December 26, 2014, respectively, excluding amounts in Construction in progress. Construction in progress consists primarily of purchased and internally-developed software.

Depreciation expense of property and equipment totaled \$5.4 million and \$3.7 million for the thirteen weeks ended March 27, 2015 and March 28, 2014, respectively.

## NOTE 6: GOODWILL AND INTANGIBLE ASSETS

## Goodwill

The following table reflects goodwill at March 27, 2015 and December 26, 2014 (in thousands):

	Legacy TrueBlue	Unallocated Goodwill (1)	Total Company
Balance at December 26, 2014			
Goodwill before impairment	\$128,449	\$159,616	\$288,065
Accumulated impairment loss	(46,210	) —	(46,210
Goodwill, net	82,239	159,616	241,855
Balance at March 27, 2015			
Goodwill before impairment	128,449	159,616	288,065
Accumulated impairment loss	(46,210	) —	(46,210
Goodwill, net	\$82,239	\$159,616	\$241,855

(1) Management is still determining the allocation of our goodwill acquired to our new reportable segments, which will be finalized in Q2 2015. See Note 16: Segment Information, for additional details.

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## Notes to Consolidated Financial Statements—(Continued)

## Intangible assets

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

	March 27, 2015			December 26, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets (1):						
Customer relationships	\$123,940	\$(26,316)	) \$97,624	\$123,940	\$(22,195)	) \$101,745
Trade name/trademarks	4,422	(3,090)	) 1,332	4,422	(2,878)	) 1,544
Non-compete agreements	1,800	(907)	) 893	1,800	(817)	) 983
Technologies	18,300	(2,940)	) 15,360	18,300	(2,212)	) 16,088
Total finite-lived intangible assets	\$148,462	\$(33,253)	) \$115,209	\$148,462	\$(28,102)	) \$120,360

(1) Excludes assets that are fully amortized.

Amortization of our finite-lived intangible assets was \$5.2 million and \$1.5 million for the thirteen weeks ended March 27, 2015 and March 28, 2014, respectively.

The following table provides the estimated future amortization of finite-lived intangible assets as of March 27, 2015 (in thousands):

Remainder of 2015	\$13,836
2016	18,186
2017	16,157
2018	14,638
2019	11,942
Thereafter	40,450
Total future amortization	\$115,209

We also held indefinite-lived trade name/trademarks of \$16.2 million as of March 27, 2015 and December 26, 2014.

We did not perform an interim impairment test of our goodwill and indefinite-lived intangible assets as we noted no significant indicators of impairment as of March 27, 2015.

**NOTE 7: WORKERS' COMPENSATION INSURANCE AND RESERVES**

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

For workers' compensation claims originating in Washington, North Dakota, Ohio, Wyoming, Canada, and Puerto Rico (our "monopolistic jurisdictions"), we pay workers' compensation insurance premiums and obtain full coverage under government-administered programs (with the exception of our Labor Ready service line in the state of Ohio where we have a self-insured policy). Accordingly, because we are not the primary obligor, our financial statements do not reflect the liability for workers' compensation claims in these monopolistic jurisdictions. Our workers' compensation reserve is established using estimates of the future cost of claims and related expenses that have been reported but not settled, as well as those that have been incurred but not reported.

Our workers' compensation reserve for claims below the deductible limit is discounted to its estimated net present value using discount rates based on average returns of "risk-free" U.S. Treasury instruments available during the year in which the liability was incurred. The weighted average discount rate was 1.6% and 1.7% at March 27, 2015 and December 26, 2014, respectively. Payments made against self-insured claims are made over a weighted average period of approximately 4.5 years at March 27, 2015.



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## Notes to Consolidated Financial Statements—(Continued)

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

	March 27, 2015	December 26, 2014
Undiscounted workers' compensation reserve	\$257,177	\$256,220
Less discount on workers' compensation reserve	14,179	13,381
Workers' compensation reserve, net of discount	242,998	242,839
Less current portion	61,784	64,556
Long-term portion	\$181,214	\$178,283

Payments made against self-insured claims were \$16.8 million and \$13.7 million for the thirteen weeks ended March 27, 2015 and March 28, 2014, 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. The claim payments are made and the corresponding reimbursements from our insurance carriers are received over an estimated weighted average period of approximately 14.7 years. The discounted workers' compensation reserve for excess claims was \$41.3 million and \$42.6 million as of March 27, 2015 and December 26, 2014, respectively. The discounted receivables from insurance companies, net of valuation allowance, were \$37.4 million and \$38.7 million as of March 27, 2015 and December 26, 2014, respectively, and are included in Other assets, net on the accompanying Consolidated Balance Sheets.

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

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

Workers' compensation expense consists primarily of changes in self-insurance reserves net of changes in discount, monopolistic jurisdictions' premiums, insurance premiums, and other miscellaneous expenses. Workers' compensation expense of \$21.5 million and \$15.9 million was recorded in Cost of services for the thirteen weeks ended March 27, 2015 and March 28, 2014, respectively.

**NOTE 8: LONG-TERM DEBT**

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

	March 27, 2015	December 26, 2014
Revolving Credit Facility	\$83,995	\$171,994
Term Loan	29,089	29,656
Total debt	113,084	201,650
Less current portion	2,267	2,267
Long-term debt	\$110,817	\$199,383

Second amended and restated credit agreement

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



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## Notes to Consolidated Financial Statements—(Continued)

The maximum amount we can borrow under the Revolving Credit Facility is subject to certain borrowing limits. Specifically, we are limited to the sum of 90% of our eligible billed accounts receivable, plus 85% of our eligible unbilled accounts receivable limited to 15% of all our eligible receivables, plus the value of our Tacoma headquarters office building. The real estate lending limit is \$17.4 million, and is reduced quarterly by \$0.4 million. As of March 27, 2015, the Tacoma headquarters office building liquidation value totaled \$16.6 million. The borrowing limit is further reduced by the sum of a reserve in an amount equal to the payroll and payroll taxes for our temporary employees for one payroll cycle and other reserves, if deemed applicable. Each borrowing has a stated maturity of 90 days or less. At March 27, 2015, \$240.9 million was available under the Revolving Credit Facility, \$84.0 million was utilized as a draw on the facility, and \$5.0 million was utilized by outstanding standby letters of credit, leaving \$151.9 million available for additional borrowings. The letters of credit collateralize a portion of our workers' compensation obligation.

The Revolving Credit Facility requires that we maintain an excess liquidity of \$37.5 million. Excess liquidity is an amount equal to the unused borrowing capacity under the Revolving Credit Facility plus certain unrestricted cash, cash equivalents, and marketable securities. We are required to satisfy a fixed charge coverage ratio in the event we do not meet that requirement. The additional amount available to borrow at March 27, 2015 was \$151.9 million and the amount of cash, cash equivalents and certain marketable securities under control agreements was \$15.1 million for a total of \$167.0 million, which is well in excess of the liquidity requirement. We are currently in compliance with all covenants related to the Revolving Credit Facility.

Under the terms of the Revolving Credit Facility, we pay a variable rate of interest on funds borrowed that is based on London Interbank Offered Rate (LIBOR) plus an applicable spread between 1.25% and 2.00%. Alternatively, at our option, we may pay interest based upon a base rate plus an applicable spread between 0.25% and 1.00%. The applicable spread is determined by certain liquidity to debt ratios. The base rate is the greater of the prime rate (as announced by Bank of America), the federal funds rate plus 0.50%, or the one-month LIBOR rate plus 1.00%. Until April 1, 2015, the applicable spread on LIBOR was 1.75% and the applicable spread on the base rate was 0.75%. As of March 27, 2015, the interest rate was 2.00%.

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

Obligations under the Revolving Credit Facility are guaranteed by TrueBlue and material U.S. domestic subsidiaries, and are secured by a pledge of substantially all of the assets of TrueBlue and material U.S. domestic subsidiaries. The Revolving Credit Facility has variable rate interest and approximates fair value as of March 27, 2015 and December 26, 2014.

**Term loan agreement**

On February 4, 2013, we entered into an unsecured Term Loan Agreement (“Term Loan”) with Synovus Bank in the principal amount of \$34.0 million. The Term Loan has a five-year maturity with fixed monthly principal payments, which total \$2.3 million annually based on a loan amortization term of 15 years. Interest accrues at the one-month LIBOR index rate plus an applicable spread of 1.50%, which is paid in addition to the principal payments. At our discretion, we may elect to extend the term of the Term Loan by five consecutive one-year extensions. At March 27, 2015, the interest rate for the Term Loan was 1.67%.

At March 27, 2015 and December 26, 2014, the remaining balance of the Term Loan was \$29.1 million and \$29.7 million, respectively, of which \$2.3 million is current and is included in Other current liabilities on our Consolidated Balance Sheets. The Term Loan has variable rate interest and approximates fair value as of March 27, 2015 and

December 26, 2014.

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

NOTE 9:                    **COMMITMENTS AND**  
                                  **CONTINGENCIES**

Workers' compensation commitments

Our insurance carriers and certain state workers' compensation programs require us to collateralize a portion of our workers' compensation obligation, for which they become responsible should we become insolvent. The collateral typically takes the form of cash and cash equivalents, highly rated investment grade debt securities, letters of credit, and/or surety bonds. On a regular

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## Notes to Consolidated Financial Statements—(Continued)

basis these entities assess the amount of collateral they will require from us relative to our workers' compensation obligation. The majority of our collateral obligations are held in the Trust.

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

	March 27, 2015	December 26, 2014
Cash collateral held by insurance carriers	\$22,497	\$22,639
Cash and cash equivalents held in Trust	51,066	43,856
Investments held in Trust	85,351	90,095
Letters of credit (1)	6,787	6,513
Surety bonds (2)	16,861	16,861
Total collateral commitments	\$182,562	\$179,964

(1) We have agreements with certain financial institutions to issue letters of credit as collateral. We had \$1.9 million of restricted cash collateralizing our letters of credit at March 27, 2015 and December 26, 2014.

(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.

#### NOTE 10: STOCK-BASED COMPENSATION

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

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

#### Restricted and unrestricted stock awards and performance share units

Under the Incentive Plan, restricted stock awards are granted to executive officers and key employees and vest annually over three or four years. Unrestricted stock awards granted to our Board of Directors vest immediately.

Restricted and unrestricted stock-based compensation expense is calculated based on the grant-date market value. We recognize compensation expense on a straight-line basis over the vesting period, net of estimated forfeitures.

Performance share units have been granted to executive officers and certain key employees. Vesting of the performance share units is contingent upon the achievement of revenue and/or profitability growth goals at the end of each three-year performance period. Each performance share unit is equivalent to one share of common stock.

Compensation expense is calculated based on the grant-date market value of our stock and is recognized ratably over the performance period for the performance share units which are expected to vest. Our estimate of the performance units expected to vest is reviewed and adjusted as appropriate each quarter.

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## Notes to Consolidated Financial Statements—(Continued)

Restricted and unrestricted stock awards and performance share units activity for the thirteen weeks ended March 27, 2015, was as follows (shares in thousands):

	Shares	Weighted- average grant-date price
Non-vested at beginning of period	1,547	\$20.03
Granted	455	\$21.77
Vested	(495	) \$17.02
Forfeited	(241	) \$14.02
Non-vested at the end of the period	1,266	\$22.29

As of March 27, 2015, total unrecognized stock-based compensation expense related to non-vested restricted stock was approximately \$12.9 million, which is estimated to be recognized over a weighted average period of 1.89 years.

As of March 27, 2015, total unrecognized stock-based compensation expense related to performance share units was approximately \$5.2 million which is estimated to be recognized over a weighted average period of 2.07 years.

**Stock options**

Our Incentive Plan provides for both nonqualified stock options and incentive stock options (collectively, “stock options”) for directors, officers, and certain employees. We issue new shares of common stock upon exercise of stock options. All of our stock options are vested and expire if not exercised within seven to ten years from the date of grant. Stock option activity was de minimis for the thirteen weeks ended March 27, 2015.

**Employee stock purchase plan**

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

During the thirteen weeks ended March 27, 2015 and March 28, 2014, participants purchased approximately 20,000 and 17,000 shares from the plan, for cash proceeds of \$0.4 million and \$0.3 million, respectively.

**Stock-based compensation expense**

Total stock-based compensation expense, which is included in Selling, general and administrative expenses on our Consolidated Statements of Operations and Comprehensive Income, was \$3.4 million and \$2.9 million for the thirteen weeks ended March 27, 2015 and March 28, 2014, respectively.

**NOTE 11: DEFINED CONTRIBUTION PLANS**

We offer both qualified and non-qualified defined contribution plans to eligible employees. Participating employees may elect to defer and contribute a portion of their eligible compensation. The plans offer discretionary matching contributions. The liability for the non-qualified plans was \$11.3 million and \$10.1 million as of March 27, 2015 and December 26, 2014, respectively. The current and non-current portion of the deferred compensation liability is included in Other current liabilities and Other long-term liabilities, respectively, on the Consolidated Balance Sheets, and is largely offset by restricted investments recorded in Restricted cash and investments on the Consolidated Balance Sheets.

**NOTE 12: INCOME TAXES**

Our tax provision or benefit from income taxes for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes, we make a cumulative adjustment. Our quarterly tax provision, and our quarterly estimate of our annual effective tax rate, is subject to variation due to several factors, including variability in accurately predicting our pre-tax and taxable income and loss and the mix of jurisdictions to which they relate, audit developments,

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## Notes to Consolidated Financial Statements—(Continued)

changes in law, regulations and administrative practices, and relative changes of expenses or losses for which tax benefits are not recognized. Additionally, our effective tax rate can be more or less volatile based on the amount of pre-tax income. For example, the impact of discrete items, tax credits, and non-deductible expenses on our effective tax rate is greater when our pre-tax income is lower.

Our effective tax rate on earnings for the thirteen weeks ended March 27, 2015 was 20.5% compared to 40.0% for the same period in 2014. During the thirteen weeks ended March 27, 2015, we recognized \$1.3 million of discrete tax benefits from prior year federal and state hiring credits. These hiring credits include the federal Work Opportunity Tax Credit ("WOTC") and the California Enterprise Zone Tax Credit.

Our effective tax rate on earnings for the thirteen weeks ended March 28, 2014, was 40.0% compared to 83.4% on losses, for the same period in 2013. The principal difference between the statutory federal income tax rate of 35.0% and our effective income tax rate of 40.0%, results from state income taxes, certain non-deductible expenses, and the WOTC earned in 2014 for prior year hires.

As of March 27, 2015 and December 26, 2014, we had gross unrecognized tax benefits of \$2.1 million and \$2.0 million recorded in accordance with current accounting guidance on uncertain tax positions.

**NOTE 13: NET INCOME PER SHARE**

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

	Thirteen weeks ended	
	March 27, 2015	March 28, 2014
Net income	\$5,716	\$1,656
Weighted average number of common shares used in basic net income per common share	41,031	40,572
Dilutive effect of outstanding stock options and non-vested restricted stock	331	319
Weighted average number of common shares used in diluted net income per common share	41,362	40,891
Net income per common share:		
Basic	\$0.14	\$0.04
Diluted	\$0.14	\$0.04
Anti-dilutive shares	266	—

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

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

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## Notes to Consolidated Financial Statements—(Continued)

**NOTE 14: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

Accumulated other comprehensive income (loss) is reflected as a net increase (decrease) to shareholders' equity. Changes in the balance of each component of accumulated other comprehensive income (loss) during the years presented were as follows (in thousands):

	Foreign currency translation adjustment	Unrealized gain on marketable securities (1)	Total other comprehensive income, net of tax
Balance at beginning of period	\$848	\$23	\$ 871
Current-period other comprehensive income (loss) (2)	(1,412 )	167	(1,245 )
Balance at end of period	\$(564 )	\$190	\$ (374 )

(1) Consists of deferred compensation plan accounts, which includes mutual funds.

(2) The tax impact on foreign currency translation adjustment and unrealized gain on marketable securities was de minimis for the period ending March 27, 2015.

There were no material reclassifications out of accumulated other comprehensive income (loss) during the fiscal period presented.

**NOTE 15: SUPPLEMENTAL CASH FLOW INFORMATION**

Supplemental disclosure of cash flow information (in thousands):

	Thirteen weeks ended	
	March 27, 2015	March 28, 2014
Cash paid during the period for:		
Interest	\$1,137	\$254
Income taxes	\$565	\$913

As of March 27, 2015 and March 28, 2014 we had acquired \$0.2 million and \$0.9 million, respectively, of property, plant and equipment on account that was not yet paid. These are considered non-cash investing items.

**NOTE 16: SEGMENT INFORMATION**

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

Our Staffing Services segment provides temporary staffing through the following service lines:

• Labor Ready: On-demand general labor;

• Spartan Staffing: Skilled manufacturing and logistics labor;

• CLP Resources: Skilled trades for commercial, industrial, and energy construction as well as building and plant maintenance;

• PlaneTechs: Skilled mechanics and technicians to the aviation and transportation industries;

• Centerline Drivers: Temporary and dedicated drivers to the transportation and distribution industries; and

• Staff Management On-premise Staffing: Exclusive recruitment and on-premise management of a facility's contingent industrial workforce.

Our Managed Services segment provides high-volume permanent employee recruitment process outsourcing and management of outsourced labor service providers through the following service lines:

• PeopleScout and hrX: Outsourced recruitment of permanent employees on behalf of clients; and

Staff Management: Management of multiple third party staffing vendors on behalf of clients.

We have two measures of segment performance; revenue from services and income from operations. Income from operations for each segment includes net sales to third parties, related cost of sales, and operating expenses directly attributable to the segment. Costs excluded from segment income from operations include various corporate general and administrative expenses, depreciation and amortization expense, interest income (expense), other income (expense), and income taxes. Asset information by reportable



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## Notes to Consolidated Financial Statements—(Continued)

segment is not presented, since we do not manage the performance of our segments on a balance sheet basis. There are no material internal revenue transactions between our reporting segments.

Revenue from services and income from operations associated with our segments were as follows (in thousands):

	Thirteen weeks ended		
	March 27, 2015	March 28, 2014	
Revenue from services			
Staffing Services	\$549,712	\$396,063	
Managed Services	23,603	—	
Total Company	\$573,315	\$396,063	
Income from operations			
Staffing Services	\$24,229	\$15,545	
Managed Services	3,478	—	
Depreciation and amortization	(10,520	) (5,161	)
Corporate unallocated	(9,464	) (7,968	)
Total Company	7,723	2,416	
Interest and other income (expense), net	(534	) 344	
Income before tax expense	\$7,189	\$2,760	

## NOTE 17: SUBSEQUENT EVENTS

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

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

**COMMENT ON FORWARD LOOKING STATEMENTS**

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide the reader of our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity and certain other factors that may affect future results. Our MD&A is presented in the following sections:

Overview

Results of Operations

Liquidity and Capital Resources

Contractual Obligations and Commitments

Summary of Critical Accounting Estimates

New Accounting Standards

**OVERVIEW**

TrueBlue, Inc. ("TrueBlue," "we," "us," "our") is a leading provider of specialized workforce solutions helping clients improve growth and performance by providing staffing, recruitment process outsourcing, and managed service provider solutions. Our workforce solutions meet clients' needs for a reliable, efficient workforce in a wide variety of industries. Through our workforce solutions, we help over 135,000 businesses be more productive and we connect as many as 750,000 people and work each year. We are headquartered in Tacoma, Washington.

Revenue grew to \$573.3 million for the thirteen weeks ended March 27, 2015, a 44.8% increase compared to the same period in the prior year. The revenue increase is primarily due to the acquisition of Staffing Solutions Holdings, Inc. ("Seaton"), which we completed effective June 30, 2014. The acquired on-premise staffing and recruitment process outsourcing businesses continue to deliver strong results, each posting record first quarter results. Revenue for Seaton was \$175.8 million for the thirteen weeks ended March 27, 2015, or 44.4 percentage points of our revenue growth. Organic revenue growth for the legacy TrueBlue business was 0.4%, or 2.6%, excluding our services to the green energy industry. Revenue from green energy projects declined in 2014. We expect the decline in the green energy business will negatively impact organic revenue growth through the second quarter of 2015 by approximately 1.0%. Gross profit as a percentage of revenue for the thirteen weeks ended March 27, 2015 was 22.6% compared to 25.1% for the first quarter of 2014 for a decline of 2.5% of revenue. The Seaton acquisition carries a lower gross margin than the legacy TrueBlue business, dropping the new blended rate by approximately 2.9% of revenue. This was partially

offset by gross margin improvement in the legacy TrueBlue business of approximately 0.4% of revenue from widespread attention to customer bill rates.

Selling, general and administrative ("SG&A") increased by \$19.6 million to \$111.6 million for the thirteen weeks ended March 27, 2015 compared to the same period in 2014. The increase is primarily related to \$20.4 million of expense from the acquired operations of Seaton and \$1.2 million of integration costs offset by a \$2.0 million decrease within the legacy TrueBlue operations.

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SG&A expenses as a percentage of revenue decreased to 19.5% for the thirteen weeks ended March 27, 2015 from 23.2% for the same period in 2014. The decline is largely due to the blended impact of the Seaton acquisition, which carries a lower SG&A percentage than the legacy TrueBlue business.

Depreciation and amortization increased \$5.4 million for the thirteen weeks ended March 27, 2015 primarily due to the amortization of intangible assets acquired in connection with the Seaton acquisition of \$3.8 million and the depreciation of the fair value of acquired tangible assets.

Income from operations grew to \$7.7 million for the thirteen weeks ended March 27, 2015, or an increase of 219.7%, compared to the \$2.4 million for the same period in 2014. The improved performance reflects strong revenue growth, disciplined pricing, and effective cost control.

Our effective tax rate on earnings for the thirteen weeks ended March 27, 2015 was 20.5%, compared to 40.0%, for the same period in 2014. During the thirteen weeks ended March 27, 2015, we recognized \$1.3 million of discrete tax benefits from prior year federal and state hiring credits.

Net income more than tripled to \$5.7 million, or \$0.14 per diluted share for the thirteen weeks ended March 27, 2015, compared to \$1.7 million, or \$0.04 per diluted share, for the same period in 2014.

We believe we are in a strong financial position to fund working capital needs for growth opportunities. We had cash and cash equivalents of \$17.8 million at March 27, 2015. As of March 27, 2015, we had \$151.9 million available under the Revolving Credit Facility.

**RESULTS OF OPERATIONS****Total company results**

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

	Thirteen weeks ended			
	March 27, 2015	March 28, 2014		
Revenue from services	\$573,315	\$396,063		
Total revenue growth %	44.8	% 14.3		%
Gross profit	\$129,836	\$99,559		
Gross profit as a % of revenue	22.6	% 25.1		%
Selling, general and administrative expenses	\$111,593	\$91,982		
Selling, general and administrative expenses as a % of revenue	19.5	% 23.2		%
Depreciation and amortization	\$10,520	\$5,161		
Depreciation and amortization as a % of revenue	1.8	% 1.3		%
Income from operations	\$7,723	\$2,416		
Income from operations as a % of revenue	1.3	% 0.6		%
Interest and other income (expense), net	\$(534)	) \$344		
Net income	\$5,716	\$1,656		
Net income per diluted share	\$0.14	\$0.04		

Our year over year trends are significantly impacted by the acquisition of Seaton. We completed the acquisition of all of the outstanding equity interests of Seaton effective June 30, 2014, the first business day of our third quarter of the prior year. The Seaton acquisition added a full service line of on-premise blue-collar contingent staffing and added new complementary outsourced service offerings in RPO and MSP solutions. On-premise temporary staffing is large scale exclusive sourcing, screening, recruitment, and management of a customer's on-premise contingent labor

workforce. RPO is high-volume sourcing, screening, and recruiting of permanent

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employees for all major industries and jobs. The MSP solution provides customers with improved quality and spend management of their contingent labor vendors. Through the Seaton acquisition we added industry leaders Staff Management | SMX ("Staff Management") for on-premise contingent staffing, PeopleScout and Australia-based hrX for RPO services, and MSP solutions under the Staff Management brand. The service lines offer staffing and outsourced workforce solutions as an integrated partner with their customers. They have dedicated customer on-site and virtual teams which leverage highly centralized support services for recruiting and delivering services to the specialized needs of each customer. They do not operate a branch network and accordingly operate more flexible service lines. We are pleased with the Seaton integration and the retention of the senior leadership team and customers. The Seaton acquisition added new services and capabilities to better meet our objective of providing our customers with talent and flexible workforce solutions they need to enhance their business performance.

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

	Thirteen weeks ended			
	March 27, 2015			March 28, 2014
	Legacy TrueBlue	Seaton (1)	Total Company	Total Company
Revenue from services	\$397,556	\$175,759	\$573,315	\$396,063
Earnings before interest, depreciation and amortization	10,264	7,979	18,243	7,577
Depreciation and amortization			10,520	5,161
Income from operations			7,723	2,416
Interest and other income (expense), net			(534	) 344
Income before tax expense			7,189	2,760
Income tax expense			1,473	1,104
Net income			\$5,716	\$1,656

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

Revenue from services

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

	Thirteen weeks ended			
	March 27, 2015		March 28, 2014	
Revenue from services	\$573,315	\$396,063		
Total revenue growth %	44.8	% 14.3		%

Revenue grew to \$573.3 million for the thirteen weeks ended March 27, 2015, a 44.8% increase compared to the same period in the prior year. The revenue increase is primarily due to the acquisition of Seaton. Revenue for Seaton was \$175.8 million for the thirteen weeks ended March 27, 2015 or 44.4% of our revenue growth.

In addition to revenue growth from our acquisition of Seaton, we experienced legacy TrueBlue organic revenue growth for the thirteen weeks ended March 27, 2015 of approximately 0.4%, or 2.6%, excluding our service to the green energy industry. Green energy projects declined and slowed in 2014. We expect the decline in the green energy business will negatively impact organic revenue growth through the second quarter of 2015 by approximately 1.0%. Further, excluding our green energy services, we experienced improved year over year monthly growth trends during the first quarter of 2015.

Gross profit

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

Thirteen weeks ended	
March 27, 2015	March 28, 2014

Gross profit	\$129,836	\$99,559		
Percentage of revenue	22.6	% 25.1		%

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Gross profit represents revenues from services less direct costs of services, which consist of payroll, payroll taxes, workers' compensation costs, and reimbursable costs.

Gross profit as a percentage of revenue for the thirteen weeks ended March 27, 2015 was 22.6% compared to 25.1% for the same period in the prior year for a decline of 2.5% of revenue. This was due largely to the impact of the Seaton acquisition, which carries lower gross margins in comparison to our blended company average prior to the acquisition. The impact on our blended rate is a decline of approximately 2.9% of revenue. This was partially offset by improved gross margins in our legacy TrueBlue business of approximately 0.4% of revenue resulting from disciplined pricing and management of increasing minimum wage, payroll taxes and benefits for our temporary labor.

Workers' compensation expense as a percentage of revenue was 3.8% for the thirteen weeks ended March 27, 2015, compared to 4.0%, for the same period in the prior year. The decline is primarily due to the acquisition of Seaton and the lower cost of workers' compensation cost as a percentage of revenue due to the nature of their business.

Selling, general and administrative expenses

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

	Thirteen weeks ended			
	March 27, 2015	March 28, 2014		
Selling, general and administrative expenses	\$111,593	\$91,982		
Percentage of revenue	19.5	% 23.2		%

SG&A spending increased by \$19.6 million to \$111.6 million for the thirteen weeks ended March 27, 2015 compared to the same period in 2014. The increase is primarily related to the acquired operations of Seaton of approximately \$20.4 million. We incurred \$1.2 million of integration costs during the first quarter of 2015 and expect to complete our integration of Seaton by mid-2015. Legacy TrueBlue SG&A expenses declined by approximately \$2.0 million through disciplined cost management.

SG&A expenses as a percentage of revenue decreased to 19.5% for the thirteen weeks ended March 27, 2015 from 23.2% for the same period in 2014 primarily due to Seaton's lower cost of doing business as a percent of sales. The acquired service lines offer workforce solutions as an integrated partner with our customers, which are delivered through highly centralized operations in Chicago, Illinois with support from on-site and virtual employee teams. We do not operate a branch network to service these customers and accordingly these services utilize a more flexible centralized support structure resulting in lower SG&A as a percent of sales.

Depreciation and amortization

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

	Thirteen weeks ended	
	March 27, 2015	March 28, 2014
Depreciation and amortization	\$10,520	\$