

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: April 2, 2004  
or

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

Commission File Number: 001-14543

**LABOR READY, INC.**

(Exact name of Registrant as specified in its charter)

**Washington**  
(State or other jurisdiction of  
incorporation or organization)

**91-1287341**  
(IRS Employer  
Identification No.)

**1015 A Street, Tacoma, Washington**  
(Address of principal executive offices)

**98402**  
(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
<b>Common Stock without par value</b>	<b>The New York Stock Exchange</b>

Securities registered under Section 12(g) of the Act:

Title of class  
**None**

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 last ninety days. Yes  No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

As of April 26, 2004, there were 41,377,379 shares of the Registrant's common stock outstanding.

Documents incorporated by reference: None.

**LABOR READY, INC.**

**INDEX**

**Part I. [Financial Information](#)**

- Item 1. [Consolidated Balance Sheets](#)  
[April 2, 2004 and January 2, 2004](#)
- [Consolidated Statements of Operations](#)  
[Thirteen Weeks Ended April 2, 2004 and March 28, 2003](#)
- [Consolidated Statements of Comprehensive Income \(Loss\)](#)  
[Thirteen Weeks Ended April 2, 2004 and March 28, 2003](#)
- [Consolidated Statements of Cash Flows](#)  
[Thirteen Weeks Ended April 2, 2004 and March 28, 2003](#)
- [Notes to Consolidated Financial Statements](#)
- Item 2. [Management's Discussion and Analysis of Financial Condition and Results of Operations](#)
- Item 3. [Quantitative and Qualitative Disclosures About Market Risk](#)

Item 4. [Controls and Procedures](#)

**Part II. [Other Information](#)**

Item 1. [Legal Proceedings](#)

Item 2. [Changes in Securities; Use of Proceeds and Issuer Purchases of Equity Securities](#)

Item 4. [Submission of Matters to a Vote of Security Holders](#)

Item 6. [Exhibits and Reports on Form 8-K](#)

[Signatures](#)

**PART I. Financial Information**

**Item 1. Financial Statements**

**LABOR READY, INC.**

**CONSOLIDATED BALANCE SHEETS**

**In Thousands**

**ASSETS**

**(Unaudited)**

	<b>April 2, 2004</b>	<b>January 2, 2004</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 77,676	\$ 83,112
Marketable securities	24,258	25,257
Accounts receivable	8,318	7,796
Accounts receivable pledged under securitization agreement	73,331	75,840
Allowance for doubtful accounts	(3,139)	(4,016)
Prepaid expenses, deposits and other	10,205	10,779
Income tax receivable	3,231	940
Deferred income taxes	5,370	5,096
Total current assets	199,250	204,804
<b>PROPERTY AND EQUIPMENT:</b>		
Buildings and land	15,812	15,707
Computers and software	30,719	30,474
Cash dispensing machines	15,104	15,075
Furniture and equipment	2,086	1,858
	63,721	63,114
Less accumulated depreciation and amortization	36,131	34,625
Property and equipment, net	27,590	28,489
<b>OTHER ASSETS:</b>		
Restricted cash and other assets	124,414	110,802
Deferred income taxes	13,769	15,616
Other assets	3,224	3,317
Total other assets	141,407	129,735
Total assets	\$ 368,247	\$ 363,028

See accompanying notes to consolidated financial statements

LABOR READY, INC.

CONSOLIDATED BALANCE SHEETS

In Thousands (Except Par Values)

LIABILITIES AND SHAREHOLDERS' EQUITY

(Unaudited)

	April 2, 2004	January 2, 2004
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 14,874	\$ 17,302
Accrued wages and benefits	14,561	14,897
Current portion of workers' compensation claims reserve	37,167	36,170
Current maturities of long-term debt	2,332	2,461
Total current liabilities	68,934	70,830
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt, less current maturities	72,221	72,760
Workers' compensation claims reserve, less current portion	69,706	65,299
Total long-term liabilities	141,927	138,059
Total liabilities	210,861	208,889
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, \$0.131 par value, 20,000 shares authorized; No shares issued and outstanding	--	--
Common stock, no par value, 100,000 shares authorized; 41,371 and 41,102 shares issued and outstanding	55,711	53,441
Cumulative foreign currency translation adjustment	2,323	2,058
Cumulative unrealized gain on marketable securities	10	28
Retained earnings	99,342	98,612
Total shareholders' equity	157,386	154,139
Total liabilities and shareholders' equity	\$ 368,247	\$ 363,028

See accompanying notes to consolidated financial statements

**LABOR READY, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**In Thousands (Except Per Share Data)**

**(Unaudited)**

**Thirteen Weeks Ended**

		<b>April 2, 2004</b>		<b>March 28, 2003</b>
Revenue from services	\$	208,912	\$	172,280
Cost of services		148,185		121,383
		60,727		50,897
Gross profit		60,727		50,897
Selling, general and administrative expenses		56,446		52,719
Depreciation and amortization		2,059		2,071
		2,222		(3,893)
Income (loss) from operations		2,222		(3,893)
Interest and other expense, net		(1,005)		(1,062)
		1,217		(4,955)
Income (loss) before tax expense (benefit)		1,217		(4,955)
Income tax (benefit)		487		(1,740)
		730		(3,215)
Net income (loss)	\$	730	\$	(3,215)
Net income (loss) per common share:				
Basic	\$	0.02	\$	(0.08)
Diluted	\$	0.02	\$	(0.08)
Weighted average shares outstanding:				
Basic		41,210		40,402
Diluted		42,385		40,402

See accompanying notes to consolidated financial statements.

LABOR READY, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

In Thousands

(Unaudited)

Thirteen Weeks Ended

	April 2, 2004	March 28, 2003
Net income (loss)	\$ 730	\$ (3,215)
Other comprehensive income:		
Foreign currency translation adjustment	265	347
Unrealized loss on marketable securities	(18)	(2)
Other comprehensive income before tax	247	345
Income tax expense related to other comprehensive income	(99)	(121)
Other comprehensive income, net of tax	148	224
Comprehensive income (loss)	\$ 878	\$ (2,991)

See accompanying notes to consolidated financial statements.

LABOR READY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In Thousands

(Unaudited)

Thirteen Weeks Ended

	April 2, 2004	March 28, 2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 730	\$ (3,215)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,252	2,265
Provision for doubtful accounts	1,810	2,223
Deferred income taxes	1,573	(4,200)
Other operating activities	647	17
Changes in operating assets and liabilities:		
Accounts receivable	(700)	(1,050)
Workers' compensation claims reserve	5,404	1,462
Other current assets	(1,627)	(179)
Other current liabilities	1,552	3,089
<b>Net cash provided by operating activities</b>	<b>11,641</b>	<b>412</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(1,251)	(556)
Purchases of marketable securities	(6,722)	(8,354)
Maturities of marketable securities	7,703	2,910
Other assets	(100)	--
Restricted cash and other assets	(13,612)	18,008
<b>Net cash provided by (used in) investing activities</b>	<b>(13,982)</b>	<b>12,008</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from sale of stock through options and employee benefit plans	1,490	176
Payments on debt	(610)	(573)
Payments for offering costs	--	(3)
Checks issued against future deposits	(4,197)	--
Purchase and retirement of common stock	--	(4,957)
<b>Net cash used in financing activities</b>	<b>(3,317)</b>	<b>(5,357)</b>
Effect of exchange rates on cash	222	307
<b>Net change in cash and cash equivalents</b>	<b>(5,436)</b>	<b>7,370</b>
CASH AND CASH EQUIVALENTS, beginning of period	83,112	69,255
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 77,676</b>	<b>\$ 76,625</b>

See accompanying notes to consolidated financial statement

## Notes to Consolidated Financial Statements

### NOTE 1: ACCOUNTING PRINCIPLES AND PRACTICES

The accompanying unaudited consolidated financial statements have been 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, including normal recurring 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 January 2, 2004. Operating results for the thirteen-week period ended April 2, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

On March 12, 2003, the Board of Directors approved a change in the Company's fiscal year end from December 31 to a 52/53-week fiscal year ending on the Friday closest to December 31. This change was effective for fiscal year 2003, which ended on January 2, 2004. In fiscal years consisting of 53 weeks, the final quarter will consist of 14 weeks while in 52-week years all quarters will consist of 13 weeks. All references in these financial statements to the "2003 fiscal year end," "2003 year end" or "end of 2003" are to the fiscal year ended January 2, 2004.

	Fiscal Year 2004		Fiscal Year 2003	
	Ending Date	# of Days	Ending Date	# of Days
1st Quarter	April 2, 2004	91	March 28, 2003	87
2nd Quarter	July 2, 2004	91	June 27, 2003	91
3rd Quarter	October 1, 2004	91	September 26, 2003	91
4th Quarter	December 31, 2004	91	January 2, 2004	98

#### Revenue recognition

Revenue from the sale of services is recognized at the time the service is performed. A portion of our income is derived from cash dispensing machine ("CDM") fees, which are immaterial for all periods presented. Revenue attributable to sales involving coupons or other incentives are reversed in the period such revenue is earned.

#### Stock-based compensation

We follow Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations to account for stock options and employee stock purchase plans. Since the exercise price of our employee stock options is not less than the market price of the underlying stock at the date of grant, under APB Opinion No. 25, no compensation cost is recognized. Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, issued in December 2002, requires us to provide pro forma information regarding net income and earnings per share as if compensation cost for our stock option plans had been determined in accordance with the fair value based method prescribed in SFAS No. 123, as amended by SFAS 148.



Under the provisions of SFAS No. 123, as amended by SFAS 148, our net income (loss) and earnings per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share amount):

	<b>Thirteen Weeks Ended April 2, 2004</b>	<b>Thirteen Weeks Ended March 28, 2003</b>
<b>Net Income (Loss)</b>		
As Reported	\$ 730	\$ (3,215)
Stock-based employee compensation costs, net of tax	\$ 309	\$ 479
Pro Forma	\$ 421	\$ (3,694)
<b>Net Income (Loss) Per Share - As Reported</b>		
Basic	\$ 0.02	\$ (0.08)
Diluted	\$ 0.02	\$ (0.08)
<b>Net Income (Loss) Per Share - Pro Forma</b>		
Basic	\$ 0.01	\$ (0.09)
Diluted	\$ 0.01	\$ (0.09)

#### **NOTE 2: MARKETABLE SECURITIES**

Management determines the appropriate classification, pursuant to Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, of our investments in debt and equity securities ("Marketable Securities") at the time of purchase and re-evaluates such determination at each balance sheet date. Marketable Securities consist of revenue bonds and other municipal obligations. The aggregate cost and fair values of our Marketable Securities was \$24.3 million at April 2, 2004 and \$25.3 million at January 2, 2004. At April 2, 2004, those securities were classified as available-for-sale and stated at fair value as reported by the Company's investment brokers, with the unrealized holding gains and losses, net of applicable deferred income taxes, reported as a separate component of shareholders' equity. There were no material unrealized holding gains or losses at April 2, 2004. The specific identification method is used for computing realized gains and losses on the sale of available-for-sale securities. For the quarter ended April 2, 2004, there were no sales of available-for-sale securities.

#### **NOTE 3: RESTRICTED CASH AND OTHER ASSETS**

We have cash deposits and other restricted assets with independent financial institutions for the purpose of securing our obligations in connection with our workers' compensation program and for cross collateralization of our Accounts Receivable Facility. These assets may be released as workers' compensation claims are paid or when letters of credit are released or can be supported by eligible accounts receivable.

The following is a summary of restricted cash and other assets as of April 2, 2004 and January 2, 2004 (in millions):

	April 2, 2004	January 2, 2004
<b>Workers' Compensation Related</b>		
Workers' Assurance Program cash-backed instruments*	\$ 88.2	\$ 77.6
Secured surety bonds	9.1	9.0
Available for future commitments	1.1	2.2
<b>Subtotal</b>	<b>\$ 98.4</b>	<b>\$ 88.8</b>
Accounts Receivable Facility	26.0	22.0
<b>Total Restricted Cash and Other Assets</b>	<b>\$ 124.4</b>	<b>\$ 110.8</b>

\* 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 that we control, and cash deposits held by our insurance carriers.

#### NOTE 4: LONG-TERM DEBT

*Convertible Subordinated Notes* — During 2002, the Company issued 6.25% Convertible Subordinated Notes due June 2007 (the "Notes") in the aggregate principal amount of \$70.0 million. Interest is payable on the Notes on June 15 and December 15 of each year. Holders may convert the Notes into shares of Company common stock at any time prior to the maturity date at a conversion price of \$7.26 per share (equivalent to an initial conversion rate of approximately 137.741 shares per \$1,000 principal amount of Notes), subject to certain adjustments. The Notes are unsecured subordinated obligations and rank junior in right of payment to all existing and future debt that would constitute senior debt under the indenture, including letters of credit and surety bonds. On or after June 20, 2005, the Company may redeem some or all of the Notes for cash at 100% of their principal amount plus accrued interest if the market value of our common stock equals or exceeds 125% of the conversion price for at least 20 trading days in any consecutive 30 trading day period ending on the trading day prior to the date we mail notice of our intent to redeem the Notes. Our notice to redeem some or all of the Notes must be mailed at least 30 days prior to but not more than 60 days prior to the redemption date.

*Capital Leases* – The following is a summary of property held under capital leases:

	(Amounts in Thousands)	
	April 2, 2004	January 2, 2004
Computers and software	\$ 1,687	\$ 1,669
Cash dispensing machines	14,355	14,320
	16,042	15,989
Less accumulated depreciation and amortization	10,601	10,066
	\$ 5,441	\$ 5,923

Minimum future lease payments under capital leases as of April 2, 2004 for each of the next five years and in the aggregate are (in thousands):

2005	\$ 2,656
2006	1,305
2007	478
2008	240
2009	100
Thereafter	--
Total minimum lease payments	4,779
Less amounts representing interest and taxes	226
Present value of net minimum lease payments	4,553
Less current maturities	2,332
Long-term portion	\$ 2,221

Interest rates on capitalized leases range from 2.1% to 9.12% and are payable over 24 to 84 months.

**NOTE 5: WORKERS' COMPENSATION INSURANCE**

We provide workers' compensation insurance to our temporary and regular employees. For workers' compensation claims originating in the majority of states (which we refer to as self-insured states), we have purchased insurance policies from independent, third-party carriers, which cover any claims for a particular event above a \$2.0 million deductible, on a "per occurrence" basis. This results in our being substantially self-insured. However, should any single occurrence exceed the deductible amount per occurrence, all losses and expenses beyond the deductible amount would be reimbursable by the insurance carrier.

Two of the insurance companies with which we formerly did business are currently in liquidation proceedings and have failed to pay a number of covered claims that exceed our deductible limits ("excess claims"). We have presented these excess claims to the guarantee funds of the states in which the claims originated. Certain of these excess claims have been rejected by the state guarantee funds due to statutory eligibility limitations. As a result, we will retain the obligation for payment of these excess claims. Although it is possible that we may ultimately recover at least some portion of these excess claim amounts in the liquidation process, we have concluded that a material recovery is unlikely. As a result, we have estimated and recorded the liability for those claims to be approximately \$1.1 million, net of discount.

For workers' compensation claims originating in Washington, Ohio, West Virginia, North Dakota, Wyoming, Canada and Puerto Rico (the "monopolistic jurisdictions") we pay workers' compensation insurance premiums and obtain full coverage under government-administered programs. For work related claims originating in the United Kingdom which exceed amounts covered by governmental medical insurance programs, we have purchased an employers' liability insurance policy that carries a 25 million British Pound limit in total.

We establish a reserve for the deductible portion of our workers' compensation claims using actuarial estimates of the future cost of claims and related expenses that have been reported but not settled, and that have been incurred but not reported. Adjustments to the claims reserve are charged or credited to expense in the periods in which they occur. Included in the accompanying consolidated balance sheets as of April 2, 2004 and January 2, 2004 are workers' compensation claims reserves in the amounts of \$106.9 million and \$101.5 million, respectively. The claims reserves were computed using a discount rate of 5.0%. The selection of this discount rate is based on returns on "A" grade bonds with maturities comparable to the average life of our workers' compensation claims.

Workers' compensation expense recorded as part of cost of services consists of the following components: self-insurance reserves net of changes in discount, monopolistic jurisdictions premium, insurance premium and estimates of excess claims from loss years covered by insurance companies now in liquidation. Workers' compensation expense totaling \$16.6 million and \$13.0 million was recorded for the thirteen weeks ended April 2, 2004 and March 28, 2003, respectively.

**NOTE 6: NET INCOME (LOSS) PER SHARE**

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing adjusted 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 the conversion features of the Notes, except where their inclusion would be anti-dilutive. Neither the outstanding options nor the conversion features of the Notes were included in the calculation of diluted net income for the period ended March 28, 2003, as their inclusion would have been anti-dilutive due to the fact that we realized a net loss in that quarter. The anti-dilutive shares not considered as part of our calculation are as follows:

	<b>(Amounts in Thousands)</b>	
	<b>Thirteen Weeks Ended</b>	
	<b>April 2, 2004</b>	<b>March 28, 2003</b>
Stock Options	170	2,110
Convertible Notes	9,642	9,642

Anti-dilutive shares associated with our options relate to those options whose grant price is higher than the average market value of our stock during the period presented. We have anti-dilutive shares associated with our convertible Notes when net income per share would have been higher had the Notes been converted to equity (the "if-converted" calculation). The Notes are anti-dilutive in quarters when our net income per share is \$.08 or lower. The number of additional shares associated with the Notes is equal to the aggregate principal amount of the Notes, \$70.0 million, divided by the stated conversion price of \$7.26, or 9,642 shares.

Diluted common shares were calculated as follows:

	<b>Common Shares and Potential Common Shares (In Thousands)</b>	
	<b>April 2, 2004</b>	<b>March 28, 2003</b>
Weighted average number of common shares used in basic net income (loss) per common share	41,210	40,402
Effect of dilutive securities:		
Stock options	1,175	--
Convertible Notes	--	--
Weighted average number of common shares and potential common shares used in diluted net income (loss) per common share	42,385	40,402

## NOTE 7: COMMITMENTS AND CONTINGENCIES

### *Accounts Receivable Facility*

In March 2001, we entered into a letter of credit facility and accounts receivable securitization facility (collectively the "Accounts Receivable Facility") with certain unaffiliated financial institutions that expires in February of 2006. The Accounts Receivable Facility provides loan advances and letters of credit through the sale of substantially all of our eligible domestic accounts receivable to a wholly owned and consolidated subsidiary, Labor Ready Funding Corporation. The Accounts Receivable Facility includes a corporate guarantee by us and requires that we meet certain financial covenants. Among other things, these covenants require us to maintain certain liquidity, net income and net worth levels and a certain ratio of net income to fixed expenses. Subject to certain availability requirements, the Accounts Receivable Facility allows us to borrow a maximum of \$80 million, all of which may be used to obtain letters of credit. The amounts we may borrow (our borrowing capacity) under this agreement are largely a function of the levels of our accounts receivable from time to time, supplemented by pledged and restricted cash. We currently use this facility to issue letters of credit but if we were to take a loan against this borrowing capacity, interest would be charged at 1.1% above the commercial paper rate. We are currently in compliance with all covenants related to the Accounts Receivable Facility.

At April 2, 2004 we had a total available borrowing capacity of \$77.7 million under the Accounts Receivable Facility comprised of \$53.0 million of accounts receivable and \$24.7 of restricted cash. The \$53.0 million represents the eligible portion of our total \$73.3 million of securitized accounts receivable and the \$24.7 million represents the eligible portion of the \$26.0 million of restricted cash cross collateralizing the Accounts Receivable Facility. Of that borrowing capacity available at April 2, 2004, we had \$73.2 million of letters of credit issued against it leaving us with \$4.5 million available for future borrowings.

We are required by our insurance carriers and certain state workers' compensation programs to collateralize a portion of our workers' compensation obligation with irrevocable letters of credit, cash-backed instruments, or surety bonds. The letters of credit bear fluctuating annual fees, which were approximately 1.0% of the principal amount of the letters of credit outstanding as of April 2, 2004. The surety bonds bear annual fees based on a percentage of the bond, which is determined by each independent surety carrier but do not exceed 2% of the bond amount.

At April 2, 2004 and January 2, 2004 we had provided our insurance carriers and certain states with commitments in the form and amounts outlined below (in millions):

	April 2, 2004	January 2, 2004
Accounts Receivable Facility letters of credit	\$ 73.2	\$ 73.2
Workers' Assurance Program cash-backed instruments	88.2	77.6
Secured surety bonds	9.1	9.0
Unsecured surety bonds	5.9	5.9
<b>Total Collateral Commitments</b>	<b>\$ 176.4</b>	<b>\$ 165.7</b>

### *Revolving Credit Facility*

In January of 2002, we entered into a revolving credit facility with Wells Fargo Bank (the "Revolving Credit Facility"). As of April 2, 2004 the available borrowing amount was \$9.0 million with interest at the fluctuating rate per annum of .75% below the Prime Rate or 1.85% above the London Inter-Bank Rate, at the option of the Company. The available borrowing amount under this facility will be reduced by \$125,000 each quarter through February 2006 at which time the facility expires. The Revolving Credit Facility bears fees of 0.35% of the unused amount, and is secured by a first deed of trust on our corporate headquarters building. The Revolving Credit Facility contains a cross-default provision with respect to our Accounts Receivable Facility, which obligates us, among other things, to maintain certain liquidity, net income and net worth levels and a certain ratio of net income to fixed expenses. We currently do not have any borrowings on the Revolving Credit Facility and are in compliance with all covenants.

#### *Legal Contingencies and Developments*

From time to time we are the subject of 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. From time to time we are also subject to legal proceedings in the ordinary course of our operations. A summary of our most significant pending litigation 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 condition, results of operations or liquidity; however, to the extent possible, where legal proceedings can be estimated and where such claims are considered probable, we have recorded a liability. In accordance with accounting principles generally accepted in the United States of America, we have established reserves for contingent legal and regulatory liabilities in the amount of \$5.6 million at April 2, 2004 and \$3.9 million at January 2, 2004. We believe that none of the currently pending legal proceedings, individually or in the aggregate, will have a material adverse impact on our financial condition, 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 October 3, 2000, Anthony Flynn, Robert Hampton and Eugene Tonissen filed an action in New York State Court, Kings County, seeking class action certification for alleged violations of state law in connection with the fees charged by us for voluntary use of the CDMs. On November 25, 2002, the court granted our motion to dismiss the lawsuit, based on the arbitration agreement signed by each of our workers. The plaintiffs filed an appeal of the dismissal, which was denied by the Appellate Division of the New York Supreme Court in April 2004.

On February 14, 2001, Armando Ramirez, Phyllis Stennis, Earl Levels and Maurice Johnson filed an action in California State Court, Alameda County, alleging violation of federal and state wage and hour laws for failing to pay temporary employees for all hours worked. The plaintiffs are present or former temporary employees for us and seek unquantified damages, injunctive relief and certification of a class of workers. On July 12, 2002, the court certified classes of plaintiffs in connection with claims relating to waiting time, travel time and equipment charges for the period of February 1998 to present. The court declined to certify classes of plaintiffs in connection with claims relating to transportation expenses. On November 19, 2003, the court granted our motion for partial summary judgment, ruling that time spent by temporary employees waiting for job assignments is not compensable.

On July 29, 2002, Marisol Balanderan and 55 other plaintiffs filed an action against us and one of our customers in California State Court, Los Angeles County. The plaintiffs are temporary employees and job applicants who seek unquantified compensatory and punitive damages based on allegations that they were subjected to discrimination in dispatch to jobs on the basis of their female gender, throughout a period from September 2001 through January 2002. They also seek certification of a class of similarly situated temporary employees.

On February 6, 2003, Scott Romer and Shawna Clark, each a former Labor Ready employee, filed an action against us in California State Court, Los Angeles County. The plaintiffs allege that they were wrongfully exempted from overtime pay during their employment. They seek unquantified compensatory damages and certification of a class of similarly situated employees. On January 6, 2004, Patricia Huntley and Brandon McCall filed a complaint in intervention seeking to be included as plaintiffs in this lawsuit.

On July 16, 2003, Alecia Recio, Elizabeth Esquivel, Debbie Owen and Barry Selbts, each a current or former Labor Ready employee, jointly filed an action in United States District Court for the Central District of California, alleging failure to pay overtime under state and federal law and seeking unspecified damages and certification of a class of similarly situated employees. On September 23, 2003, the court dismissed the case for improper venue. On October 1, 2003, Recio re-filed her case in California State Court, Los Angeles County, seeking similar relief on behalf of Labor Ready employees employed in the State of California. On October 21, 2003, Owen re-filed her case in the United States District Court for the Western District of Washington, seeking similar relief on behalf of Labor Ready employees employed in all states except California. The Owen matter has been stayed pending resolution of the Huntley/McCall matter. On December 30, 2003, Patricia Huntley filed an action in the United States District Court for the Western District of Washington seeking similar relief on behalf of Labor Ready employees employed in all states except California, and has moved to consolidate her claims with those of Owen.

**NOTE 8: SUPPLEMENTAL CASH FLOW INFORMATION**

	April 2, 2004	March 28, 2003
	(Amounts in Thousands)	
Cash paid during the period for:		
Interest	\$ 304	\$ 245
Income taxes	\$ 646	\$ 1,034
Non-cash investing and financing activities:		
Assets acquired with capital lease obligations	\$ 19	\$ --
Contribution of common stock to 401(k) plan	\$ 219	\$ 285
Unrealized loss on marketable securities	\$ (18)	\$ (2)

**NOTE 9: EMPLOYEE STOCK PURCHASE PLAN**

We have an Employee Stock Purchase Plan (the "ESPP") to provide substantially all regular employees who have completed six months of service and meet certain limited qualifications, relative to weekly total hours and calendar months worked, 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. The ESPP expires on June 30, 2006. 1.9 million shares of common stock have been reserved for purchase under the ESPP, of which 1.2 million shares have been issued and 0.7 million shares remain available for future issuance. During the thirteen weeks ended April 2, 2004, participants purchased 16,000 shares in the ESPP for cash proceeds of \$0.2 million. During the thirteen weeks ended March 28, 2003, participants purchased 28,000 shares in the ESPP for cash proceeds of \$0.1 million.

**NOTE 10: STOCK OPTION PLANS**

We have stock option plans for directors, officers, and employees, which provide for non-qualified and incentive stock options. The majority of our options vest evenly over a four-year period from the date of grant and expire if not exercised within five years from the date of grant.

The fair value of option grants is estimated on the date of grant utilizing the Black-Scholes option pricing model with the following weighted average assumptions for grants in 2004: expected life of options of 4.8 years, expected volatility of 79%, risk-free interest rates of 3.0% and a 0% dividend yield.

The following table summarizes stock option activity for the thirteen week periods indicated below (in thousands, except exercise price):

	Thirteen Weeks Ended April 2, 2004		Thirteen Weeks Ended March 28, 2003	
	Shares	(1) Price	Shares	(1) Price
Outstanding at beginning of period	4,529	\$ 7.16	5,397	\$ 6.52
Granted	259	\$ 12.04	212	\$ 6.20
Exercised	(225)	\$ 5.04	(8)	\$ 3.96
Canceled	(363)	\$ 14.28	(323)	\$ 9.75
Outstanding at the end of the period	4,200	\$ 6.93	5,278	\$ 6.30
Exercisable at the end of the period	1,670	\$ 6.34	1,995	\$ 7.94
Weighted average fair value of options granted during the period		\$ 7.69		\$ 2.55

(1) Weighted average exercise price.

As of April 2, 2004, 1,217 shares of common stock were available for future grants under our stock option plans.

Information relating to stock options outstanding and exercisable at April 2, 2004 is as follows (in thousands, except per share amounts):

Range of Exercise Prices	Outstanding Options			Exercisable Options		
	Shares	Weighted Remaining Life	Weighted Average Price	Shares	Weighted Average Price	
\$ 3.05 - \$ 3.80	1,083	2.11	\$ 3.46	597	\$ 3.44	
\$ 3.81 - \$ 6.00	1,096	2.85	\$ 5.26	447	\$ 5.23	
\$ 6.01 - \$ 14.00	1,909	3.27	\$ 9.28	514	\$ 8.38	
\$ 14.01 - \$ 21.00	112	.32	\$ 16.83	112	\$ 16.83	
\$ 3.05 - \$ 21.00	4,200	2.78	\$ 6.93	1,670	\$ 6.34	

#### NOTE 11: SUBSEQUENT EVENTS

On April 5, 2004, the Company purchased the assets of Spartan Staffing, Inc., a privately held Florida corporation, for \$9.5 million in cash. The results of operations of Spartan Staffing, Inc. will be included with the results of the Company effective April 5, 2004.



## 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," "expect," "intend" and similar expressions identify forward-looking statements. 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. Factors which could affect our financial results are described in Item 3, Item 7 and Item 7A of Part 1 of our Form 10-K for the year ended January 2, 2004 and in the "Risk Factors" included in this Form 10-Q. 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 assumes responsibility for the accuracy and completeness of the forward-looking statements. We assume 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

Labor Ready is an international provider of temporary workers for manual labor jobs. Our customers are primarily in the transportation, warehousing, hospitality, landscaping, construction, light manufacturing, retail, wholesale, sanitation and printing industries. During 2003, we served over 275,000 customers and we put nearly 600,000 people to work through our dispatch offices in all 50 of the United States, in Puerto Rico, in five provinces of Canada and in the United Kingdom.

Our quarter was highlighted by the 21.3% increase in revenue to \$208.9 million compared to revenue of \$172.3 million for the first quarter of 2003. This revenue growth resulted in net income for the quarter of \$0.7 million or \$0.02 per share, as compared to a net loss of (\$3.2) million or (\$0.08) per share for the first quarter of 2003. On a comparable billing day/constant currency basis, revenue for the first quarter of 2004 increased 13.0% over the first quarter of 2003. The Company benefited from four more billing days this quarter compared to the first quarter of 2003, representing approximately \$0.03 of net income per share. Sales from branches one year or older grew approximately 12% over a year earlier. We opened 27 new branches during the first quarter of 2004, 24 of which were in the United States and three in the United Kingdom. We plan to open nine more branches during the balance of the year.

The strong pace of growth in demand we saw at the end of 2003 continued in the first quarter of 2004, across most industries and regions of our operations. As small and medium-sized businesses staff for renewed growth, they are relying on contingent labor to manage costs. As the economy improves, we believe demand for a flexible work force will continue to grow.

Subsequent to our quarter end, and as reported in our Form 8-K filed on April 6, 2004, we completed the acquisition of Spartan Staffing which adds an additional 25 branch locations to the 805 we had at quarter end. The purchase of Spartan Staffing allows us to expand our market share and is consistent with our commitment to serve the on-demand staffing needs of small and medium-sized businesses. The impact of this acquisition on our 2004 results is expected to be accretive for the year. Additionally, we anticipate the Spartan operations will have margins from income from operations similar to Labor Ready's existing business, before the additional amortization of intangible assets related to the purchase.

## Results of Operations

### Thirteen Weeks Ended April 2, 2004 Compared to Thirteen Weeks Ended March 28, 2003

The following table compares the operating results for the thirteen weeks ended April 2, 2004 and March 28, 2003 (in thousands):

	Thirteen Weeks Ended		
	April 2, 2004	March 28, 2003	Percent Change
Revenue from services	\$ 208,912	\$ 172,280	21.3
Cost of services	148,185	121,383	22.1
Selling, general and administrative expenses	56,446	52,719	7.1
Depreciation and amortization	2,059	2,071	(0.6)
Interest and other expense, net	(1,005)	(1,062)	(5.4)
Income (loss) before tax benefit	1,217	(4,955)	124.6
Net income (loss)	\$ 730	\$ (3,215)	122.7

**Dispatch Offices and Revenue from Services.** The number of offices increased to 805 at April 2, 2004 from 769 locations at March 28, 2003. This represents a net increase of 36 dispatch offices. Revenue for the quarter increased 21.3% compared to the same quarter a year ago. The change in revenue was made up of the following four components: (a) an 11.7% increase in same store branch revenue, defined as those branches opened one year or longer, (b) a (0.6%) decline in revenue related to closed branches, (c) a 2.2% increase in revenue from new branches and (d) an 8.0% benefit from foreign currency translation and four additional days of sales due to our transition to a 52/53-week fiscal year.

**Cost of Services and Gross Margin.** Cost of services remained fairly consistent at 70.9% of revenue for the quarter ended April 2, 2004 compared to 70.5% for the quarter ended March 28, 2003. This was despite increases in workers' compensation costs and payroll taxes during the first quarter of 2004. Labor costs have increased by 1.0% over the past two years while our average billing rate has increased by 3.5% over the same period. As a result, our gross margins also remained consistent at 29.1% for the quarter ended April 2, 2004 compared to 29.5% for the quarter ended March 28, 2003.

**Selling, General, and Administrative Expenses.** Selling, general and administrative ("SG&A") expenses as a percent of revenue were 27.0% for the period ended April 2, 2004 compared to 30.6% for the period ended March 28, 2003, as the company-wide concerted effort to control costs and increase average branch revenue continues. The decrease in SG&A as a percent of revenue is largely related to controlling salary costs while revenue increased.

**Depreciation and Amortization Expense.** Depreciation and amortization expenses have remained consistent at \$2.1 million for the first quarters of both 2004 and 2003.

**Interest and Other Expense, Net.** We recorded interest and other expense, net of interest income, of (\$1.0) million for the period ended April 2, 2004 compared to (\$1.1) million for the period ended March 28, 2003.

**Taxes On Income.** Our effective tax rate was 40.0% for the thirteen weeks ended April 2, 2004 compared to 35.1% for the thirteen weeks ended March 28, 2003. The increase during 2004 as compared to 2003 is largely attributable to the expiration of the federal Work Opportunity and Welfare to Work tax credits and provisions for foreign income taxes. The principal difference between the statutory federal income tax rate and our effective income tax rate results from state income taxes, federal tax credits, certain non-deductible expenses and the valuation allowance discussed below.

We have a net deferred tax asset of approximately \$19.1 million at April 2, 2004 resulting primarily from workers' compensation reserves and allowance for doubtful accounts. We have assessed our past earnings history and trends, projected sales, expiration dates of loss carryforwards, and our ability to implement tax planning strategies which are designed to accelerate or increase taxable income. Based on the results of this analysis and the uncertainty of the realization of certain tax planning measures, we established a valuation allowance against our carryforward benefits in the amount of \$5.5 million at April 2, 2004 and \$3.1 million at March 28, 2003.

## Summary of Critical Accounting Estimates and Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to workers' compensation claims, bad debts, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of our consolidated financial statements.

*Workers' Compensation Reserves.* We maintain reserves for workers' compensation claims using actuarial estimates of the future cost of claims and related expenses that have been reported but not settled, and that have been incurred but not reported. This reserve, which reflects potential liabilities to be paid in future periods based on estimated payment patterns, is discounted to its net present value. We are currently using a discount rate of 5%. The selection of the discount rate is based on returns on "A" grade bonds with maturities comparable to the average life of our workers' compensation claims. We evaluate the reserve regularly throughout the year and make adjustments as needed. If the actual cost of such claims and related expenses exceeds the amounts estimated, or if the discount rate must be lowered, additional reserves may be required.

*Allowance for Doubtful Accounts.* We establish an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We evaluate this allowance regularly throughout the year and make adjustments as needed. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

*Reserves for Contingent Legal and Regulatory Liabilities.* We have established reserves for contingent legal and regulatory liabilities. We record a liability for such contingent liabilities when our management judges that such claims can be estimated and are probable to occur. We evaluate this reserve regularly throughout the year and make adjustments as needed. If the actual outcome of these matters is different than expected, an adjustment would be charged or credited to expense in the period the outcome occurs or the period in which the estimate changes.

*Income Taxes and Related Valuation Allowance.* We account for income taxes by recording taxes payable or refundable for the current year and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in our financial statements or tax returns. As required under Financial Accounting Standards Board (FASB) Statement No. 109, "Accounting for Income Taxes", these expected future tax consequences are measured based on provisions of tax law as currently enacted; the effects of future changes in tax laws are not anticipated. Future tax law changes, such as a change in the corporate tax rate, could have a material impact on our financial condition or results of operations. When appropriate, we record a valuation allowance against deferred tax assets to offset future tax benefits that may not be realized. In determining whether a valuation allowance is appropriate, we consider whether it is more likely than not that all or some portion of our deferred tax assets will not be realized, based in part upon management's judgments regarding future events. Based on that analysis, we have determined that a valuation allowance is appropriate for the portion of net operating losses that will not be utilized within the permitted carry forward periods as of April 2, 2004 and January 2, 2004.

## Liquidity and Capital Resources

### *Cash Flow Summary (This summary should be read in conjunction with the Consolidated Statements of Cash Flows in Item 1 of Part 1 of this Form 10-Q)*

#### *Cash Flows from Operations*

Net cash provided by operating activities was \$11.6 million for the period ended April 2, 2004 compared to \$0.4 million for the period ended March 28, 2003. The increase in cash flows from operations in 2004 compared to 2003 is largely due to growth in our income from operations and also growth in our workers' compensation claims reserve and fluctuations in the balance of deferred income taxes.

We typically pay our temporary workers on a daily basis, bill our customers weekly, and, on average, collect monthly. Consequently, from time to time we may experience negative cash flow from operations.

#### *Cash Flows from Investing Activities*

The change in cash from investing activities for the period ending April 2, 2004 compared to the period ending March 28, 2003 is due mostly to changes in restricted cash and other assets. Our restricted cash and other assets are used primarily to collateralize our workers' compensation program and our Accounts Receivable Facility. We increased our restricted cash and other assets by \$13.6 million during the first quarter of 2004 compared to a reduction in these accounts of \$18.0 million during the first quarter of 2003. This fluctuation is due to periodic shifts in the form and mix of collateral making up our total workers' compensation commitments. At the end of the first quarter of 2004, we had \$26.0 million of restricted cash cross collateralizing our Accounts Receivable Facility compared to \$21.0 million at the end of the first quarter of 2003.

#### *Cash Flows from Financing Activities*

Net cash used in financing activities was \$3.3 million for the period ended April 2, 2004 compared to \$5.4 million for the period ended March 28, 2003. At year-end 2003 we had \$4.2 million in checks issued against future deposits that were paid in full during the first quarter of 2004 with no similar activity at the end of the first quarter of 2004. This was offset by increased activity in the exercise of stock options by our employees. Net cash used in financing activities during the first quarter of 2003 was primarily the result of common stock repurchases of approximately 800,000 shares in the amount of \$5.0 million made during the first quarter of 2003. The Board has authorized repurchases of up to an additional 1.4 million shares.

#### *Capital Resources*

In March 2001, we entered into a letter of credit facility and an accounts receivable securitization facility (collectively the "Accounts Receivable Facility") with certain unaffiliated financial institutions that expires in February of 2006. The Accounts Receivable Facility provides loan advances and letters of credit through the sale of substantially all of our eligible domestic accounts receivable to a wholly-owned and consolidated subsidiary, Labor Ready Funding Corporation. The Accounts Receivable Facility includes a corporate guarantee by us and requires that we meet certain financial covenants. Among other things, these covenants require us to maintain certain liquidity, net income and net worth levels and a certain ratio of net income to fixed expenses. Subject to certain availability requirements, the Accounts Receivable Facility allows us to borrow a maximum of \$80 million, all of which may be used to obtain letters of credit. The amounts we may borrow (our borrowing capacity) under this agreement are largely a function of the levels of our accounts receivable from time to time, supplemented by pledged and restricted cash. We currently use this facility to issue letters of credit but if we were to take a loan against this borrowing capacity, interest would be charged at 1.1% above the commercial paper rate. We are currently in compliance with all covenants related to the Accounts Receivable Facility.

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 that we control as well as cash deposits held by our insurance carriers. We ended the first quarter with restricted cash in our Workers' Assurance Program totaling \$89.4 million. Of this cash, \$88.2 million was committed to insurance carriers leaving \$1.2 million available for future needs. We will be able to restrict up to an additional \$18.0 million during the balance of 2004 through the use of this program.

In January of 2002, we entered into a revolving credit facility with Wells Fargo Bank (the "Revolving Credit Facility"). As of the April 2, 2004, the available borrowing amount was \$9.0 million with interest at the fluctuating rate per annum of .75% below the Prime Rate or 1.85% above the London Inter-Bank Rate, at the option of the Company. The available borrowing amount under this facility will be reduced by \$125,000 each quarter through February 2006 at which time the facility expires. The Revolving Credit Facility bears fees of 0.35% of the unused amount, and is secured by a first deed of trust on our corporate headquarters building. The Revolving Credit Facility contains a cross-default provision with respect to our Accounts Receivable Facility, which obligates us, among other things, to maintain certain liquidity, net income and net worth levels and a certain ratio of net income to fixed expenses. We currently do not have any borrowings on the Revolving Credit Facility and are in compliance with all covenants.

During 2002, the Company issued 6.25% Convertible Subordinated Notes due 2007 (the "Notes") in the aggregate principal amount of \$70.0 million. Interest is payable on the Notes on June 15 and December 15 of each year. Holders may convert the Notes into shares of Company common stock at any time prior to the maturity date at a conversion price of \$7.26 per share (equivalent to an initial conversion rate of approximately 137.741 shares per \$1,000 principal amount of Notes), subject to certain adjustments. The Notes are unsecured subordinated obligations and rank junior in right of payment to all existing and future debt that would constitute senior debt under the indenture, including letters of credit and surety bonds. On or after June 20, 2005, the Company may redeem some or all of the Notes at 100% of their principal amount plus accrued interest if the market value of our common stock equals or exceeds 125% of the conversion price for at least 20 trading days in any consecutive 30 trading day period ending on the trading day prior to the date we mail notice of our intent to redeem the Notes. Our notice to redeem some or all of the Notes must be mailed at least 30 days prior to but not more than 60 days prior to the redemption date.

We believe that cash provided from operations and our capital resources will be adequate to meet our cash requirements over the next twelve months.

*Workers' Compensation Collateral and Claims Reserves*

We provide workers' compensation insurance to our temporary and regular employees. For workers' compensation claims originating in the majority of states (which we refer to as self-insured states), we have purchased insurance policies from independent, third-party carriers, which cover any claims for a particular event above a \$2.0 million deductible, on a "per occurrence" basis. This results in our being substantially self-insured. However, should any single occurrence exceed the deductible amount, all losses and expenses beyond the deductible amount would be reimbursable from the insurance carrier.

We are required by our insurance carriers and certain state workers' compensation programs to collateralize a portion of our workers' compensation obligation with irrevocable letters of credit, cash-backed instruments, or surety bonds. Our insurance carriers annually assess the amount of collateral they will require from us relative to our workers' compensation obligation for which they are responsible. Such amounts can increase or decrease independent of our assessments and reserves. At April 2, 2004 and January 2, 2004 we had provided our insurance carriers and certain states with commitments in the form and amounts outlined below (in millions):

	April 2, 2004	January 2, 2004
Accounts Receivable Facility letters of credit	\$ 73.2	\$ 73.2
Workers' Assurance Program cash-backed instruments	88.2	77.6
Secured surety bonds	9.1	9.0
Unsecured surety bonds	5.9	5.9
<b>Total Collateral Commitments</b>	<b>\$ 176.4</b>	<b>\$ 165.7</b>

Our total collateral commitments exceed our workers' compensation reserve due to several factors including the following which are quantified below: (a) our claims reserves are discounted to net present value and our collateral commitments are based on the gross, undiscounted reserve, (b) a delay in the release of collateral related to claims that have been previously paid and, therefore, are no longer reflected in the reserve, (c) the obligation to post commitments prior to incurring the liability associated with our reserve and (d) the obligation to post excess collateral for claims not yet paid based on requirements specific to the insurance carrier.

The following table provides a reconciliation of our collateral commitments to our workers' compensation reserve balance as of the period end dates presented (in millions):

	<b>April 2, 2004</b>	<b>January 2, 2004</b>
Ending workers' compensation reserve:	\$ 106.9	\$ 101.5
a) Discount on reserves	25.6	23.6
b) Unreleased collateral posted on claims that have been paid	27.2	23.3
c) Collateral posted ahead of obligation incurred	14.5	11.1
d) Excess collateral on claims not yet paid	2.2	6.2
<b>Total Collateral Commitments</b>	<b>\$ 176.4</b>	<b>\$ 165.7</b>

The Accounts Receivable Facility letters of credit bear fluctuating annual fees, which were approximately 1.0% of the principal amount of the letters of credit as of the end of 2003. Our surety bonds are issued by independent insurance companies on our behalf and bear annual fees based on a percentage of the bond, which is determined by each independent surety carrier, but do not exceed 2.0% of the bond amount. The terms of these bonds are subject to annual review and renewal and the bonds can be canceled by the sureties with as little as 60 days notice.

Our Worker's Assurance Program cash-backed instruments include cash-backed letters of credit, cash held in trusts that we control, and cash deposits held by our insurance carriers. The letters of credit bear fluctuating annual fees, which were approximately 0.08% of the principal amount of the letters of credit as of April 2, 2004.

Our workers' compensation reserve for estimated claims increases as temporary labor services are provided and decreases as payments are made on these claims. Although the estimated claims are expensed as incurred, the claim payments are made over a period of several years. Collateral for our workers' compensation program is posted with various state workers' compensation programs and insurance carriers based upon their assessments of our potential liabilities. Due to the timing difference between the recognition of expense and claim payments as described above, we generally anticipate that both our reserves and our collateral obligations will continue to grow.

The following table provides an analysis of changes in our workers' compensation claims reserves (in thousands). Changes in reserve estimates are reflected in the income statement for the period when the changes in estimates are made.

	<b>Thirteen Weeks Ended</b>	
	<b>April 2, 2004</b>	<b>March 28, 2003</b>
Beginning Balance	\$ 101,469	\$ 85,894
Self-Insurance Reserve Expense (net of discount)		
Expenses related to current period	12,512	9,830
Expenses related to prior years	896	--
<b>Total</b>	<b>13,408</b>	<b>9,830</b>
Amortization of prior year discount	773	1,768
Payments		
Payments related to current period claims	(118)	(192)
Payments related to claims from prior years	(8,659)	(9,944)
<b>Total</b>	<b>(8,777)</b>	<b>(10,136)</b>
Ending Balance	106,873	87,356
Less current portion	37,167	33,841
<b>Long-term portion</b>	<b>\$ 69,706</b>	<b>\$ 53,515</b>

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. Throughout the year, management regularly reviews and evaluates the adequacy of reserves for prior periods, and establishes rates for future accruals. Adjustments to prior period reserves are charged or credited to expense in the periods in which the estimate changes. Our claim reserves are computed using a discount rate of 5.0%.

Factors we consider in establishing and adjusting these reserves include, among other things, (a) the estimates provided by our independent actuaries, (b) our mix of business by state and by type of work performed, (c) industry and nationwide trends in benefit costs, (d) the impact of the loss of insurance coverage for excess claims insured by insurance companies which have become insolvent, (e) appropriate discount rates and estimated payment patterns, and (f) future savings related to claims management and other cost containment measures. Factors that have caused our estimated losses for prior years to change include, among other things, (i) inflation of medical and indemnity costs at a rate higher than originally anticipated, (ii) regulatory and legislative developments that have increased benefits and settlement requirements in several states, (iii) a different mix of business than previously anticipated, (iv) the impact of the loss of insurance coverage for excess claims insured by insurance companies which have become insolvent, and (v) adjustments to the discount rate.

*Excess Claims Liability*

Two of the insurance companies with which we formerly did business are currently in liquidation and have failed to pay a number of covered claims that exceed our deductible limits ("excess claims"). We have presented these excess claims to the guarantee funds of the states in which the claims originated. Certain of these excess claims have been rejected by the state guarantee funds due to statutory eligibility limitations. As a result, we will retain the obligation for payment of these excess claims. Although it is possible that we may ultimately recover at least some portion of these excess claim amounts in the liquidation process, we have concluded that a material recovery is unlikely. As a result, we have estimated and recorded the liability for those claims to be approximately \$1.1 million, net of discount.

*Other*

Included in cash and cash equivalents as of April 2, 2004 is cash held within dispatch office CDMs for payment of temporary payrolls in the amount of approximately \$11.1 million compared to \$15.8 million at January 2, 2004.

Our capital expenditures were \$1.3 million for the quarter ended April 2, 2004 and were \$5.7 million for 2003. We anticipate that our capital expenditures will be approximately \$3.7 million for the balance of 2004.

*Contractual Obligations and Commitments*

We have various contractual obligations that are recorded as liabilities in our consolidated financial statements. Certain contractual obligations, such as operating lease obligations, are not recognized as liabilities in our consolidated financial statements, but are required to be disclosed. There were no material changes outside the ordinary course of business in our contractual obligations during the thirteen-week period ended April 2, 2004.

The following table provides a summary of our contractual obligations as of April 2, 2004:

Contractual Obligations	Payments Due By Period (In Thousands)				
	Total	2004	2005 through 2006	2007 through 2008	2009 and later
Long-term debt (a)	\$70,000	--	--	\$70,000	--
Capital lease obligations (b)	4,779	2,656	1,783	340	--
Operating leases (c)	6,543	2,642	2,592	836	473
Purchase obligations (d)	3,987	3,145	842	--	--
Other long-term obligations (e)	2,956	2,956	--	--	--
<b>Total Contractual Cash Obligations</b>	<b>\$88,265</b>	<b>\$11,399</b>	<b>\$5,217</b>	<b>\$71,176</b>	<b>\$473</b>

- (a) Convertible Subordinated Notes further described in Note 4 of Notes to Consolidated Financial Statements found in Item I of Part I of this Form 10-Q
- (b) Primarily payments on leases of the Cash Dispensing Machines, which include interest and tax amounts.
- (c) Excludes all payments related to leases cancelable within ninety days.
- (d) Binding purchase orders for goods or services outstanding at April 2, 2004.
- (e) Voice and data service contracts.



The following table provides a summary, by period of expiration, of commercial commitments and other commitment capacity available to us as of April 2, 2004:

**Amount of Commitment Expiration Per Period  
(in thousands)**

<b>Other Commercial Commitments</b>	<b>Total</b>	<b>2004</b>	<b>2005 through 2006</b>	<b>2007 through 2008</b>	<b>2009 and later</b>
Accounts Receivable Facility (f)	\$ 80,000	--	\$80,000	--	--
Line of credit (g)	9,000	500	8,500	--	--
Secured surety bonds	9,051	9,051	--	--	--
Unsecured surety bonds	7,500	7,500	--	--	--
<b>Total Commercial Commitments</b>	<b>\$ 105,551</b>	<b>\$17,051</b>	<b>\$88,500</b>	<b>--</b>	<b>--</b>
<b>Other Commitment Capacity</b>					
Workers' Assurance Program (h)	89,354				
<b>Total Commercial Commitments and other Collateral Capacity</b>	<b>\$ 194,905</b>				
<b>Total Collateral Commitments Outstanding as of April 2, 2004</b>	<b>(176,400)</b>				
<b>Available Commitment Capacity</b>	<b>\$ 18,505</b>				

- (f) See Note 7 of Notes to Consolidated Financial Statements found in Item 1 of Part I of this Form 10-Q.  
(g) No balance outstanding. See description of Revolving Credit Facility in Note 7 of Notes to Consolidated Financial Statements found in Item 1 of Part I of this Form 10-Q  
(h) See description in Capital Resources in Item 2 of Part I of this Form 10-Q.

We expect to commit approximately \$39.5 million of additional restricted cash during the remainder of 2004. In addition to the \$18.5 million of capacity listed in the table above, we expect to increase our capacity by transferring an additional \$18.0 million of our currently unrestricted cash into the Workers' Assurance Program during 2004, and the remaining balance will be satisfied with other available unrestricted cash balances.

## Risk Factors: Issues and Uncertainties

*Investing in our securities involves a high degree of risk. The following risk factors, issues and uncertainties should be considered in evaluating our future prospects. In particular, keep these risk factors in mind when you read "forward-looking" statements elsewhere in this report. Forward-looking statements relate to our expectations for future events and time periods. Generally, the words "anticipate," "expect," "intend" and similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements. Any of the following risks could harm our business, operating results or financial condition and could result in a complete loss of your investment. Additional risks and uncertainties that are not yet identified or that we currently think are immaterial may also harm our business and financial condition in the future.*

***Competition for customers in our industry is intense, and if we are not able to effectively compete, our financial results could be harmed and the price of our securities could decline.***

The short-term, light industrial niche of the temporary services industry is highly competitive, with limited barriers to entry. Several very large full-service and specialized temporary labor companies, as well as small local operations, compete with us in the staffing industry. Competition in some markets is intense, particularly for provision of light industrial personnel, and these competitive forces limit our ability to raise prices to our customers. For example, competitive forces have historically limited our ability to raise our prices to immediately and fully offset increased costs of doing business, including increased labor costs, costs for workers' compensation and state unemployment insurance. As a result of these forces, we have in the past faced pressure on our operating margins. Pressure on our margins remains intense, and we cannot assure you that it will not continue. If we are not able to effectively compete in our targeted markets, our operating margins and other financial results will be harmed and the price of our securities could decline.

***If we are not able to obtain insurance on commercially reasonable terms, our financial condition or results of operations could suffer.***

We are required to pay workers' compensation benefits for our temporary and regular employees. The insurance markets have undergone dramatic changes in recent periods and several insurers are experiencing financial difficulties. These changes have resulted in significantly increased insurance costs and higher deductibles, including those applicable to our workers' compensation insurance coverages. Under our workers' compensation insurance program, we maintain "per occurrence" insurance, which covers any claims for a particular event above a \$2.0 million deductible, and we do not maintain an aggregate stop-loss limit other than on a per-occurrence basis. While we have secured coverage with American International Group, Inc. (AIG) for occurrences in the period from July 2003 through June 2004, our insurance policies must be renewed annually, and we cannot guarantee that we will be able to successfully renew such policies for any period after June 2004. In the event we are not able to obtain workers' compensation insurance on commercially reasonable terms, our ability to operate our business would be significantly impacted and our financial condition and results of operations could suffer.

We maintain employment practice liability insurance (EPLI) for certain types of claims that may arise out of the course of employment. We currently maintain a policy with a \$2.5 million deductible with a maximum aggregate coverage of \$10.0 million per claim and per policy year which is applicable to the coverage period of July 2003 through June 2004. The EPLI market has experienced increasing losses in recent periods creating increases in insurance premiums, increases in deductible limits, and decreases in overall coverage. In the event we are unable to retain EPLI coverage on commercially reasonable terms, our financial condition and results of operations could suffer.

***We expect that the amount of collateral that we are required to post to support our workers' compensation obligations will increase, which will reduce the capital we have available to grow and support our operations.***

We are required to maintain commitments such as irrevocable letters of credit, cash-backed instruments, or surety bonds to secure repayment to our insurance companies (or in some instances, the state) of the deductible portion of all open workers' compensation claims. We pledge cash or other assets in order to secure these commitments. We sometimes face difficulties in recovering our collateral from insurers, particularly when those insurers are in financial distress, and we cannot guarantee that our collateral for past claims will be released in a timely manner as we pay down claims. As a result, we expect that the amount of collateral required to secure our commitments to our insurance carriers will continue to increase. We believe that our current sources of liquidity will satisfy our immediate needs for these obligations; however, our currently available sources of collateral for these commitments are limited and we could be required to seek additional sources of capital in the future. These additional sources of financing may not be available on commercially reasonable terms. Even if they are available, these financings could result in earnings dilution to our existing shareholders.

***Our reserves for workers' compensation claims, allowance for doubtful accounts, and other liabilities may be inadequate, and we may incur additional charges if the actual costs of these claims exceed the amounts estimated.***

We maintain a reserve for workers' compensation claims using actuarial estimates of the future cost of claims and related expenses that have been reported but not settled, and that have been incurred but not reported. This reserve, which reflects potential liabilities that span several years, is discounted to its net present value using a discount rate of 5%. We evaluate the accrual rates for our reserves regularly throughout the year and make adjustments as needed. If the actual cost of such claims and related expenses exceed the amounts estimated, or if the discount rate represents an inflated estimate of our return on capital over time, actual losses for these claims may exceed reserves and/or additional reserves may be required. We also establish an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. We have also established reserves for contingent legal and regulatory liabilities, based on management's estimates and judgments of the scope and likelihood of these liabilities. We cannot assure you that our reserves are adequate. If the actual outcome of these matters is less favorable than expected, an adjustment would be charged to expense in the period in which the outcome occurs or the period in which our estimate changes.

***Some insurance companies with which we have previously done business are in financial distress. If our insurers do not fulfill their obligations, we could experience significant losses.***

Prior to our current policy with AIG, we purchased annual insurance policies in connection with our workers' compensation obligations from three primary carriers. Kemper Insurance Company (Kemper) provided coverage for occurrences commencing in 2001 through June 30, 2003. Prior to 2001, Legion Insurance Company (Legion) and Reliance Insurance Company (Reliance) provided coverage to us. These former insurance carriers are experiencing unfavorable claims experience and loss of their own reinsurance coverage. Legion and Reliance are currently in liquidation and have failed to pay a number of covered claims that exceed our deductible limits ("excess claims"). We have presented these excess claims to the guarantee funds of the states in which the claims originated. Certain of these excess claims have been rejected by the state guarantee funds due to statutory eligibility limitations. As a result, we will retain the obligation for payment of these excess claims. To the extent we experience additional claims that exceed our deductible limits and our insurers do not satisfy their coverage obligations, we may continue to be forced to satisfy some or all of those claims directly; this in turn could harm our financial condition or results of operations.

***Our credit facilities require that we meet certain levels of financial performance. In the event we fail either to meet these requirements or have them waived, we may be subject to penalties and we could be forced to seek additional financing.***

Our credit facilities contain strict financial covenants. Among other things, these covenants require us to maintain certain net income and net worth levels and a certain ratio of net income to fixed expenses. In the past we have negotiated amendments to these covenants to ensure our continued compliance with their restrictions. We cannot assure you that our lender would consent to such amendments on commercially reasonable terms in the future if we once again required such relief. In the event that we do not comply with the covenants and the lender does not consent to such non-compliance, we will be in default of our agreement, which could subject us to penalty rates of interest and accelerate the maturity of the outstanding balances. Moreover, the indenture governing our Notes and a number of our smaller loan arrangements contain cross-default provisions, which accelerate our indebtedness under these arrangements in the event we default under our credit facilities. Accordingly, in the event of a default under our credit facilities, we could be required to seek additional sources of capital to satisfy our liquidity needs. These additional sources of financing may not be available on commercially reasonable terms. Even if they are available, these financings could result in dilution to our existing shareholders.

***We may be exposed to employment-related claims and costs that could harm our business, financial condition or results of operations.***

We are in the business of employing people and placing them in the workplaces of other businesses. As a result, we are subject to a large number of federal and state regulations relating to employment. This creates a risk of potential claims of discrimination and harassment, violations of health and safety and wage and hour laws, criminal activity and other claims. From time to time we are subject to audit by various state and governmental authorities to determine our compliance with a variety of these regulations. We have in the past been found, and may in the future be found, to have violated regulations or other regulatory requirements applicable to our operations. We may, from time to time, incur fines and other losses or negative publicity with respect to any such violation. In addition, some or all of these claims may give rise to litigation, which could be time-consuming for our management team, costly and could harm our business. We currently maintain insurance for certain types of employer liability with coverage above a \$2.5 million deductible per occurrence with a maximum aggregate coverage of \$10.0 million per claim. We cannot assure you that we will not experience these problems in the future or that our insurance will be sufficient in amount or scope to cover any of these types of liabilities or that we will be able to continue to secure insurance coverage for such events on terms that we find commercially reasonable.

***A significant portion of our revenue is derived from operations in a limited number of markets. Recessions in these markets have harmed and could continue to harm our operations.***

A significant portion of our revenue is derived from our operations in a limited number of states. Revenue generated from operations in California, Texas and Florida, in the aggregate, accounted for approximately 34.7% and 34.9% of our overall revenue in 2003 and 2002, respectively. The California economy has been particularly hard-hit by the most recent economic recession. California is our largest market and continued economic weakness in this region or our other key markets could harm our business.

***Any significant economic downturn could result in our clients using fewer temporary employees, which could harm our business or cause the price of our securities to decline.***

During 2001 and 2002 and to some extent in 2003, the slowdown in the U.S. economy significantly impacted the light industrial labor markets and reduced our revenue. Because demand for personnel services and recruitment services is sensitive to changes in the level of economic activity, our business may suffer during economic downturns. As economic activity slows down, companies tend to reduce their use of temporary employees and recruitment services before undertaking layoffs of their regular employees, resulting in decreased demand for our personnel. As a result, any significant economic downturn could harm our business, financial condition or results of operations, or cause the price of our securities to decline.

***Establishment and expansion of our international operations will burden our resources and may fail to generate a substantial increase in revenue.***

As of April 2, 2004, we had 48 dispatch offices in the United Kingdom and 36 in Canada. Establishing, maintaining and expanding our international operations expose us to a number of risks and expenses, including:

- substantially increased costs of operations;
- temporary diversion of existing management resources;
- establishment of an efficient and self-reliant local infrastructure;
- ability to deal effectively with local labor organizations and trade unions;
- ability to attract, hire and train qualified local sales and administrative personnel;
- compliance with additional local regulatory requirements;
- fluctuations in the value of foreign currencies;
- longer payment cycles;
- expansion of our information and control systems to manage expanded global operations; and
- the additional expense and risks inherent in operations in geographically and culturally diverse locations.

We cannot assure you that we will effectively deal with the challenges of expanding our foreign operations and our attempts to do so could harm our financial performance or results of operations.

***We are continually subject to the risk of new regulation, which could harm our business.***

Over the past three years, a number of bills were introduced in Congress and various state legislatures which, if enacted, would impose conditions which could harm our business. This proposed legislation, much of which is backed by labor unions, has included provisions such as a requirement that our temporary employees receive the same pay and benefits as our customers' regular employees, prohibition on fees charged in connection with our CDMs and a requirement that our customers provide workers' compensation insurance for our temporary employees. We take a very active role and incur expense in opposing proposed legislation adverse to our business and in informing policy makers as to the social and economic benefits of our business. However, we cannot guarantee that any of these bills will not be enacted, in which event demand for our service may suffer.

Organized labor has been particularly active in sponsoring legislation in the State of California, our largest market. Adverse legislation in California or our other large markets could significantly increase our costs of doing business or decrease the value of our services to our customers. Either result could harm our results of operations.

***The cost of compliance with government regulations is significant and could harm our operating results.***

We incur significant costs to comply with all applicable federal and state laws and regulations relating to employment, including occupational safety and health provisions, wage and hour requirements (including minimum wages), workers' compensation and unemployment insurance. We cannot assure you that we will be able to increase fees charged to our customers to offset increased costs relating to these laws and regulations. If we incur additional costs to comply with these regulations and we are not able to increase the rates we charge our customers to fully cover any such increase, our margins and operating results will be harmed.

***Our operations expose us to the risk of litigation, which we try to manage but could lead to significant potential liability.*** From time to time we are party to litigation in the ordinary course of our business. The claimants in one current proceeding have aggregated claims as a class action, and claimants in several other cases are seeking to do likewise. The costs of defense and the risk of loss in connection with class action suits are greater than in standard commercial litigation. We cannot assure you that such litigation will not disrupt our business or impact our financial results, due to the costs of defending against such litigation, any judgments that may be awarded against us and the loss of significant management time devoted to such litigation.

***Our business depends extensively on recruiting and retaining qualified dispatch office managers. If we are not able to attract a sufficient number of qualified dispatch office managers, our future growth and financial performance may suffer.***

We rely heavily on the performance and productivity of our dispatch office managers, who manage the operation of the dispatch offices, including recruitment and daily dispatch of temporary employees, marketing and providing quality customer service. We have historically experienced a high degree of turnover among our branch managers. As a result, we must continue to recruit a sufficient number of managers to staff new offices and to replace managers lost through attrition or termination. Our future growth and financial performance depend on our ability to hire, train and retain qualified managers from a limited pool of qualified candidates who frequently have no prior experience in the temporary employment industry.

***We have significant working capital requirements.***

We require significant working capital in order to operate our business. We have historically experienced periods of negative cash flow from operations and investment activities, especially during seasonal peaks in revenue experienced in the third and fourth quarter of the year. We invest significant cash into the opening and operations of new dispatch offices until they begin to generate revenue sufficient to cover their operating costs. We also pay our temporary personnel on a daily basis and bill our customers on a weekly basis. As a result, we must maintain cash reserves to pay our temporary personnel prior to receiving payment from our customers. In addition, we are required to pledge amounts to secure letters of credit that collateralize certain of our workers' compensation obligations, and these amounts may increase in future periods. Any such increase in pledged amounts would decrease amounts available for working capital purposes. As a result of these factors, if our available cash balances and borrowing base under our existing credit facilities do not grow commensurate with the growth in our working capital requirements, we would explore alternative sources of financing to satisfy our liquidity needs, including the issuance of additional equity or debt securities. Any such issuances could result in dilution to existing shareholders.

***Our information and computer processing systems are critical to the operations of our business and any failure could cause significant problems.***

Our management information systems, located at our headquarters, are essential for data exchange and operational communications with dispatch offices throughout the country. Any interruption, impairment or loss of data integrity or malfunction of these systems could severely hamper our business and could require that we commit significant additional capital and management resources to rectify the problem.

***The loss of any of our key personnel could harm our business.***

Our future financial performance will depend to a significant extent on our ability to motivate and retain key management personnel. Competition for qualified management personnel is intense and in the event we experience further turnover in our senior management positions, we cannot assure you that we will be able to recruit suitable replacements. We must also successfully integrate all new management and other key positions within our organization in order to achieve our operating objectives. Even if we are successful, turnover in key management positions will temporarily harm our financial performance and results of operations as new management becomes familiar with our business. We do not maintain key person life insurance on any of our executive officers.

***Our business would suffer if we could not attract enough temporary employees.***

We compete with other temporary personnel companies to meet our customer needs and we must continually attract reliable temporary employees to fill positions. We have in the past experienced short-term worker shortages and we may continue to experience such shortages in the future. If we are unable to find temporary employees to fulfill the needs of our customers over a long period of time, we could lose customers and our business could suffer.

***Determinations that we have misclassified the jobs performed by our temporary employees for workers' compensation insurance purposes, even if the misclassifications are inadvertent, could result in us owing penalties to government regulators and/or having to record additional expense.***

In five states, Canada and Puerto Rico, we pay workers' compensation insurance premiums directly to the government in amounts based in part on the classification of jobs performed by our employees. From time to time, we are subject to audits by various state regulators regarding our classifications of jobs performed by our employees. The classification of jobs performed by our employees is one of many factors taken into account by our actuaries in helping us determine the adequacy of our financial reserves for our workers' compensation exposure. If it is determined that we have materially misclassified a significant number of our employees, we could be required to increase our financial reserves for our workers' compensation liability, which could harm our results of operations and could cause the price of our securities to decline.

***Labor unions have attempted to harm our business.***

Various labor unions and activist groups have attempted to disrupt our business. For example, these groups have backed legislation designed to adversely impact our business, coordinated legal actions directed at our activities and engaged in a public relations campaign to discredit members of our management team and influence our customers. We cannot assure you that these activities will not harm our business or the price of our securities.

***We cannot obtain representations from Arthur Andersen LLP relating to our historical financial statements for the year ending on December 31, 2001 and prior years.***

Arthur Andersen LLP served as our independent auditor from 1997 until May 3, 2002, when our board of directors dismissed Andersen due to events that had cast doubt on Andersen's future. As a result of our termination of Andersen, we retained the accounting firm of PricewaterhouseCoopers LLP to serve as our independent auditors. Andersen can no longer provide us with representations relating to our historical financial statements for the year ended on December 31, 2001 and prior years. We cannot predict the impact of Andersen's failure to make the required representations. Furthermore, relief that may be available to investors under the federal securities laws against auditing firms may not be available as a practical matter against Andersen.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risk related to changes in interest rates, and to a minor extent, foreign currency exchange rates, each of which could adversely affect the value of our investments. We do not currently use derivative financial instruments. At April 2, 2004, our purchased investments included in cash and cash equivalents had maturities of less than 90 days. Therefore, an increase in interest rates immediately and uniformly by 10% from levels at April 2, 2004 would not have a material effect upon our cash and cash equivalent balances, operating results or cash flows.

At April 2, 2004, our marketable securities consisted of revenue bonds and other municipal obligations. Therefore, an increase in interest rates immediately and uniformly by 10% from levels at April 2, 2004 would not have a material effect upon our marketable securities balances, operating results or cash flows.

We have a minor amount of assets and liabilities denominated in certain foreign currencies related to our international operations. We have not hedged our translation risk on these currencies and we have the ability to hold our foreign-currency denominated assets indefinitely and do not expect that a sudden or significant change in foreign exchange rates will have a material impact on future net income or cash flows.

### **Item 4. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures.*** We carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer (CEO) and our Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our CEO and our CFO concluded that, as of April 2, 2004, our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC reports. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

***Changes in Internal Control Over Financial Reporting.*** During the quarter ended April 2, 2004, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. Other Information

### Item 1. Legal Proceedings

See Note 7 of Notes to Consolidated Financial Statements found in Item 1 of Part I of this Form 10-Q.

### Item 2. Changes in Securities; Use of Proceeds and Issuer Purchases of Equity Securities

On December 11, 2002, our Board of Directors approved a resolution granting management the authority to repurchase up to 2.0 million shares of the Company's common stock. As of April 2, 2004, approximately 600,000 shares of common stock have been repurchased pursuant to this resolution, leaving 1.4 million shares available for future repurchase. There were no repurchases of Company stock during the quarter ended April 2, 2004

### Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the quarter ended April 2, 2004.

### Item 6. Exhibits and Reports on Form 8-K

#### a) Exhibits.

- |      |  |
|------|--|
| 31.1 | Certification of Joseph P. Sambataro, Jr., Chief Executive Officer of Labor Ready, Inc., Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2 | Certification of Steven C. Cooper, Chief Financial Officer of Labor Ready, Inc., Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 32.1 | Certification of Joseph P. Sambataro, Jr., Chief Executive Officer of Labor Ready, Inc. and Steven C. Cooper, Chief Financial Officer of Labor Ready, Inc., Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

#### b) Reports on Form 8-K.

We filed a Current Report on Form 8-K on February 26, 2004, disclosing under Item 9 - Regulation FD Disclosure, copies of slide presentations, which we presented at the Morgan Stanley Business & Professional Services Conference held at Morgan Stanley's offices in New York City on February 26, 2004 and generally to members of the financial and investment community from time to time.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### LABOR READY, INC.

/s/ Joseph P. Sambataro, Jr. 5/3/04  
Signature Date

By: Joseph P. Sambataro, Jr., Director, Chief  
Executive Officer and President

/s/ Steven C. Cooper 5/3/04  
Signature Date

By: Steven C. Cooper, Chief Financial Officer  
and  
Executive Vice President

## CERTIFICATIONS

I, Joseph P. Sambataro, Jr., certify that:

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

Date: May 3, 2004

*/s/ Joseph P. Sambataro, Jr.*

\_\_\_\_\_  
Joseph P. Sambataro, Jr.  
Chief Executive Officer



## CERTIFICATIONS

I, Steven C. Cooper, certify that:

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

Date: May 3, 2004

*/s/ Steven C. Cooper*

\_\_\_\_\_  
Steven C. Cooper  
Chief Financial Officer

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

We, Joseph P. Sambataro, Jr., the chief executive officer of Labor Ready, Inc. (the "Company"), and Steven C. Cooper, the chief financial officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Quarterly Report of the Company on Form 10-Q, for the period ended April 2, 2004 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

*/s/ Joseph P. Sambataro, Jr.*

*/s/ Steven C. Cooper*

\_\_\_\_\_  
Joseph P. Sambataro, Jr.  
Chief Executive Officer

\_\_\_\_\_  
Steven C. Cooper  
Chief Financial Officer

May 3, 2004

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