TrueBlue, Inc.
Form 10-Q
July 31, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 26, 2009

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 or other jurisdiction of	**(IRS Employer**
incorporation or organization)	**Identification No.)**
1015 A Street, Tacoma, Washington	**98402**
(Address of principal executive offices)	**(Zip Code)**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 ¨ 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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of July 24, 2009, there were 43,768,789 shares of the registrant s common stock outstanding.

Documents incorporated by reference: None.

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PART I. Financial Information

Item 1. Financial Statements

TrueBlue, Inc.

Consolidated Balance Sheets

In Thousands (Except Par Values)

(Unaudited)

	June 26, 2009	December 26, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 103,942	$ 108,102
Accounts receivable, net of allowance for doubtful accounts of $4.2 and $5.4 million	108,026	104,979
Prepaid expenses, deposits and other current assets	8,224	9,061
Income tax receivable	7,258	15,821
Deferred income taxes	5,672	4,841
Total current assets	233,122	242,804
Property and equipment, net	61,566	61,542
Restricted cash	123,349	120,323
Deferred income taxes	8,313	12,831
Goodwill	36,960	36,960
Intangible assets, net	24,917	26,404
Other assets, net	21,751	18,811
Total assets	$ 509,978	$ 519,675
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and other accrued expenses	$ 17,809	$ 21,852
Accrued wages and benefits	18,731	19,750
Current portion of workers compensation claims reserve	44,743	51,414
Other current liabilities	373	2,292
Total current liabilities	81,656	95,308
Workers compensation claims reserve, less current portion	153,443	152,178
Other non-current liabilities	3,638	2,060
Total liabilities	238,737	249,546
Commitments and contingencies		
Shareholders equity:		
Preferred stock, $0.131 par value, 20,000 shares authorized;		
	1	1

Common stock, no par value, 100,000 shares authorized; 43,732 and 43,340 shares issued and outstanding		
Accumulated other comprehensive income	1,826	1,992
Retained earnings	269,414	268,136
Total shareholders equity	271,241	270,129
Total liabilities and shareholders equity	$ 509,978	$ 519,675

See accompanying notes to consolidated financial statements

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TrueBlue, Inc.

Consolidated Statements of Operations

In Thousands (Except Per Share Data)

(Unaudited)

	Thirteen weeks ended		Twenty-six weeks ended	
	June 26, 2009	June 27, 2008	June 26, 2009	June 27, 2008
Revenue from services	$ 247,011	$ 370,710	$ 471,425	$ 694,726
Cost of services	174,181	260,167	335,924	485,828
Gross profit	72,830	110,543	135,501	208,898
Selling, general and administrative expenses	63,383	84,569	131,694	167,053
Depreciation and amortization	4,280	3,967	8,425	7,875
Income (loss) from operations	5,167	22,007	(4,618)	33,970
Interest expense	(433)	(251)	(531)	(383)
Interest and other income	1,145	1,875	2,444	3,903
Interest and other income, net	712	1,624	1,913	3,520
Income (loss) before tax expense (benefit)	5,879	23,631	(2,705)	37,490
Income tax expense (benefit)	2,149	6,903	(1,132)	11,961
Net income (loss)	$ 3,730	$ 16,728	$ (1,573)	$ 25,529
Net income (loss) per common share:				
Basic	$ 0.09	$ 0.39	$ (0.04)	$ 0.59
Diluted	$ 0.09	$ 0.39	$ (0.04)	$ 0.59
Weighted average shares outstanding:				
Basic	42,836	43,194	42,759	43,278
Diluted	42,921	43,338	42,759	43,416

See accompanying notes to consolidated financial statements

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TrueBlue, Inc.

Consolidated Statements of Cash Flows

In Thousands

(Unaudited)

	Twenty-six weeks ended June 26, 2009	Twenty-six weeks ended June 27, 2008
Cash flows from operating activities:		
Net income (loss)	$ (1,573)	$ 25,529
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	8,425	7,875
Provision for doubtful accounts	3,923	4,453
Stock-based compensation	4,024	4,504
Deferred income taxes	3,561	(2,087)
Other operating activities	1,181	146
Changes in operating assets and liabilities, exclusive of business acquired:		
Accounts receivable	(6,969)	(2,475)
Income taxes	7,610	(6,092)
Other assets	(1,143)	2,512
Accounts payable and other accrued expenses	(4,793)	(2,502)
Accrued wages and benefits	(985)	1,633
Workers compensation claims reserve	(5,406)	3,141
Other liabilities	(134)	(2,717)
Net cash provided by operating activities	7,721	33,920
Cash flows from investing activities:		
Capital expenditures	(7,329)	(11,681)
Purchases of marketable securities		(27,146)
Maturities of marketable securities		37,055
Acquisition of business, net of cash acquired		(22,574)
Change in restricted cash	(3,026)	11,240
Other	(71)	(21)
Net cash used in investing activities	(10,426)	(13,127)
Cash flows from financing activities:		
Purchases and retirement of common stock		(11,501)
Net proceeds from sale of stock through options and employee benefit plans	529	1,208
Shares withheld for taxes upon vesting of restricted stock	(749)	(850)
Payments on debt	(207)	(128)
Other	(960)	(229)
Net cash used in financing activities	(1,387)	(11,500)

Effect of exchange rates on cash	(68)	(552)
Net change in cash and cash equivalents	(4,160)	8,741
CASH AND CASH EQUIVALENTS, beginning of period	108,102	57,008
CASH AND CASH EQUIVALENTS, end of period	$ 103,942	$ 65,749

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

NOTE 1: ACCOUNTING PRINCIPLES AND PRACTICES

The accompanying unaudited consolidated financial statements are prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles have been condensed or omitted. The unaudited consolidated financial statements reflect all adjustments, which in the opinion of management are necessary to fairly state the financial position, results of operations and cash flows for the interim periods presented. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in our annual report on Form 10-K for the year ended December 26, 2008. The same accounting policies are followed for preparing quarterly and annual financial information. Operating results for the twenty-six week period ended June 26, 2009 are not necessarily indicative of the results that may be expected for the year ending December 25, 2009.

The consolidated financial statements are presented on a 52/53-week fiscal year end basis, with the last day of the fiscal year ending on the last Friday of December. Fiscal years 2009 and 2008 are 52-week years.

Recently adopted accounting pronouncements

On December 27, 2008, we adopted the FASB Staff Position (FSP) No. 142-3, *Determination of the Useful Life of Intangible Assets*. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement of Financial Accounting Standard (SFAS) No. 142, *Goodwill and Other Intangible Assets*. The adoption of FSP 142-3 did not have a material effect on our consolidated financial position, results of operations or cash flows.

On December 27, 2008, we adopted SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R) and the associated FSP No. 141(R)-1, which replaced SFAS 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any resulting goodwill, and any non-controlling interest in the acquiree. SFAS 141R also provides for disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The provisions of SFAS 141R are to be applied prospectively to business combinations completed on or after the adoption date. For acquisitions completed prior to December 27, 2008, the new standard requires that changes in deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period must be recognized in earnings rather than as an adjustment to the cost of the acquisition. The adoption of SFAS 141R and FSP No. 141(R)-1 did not have a material effect on our consolidated financial position, results of operations or cash flows.

On June 26, 2009, we adopted SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 establishes general standards of accounting and disclosures for events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Among other things, SFAS 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The adoption of SFAS 165 did not have a material effect on our consolidated financial position, results of operations or cash flows, as its requirements are disclosure-only in nature.

NOTE 2: CASH AND CASH EQUIVALENTS

Our cash and cash equivalents are classified within Level 1 of the fair value hierarchy. Our Level 1 investments are valued using quoted market prices in active markets. As of June 26, 2009 and December 26, 2008, our Level 1 cash equivalents consisted of money market accounts totaling $63.4 million and $55.2 million, respectively, and were recorded as Cash and cash equivalents in our Consolidated Balance Sheets. We had no Level 2 or Level 3 investments as of June 26, 2009 and December 26, 2008.

NOTE 3: RESTRICTED CASH

Restricted cash consists primarily of cash held by our insurance carrier as collateral for our workers compensation program. We have agreements with certain financial institutions through our wholly-owned and consolidated subsidiary, Workers Assurance of Hawaii, Inc. (our

Workers Assurance Program), that allow us to restrict cash for the purpose of providing cash-backed instruments for our workers compensation collateral. These instruments include cash-backed letters of credit, cash held in trusts and cash deposits held by our insurance carriers. Committed collateral represents instruments that have been provided or pledged to an insurance company for either the direct payment of claims, or to cover the cost of claims in the event we are unable to make payment. The majority of our collateral is held by AIU Holdings, Inc. (AIU) formerly known as AIG Commercial Insurance, a subsidiary of American International Group, Inc. (AIG).

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

	June 26, 2009	December 26, 2008
Workers Assurance Program - committed collateral	$ 117.7	$ 114.6
Cash collateralizing surety bonds and deposits - committed collateral	5.0	4.9
Other	0.7	0.8
Total Restricted Cash	$ 123.4	$ 120.3

NOTE 4: PROPERTY AND EQUIPMENT, NET

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

	June 26, 2009	December 26, 2008
Buildings and land	$ 23.6	$ 24.1
Computers and software	64.6	53.3
Cash dispensing machines	12.2	12.2
Furniture and equipment	9.3	9.5
Construction in progress	2.7	7.6
	112.4	106.7
Less accumulated depreciation and amortization	(50.8)	(45.2)
	$ 61.6	$ 61.5

NOTE 5: INTANGIBLE ASSETS

The following table presents our purchased intangible assets other than Goodwill, excluding intangible assets that are fully amortized (in millions):

	June 26, 2009			December 26, 2008			
	Gross Carrying	Accumulated Amortization	Net Carrying Amount	Gross Carrying	Accumulated Amortization	Impairment Adjustment	Net Carrying Amount
Amortizable intangible assets							
Customer relationships	$ 18.0	$ (3.2)	$ 14.8	$ 39.9	$ (10.5)	$ (13.6)	$ 15.8
Trade name/trademarks	3.5	(0.7)	2.8	3.5	(0.5)		3.0
Non-compete agreements	2.3	(0.8)	1.5	3.3	(1.0)	(0.5)	1.8
	$ 23.8	$ (4.7)	$ 19.1	$ 46.7	$ (12.0)	$ (14.1)	$ 20.6

Indefinite-lived intangible assets

Trade name/trademarks	$ 5.8	$	$ 5.8	$ 6.6	$	$ (0.8)	$ 5.8

Total amortization expense was $0.8 million for the thirteen weeks ended June 26, 2009 and $1.8 million for the thirteen weeks ended June 27, 2008. Amortization expense was $1.5 million for the twenty-six weeks ended June 26, 2009 and $3.2 million for the twenty-six weeks ended June 27, 2008.

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Amortization expense of intangible assets for the next five years and thereafter is as follows (in millions):

Remainder of 2009	$ 1.6
2010	2.7
2011	2.7
2012	2.7
2013	2.3
Thereafter	7.1
	$ 19.1

NOTE 6: WORKERS COMPENSATION INSURANCE AND RESERVES

We provide workers compensation insurance for our temporary and permanent employees. While we have primary responsibility for all claims, our insurance coverage provides reimbursement for certain losses and expenses beyond our deductible limits. Our workers compensation insurance policies are renewed annually. We have coverage with AIU for occurrences during the period from July 2008 to July 2009. We renewed our coverage with AIU effective July 1, 2009 for the period July 2009 to July 2010. For workers compensation claims originating in states where we are self-insured, the majority of our current workers compensation insurance policies cover any 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 all prior years we had coverage with AIU and other insurance providers. Furthermore, we have full liability for all further payments on claims which originated between January 2001 and June 2003, without recourse to any third party insurer as the result of a novation agreement we entered into with Kemper Insurance Company in December 2004.

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. The estimated claims are expensed as incurred and the claim payments are made over a weighted average period of approximately 6.5 years. We maintain reserves for workers compensation claims using actuarial estimates of the future cost of claims and related expenses. Our workers compensation reserve is discounted to its estimated net present value using discount rates based on average returns of risk-free U.S. Treasury instruments, with maturities comparable to the weighted average lives of our workers compensation claims. At June 26, 2009, our reserves are discounted at rates ranging from 3.85% to 6.48%. Included in the accompanying Consolidated Balance Sheets as of June 26, 2009 and December 26, 2008 are discounted workers compensation claims reserves in the amounts of $198.2 million and $203.6 million, respectively.

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 brand 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. As of July 1, 2008 we have a self-insured policy in the state of West Virginia. Claims originating in the state of West Virginia prior to July 1, 2008 are covered under the government-administered programs.

Our workers compensation reserve includes not only estimated expenses for claims within our self-insured limit but also estimated expenses related to claims above our self-insured limits (excess claims). We record an estimated receivable for the insurance coverage on excess claims based on the contractual policy agreements we have with insurance companies. We discount this receivable to its estimated net present value using the risk-free rates associated with the weighted average lives of our excess claims. The weighted average claim lives are actuarially determined. When appropriate, based on our best estimate, we record a valuation allowance against the insurance receivable to reflect amounts that may not be realized. Two of the workers compensation insurance companies (Troubled Insurance Companies) with which we formerly did business are in liquidation and have failed to pay a number of excess claims to date. These excess claims have been presented to the state guaranty funds of the states in which the claims originated. Certain of these excess claims have been rejected by the state guaranty funds due to statutory eligibility limitations. Our valuation allowance against receivables from Troubled Insurance Companies as of June 26, 2009 and December 26, 2008 is $6.3 million and $6.9 million, respectively. Total discounted receivables from insurance companies, net of related valuation allowance, as of June 26, 2009 and December 26, 2008 are $19.0 million and $17.0 million, respectively and are included in Other assets, net in the accompanying Consolidated Balance Sheets.

Throughout the year, management evaluates the adequacy of the workers compensation reserves in conjunction with an independent quarterly actuarial assessment. Factors we consider in establishing and adjusting these reserves include the estimates provided by our independent actuaries, appropriate discount rates, and estimated payment patterns. Factors that have caused our estimated losses for prior years to change include, among other things, (1) inflation of medical and indemnity costs at a rate higher than originally anticipated, (2) regulatory and legislative developments that have increased benefits and settlement requirements, (3) a different mix of business than previously anticipated, (4) the impact of safety initiatives implemented, and (5) positive or adverse development of claim reserves. Adjustments to prior period reserves are charged or credited to expense in the period in which the estimate changes. Changes related to prior year self insured reserves, net of discount, for the twenty-six weeks ended June 26, 2009 include reversals of prior year reserves of $16.1 million partially offset by increases to certain excess claims of $5.5 million for which we have full liability for a net change of $10.6 million.

Workers compensation expense is recorded as part of our cost of services and consists of the following components: self-insurance reserves net of changes in discount, monopolistic jurisdictions premiums, insurance premiums, any changes in the valuation allowance related to receivables from insurance companies as described above and other miscellaneous expenses. Workers compensation expense totaling $6.8 million and $15.1 million was recorded for the thirteen weeks ended June 26, 2009 and June 27, 2008, respectively. Workers compensation expense totaling $15.7 million and $28.6 million was recorded for the twenty-six weeks ended June 26, 2009 and June 27, 2008, respectively.

NOTE 7: COMMITMENTS AND CONTINGENCIES

Revolving credit facility

On June 22, 2009, we entered into a Credit Agreement with Wells Fargo Foothill, LLC and Bank of America, N.A. for a secured revolving credit facility of up to a maximum of $80 million (the Revolving Credit Facility). The Revolving Credit Facility, which expires June 2012, replaces our existing $80 million revolving credit facility with Wells Fargo Bank, N.A. and Bank of America, N.A., which was set to expire in April of 2011 (the Old Revolving Facility). Letters of credit outstanding under the Old Revolving Facility in the amount of approximately $49 million will be deemed letters of credit issued under the Revolving Credit Facility. We have not borrowed any funds under the Revolving Credit Facility as of June 26, 2009.

The amount we can borrow under the Revolving Credit Facility is calculated according to a formula that is based upon the sum of 85% of the amount of our eligible accounts receivable plus 60% of the liquidation value of our Tacoma headquarters office building (which shall not exceed $12 million), less a reserve in an amount equal to the payroll and payroll taxes for our temporary employees for one payroll cycle, and less other reserves if deemed applicable in the future. Eligible accounts receivable is defined in the Revolving Credit Facility and excludes items such as invoices aged over ninety days, cross-aged receivables, and other items. At the time of closing the Revolving Credit Facility, approximately 95% of accounts receivable net of the allowance for doubtful accounts were considered eligible, the borrowing availability on the building was $12 million, and the payroll and payroll tax reserve was $6.2 million. The maximum amount we can borrow under the Revolving Credit Facility is $80 million, but there is no assurance that this full amount will be available to us at any given time because the actual borrowing limit is based on the formula described above.

Under the terms of the Revolving Credit Facility, we pay a variable rate of interest on loans, a fee on outstanding letters-of-credit and an unused commitment fee. At our option, the variable rate of interest on loans is LIBOR (subject to a 2.0% minimum) plus a margin of 3.0% for LIBOR loans; or a variable rate of the Prime Rate (subject to a minimum) currently in effect plus a margin of 3.0% for Base Rate loans. An unused commitment fee rate of 0.375% is also applied against the unused portion of the Revolving Credit Facility. Under the terms of the Revolving Credit Facility, letters-of-credit are priced at the margin in effect for LIBOR loans plus a fronting fee of 0.125%.

The Revolving Credit Facility requires that we maintain certain levels of liquidity that if not met, require us to satisfy a fixed charge coverage ratio. We are required to maintain liquidity levels in excess of $30 million. The liquidity level is defined as the amount we are entitled to borrow as advances under the Revolving Credit Facility plus the amount of cash and cash equivalents held in accounts subject to a control agreement benefiting the lenders. The amount we are entitled to borrow at June 26, 2009 is $31 million and the amount of cash and cash equivalents is $100 million for a total of $131 million which is in excess of our $30 million liquidity requirement. We are currently in compliance with all covenants related to the Revolving Credit Facility.

Obligations under the Revolving Credit Facility are secured by substantially all of our domestic personal property and our headquarters located in Tacoma, Washington.

Workers compensation commitments

We are required by our insurance carriers and certain state workers compensation programs to collateralize a portion of our workers compensation obligation with cash and cash-backed instruments, irrevocable letters of credit, or surety bonds. The letters of credit issued against the Credit Facility bear fluctuating annual fees of approximately 3.13% of the principal amount of the letters of credit outstanding as of June 26, 2009. The letters of credit issued related to our Workers Assurance Program bear fluctuating annual fees of approximately 0.58% of the principal amount of the letters of credit outstanding as of June 26, 2009. The surety bonds bear annual fees based on a percentage of the bond, which are determined by each independent surety carrier but do not exceed 2.0% of the bond amount, subject to a minimum charge.

At June 26, 2009 and December 26, 2008 we had provided our insurance carriers and certain states with commitments in the form and amounts listed below (in millions):

	Workers Compensation Commitments as of:	
	June 26, 2009	**December 26, 2008**
Workers Assurance Program - committed collateral (1)	$ 117.7	$ 114.6
Letters of credit	49.0	52.9
Surety bonds (2)	17.7	17.1
Other cash-backed instruments	1.1	1.1
Total Collateral Commitments	$ 185.5	$ 185.7

(1) The majority of our committed collateral is held at AIU.

(2) We had $3.8 million of restricted cash collateralizing our surety bonds at both June 26, 2009 and December 26, 2008.

Legal contingencies and developments

From time to time we are subject to compliance audits by federal, state and local authorities relating to a variety of regulations including wage and hour laws, taxes, workers compensation, immigration and safety. We are also from time to time subject to legal proceedings in the ordinary course of our operations. A summary of our most significant pending litigation and regulatory proceedings is set forth below. It is not possible at this time for us to determine fully the effect of all legal proceedings on our consolidated financial position, results of operations or liquidity; however, to the extent possible, where legal liabilities can be reasonably estimated and are considered probable, we have recorded a liability. To the extent that an insurance company is contractually obligated to reimburse us for a liability, we record a receivable for the amount of the probable reimbursement. We have established reserves for our contingent legal and regulatory liabilities in the amount of $3.3 million and $4.3 million at June 26, 2009 and December 26, 2008, respectively. We believe that none of the currently pending legal proceedings, individually or in the aggregate, will have a material adverse impact on our financial position, results of operations or cash flows beyond amounts that have been accrued in the financial statements, although we can make no assurances in this regard.

On January 12, 2005, the New Jersey Division of Taxation (the Division) filed a Notice of Assessment Related to Final Audit Determination asserting that we owe $7.0 million for delinquent sales taxes, penalties and interest for the period October 1, 2000 through September 30, 2004. The amount of the assessment is based on the Division s assertion that 100% of our revenue from New Jersey operations is subject to sales tax. We disputed the Division s position that we provide taxable services under New Jersey law and filed an administrative protest. The administrative protest was handled internally by the Division and did not involve any outside or independent governmental bodies. On September 19, 2006, the Division issued a final determination on our administrative protest increasing the amount that we allegedly owe for delinquent sales taxes, penalties and interest to $8.1 million. On June 12, 2009, the parties entered into a settlement which resolved all claims. All amounts related to the settlement were accounted for in our established reserves for our contingent legal and regulatory liabilities and the settlement did not have a material effect on our consolidated financial position, results of operations or cash flows.

NOTE 8: STOCK BASED COMPENSATION

Stock-based compensation includes expense charges for all stock-based awards to employees and directors. Such awards include stock option grants, restricted stock awards, and shares purchased under an employee stock purchase plan.

Total stock-based compensation expense recognized in the consolidated financial statements for the thirteen weeks ended June 26, 2009 and June 27, 2008 was $1.5 million and $1.7 million, before income taxes, respectively. Total stock-based compensation expense recognized in the consolidated financial statements for the twenty-six weeks ended June 26, 2009 and June 27, 2008 was $4.0 million and $4.5 million, before income taxes, respectively.

Stock options

We have stock option and incentive plans for directors, officers, and employees, which provide for nonqualified stock options and incentive stock options. We issue new shares of common stock upon exercise of stock options. The majority of our unvested stock

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options cliff vest in three-years from the date of grant and expire if not exercised within seven years from the date of grant. The maximum contractual term for our outstanding awards is ten years.

A summary of the weighted average assumptions and results for options granted during the periods presented is as follows:

	Twenty-six weeks ended	
	June 26, 2009	June 27, 2008
Expected life (in years)	3.35	3.48
Expected volatility	53.0%	43.5%
Risk-free interest rate	1.4%	2.2%
Expected dividend yield	0.0%	0.0%
Weighted average fair value of options granted during the period	$ 3.52	$ 5.07

Stock option activity follows (shares in thousands):

	Twenty-six weeks ended June 26, 2009	
	Shares	Price (1)
Outstanding at beginning of period	906	$ 17.60
Granted	304	$ 9.08
Exercised		
Forfeited	(21)	$ 13.69
Expired	(93)	$ 17.71
Outstanding at the end of the period	1,096	$ 15.30
Exercisable at the end of the period	415	$ 18.34

(1) Weighted average exercise price.

As of June 26, 2009, total unrecognized stock-based compensation expense related to nonvested stock options was approximately $1.9 million, which is expected to be recognized over a weighted average period of 2.0 years through 2013.

Restricted stock

Restricted stock is granted to directors, officers, and key employees and vests annually over periods ranging from three to four years. Compensation cost of restricted stock is calculated based on the grant-date market value. We recognize compensation cost on a straight line basis over the vesting period for the awards that are expected to vest.

Restricted stock activity follows (shares in thousands):

	Twenty-six weeks ended June 26, 2009	
	Shares	Price (1)
Nonvested at beginning of period	784	$ 16.51
Granted	410	$ 9.08
Vested	(252)	$ 17.58
Forfeited	(80)	$ 14.32
Nonvested at the end of the period	862	$ 13.04

(1) Weighted average market price on grant date.

As of June 26, 2009, total unrecognized stock-based compensation expense related to non-vested restricted stock was approximately $9.5 million, which is expected to be recognized over a weighted average period of 1.7 years through 2013.

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Employee stock purchase plan

Our Employee Stock Purchase Plan (the ESPP) provides substantially all permanent employees who have completed six months of service and meet certain limited qualifications, an opportunity to purchase shares of our common stock through payroll deductions. The ESPP permits payroll deductions up to 10% of eligible after-tax compensation. Participant account balances are used to purchase shares of common stock at the lesser of 85% of the fair market value of shares on either the first day or the last day of each month. Under the ESPP, 1.9 million shares of common stock have been reserved for purchase, of which 1.7 million shares have been issued and 0.2 million shares remain available for future issuance. The ESPP expires on June 30, 2010. During the twenty-six weeks ended June 26, 2009 and June 27, 2008, participants purchased 83,000 and 67,000 shares in the ESPP for cash proceeds of $0.5 million and $0.7 million, respectively.

We consider our ESPP to be a component of our share-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.

NOTE 9: INCOME TAXES

The effective tax rate was 36.6% and 41.8% respectively, for the thirteen and twenty-six weeks ended June 26, 2009. The principal difference between the statutory federal income tax rate of 35% and our effective income tax rate is due to the impact of state and foreign income taxes, federal tax credits and certain nondeductible expenses. As of June 26, 2009 and December 26, 2008, we had remaining unrecognized tax benefits of $1.9 million in accordance with Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes.*

NOTE 10: STOCK PURCHASES

Under our authorized share purchase program, we purchased and retired 0.88 million shares of our common stock during the twenty-six weeks ended June 27, 2008 for a total amount of $11.5 million, including commissions. We did not purchase any shares of our common stock during the twenty-six weeks ended June 26, 2009. As of June 26, 2009 we had remaining authorization for future purchases of common stock in the amount of $21.5 million under the current board approved authorization with no expiration date.

NOTE 11: NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is calculated by dividing net income (loss) 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 and non-vested restricted stock except where their inclusion would be anti-dilutive.

Anti-dilutive shares associated with our stock options relate to those stock options with a grant price higher than the average market value of our stock during the periods presented. Anti-dilutive shares also include in-the-money options for which the sum of the assumed proceeds, including unrecognized compensation expense, exceeds the average stock price during the quarter. Due to the net loss from continuing operations for the twenty-six weeks ended June 26, 2009, the assumed exercise of stock options and non-vested restricted stock had an anti-dilutive effect and therefore was excluded from the computation of diluted loss per share. The weighted average number of anti-dilutive stock options and non-vested restricted stock not considered as part of our diluted net income (loss) per share calculation was 1.7 million during the thirteen weeks ended June 26, 2009 and 1.4 million during the thirteen weeks ended June 27, 2008. The weighted average number of anti-dilutive stock options and non-vested restricted stock not considered as part of our diluted net income (loss) per share calculation was 1.9 million during the twenty-six weeks ended June 26, 2009 and 1.5 million during the twenty-six weeks ended June 27, 2008.

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The following tables present the calculation of Net income per common share - Basic and Diluted (in thousands, except per share data):

	Thirteen weeks ended		Twenty-six weeks ended	
	June 26, 2009	June 27, 2008	June 26, 2009	June 27, 2008
Net income (loss)	$ 3,730	$ 16,728	$ (1,573)	$ 25,529
Weighted average number of common shares used in basic net income (loss) per common share	42,836	43,194	42,759	43,278
Dilutive effect of outstanding stock options and non-vested restricted stock	85	144		138
Weighted average number of common shares used in diluted net income (loss) per common share	42,921	43,338	42,759	43,416
Net income (loss) per common share:				
Basic	$ 0.09	$ 0.39	$ (0.04)	$ 0.59
Diluted	$ 0.09	$ 0.39	$ (0.04)	$ 0.59

NOTE 12: COMPREHENSIVE INCOME (LOSS)

Our comprehensive income (loss) is comprised of net income, the foreign currency translation adjustment, net of tax and unrealized gain or loss on marketable securities. The following is a summary of comprehensive income (loss) (in thousands):

	Thirteen weeks ended		Twenty-six weeks ended	
	June 26, 2009	June 27, 2008	June 26, 2009	June 27, 2008
Net income (loss)	$ 3,730	$ 16,728	$ (1,573)	$ 25,529
Other comprehensive income:				
Foreign currency translation adjustment, net of tax	(198)	(85)	(200)	138
Unrealized gain (loss) on marketable securities	9	(2)	34	(22)
Other comprehensive income	(189)	(87)	(166)	116
Comprehensive income (loss)	$ 3,541	$ 16,641	$ (1,739)	$ 25,645

NOTE 13: SUBSEQUENT EVENTS

On July 22, 2009, we filed a $100 million Shelf Registration Statement with the Securities and Exchange Commission which, when effective, will allow us to sell various securities in amounts and prices determined at the time of sale. The filing will enable us to access capital efficiently and quickly if needed, however, we have no current plans to make an offering.

Management has determined there are no other reportable events or transactions that have occurred subsequent to June 26, 2009 through July 31, 2009, the filing date of our financial statements.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This Form 10-Q contains forward-looking statements. These statements relate to our expectations for future events and future financial performance. Generally, the words anticipate, believe, expect, intend, plan and similar expressions identify forward-looking statem Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements. These statements are only predictions. Actual events or results may differ materially. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assume responsibility for the accuracy and completeness of the forward-looking statements. We undertake no duty to update any of the forward-looking statements after the date of this report to conform such statements to actual results or to changes in our expectations.

Executive Overview

TrueBlue, Inc. (TrueBlue, we, us, our) is an international provider of temporary blue-collar staffing. Each year, we put approximately 500,0 people to work through the following brands: Labor Ready for general labor, Spartan Staffing for light industrial services, and CLP Resources, PlaneTechs, and TLC for skilled trades. Headquartered in Tacoma, Washington, we serve approximately 250,000 small to mid-sized businesses in the construction, warehousing, hospitality, landscaping, transportation, light manufacturing, retail, wholesale, facilities, sanitation, and aviation industries.

Revenue for the thirteen weeks ended June 26, 2009 of $247.0 million decreased 33.4% compared to $370.7 million for the thirteen weeks ended June 27, 2008. The 33.4% revenue decline for the quarter consisted of a 34.2% decrease in organic revenue offset by 0.8% growth from acquisitions completed within the last 12 months. Growth from acquisitions resulted from the acquisition of Personnel Management, Inc., a light industrial staffing company in April 2008. While our year-over-year revenue trends continue to experience recessionary pressure, we experienced improvement in the rate of decline of our year-over-year monthly same branch revenue trends. The improvement in our same branch revenue trends was due to work associated with one large customer, as well as improvements across the rest of our customer base.

The U.S. economy remains in a recession and as a result we continue to experience a significant decrease in demand for blue collar staffing, which has negatively impacted our performance. We believe the markets we serve will continue to remain under pressure until the overall economy stabilizes and begins to grow again. In response to the recession we have increased the number of branch closings. During 2008, we closed 73 branches and sold the remaining 29 branches in the United Kingdom. During 2009, we closed 77 branches, of which 36 were closed during the second quarter. We continue to focus on providing exceptional service to our customers while balancing the need for aggressive cost management and maintaining a strong balance sheet.

Gross profit as a percentage of revenue was 29.5% for the thirteen weeks ended June 26, 2009 compared to 29.8% for the thirteen weeks ended June 27, 2008. The impact of pricing pressures resulting from the current economic recession, increased wages paid to our temporary workers due to statutory minimum wage increases, and acquisitions are the primary causes for the decline in gross profit as a percentage of revenue. Pricing pressure on gross profit as a percentage of revenue was partially offset by a decrease to workers compensation reserves established in prior years which totaled 1.8% of revenue. The decrease in reserves are due to continued improvements resulting from a variety of risk management programs.

Selling, general and administrative (SG&A) expenses as a percentage of revenue were 25.7% of revenue for the thirteen weeks ended June 26, 2009 compared to 22.8% for the thirteen weeks ended June 27, 2008. Commencing in 2008, we have taken aggressive cost management actions across all levels of the organization. SG&A expenses have declined by 25.1% compared to the second quarter of 2008. SG&A declined at a slower rate than did revenue due to the fixed cost nature of certain SG&A costs. Cost management will remain a focus during this recession. Our cost management actions prepare us well to harness the strong operating leverage of our business model as the economy recovers.

Net income was $3.7 million, or $0.09 per diluted share, for the thirteen weeks ended June 26, 2009 compared to net income of $16.7 million, or $0.39 per diluted share, for the thirteen weeks ended June 27, 2008. The change year over year is due primarily to the decline in same branch revenue. Same branch revenue is defined as those branches open twelve months or longer.

On June 22, 2009, we entered into a Credit Agreement with Wells Fargo Foothill, LLC and Bank of America, N.A. for a secured revolving credit facility of up to a maximum of $80 million. The Revolving Credit Facility, which expires June 2012, replaces our previous $80 million revolving credit facility with Wells Fargo Bank, N.A. and Bank of America, N.A., which was set to expire in April of 2011. Borrowing availability is principally based on accounts receivable and the value of the company s corporate building whereas borrowing availability under the previous facility was based on EBITDA. We believe the new credit facility provides more borrowing availability during challenging economic conditions in comparison with the previous credit facility.

On July 22, 2009, we filed a $100 million Shelf Registration Statement with the Securities and Exchange Commission which, when effective, will allow us to sell various securities in amounts and prices determined at the time of sale. The filing will enable us to access capital efficiently and quickly if needed, however, we have no current plans to make an offering.

We remain in a severe global recession of uncertain length. We expect a difficult economic environment throughout fiscal 2009. During an economic downturn, as businesses experience a lower level of demand from consumers, businesses generally reduce their use of temporary staffing and then reduce permanent workforces. As a result, we expect to face a challenging fiscal 2009 which could continue into fiscal 2010. Accordingly, we expect to report negative same branch revenue for fiscal 2009 and do not expect a significant improvement in same branch revenue until employers have largely completed the reduction of permanent workforces and the economy improves. We do not have plans to open new branches and will continue to close branches and take other cost reduction methods until the economy improves.

Results of Operations

Thirteen Weeks Ended June 26, 2009 Compared to Thirteen Weeks Ended June 27, 2008

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

	Thirteen weeks ended	
	June 26, 2009	June 27, 2008
Revenue from services	$ 247,011	$ 370,710
Total revenue growth (decline) %	(33.4%)	5.6%
Gross profit as a % of revenue	29.5%	29.8%
SG&A as a % of revenue	25.7%	22.8%
Income from operations	$ 5,167	$ 22,007
Income from operations as a % of revenue	2.1%	5.9%
Depreciation and amortization	$ 4,280	$ 3,967
Interest and other income, net	$ 712	$ 1,624
Effective income tax rate	36.6%	29.2%
Net income	$ 3,730	$ 16,728
Net income as a % of revenue	1.5%	4.5%
Net income per diluted share	$ 0.09	$ 0.39

Revenue from services. Revenue for the thirteen weeks ended June 26, 2009 decreased 33.4% compared to the thirteen weeks ended June 27, 2008. The revenue decline consisted of a 34.2% decrease in organic revenue offset by 0.8% growth from acquisitions completed within