SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A

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

For the quarter ended June 30, 1996

Commission File number 0-23828

Labor Ready, Inc.

(Exact Name of Registrant as specified in its charter)

Washington	91-1287341
(State of Incorporation)	(Federal I.R.S. No.)

2156 Pacific Avenue, Tacoma, Washington	98402
(Address of principal executive offices)	(Zip Code)

Registrant's Telephone Number 206-383-9101

Securities registered pursuant to Section 12(b) or 12(g) of the Act:
Common Stock, No Par Value

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 shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes (X) No ( )

The aggregate market value of the voting stock held by non-affiliates of the registrant, on August 9, 1996 was $192,424,829.

As of August 9, 1996, the Registrant had 11,349,308 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

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

This report may include forward looking statements or information that involve risks and uncertainties. The Company's actual results could differ materially from the results identified in any forward-looking statements. Factors that could cause such a difference include, but are not limited to, those set forth in the section entitled Risk Factors and elsewhere in the Company's prospectus dated June 12, 1996.

OVERVIEW

Labor Ready is a leading, national provider of temporary workers for manual labor jobs. The Company's customers are primarily in construction, freight handling, warehousing, landscaping, light manufacturing, and other light industrial businesses. The Company has rapidly grown from eight dispatch offices in 1991 to 169 dispatch offices at June 30, 1996. Substantially all of the growth in dispatch offices was achieved by opening Company-owned locations rather than through acquisitions.

In 1995, the Company opened 57 new dispatch offices at an average cost of approximately $35,000 per dispatch office. The Company expects the average cost of opening new dispatch offices to continue to increase due to more extensive management training and the installation of more sophisticated computer and other office systems. Further, once open, the Company invests significant amounts of additional cash into the operations of new dispatch offices until they begin to generate sufficient revenue to cover their operating costs, generally in two to six months. The Company pays its temporary workers on a daily basis, and bills its customers on a weekly basis. Consequently, the Company experiences negative cash flow from operations and investment activities during periods of high growth, which also adversely impacts the Company's overall profitability. The Company expects to continue to experience periods of negative cash flow from operations and investment activities while it rapidly opens dispatch offices and expects to require additional sources of working capital in order to continue to grow.

Many of the Company's customers are construction and landscaping businesses, which are significantly affected by the weather. Construction and landscaping businesses and, to a lesser degree, other customer businesses typically increase activity in spring, summer and early fall months and decrease activity in late fall and winter months. Inclement weather can slow construction and landscaping activities in such periods. As a result, the Company has generally experienced a significant increase in temporary labor demand in the spring, summer and early fall months, and lower demand in the late fall and winter months.

Depending upon location, new dispatch offices initially target the construction industry for potential customers. As dispatch offices mature, the customer base broadens and the mix of work diversifies. The Company may discount its rates when it enters a new market to attract customers. From time to time during peak periods, the Company experiences shortages of available temporary workers.

Cost of services primarily includes wages and related payroll expenses of temporary workers and dispatch office employees, general managers, district managers and area directors, including workers' compensation insurance, medicare and social security taxes, but does not include dispatch offices lease expenses. The Company's cost of services as a percentage of revenues has fluctuated significantly in recent periods and it expects significant fluctuations to continue in future periods as the Company continues its rapid growth. Cost of services as a percentage of revenues is affected by numerous factors, including salaries of new supervisory personnel hired under new management organizational structures, the hiring of large numbers of

general managers prior to dispatch office openings, the use of lower introductory rates to attract new customers at new dispatch offices, and the relatively lower revenues generated by new dispatch offices prior to reaching maturity.

Temporary workers assigned to customers remain Labor Ready employees. Labor Ready is responsible for employee-related expenses of its temporary workers, including workers' compensation, unemployment compensation insurance, medicare and social security taxes and general payroll expenses. The Company does not provide health, dental, disability or life insurance to its temporary workers. Generally, the Company bills its customers for the hours worked by the temporary workers assigned to the customer. Because the Company pays its temporary workers only for the hours actually worked, wages for the Company's temporary workers are a variable cost that increases or decreases directly in proportion to revenue.

The Company has one franchisee which operates five dispatch offices. The Company does not intend to grant additional franchises. Royalty revenues from the franchised dispatch offices are included in revenues from services and were not material during any period presented herein.

SIX MONTHS ENDED JUNE 30, 1996 COMPARED TO SIX MONTHS ENDED JUNE 30, 1995

DISPATCH OFFICES. The Company grew from 106 locations at December 31, 1995 to 169 locations at June 30, 1996, an increase of 63 locations for the six month period. The Company opened 42 dispatch offices during the second quarter of 1996 compared to 27 dispatch offices during the second quarter of 1995.

REVENUES FROM SERVICES. The Company's revenues from services increased to $62.1 million for the six months ended June 30, 1996 compared to $32.3 million for the six months ended June 30, 1995, an increase of $29.8 million of 91.87%. This increase resulted primarily from increases in revenues from dispatch offices open for the full period.

COST OF SERVICES. Cost of services increased to $51.4 million for the six months ended June 30, 1996 compared to $26.4 million for the six months ended June 30, 1995, an increase of $25 million of 94.7%, reflecting the additional wages and salaries paid to temporary workers, additional management personnel, and related payroll and operating expenses. As a percentage of revenues, cost of services increased to 82.8% for the six months ended June 30, 1996 from 81.5% for the six months ended June 30, 1995, an increase of 1.3%. Cost of services increased due to several factors, including higher workers' compensation costs, increased salary costs for branch managers in training, longer training periods for new management personnel and for additional supervisory personnel hired under new management organizational structures. The Company expects significant continuing fluctuations in cost of services as the Company pursues further aggressive growth.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general, and administrative expenses increased to $9.8 million for the six months ended June 30, 1996 compared to $5.6 million for the year earlier period, an increase of $4.2 million or 75%. As a percentage of revenues from services, selling, general, and administrative expenses decreased to 15.8% for the six months

ended June 30, 1996 from 17.3% for the six months ended June 30, 1995, a decrease of 1.5%. This decrease is primarily the result of selling, general and administrative expenses increasing at a slower rate than the increase in revenues from services.

INTEREST AND OTHER EXPENSES. Interest and other expenses increased to approximately $762,000 for the six months ended June 30, 1996 compared to approximately $291,000 for the six month period ended June 30, 1995, an increase of approximately $471,000 or 162%, reflecting primarily higher borrowing amounts, the relatively higher interest costs of the $10 million principal amount of subordinated debt issued in October 1995 and certain prepayment penalties incurred in paying off the Company's prior lender. Interest expense is expected to decline substantially in future periods after the Company pays off outstanding debt in the third quarter. As a percentage of revenues, interest and other expenses increased to 1.2% for the six months ended June 30, 1996 from 1% for the six months ended June 30, 1995.

TAXES ON INCOME. The Company recorded taxes on income of approximately $60,000 for the six months ended June 30, 1996 compared to taxes on income of approximately $19,000 for the six months ended June 30, 1995.

NET INCOME. The Company recorded income from operations of approximately $101,000 for the six months ended June 30, 1996 compared to approximately $37,000 for the six months ended June 30, 1995, an increase of approximately $64,000 or 170%.

LIQUIDITY AND CAPITAL RESOURCES. In June 1996 the Company completed a common stock offering of 2,242,500 (1,495,000 pre-split) shares resulting in net proceeds to the Company of approximately $33.6 million. The proceeds are to be used for the payment of short-term debt, fund the Company's expansion plans through 1998, the purchase of an office building in Tacoma, prepayment of the Company's $10 million 13% Senior Subordinated Notes, and for other working capital needs.

In the second quarter of 1996, the Company utilized significant amounts of cash to open 42 dispatch offices. During the second quarter of 1996 and 1995, the Company used net cash in operating and investing activities of approximately $4.6 million and $2.4 million, respectively, an increase of 92%, reflecting primarily increases in workers' compensation deposits, and a reduction in accounts payable. Management anticipates that cash flow deficits from operating and investing activities will continue while the Company adds substantial numbers of new dispatch offices. Management expects to finance such cash flow deficits with the proceeds from its recent common stock offering.

In October 1995, the Company completed a private financing of $10.0 million principal amount of 13.0% Senior Subordinated Notes (the "Notes"). Under the terms of the Notes, which require principal payments to begin in 1998 and which mature in 2002, the Company pledged its remaining assets as collateral and issued warrants (the "Financing Warrants") to the purchasers of the Notes. The Financing Warrants entitle the holders thereof to purchase 1,023,552 (682,368 pre-split) shares of common stock of the Company at an exercise price of $7.78 ($11.67 pre-split) per share, and are exercisable at any time prior to the date the Notes are paid in full. The Company intends to prepay the Notes on September 5, 1996. As a result, the approximate pre-tax effect of this early extinguishment of debt is $1,929,000 for expenses capitalized in connection with issuance of the Notes. This charge to income will be reflected in the Company's consolidated statement of income as an extraordinary item, net of the tax benefit.

In March 1996, the Company obtained a new revolving credit facility from U.S. Bank of Washington which provides for borrowing of up to $10.0 million secured by eligible accounts receivable. The U.S. Bank revolving credit facility bears interest at a rate of prime plus 1/4%. In June 1996, the Company paid the outstanding balance of $5,058,000 with proceeds from its common stock offering.

In 1995, the Company opened 57 new dispatch offices at an average cost of approximately $35,000. Once opened, the Company invests significant amounts of additional cash into the operations of new dispatch offices until they begin to generate sufficient revenue to cover their operating costs, generally two to six months. Since December 31, 1995, the Company opened 63 new dispatch offices at an estimated cost of $3.5 million, of which $2.3 million was incurred in connection with opening 42 new locations in the second quarter. Further, the Company pays its temporary personnel on a daily basis, and bills its customers on a weekly basis. Since the Company plans to open a total of 94 dispatch offices in 1996, and 100 dispatch offices in 1997, the Company expects to experience cash flow deficits from operations and investing activites in 1996 and 1997. The Company intends to finance opening and operating costs of new dispatch offices with the proceeds from its recent common stock offering and debt financings. With such funds, and depending on its results of operations and other factors, the Company expects to have the financial resources necessary to reach its goal of operating 300 dispatch offices by the end of 1997. To the extent that the Company's resources are not sufficient to finance new dispatch offices, or are not sufficient to open all currently targeted dispatch offices, the Company would either seek additional capital through debt financings or scale back its expansion plans.

PART II - OTHER INFORMATION

Not applicable.

SIGNATURES

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

REGISTRANT: LABOR READY, INC.

By: /s/ Glenn A. Welstad — December 3, 1996

Glen A. Welstad, Principal Executive Officer — Date

By: /s/ Charles B. Russell — December 3, 1996

Charles B. Russell, Principal Financial Officer — Date