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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q1 2014 TrueBlue earnings conference call. My name is Jasmine and I'll be your operator for today. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes. I would now like to turn the conference over to your host for today, Ms. Stacey Burke. Please proceed, ma'am.

Stacey Burke - *TrueBlue, Inc. - VP, Corp. Communications*

Thank you and welcome. We appreciate everyone joining us for our call today. Please note that on this conference call management will reiterate forward-looking statements contained in today's press release and may make or refer to additional forward-looking statements relating to the Company's financial results and operations in the future.

Although we believe the expectations reflected in these statements are reasonable, actual results may be materially different from the forward-looking statements set forth in today's earnings press release, financial statements and presentation slides which were filed in an 8-K today. Additional information concerning factors which could cause results to differ materially it is also contained in the Company's filings with the Securities and Exchange Commission including it in our most recent Form 10-K.

The discussion today also contains certain non-GAAP financial measures. Information relating to comparable GAAP financial measures may be found in the first-quarter 2014 earnings press release, financial statements and presentation slides, all of which are posted on our website at www.trueblue.com. We encourage you to review that information in conjunction with today's discussion.

Today's discussion will begin with TrueBlue's CEO and President, Steve Cooper followed by TrueBlue's CFO, Derrek Gafford who will review some key points related to the quarter's earnings. Once Derrek completes his remarks we will move on to a Q&A session. With that, let me turn the call over to TrueBlue's CEO, Steve Cooper.

Steve Cooper - *TrueBlue, Inc. - President, CEO & Director*

Thank you. Good morning, everyone. Today we reported 2014 first-quarter revenue grew 14% to $396 million, which produced $7.6 million of EBITDA and $0.04 of net income per share, which was in the upper end of our previously disclosed expectations.

Weather-related disruptions in the first quarter were primarily responsible for our revenue falling just short of our expectations. However, with our continued focus on adjusting costs when necessary based on demand and as we further utilize new innovative processes and technology we were able to meet our earnings expectations.

Q1 was a very successful quarter for us. Adjusted EBITDA grew 220% as compared to Q1 last year. Outside of the weather disruptions across many Midwest and Eastern territories during late January and throughout February we have continued to experience solid organic growth across the business and the companies we acquired during 2013 continued to exceed our expectations.

We completed two significant acquisitions during 2013 adding about $300 million of annualized revenue. These acquisitions have been fully integrated into our sell, service and support units throughout our business. The combined business is performing very well and we are encouraged both at our approach to integrating acquired companies in the manner that we did. It created synergy and that our combined customers are receiving better service from our organization as a result.

We remain focused on producing strong growth through a specialized sales and service approach. We continue to see opportunities for both strong organic growth along with growth from strategic acquisitions that support our specialized approach.

We are bullish on continuing to find more efficient approaches to our sales, recruiting and service model to ensure we are continuing to provide the best customer and candidate service along with our continuing to leverage our cost model appropriately.

Key to success for us is to ensure our growth efforts continue to remain focused on specialization in regards to our customers' businesses. We have found through research and experience that customers want a specialist serving them while at the same time they expect those specialized services are easy to access.

This is where we have excelled being structured in a manner that customers benefit from our specialized services while they also find it easy to access. Our focus in these important areas sets us apart from the competition.

For our shareholders, they have an easy to understand investment that is focused on high demand jobs with a specialized approach to customer service and candidate recruiting. This has proven to result in both strong revenue growth and stability in gross margins in times when it's important for customers to stabilize their own cost and operating structures.

We understand the importance of maintaining strong gross margins that reflect the specialization we bring to the marketplace. We are pleased with our progress here in 2014. We believe we are well prepared to handle further minimum wage increases and the Affordable Care Act costs that will go into effect in the future.

Just as we have shown great results here again in the first quarter in absorbing and properly pricing employment cost increases, we feel we can continue this positive trend. As shown in our guidance for Q2, we are optimistic with the opportunity to continue the trends we experienced throughout 2013 and here early in 2014. As we move further into 2014 we expect to see expansion in our EBITDA margins to continue.

I will turn the call over to our CFO, Derrek Gafford, for further analysis. After which I will make further comments regarding our growth opportunity. Derrek?

Derrek Gafford - *TrueBlue, Inc. - EVP & CFO*

Thanks Steve. I'll start off today with a high level discussion of the quarter and our expectations for Q2. Then will drop into a deeper discussion of our business results. In my commentary today, any reference to our performance is based on a comparison to the same period a year ago unless stated otherwise.

I will be using adjusted EBITDA and adjusted SG&A terminology which we believe provides a clearer representation of our performance. These terms exclude nonrecurring acquisition and integration costs incurred during 2013.

Diluted net income per share of $0.04 was $0.01 above our midpoint expectations as we continue to drive efficiencies in the business. These efficiencies combined with operating leverage expanded adjusted EBITDA margin by 120 basis points.

I will now share our expectations for Q2. We expect revenue of $458 million to $468 million worth growth of about 10%. This is lower than Q1 revenue growth due to the anniversary of the MDT acquisition in the second week of February this year. We expect diluted earnings per share of $0.33 to $0.38. This equates to adjusted EBITDA of about $30 million or growth of nearly 25%.

Now let's take a deeper look at this quarter's results starting with revenue. Total revenue growth this quarter of 14% is a result of acquisition and organic revenue growth. Acquisitions completed in 2013 contributed about 10 points to the growth and organic operations contributed about 4 points. Revenue of $396 million was $2 million under the bottom of our expected range.

As mentioned by Steve, weather had an impact on our business. To better understand this I am providing estimates of our monthly organic revenue trends this year. January was about 7%, February 2%, March 4% and the first two weeks of April 5%. Further analysis of our revenue trends is found in the 8-K filed today.

For Q2 we expect total revenue growth of about 10% with 5 points coming from the TWC acquisition completed last year and about 5 points from organic growth.

Now let's cover gross margin. Gross margin for the quarter of 25.1% was near the high end of our expectation. We started the year strong by successively adjusting bill rates for any statutory increases. This resulted in gross margin being roughly equal to Q1 a year ago.

Now let's discuss sales, general and administrative expense. SG&A of $92 million this quarter was about $2 million less than our original expectation. From efforts to operate more efficiently. We consolidated 20 branches this quarter with plans for another 40 by year end.

Driving this progress is the use of technology to create efficiencies in repeatable, high-volume service activities and in our recruiting processes by using more efficient methods to onboard and recruit candidates.

Historically the benefit from an average branch consolidation has been about $100,000 of annual EBITDA, primarily from SG&A savings, offset by a small amount of revenue loss. About half of this benefit occurs right after consolidation with the other half facing in over a couple of quarters.

We delivered strong operating leverage this quarter. Adjusted SG&A as a percentage of revenue declined by 110 basis points. This operating leverage is produced by spreading our largely fixed cost structure across a growing organic revenue base. And is enhanced by our focus on operating more efficiently.

On average we expect to convert about 60% of our incremental organic gross profit to incremental EBITDA. As a result of our efforts to operate more efficiently we converted about 75% of our organic gross profit to EBITDA and Q1 this year. And expect about 80% in Q2 this year which is reflected in our guidance. This will diminish a bit during the back half of 2014 as we anniversary certain integration efficiencies, but should remain safely above 60% with healthy organic revenue growth.

Now let's shift and provide some additional color on Q2 expectations. Gross margins should be 26.1% to 26.6%. SG&A as a percentage of revenue is expected to be 19.2% to 20.2%. Depreciation and amortization should be about $5.5 million. Our effective income tax rate is expected to be about 40%.

The worker opportunity tax credit has not yet been renewed by Congress. This program has been renewed repeatedly in the past but usually on a delayed, retroactive basis. Should it be renewed our annual effective income tax rate would drop to about 35%.

While we are not giving guidance, I want to briefly mention the Affordable Care Act. Due to the short nature of most of our job assignments and the 12-month look back period in this law; there should be a manageable cost for us on par with the level of other statutory costs we manage every year.

We have been successful in passing these costs through to customers and intend to do the same in this area. We are very excited about our growth opportunities. Our top priorities excelling in the management of our existing business. Our team has continued to deliver mid-single-digit organic growth, strong gross margin and efficiencies. These trends combined with our operating leverage bode well for continued expansion in our EBITDA margin.

Strategic acquisitions are also an important part of our growth strategy. This quarter we hit the one-year mark for the MDT acquisition, a $200 million business integrated into our Labor Ready service line. This acquisition was successful in every way. We met or exceeded all expectations on revenue, profitability and integration while adding strong talent to our bench.

Our competencies in evaluating, completing and integrating acquisitions enable us to achieve investment returns far above our cost of capital resulting in high returns for our shareholders and we are excited about the opportunities ahead in this area. All right, I will now turn the call back to Steve Cooper.

Steve Cooper - *TrueBlue, Inc. - President, CEO & Director*

Thanks, Derrek. I appreciate the analysis and commentary. The current economic climate allows us to continue to pursue further acquisitions while we also aggressively pursue our organic growth strategies through the execution of various cells and specialization strategies.

Our main criteria for selecting acquisition opportunities continues to be first, ensuring it fits our strategy. Second, can we get the expected ROI on the opportunity? And third, can we integrate this target into our organization to ensure all our objectives are met, especially expanding opportunities to better serve our customers and job seekers.

We are seeing our strategies for growth in two areas working very well. First our sales and service strategy has expanded over the past few years to bring more focus to our customers industry specialization. We remain focused on growing our expertise in several industry markets, as this is exactly what customers are asking for today.

Our sales and service approach uses a blend of centralized teams focused on national accounts along with our competency of selling and serving in local markets. Our strategy to be more diverse in relation to our overall industry approach has helped us produce more consistent and sustainable results.

Second, we have made great progress in implementing technology that is focused on recruitment, communication and assignment of our workforce to our customers. In the past most of our workers had been recruited through our neighborhood branch locations.

We have been investing in two key areas that we remain committed to and believe will drive further efficiencies in our business by eliminating our dependency on our high number of branch locations and enabling us to fill more orders through access to more workers using technology and innovative approaches. This is assisting us in centralizing common operations to a higher degree and communicating with our workforce through better use of innovative approaches including mobile solutions.

As we rely more on technology and innovative approaches to engage with our workforce we are reducing our dependency on our high number of neighborhood branch locations. This will further reduce operating costs as a percentage of revenue while giving us further access to more workers with a faster and more consistent fill rate for our customers.

During 2013, we consolidated about 20 branches. And now in the first quarter of 2014 we consolidate an additional 20 branches with plans to consolidate 40 more during 2014. We do not yet know how many branches will ultimately be consolidated as we need to carefully analyze the closings day by day and ensure we are not losing any opportunities to serve customers while operating fewer branches.

This has mainly happened in the large markets where he operate several branches. We are not pulling out of any markets with this approach. We are just executing our model differently based on the use of technology now available to us.

A good indicator that we are making the progress we expect is our average annual revenue per branch has grown by over 40% in the last five years. We expect further productivity gains as we continue investing in our processes and technology that further reduces our dependency on the high number of local branches.

I strongly believe by sticking to our sales and service strategy of being specialized for our customers along with our focus on driving our internal efficiencies we will continue to provide outstanding returns for our shareholders. As we have stated, we remain optimistic about the staffing industry.

There are strong economic drivers along with continued regulation that make our industry an attractive solution for businesses that are growing and need help with workforce solutions. We will now open up the call for any questions you may have. Operator, we will open up the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Sara Gubins, Bank of America-Merrill Lynch.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Hi, thank you, good morning. Thank you for breaking out the acquisition versus organic. I wanted to confirm that when you talking about organic that would include the drag from Boeing in the first quarter presumably being lower than it was a year ago. And could you also give us just how much Boeing revenue was in the first quarter?

Derrek Gafford - *TrueBlue, Inc. - EVP & CFO*

Yes, Sara, that organic percentage is -- that this all in. So another way of putting it is we are calculating what the we think the acquisition impact is and the rest goes to organic. From a Boeing perspective as far as revenue for Q1 this year was about $5 billion.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Okay, and should we think about that as being the right quarterly run rate for Boeing for the rest of the year do you think?

Derrek Gafford - *TrueBlue, Inc. - EVP & CFO*

I think that is a safe assumption for now.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Okay. Second question, it is great to hear that you are able to drive efficiencies because the technology changes. Could you maybe just give us an update on the text plan, how it is going? I believe it is now fully rolled out, are you finding that your branches are fully using it and is it going as you might have expected it to?

Steve Cooper - *TrueBlue, Inc. - President, CEO & Director*

Yes, thank you Sara. The text plan that she is referring to is the ability to text our job openings to candidates and have them respond yes or no and then give them the directions directly to the jobsite, therefore avoiding them to maybe come to the branch at all in the mornings. So yes, that has been rolled out fully. It is in all of our branches especially our daily pay, daily dispatch branches where we are serving those on-demand needs.

All the branches have it, they've been trained, they are utilizing it to their full capacity. One thing that we find, Sara, is as long as that front door is still open and they have the ability to walk in and choose the old-fashioned way, they do not use the texting to their full capability. However, when we push the envelope a bit there and see if we really need that front door, we find that we really did.

I think that part of the technology is working well. We break our technology implementation and our process into three stages of the branch. One is the morning dispatch and that is what Sara's question was about there is how is that morning's texting and assignment's are going.

We also look at the evening which was highly dependent on payout, workers coming back and receiving a check at night and we are fully implemented on pay cards. So the payment to those workers can now be made without them coming back to the branch.

And so it's really down to what happens in the middle of the day in the branch that we are further implementing more technology to make sure that we have access to the adequate number of workers and the speed that we need deliver the workforce to the customer without that branch being open during the day. And so as we have experimented with these first 20 closings this year it is mostly been around that.

How did we do and are we still delivering an adequate number of workers? And so it all comes down to this the power of the recruiting model that we're putting in play. That is one of the reasons we are not going quickly is it wasn't the text based system alone that is allowing us to reduce the dependency. We have to focus on all three time categories, morning, evening and the daytime recruiting of workers for the next day or the next week.

So we are working on that daytime right now. And I think as the year proceeds, that is really the message that we all need to be looking for is how effective is that and can we drive both the quality, quantity and the speed that we need without the front doors being open.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Got it, thanks, that was very helpful.

Operator

Paul Ginocchio, Deutsche Bank.

Paul Ginocchio - *Deutsche Bank - Analyst*

Thanks for taking my question. Steve, just two questions for you. First, based on the US economic, it does look like US economy is improving. Obviously you have seen some acceleration from March and April, but would you agree with that commentary from what you are seeing, you're seeing overall improvement in the economy?

And second, seems like your gross margin was a little better than we expected in the first quarter. Do you think you're getting any pricing power now that the unemployment rate is coming down and should we expect that to improve as the year goes on? Thanks.

Steve Cooper - *TrueBlue, Inc. - President, CEO & Director*

Thank you, Paul. I don't know if I could say the economy is improving, from what point. I guess I would have to ask what your starting point is. It is as strong as we saw during 2013. Outside that weather impact when we didn't really know what that was going to do long-term.

That weather impact, and I'm sure most of you are aware the ice storms that came and the high quantities of snow in the upper Midwest and across the Northeast and then those ice storms in the southeast, there were probably seven to nine days that had significant weather in Q1 compared to any other year. So that is why we even called that out.

That muddied the water a bit, Paul, of knowing how much traction we had in the economy. But as Derrek mentioned, the monthly trends and what we see here in April we feel like we have gotten back to what our expectation was when we started the year.

And that is that with the economic reports and forecasts that are given by others, not necessarily us, we felt that driving 5% organic growth was very achievable. All in like even Sara mentioned, does that include the drag from Boeing and yes. So our organic growth is back to that stage and we feel good about it and it feels like 2013. So that is about all I can comment on.

Second question on gross margin and the improvement that we saw this quarter and it shows up in our forecast that we are feeling good about that and the question about pricing power. It is moderate. This is not an environment where we feel like we can raise prices without regard to it having some impact on our ability to sustain the volume.

So it is a moderate environment. The comments we've made here today is that we feel we have a good track record of being able to pass through employment cost increases whether that be unemployment, minimum wage or the upcoming ACA, all of which are in about the same materiality that we have been doing the last couple years.

So we have a great track record behind us and we don't see that being a risk area that we can't get these next passes -- these next increases passed through. Given that the economic environment and the speed of the onset of the inflation and employment costs, that is really the trick. Will they match?

Can we hold the economic conditions where they are while we implement these? We are bullish on that, we feel like we can. We don't believe we will expand our gross margins during this period of time though but we can hold them.

Paul Ginocchio - *Deutsche Bank - Analyst*

Great. If I could just follow-up -- sorry, Steve, if I could just follow up on that comment about -- is there a way to quantify the drag from the 20 branch closures in the quarter? You said there was some offset on the cost saves from lost revenue. What would it be -- how much would the drag in the first quarter could you quantify?

Derrek Gafford - *TrueBlue, Inc. - EVP & CFO*

Hi Paul, it is Derrek here. I will answer the question, I just want to come back to gross margin for just a moment.

Paul Ginocchio - *Deutsche Bank - Analyst*

Sure.

Derrek Gafford - *TrueBlue, Inc. - EVP & CFO*

We have got no measurable impact right now.

Paul Ginocchio - *Deutsche Bank - Analyst*

Okay.

Derrek Gafford - *TrueBlue, Inc. - EVP & CFO*

There is nothing to call out here. It is something that we watch and track as we go forward. We have got a little bit of this built into the estimate that I shared with you today; however, we don't expect that to be anything substantial. If it is in the future, we will call that out for you but I think this $100,000 a branch annually that I talked about today is keeping that in SG&A is the best thing for a modeling perspective.

On your comments around gross margin, what Steve was talking to you was of course right on point from how we manage the business. From a modeling perspective I'll just refer everyone back to last year. We were very careful to call out any one-time benefits we had from either mix, as we deleveraged the Boeing account or any one-time benefits we got on payroll taxes.

Excluding those items, we feel like we are in a very good track to maintain what I will call our fundamental gross margins which are being managed very well in the business.

Paul Ginocchio - *Deutsche Bank - Analyst*

Thank you.

Operator

Mark Marcon, RW Baird.

Mark Marcon - *Robert W. Baird - Analyst*

Good morning. Can you talk a little bit about the impact with regards to the branch closures with regards to headcount? How many of those people are being transitioned over to the existing branches? Do you see any sort of impact at all in branches that might close in terms of potential disengagement or any sort of negatives as it relates to that?

Steve Cooper - *TrueBlue, Inc. - President, CEO & Director*

Yes, so our plan is there will be about one head per branch that gets displaced. And right now our average is just over three employees per branch. So that means the other two or two and a half headcount per branch will be redeployed in a sales position or a recruiting position in that market still but reporting to a different manager.

Mark Marcon - *Robert W. Baird - Analyst*

And the my supposition is that when they get redeployed, those people who end up getting redeployed end up becoming more efficient just because there is more critical mass within the new branch and better leadership?

Steve Cooper - *TrueBlue, Inc. - President, CEO & Director*

Well, that is the plan here. As we believe that larger teams perform better as they can cover each other's vacations, they can cover each other's off time, there is more leverage to go around between each other. It also gives us a chance to specialize those jobs.

So currently we have a branch manager in there that is responsible for selling and running the operations of the day in and day out of the branch and they have two or two and a half hourly employees that help them, specialists in there. And they are generalists though.

So this new plan allows us to redeploy this headcount -as specialists or trained salespeople or trained recruiters. So, that is what we are excited about is we are actually getting the headcount increase in the marketplace in specialized jobs.

Mark Marcon - *Robert W. Baird - Analyst*

Great. Can you talk about the ability to recruit from the areas where the branches were closed? Is that being impact it at all or do you kind of offset that by increasing the recruiting efficiency within the area where the new branches are?

Steve Cooper - *TrueBlue, Inc. - President, CEO & Director*

Well, the initial goal is you hang onto those workers and so they are signed up into our system. We have the ability to text them. And so from one single location so the reach of that location can be further.

So let's just pretend for a moment the average distance between these branches is about seven miles and there are three or four in that area and we close one of them. That stretched our average distance up to 10 or 12 miles. And we believe that extra distance is being captured by the texting ability.

So we can continue to engage with those workers, dispatch them and serve that area through both texting in the morning to get them to the job site and paying them on a pay card at night. So we don't have that traffic back and forth to the branch.

Now on a long-term basis, we are implementing recruiting tools so we can ensure that we have the quantity of workers available in that whole marketplace and so outreach is taking place. And the new processes and technology that we are doing to keep that workforce and that entire area engaged looks differently than when you have a higher number of branch locations and you have those doors that can open every morning to do that work.

With those doors shut it now presses us to use these innovative ways to engage a new worker, the one that is seeking a job today by engaging them. Now we have tested that, it is working well and I'm being able to bring in workers in an electronic recruiting way we are really excited about.

Mark Marcon - *Robert W. Baird - Analyst*

Great. And can you talk a little bit about both your -- the various brands in terms of how they are performing as well as some of the verticals that you have highlighted in the past such as energy or construction, specifically commercial versus residential?

Steve Cooper - *TrueBlue, Inc. - President, CEO & Director*

Yes, yes, so that is a big question. There is a lot in there. Let me first talk about the brand performance. Really what we see happening is we -- during 2013 we put most of these brands under common leadership and now down into the marketplace we are finding more common leadership.

And so, breaking out performance between brands isn't becoming as important of an indicator for us anymore as success. It is really the back half of your question that still remains our most important method is within those teams that have now come under common leadership and a common approach, we still have specialties within them. And that was in my comments earlier is customers want specialty yet they want easy access.

So to find that easy access we have blended our common leadership teams and we have blended the sales teams to the degree of possible. And now the specialized approach to service is what we are working on the most. So we are really becoming one on as far as branding goes on that question.

The back end of your question is saying well how are these specialties performing then in the marketplace and so far here in 2014 it is hard for us to make much of an analysis because of the weather impact. We don't want to over analyze that more overstate what got hit the hardest or not. So we are going to hold off on giving that data this quarter and see how it looks in the second quarter before we comment.

Mark Marcon - *Robert W. Baird - Analyst*

Are there any early indications in terms of April, in terms now that the weather has become more stable?

Steve Cooper - *TrueBlue, Inc. - President, CEO & Director*

Yes, again it is a couple weeks here in April getting into it. It looks like across the board our business is performing about like it did in 2013. Again, first quarter was a little bit messy to analyze because of that weather impact and that was a little bit regional, which also drives verticals because verticals are driven by regions.

And so, I think it is just best for us to let's get a couple months under our belt and we'll be able to make a better comment about the traction we see here in 2014.

Mark Marcon - *Robert W. Baird - Analyst*

Great, thank you.

Operator

Randle Reece, Avondale Partners.

Randle Reece - *Avondale Partners - Analyst*

Good morning. First of all, just a quick numbers question. Derrek, what was the intangible amortization this quarter? And I will go on from that and I would like to discuss further the gross margin. I was wondering how much mix shift affected the gross profit margin versus your guidance.

Derrek Gafford - *TrueBlue, Inc. - EVP & CFO*

Sure. The intangible amortization for the first quarter was $1.5 million. That is pretty stable for what it was for -- in Q4 of 2013. And it will be right around there for the rest of the year.

In regards to mix, the mix benefit in our gross margin this quarter was about 20 basis points broken out on the slides for you. That is very consistent with what we have seen over call it the last three quarters, maybe four.

Most of that is from the deleveraging in PlaneTechs regarding Boeing. Those are lower gross margin accounts. Lower SG&A percentage, by the way. But that is what has been driving that mix shift and that didn't come out much different than what we expected.

Randle Reece - *Avondale Partners - Analyst*

Last year your gross margin guidance for the second quarter compared with the first, at the high end you had guided up plus 100 basis points and you ended up doing a lot better than that. And this year the high end of your guidance is up 150 basis points sequentially. And that really catches my eye too. What is different in the situation where your guidance would change so much compared with last year?

Derrek Gafford - *TrueBlue, Inc. - EVP & CFO*

Well, just keep in mind we have had acquisitions going on. That's probably a deeper discussion outside the call, but when we've got acquisitions going on that is impacting how our sequential trends step up.

Randle Reece - *Avondale Partners - Analyst*

You had suggested that the gross margins of acquired business were lower than what you had been doing in the Labor Ready business. Have you succeeded in shifting that at all?

Derrek Gafford - *TrueBlue, Inc. - EVP & CFO*

Yes, I think we have made really good progress there. We kind of called this out on our gross margin bridges that we are facing headwinds there. And we are facing stronger headwinds last year in this area and that has diminished some as we have anniversaried MDT.

But the fact that we really kept the gross margins stable this year compared to last year, despite both of those acquisitions carrying a gross margin lower than our blended average has been really good work for us, a big success.

Part of that is just in how we are managing the existing business that we're running today and we did make some good progress in adjusting prices where we needed to in the MDT acquisition as well.

Randle Reece - *Avondale Partners - Analyst*

Great, thank you very much.

Operator

(Operator Instructions). Jeff Silber, BMO Capital Markets.

Henry Chen - *BMO Capital Markets - Analyst*

Hi, the more you guys this is actually [Henry Chen] calling in for Jeff Silber. I just wanted to follow up a little bit on the question related to the economy. We see penetration rates reaching their all-time highs and just looking at in terms of industry verticals I just wanted to get your sense in terms of maybe from a high level [projection] where you see sort of growth coming from in terms of manufacturing renaissance and whatnot and sort of your view on the long-term growth rate.

Steve Cooper - *TrueBlue, Inc. - President, CEO & Director*

Thank you, Henry. I have reflect back to where we were on our February call and the comments we made about 2013, coming out of 2013 and where we might be going for 2014. And those still are our best comments for the year and can we hold the 5% organic growth rate through that and it appears with the balance we see here in April that we can.

So as far as how our quarter performed to give us more feedback about the economic conditions, we are little bit mixed because given the areas of the weather impact. Some manufacturing just got shut down and then it took a few days to get restarted and we know that that impacts a lot broader than just that one day. There are supply chain impacts there that happened.

So it is hard for us to make a determination about the economy because of those things this quarter. As far as the verticals go, again, it is such a mixed bag because of those seven to nine days of impact in this operating season. Even though that seems strange there was just enough impact, we are a little bit hesitant until we get some more traction here in April and May to make much comment about the economy.

Henry Chen - *BMO Capital Markets - Analyst*

Got it. Thank you.

Operator

Mark Marcon, RW Baird.

Mark Marcon - *Robert W. Baird - Analyst*

I was wondering if you could provide a little more color around your ACA commentary. Obviously your workforce is going to limit the impact, but what specifically do you think you'll end up having to do in order to comply with the measures? How much of an impact do you think it might end up being? How much do you think you're going to have to spend in terms of adjustment of systems?

Derrek Gafford - *TrueBlue, Inc. - EVP & CFO*

Sure. Well I will answer that the best I can without getting too prescriptive from a competitive perspective, Mark, first starting off with the cost. This is going to be in the same general area of what we have been facing each year. If we take some of the SUTA costs and minimum wage increases and wrap those into a basket it is going to be we think comparable to that.

So that has been a very manageable cost for us in the past. I think we have got good processes and systems in place to handle those types of increases. And most importantly our operating team has become very versed here in how to have these conversations with the customers and prepare for those discussions before we get to any billing rate adjustments. Our communication process is very key to making good traction here.

As far as what we'll be offering benefit wise, what I can say is we'll be offering benefits to our workers. I won't get down into the details of what we'll be offering, but those costs -- we have got those rolled into our estimates here. And by all accounts I think this will be smaller for us than some other copies out there because of the time period of our workers, our job assignments being so small in duration.

I think this is going to be a very manageable thing for us. There is not a big system investment here for us. Some but nothing that we haven't already been investing in.

Mark Marcon - *Robert W. Baird - Analyst*

Great. So it sounds like we shouldn't expect, when you report Q2 and we get the Q3 guidance we shouldn't anticipate any sort of sequential bump in terms of SG&A for any sort of (inaudible) cost that would be associated with this or anything of that nature?

Derrek Gafford - *TrueBlue, Inc. - EVP & CFO*

Yes, that is right. I mean we just wanted to make a brief comment here. From our perspective this is going to be -- we think, is a very manageable deal. It is not something to be scared of. We are feeling very good about what our plans are in place and how we go about handling this from a customer perspective and passing it through.

Mark Marcon - *Robert W. Baird - Analyst*

Great. And can you talk -- on the gross margins can you just talk about what the pay bill spread wise for this past quarter?

Derrek Gafford - *TrueBlue, Inc. - EVP & CFO*

Yes, I really won't get into that one, Mark, just because it is with the acquisitions coming in and out, MDT anniversary here, these blended rates are -- they are a bit messy. So, I think it is best for us to kind of just stay.

What we provided is a bar in our gross margin bridge talking about what we could think more fundamental gross profit pickup has been. And I think it is best to go there versus our blended bill and pay rates because of the mix changes here with acquisitions. It can maybe do more harm than clarity.

Mark Marcon - *Robert W. Baird - Analyst*

Okay. And were there any -- were the accrual reversals kind of in the normal range?

Derrek Gafford - *TrueBlue, Inc. - EVP & CFO*

Are you referring to work comp expense?

Mark Marcon - *Robert W. Baird - Analyst*

Yes.

Derrek Gafford - *TrueBlue, Inc. - EVP & CFO*

Yes, work comp expense for the quarter was 4% of revenue. And there was a benefit from prior year reserve reductions of about 1% of revenue. So both pretty comparable with what we've talked about in the past.

Mark Marcon - *Robert W. Baird - Analyst*

Okay, great. And then with regards to the acquisition pipeline, what are you seeing that is out there in terms of -- are you seeing the same level of prices that you have been able to get some of these acquisitions in for?

Steve Cooper - *TrueBlue, Inc. - President, CEO & Director*

Yes, there is still a lot of local, regional, family-owned and private equity owned businesses that look much like -- TWC is the last one that we did. They are $100 million businesses plus or minus $50 million or so that are out there serving a regional need.

And so, our process of engaging with them and one is gauging our own workload of how fast we can bring these in, integrate them and make sure they are stable before we move on. That is a very important to us. And the process of building relationships with these companies and ensuring that we have shared values and that the cultures can come together and they are not all a fit.

So somewhere along the way we weed through that and figure it out. But there is a lot a competition out there so we know that there is an opportunity for us to continue to expand through acquisition and good high quality ones and ones that are regionally focused.

So yes, the pipeline is there. Price is about the same. And we are just sorting through the quality and the fit and the culture and gauging our own internal ability to absorb them.

Mark Marcon - *Robert W. Baird - Analyst*

Great, thank you.

Operator

(Operator Instructions). Josh Vogel, Sidoti.

Josh Vogel - *Sidoti & Company - Analyst*

Thank you, good morning, guys. Can you talk about how much exposure you have to the energy sector and in particular are you seeing any opportunity or traction in the shale market today?

Steve Cooper - *TrueBlue, Inc. - President, CEO & Director*

Yes, I will have Derrek look up that -- where our energy number is in our trading numbers right now. But we have poked around in the shale market. We are not there yet. We have consulted and we have helped and we have actually found a few management team members to join our customers up and around there in the upper Midwest and actually in Canada.

But that that is not significant to us right now. That is not where we have gone. Most of the customers that we have gone and put large solar plants up or window plants up in the US. So I will have Derrek give you the number on that.

Derrek Gafford - *TrueBlue, Inc. - EVP & CFO*

Yes, first I was talking about what our mix is here on a TTM basis, our energy business is a little bit north of 5% of company revenue.

Josh Vogel - *Sidoti & Company - Analyst*

Okay, thank you. And I'm sorry, I got bumped from the call for a few minutes so if you mentioned this I apologize. But with regards to the traction you are seeing in mobile and online placement, do you have an idea of how much you still need or want to invest on this platform in 2014?

Steve Cooper - *TrueBlue, Inc. - President, CEO & Director*

You're talking about capital expenditures or just the process change that we need to go through?

Josh Vogel - *Sidoti & Company - Analyst*

Both.

Steve Cooper - *TrueBlue, Inc. - President, CEO & Director*

Okay. Yes, I'll have Derrek talk about the CapEx here in a bit with you. The process change that we're going through and I had mentioned there is the morning activities that take place in a dispatch branch and there is the evening which is the payout. And we believe that we put enough process and technology on both ends of that with adequate investment there.

It is really the midday activities which really have to do with the recruiting and finding employees once we don't have that front door open of a branch. So we have gone out there and partnered with some companies that have the ability to post and crawl the Web and pull these kinds of candidates to us. And there are an adequate number of candidates.

So we have tested at least -- or at least in our test markets we have proven the process works and there is an adequate number of candidates that we can find in an online world. It takes a different level of engagement and a different type of recruiter than one that just answers the doorbell when it rings in the front door.

So that is part of our process change is training our employees, getting that recruiter engaged, having a system there that can funnel this for them and track the applicants through the process all the way to engaging them and then having them ready for dispatch through our cell phone technology. So, I'll have Derrek talk about where we are in CapEx and where we're going.

Derrek Gafford - *TrueBlue, Inc. - EVP & CFO*

Hi, good morning Josh. From a CapEx perspective let me talk about it just as a general bucket here. I think $12 million is a pretty good estimate for the year. We spent $2 million so far I believe, that leaves us a basket of about $10 million. Probably half of that is going to be focused towards things that Steve just mentioned. A little bit more towards the recruiting side.

It is tough to answer your question about how much more investment we will have. Our mix of capital spending here is mostly all on the IT side. These types of technologies are just becoming a bigger percentage of what we've already been spending in the past.

And so, we are going to continue to invest the dollars here a little bit more over towards this, continuing into the future. But you shouldn't expect to see any level of CapEx that is out of range this year.

Steve Cooper - *TrueBlue, Inc. - President, CEO & Director*

And this $5 million number that Derrek gave you, that really sets the stage and most of our investment beyond that is training and engaging our team to be able to use that technology and the new process. Like Derrek just mentioned, there is not like we're a flood of new CapEx coming after this initial investment he has talked about.

And if you got bumped a little earlier, we talked about the process of making that kind of change in our operations. We feel we are successful on both the morning and the evening change that we have implemented. Do they use it 100% was a question that came up. And the answer is no, because they still have that front door that they can use.

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But when we finally put this third piece in play and the daytime activity, mostly the recruiting and engaging of employees, we will find both the morning and the afternoon technologies to be used to a higher degree also.

Josh Vogel - *Sidoti & Company - Analyst*

Okay, that is helpful. Thanks a lot for taking my questions.

Operator

There are no remaining questions in queue at this time. I would like to turn the call back over to Steve Cooper for any closing remarks.

Steve Cooper - *TrueBlue, Inc. - President, CEO & Director*

Thank you, appreciate that. Thank you for joining us this morning, everyone, for the analysis of the quarter and for listening to our strategies to further improve the business. Have a great day out there.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect. You all have a great day.
