

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

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

(Mark One)

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE  
- - - ACT OF 1934 [FEE REQUIRED]

For the year ended December 31, 1997.  
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OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
- - - EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-23828  
LABOR READY, INC.  
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(Exact name of registrant as specified in its Charter)

<TABLE>  
<S> Washington <C> 91-1287341  
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(State of Incorporation of Organization) (I.R.S. Employer Identification Number)  
1016 S. 28th Street, Tacoma, Washington 98409  
-----  
(Address of Principal Executive Offices) (Zip Code)

</TABLE>

(253) 383-9101  
-----  
(Registrant's Telephone Number)

Securities Registered Under Section 12(b) of the Act:

<TABLE>  
<S> <C>  
Title of each class Name of each exchange on which registered  
None None  
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Securities Registered Under Section 12(g) of the Act:

Title of each class Name of each exchange on which registered  
Common Stock, No Par Value The Nasdaq Stock Market  
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</TABLE>

Indicated by check mark if disclosure of delinquent filers pursuant to Item  
405 of Regulation S-K is not contained herein and will not be contained, to the  
best of Registrant's knowledge, in any definitive proxy or information  
statements incorporated by reference in Part III of this Form 10-K or any  
amendment to this Form 10-K. /X/  
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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 x NO .  
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The aggregate market value (based on the Nasdaq quoted closing price) of the  
common stock held by non-affiliates (15,250,459 shares) of the Registrant at  
March 18, 1998 was approximately \$514,702,991. As of March 18, 1997, there were  
18,461,072 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's Form 10 filed on July 5, 1994 and the Current Reports on  
Form 8-K filed on September 25, 1997 and January 6, 1998 are incorporated by  
reference into Parts II and IV.

## ITEM 1. BUSINESS

Information in this Annual Report on Form 10-K includes forward-looking statements, which are often identified by the words "believes", "anticipates" and similar expressions. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Factors which could affect the Company's financial results are described below and in Item 7 of this report. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrences of unanticipated events.

### INTRODUCTION

Labor Ready, Inc. (the "Company"), incorporated in Washington in 1985, is a leading, national provider of temporary workers for manual labor jobs. The Company's customers are primarily businesses in the construction, freight handling, warehousing, landscaping and light manufacturing industries. These businesses require workers for lifting, hauling, cleaning, assembling, digging, painting and other types of manual or unskilled work. The Company has rapidly grown from eight dispatch offices in 1991 to 316 dispatch offices at December 31, 1997. All of the growth in dispatch offices was achieved by opening Company-owned locations rather than through acquisitions. The Company's revenues have grown from \$6.0 million in 1991 to \$335.4 million in 1997. This revenue growth has been generated both by opening new dispatch offices and by continuing to increase sales at existing dispatch offices. In 1997, the average cost to open a new dispatch office was approximately \$33,000 and dispatch offices opened in 1997 typically generated revenues sufficient to cover their operating costs in two to six months. In 1997, the average revenue per dispatch office open for more than one full year was approximately \$1.4 million (\$1.3 million in 1996).

### INDUSTRY OVERVIEW

The temporary staffing industry has grown rapidly in recent years as companies have used temporary employees to control personnel costs and to meet fluctuating personnel needs. According to the Staffing Industry Report (May 1997), the United States' market for the industrial segment of the temporary staffing marketplace (which includes the short-term, light industrial market that the Company serves) grew at a compound annual growth rate of approximately 18% from approximately \$5.0 billion in 1991 to approximately \$13 billion in 1997. The Company believes the short-term light industrial segment of the temporary staffing industry is highly fragmented and presents opportunities for larger, well capitalized companies to effectively compete, mainly through the development of information systems which efficiently process a high volume of transactions and coordinate multi-location activities, and the management of workers' compensation costs.

Historically, the demand for temporary workers has been driven primarily by the need to satisfy peak production requirements and to temporarily replace full-time employees absent due to illness, vacation or abrupt termination. More recently, competitive pressures have forced businesses to focus on reducing costs, including converting fixed, permanent labor costs to variable or flexible costs. The use of temporary workers typically shifts employment costs and risks, such as workers' compensation and unemployment insurance and the possible adverse effects of changing employment regulations, to temporary staffing companies, which can allocate those costs and risks over a larger pool of employees and customers. In addition, through the use of temporary employees, businesses avoid the inconvenience and expense of hiring and firing regular employees.

### COMPANY STRATEGY

The Company's goal is to maintain and enhance its status as a leading, national provider of temporary workers for manual labor jobs. Key elements of the Company's strategy to achieve this objective are as follows:

- Aggressively Open New Dispatch Offices. The Company's strategy is to increase revenues by rapidly expanding its network of dispatch offices. The Company plans to open approximately 167 additional dispatch offices prior to the end of 1998, and an additional 200 dispatch offices in 1999.

2

- Increase Revenues from Existing Dispatch Offices. As each dispatch office matures, the Company attempts to increase its revenues by expanding sales to existing customers and by aggressively expanding the number and mix of customers served. More experienced area directors and district managers assist the dispatch office general manager in this process. The Company is also developing and implementing coordinated sales and marketing strategies designed to complement these efforts, including the development of national accounts, and targeted direct mail campaigns.
- Improve Operating Efficiencies and Reduce Operating Costs. Due to the

short-term temporary labor market's extensive fragmentation, the Company believes its national presence provides it with key operating efficiencies, competitive advantages (including an ability to target national accounts and to effectively administer workers' compensation programs) and access to capital markets to provide needed working capital. The Company has standardized the operation, general design, staffing and equipment of its dispatch offices. In addition, the Company has designed and implemented a proprietary management information system that efficiently manages an extensive, Company-wide employee, payroll, sales and customer database and provides management with valuable real-time management reporting.

- Provide Superior Service. The Company emphasizes customer responsiveness and maintains a commitment to providing a superior quality of service through policies such as opening offices no later than 5:30 a.m., providing workers on short notice (often the same day as requested) and offering a "satisfaction guaranteed" policy. The Company is committed to supplying motivated workers to its customers. Most workers find the Company's "Work Today, Paid Today" policy appealing and arrive at the dispatch office early in the morning motivated to put in a good day's work and receive a paycheck at the end of the day. With the introduction of an automated Cash Dispensing Machine ("CDM") at each dispatch office in 1998, workers' will find the Company's policy of "Work Today, Cash Today" even more appealing.
- Aggressively Recruit Temporary Workers. Beginning in 1998, the Company will offer cash dispensing machines at all of its dispatch offices. With the CDMs in operation, workers will have a choice of a daily paycheck or cash payment through the CDM. The Company retains the change on each worker's daily pay plus \$1 for the service. Management believes the CDM program will enhance the Company's ability to attract temporary workers. In 1997, the Company wrote approximately 3.8 million payroll checks for its temporary workers. Implementation of the CDMs is expected to significantly reduce the number of payroll checks processed by the Company.

The Company intends to continue to focus on the short-term, light industrial manual labor niche of the temporary labor market. The Company believes other national and international temporary labor businesses have not aggressively pursued this market. Management believes that it can gain significant advantages by capturing market share, achieving economies of scale and other operating efficiencies not available to its smaller competitors and by rapidly expanding through opening new dispatch offices and increasing revenue at existing dispatch offices.

DISPATCH OFFICE EXPANSION

The Company has rapidly grown from 17 dispatch offices in 1993 to 316 dispatch offices at December 31, 1997. The Company's expansion has been achieved primarily by opening Company-owned dispatch offices. The following table sets forth the number and location of dispatch offices by geographic region open at the end of each of the last five years. The information below does not include four Labor Ready franchised dispatch offices located in the Minneapolis/St. Paul, Minnesota metropolitan area and one franchised dispatch office located in Fargo, North Dakota.

Labor Ready Dispatch Offices  
by Geographic Region

<TABLE>  
<CAPTION>

AT DECEMBER 31,					
<S>	<C> 1993	<C> 1994	<C> 1995	<C> 1996	<C> 1997
Central.....	4	12	28	45	64
Midwest.....	--	9	17	47	74
Northeast.....	--	--	1	10	27
Southeast.....	--	1	11	34	56
West.....	13	25	45	60	87
Canada.....	--	4	4	4	8
Total.....	17	51	106	200	316

</TABLE>

The Company currently anticipates opening 167 dispatch offices during 1998, and 200 dispatch offices in 1999. Dispatch office openings will be primarily in the Northeast, Southeast, Midwest and California. The Company analyzes acquisition opportunities, and from time to time, may pursue acquisitions in certain circumstances and may also accelerate expansion based on future developments.

In 1994, the Company licensed one franchisee in Minnesota, who now operates five locations, four in Minneapolis/St. Paul and one in Fargo, North

Dakota. The Company has not pursued, and does not intend to grant, any additional franchises. Revenues generated from franchised dispatch offices have not been significant during the periods presented herein.

**ECONOMICS OF DISPATCH OFFICES.** The Company has standardized the process of opening dispatch offices. In 1997, the average aggregate cost of opening a new dispatch office was approximately \$33,000. Approximately \$18,000 of these costs includes salaries, recruiting, testing, training, lease and other related costs, which are capitalized as dispatch office pre-opening costs and amortized using the straight-line method over two years. The remaining approximately \$15,000 of the cost of opening a dispatch office includes computer systems and other equipment related costs and leasehold improvements. These costs are expected to increase in 1998 to approximately \$50,000 per dispatch office as the Company adds a CDM to each dispatch office, purchases more sophisticated computer and other office systems, and leases larger dispatch offices. New dispatch offices are expected to generate revenue sufficient to cover their operating costs within two to six months. On average, the volume necessary for profitable operations is approximately \$12,000 per week. In 1997, dispatch offices open for at least one full year generated average annual revenue of approximately \$1.4 million (\$1.3 million in 1996) or approximately \$27,000 per dispatch office, per week (\$25,000 per dispatch office, per week in 1996).

**CRITERIA FOR NEW DISPATCH OFFICES.** Labor Ready identifies desirable areas for locating new dispatch offices with an economic model that analyzes the potential supply of temporary workers and customer demand based on a zip code resolution of employment figures, demographics and the relative distance to the nearest Labor Ready dispatch office. In addition, the Company locates dispatch offices in areas convenient for its temporary workers, which are on or near public transportation, and have parking available. After the Company establishes a dispatch office in a metropolitan area, the Company usually clusters additional locations within the same area. Multiple locations in a market reduce both opening costs and operating risk for new dispatch offices because direct mail and other advertising costs are spread among more dispatch offices and because the new dispatch office benefits from existing customer relationships and established Labor Ready brand recognition.

**DISPATCH OFFICE MANAGEMENT.** The Company believes that the key factor determining the success of a new dispatch office is identifying and retaining an effective dispatch office general manager. Each general manager has primary responsibility for managing the operations of the dispatch office, including the recruiting and daily dispatch of temporary workers, sales and accounts receivable collection. The Company pays monthly bonuses to its general managers based on accounts receivable collections during the month.

Each general manager has primary responsibility for customer service and the dispatch office's sales efforts, including identifying and soliciting local businesses likely to have a need for temporary manual workers. The Company's experience is that certain types of individuals are better suited to perform the critical management functions necessary for the dispatch office to generate the revenues required to achieve profitability, regardless of the size of the metropolitan area. The Company has refined its criteria for selecting general managers and uses a profiling system to screen, test, and qualify prospective general managers. The Company commits substantial resources to the training, development, and operational support of its general managers.

#### OPERATIONS

**DISPATCH OFFICES.** Dispatch offices are locations where workers (and prospective workers) report prior to being assigned to jobs, including those being called back to the same employer. Workers are required to report to the dispatch office in order to minimize "no-shows" to the customer's job site. If a worker fails to report to the dispatch office as scheduled, the Company identifies a replacement so that the customer has the number of workers expected at the job site, on time, and ready to work.

During the early morning hours, the general manager and an assistant coordinate incoming customer work orders, assign the available workers to the job openings for the day, and arrange transportation to the job site. Prior to dispatch, a branch employee checks to make sure workers have the basic safety equipment required for the job, such as boots, back braces, hard hats, or safety goggles, all of which are provided at no charge to the worker and the customer. The customer provides additional safety and other equipment, if required. New assignments are filled from a daily sign-in sheet, considering customer requests for specific temporary workers on repeat work orders or new engagements.

Workers who pass on a particular job are moved to the bottom of the list. Most work assignments have been scheduled in advance; a majority of which are repeat work orders from customers. However, a significant portion of job openings are requested on short notice, often the same day as the workers are needed at the job site.

The workers are provided with a work order, which is endorsed by the customer to confirm work performance, and which must be presented at the dispatch office in order to receive payment for the hours worked. Workers are

generally paid daily by check, and with the addition of a CDM at each dispatch office, workers will have the choice of being paid each day in cash. Computer systems at each dispatch office perform the calculations necessary to determine the wages, less taxes and applicable withholdings, and print security-controlled checks, which are distributed to each worker. Alternatively, the system will enable a disbursement from the CDM for the worker's net pay, less the change and \$1 for the CDM service.

Dispatch offices generally open early, usually by 5:30 a.m., with some open 24 hours (depending on volume), and generally remain open until the last temporary laborer is paid. Dispatch offices are generally staffed with at least two full-time employees, including the general manager and a customer service representative. General managers manage the daily dispatch of temporary workers, and are responsible for monitoring and collecting receivables, managing the credit application process for each customer, inspecting customer job sites for site safety, as necessary, and managing the sales and marketing efforts of the dispatch office.

Employment applications are taken throughout the day for potential new temporary employees. Applications are used to facilitate workers' compensation safeguards and quality control systems by permitting the Company to test for alcohol or drugs in case of a work-related illness or injury, to obtain a signed "Condition of Employment" statement, and to comply with applicable immigration requirements.

**CUSTOMERS.** The Company's customers are primarily businesses that require workers for lifting, hauling, cleaning, assembling, digging, painting and other types of manual or unskilled work. The Company's customers are primarily businesses in the construction, freight handling, warehousing, landscaping and light manufacturing industries. Over the past several years, the Company has been diversifying its customer base to include more customers in the retail, wholesale, sanitation, printing, and hospitality industries.

New dispatch offices initially target virtually all businesses in its market area with a direct mail campaign. Dispatch general managers, and the regional and national sales force are responsible for following up the direct mail campaign with telephone or personal calls. Frequently, a new dispatch office will have a high concentration of customers in the construction industry. As dispatch offices mature, the customer base broadens and the mix of work diversifies. Many customers have elements of seasonality in their workflow, especially customers in the construction and landscaping industries. The Company currently derives its business from a large number of customers, and is not dependent on any single large customer for more than 2% of its revenues. During 1997, the Company's ten largest customers accounted for sales of \$20.9 million, or 6.2% of total revenues (\$10.3 million, or 6.3% of total revenues in 1996). While a single dispatch office may derive a substantial percentage of its revenues from a single customer, the loss of that customer would not have a significant impact on the Company's revenues. During 1997, the Company provided temporary workers to in excess of 70,000 customers. Labor Ready filled more than 2.8 million work orders in 1997 (1.4 million in 1996).

Many customers use Labor Ready to screen prospective employees for future permanent hires. Because Labor Ready does not charge a fee if a customer hires a Company worker, customers on occasion send prospective employees to the Company with a specific request for temporary assignment to their business. Customers thereby have the opportunity to observe the prospective employee in an actual working situation, minimizing the expense of employee turnover and personnel agency fees.

**BILLING AND COLLECTIONS.** The Company has implemented an automated credit and collections system that allows each dispatch office to establish a credit limit for new customers by telephonically accessing a computer based credit system. Initial credit limits are based on a credit-scoring matrix developed by the Company. No workers are dispatched without using this system. Credit limits range from COD to \$100,000. The credit department, using other credit reporting agencies, bank/trade references and balance sheet analysis, reviews and approves additional credit extensions beyond those recommended by this system. Once a customer has reached 75% of its credit limit, the customer screen on the Company's information system has a red warning to alert the dispatch office to more closely monitor the activity of the customer.

5

**SALES AND MARKETING.** Each dispatch office is responsible for its own sales and marketing efforts in its local market area. The dispatch office general manager is primarily responsible for sales and customer service, with all branch employees being involved in sales and customer relations. The Company purchases a direct marketing database, and from a centralized direct mail department, conducts an intensive direct-mail campaign in the local market area of each dispatch office. For new dispatch offices, the direct-mail campaign targets virtually all businesses in its local market area. Follow-up mailings target business in the Company's traditional market niche. Follow-up telephone and personal calls on qualified leads are made by the dispatch office general manager and the Company's sales force. To support new branch openings, the direct-mail department processes an initial mailing of virtually all businesses in the each new dispatch office's market area.

During 1997, the Company has placed more emphasis on recruiting and

retaining professional sales personnel. The primary focus of these individuals is to increase sales for offices that are in the more mature phase of their marketing life cycles. The Company currently employs approximately 105 sales personnel at the dispatch offices and 6 sales professionals who focus exclusively on sales to customers whose operations are national in scope and who therefore need workers in multiple locations throughout the United States and Canada. Additionally, the Company employs one sales professional whose efforts are devoted to developing new customers in the marine industry.

When entering new markets, the Company allows for an initial advertising budget to generate an awareness of the new dispatch office. When opening additional offices as warranted, based on area demographics, the Company can also expand and coordinate its marketing efforts to the benefit of other established offices in the local area. Marketing is accomplished primarily through direct-mail campaigns, yellow-page advertising, personal sales contacts, word of mouth, and billboard advertising.

TEMPORARY WORKERS. Most workers find the Company's "Work Today, Paid Today" policy appealing and arrive at the dispatch office early in the morning motivated to put in a good day's work and receive a paycheck at the end of the day. Labor Ready's temporary workers are frequently persons who are unemployed or in between jobs. The majority of the workers are male and most are between the ages of 18 and 40 and live in low-income neighborhoods. Most temporary workers have phone numbers, and own cars.

The Company's daily pool of temporary workers at each dispatch office generally numbers between 40 and 200, depending upon the time of year. Because of increasing diversification of the Company's customer base and a wider dispersion of dispatch offices in different geographic areas of the United States, the Company is less dependent on weather than in its early years. Good weather, nevertheless, brings incrementally more job orders and workers. Consequently, the Company is busiest in the late spring, summer and early fall.

After reviewing work orders for that day's customer requests, the dispatch office general manager pre-screens the qualifications of the available temporary workers to assure that they can perform the work required. Additionally, the individual must be at least 18 years old, physically capable and in apparent good health. The main objective is to dispatch the most suitable workers for the positions available. Dispatch office employees over time come to know most workers at the dispatch office and their capabilities. The Company is an equal opportunity employer.

Under the Company's "satisfaction guaranteed" policy, replacements for all unsatisfactory workers are promptly provided if the customer notifies the Company within the first two hours of work. Employees who receive two complaints from customers are generally reprimanded or terminated. The Company will immediately terminate any employee who agrees to take a work order and does not report at the customer's jobsite. Any use of obscene language, alcohol or drugs on the dispatch office premises or at the customers' jobsites are grounds for immediate dismissal. The Company lists workers who were terminated in a central database to prevent rehire by other dispatch offices.

The Company withholds FICA and federal, state, and, where applicable, city and county income taxes from its temporary workers' wages for disbursement to governmental agencies. Additionally, the Company pays federal and state unemployment insurance premiums, and workers' compensation expenses for its temporary employees.

6

RECRUITMENT OF TEMPORARY WORKERS. The Company attracts its pool of temporary workers through billboard advertisements, flyers, newspaper advertisements, dispatch office displays, and word of mouth. The Company believes its strategy of locating dispatch offices in lower income neighborhoods, with ready access to public transportation, is particularly important in attracting workers.

The Company's "Work Today, Paid Today" policy is prominently displayed at most dispatch offices and, in the Company's experience, is a highly effective method of attracting temporary workers. With the addition of a CDM at each dispatch office, management believes that the Company's "Work Today, Cash Today" policy will be an added incentive for temporary workers. Workers also find other Company policies attractive, such as the emphasis on worker safety, including Company provided safety training and equipment, and modest cash advances for lunch or gas to workers short on cash. Temporary workers are also aware of the Company's no-fee policy toward customers who offer temporary workers a regular position. The possibility of landing a regular position serves as an added incentive to the Company's workers.

Management believes that Labor Ready has earned a good reputation with its temporary laborers because the Company consistently has jobs available and treats its workers with respect. The Company believes this also helps attract a motivated and responsive workforce. As a result, the Company believes referrals by current or former temporary workers who have had good experience with the Company account for a significant percentage of its recruiting successes.

The Company experiences from time to time, during peak periods, shortages of available temporary workers. Dispatch offices with a shortage of workers attempt to fill work orders by asking temporary workers to inform friends, relatives and neighbors of job openings and by identifying prospective workers from the Company's employee data base. On occasion, work orders requiring large numbers of temporary workers will be filled through coordination with other local dispatch offices.

MANAGEMENT, EMPLOYEES AND TRAINING. At December 31, 1997, the Company employed a total of 76 administrative and executive staff in the corporate office, and 1,162 people as supervisors, general managers, customer service representatives, district managers, area directors and support staff. General managers report to district managers who in turn report to area directors. The Company's recruiting focus is on hiring additional management and supervisory personnel with experience in managing multi-location operations.

After extensive interviews and tests, prospective general managers and customer service representatives undergo four weeks of training at an existing, high-volume dispatch office which has been certified as a Labor Ready Training Center. Currently, the Company has 20 such Training Centers across the United States. The Company has developed a curriculum, training manuals, and instruction modules for the four-week training program, which include rigorous sessions on topics such as marketing and direct mail, credit and collections, payroll and personnel policies, workers' compensation management and safety. By operating the Training Center as part of an ongoing dispatch office, the managers and customer service representatives receive training under both actual and simulated dispatch office conditions.

MANAGEMENT INFORMATION SYSTEMS. The Company has developed its own proprietary system to process all required credit, billing, collection, payroll and related payroll tax returns, together with other management information and reporting necessary for the management of hundreds of thousands of workers and staff in multiple locations. The Company plans to complete the installation of the next generation, client server version of this software in all dispatch offices in 1998. The upgrade of hardware at all dispatch offices, to dedicated servers running Microsoft's Windows NT Server Version 3.51 and multiple stations running Microsoft's Windows '95, was completed in 1996 in preparation of the new client server software. During 1997, the Company added a third workstation to most dispatch offices and provided laptop computers to all its area and district managers. Additionally, during 1997, the Company successfully implemented a new client server based financial reporting and management information system which includes general ledger and accounts payable modules, and budget/actual comparison reporting by dispatch office. Further add-on systems and programs are planned and in process to enhance property and equipment accounting, enable real-time management reporting and transition to electronic data interchange with the Company's largest vendors.

During 1997, the Company increased its MIS department to eleven full-time professionals who continually upgrade the systems and add features and enhance operations and reliability. The operations and financial reporting systems will continue to require additional hardware and software to accommodate the Company's operating and information needs while the Company conducts its rapid expansion program.

7

The system maintains all of the Company's key databases from the tracking of work orders to payroll processing to maintaining worker records. The system regularly exchanges all point of sale information between the corporate headquarters and the dispatch offices, including customer credit information and outstanding receivable balances. Dispatch offices can run a variety of reports on demand, such as receivables aging, margin reports, and customer activity reports. Area directors and district managers can also call into the system and monitor their territories from their laptops. The Company believes its proprietary software system provides Labor Ready with significant competitive advantages over competitors that utilize less sophisticated systems.

The Company's information system also provides the Company with its key internal controls. All work order tickets are entered into the system at the dispatch office level. No payroll check can be issued at a dispatch office without a corresponding work ticket on the computer system. When a payroll check is issued the customer's weekly bill and the dispatch office receivables are automatically updated. Printed checks have watermarks and computer-generated signatures that are extremely difficult to duplicate. The Company has developed a proprietary system, which beginning in 1998 will allow the payroll software to generate either a payroll check, or at the workers' option, a cash withdrawal from the dispatch office's CDM. The Company has filed a patent application for this system of controlling the CDMs for the disbursement of payroll funds. All cash receipts are received in lockbox accounts and are matched to customers' receivable records using an automated data capture system, implemented in 1997.

WORKERS' COMPENSATION PROGRAM. The Company provides workers' compensation insurance to its temporary workers and regular employees. In Washington, Ohio and West Virginia, (the monopolistic states), the Company is required to make payments into state administered programs, at rates established by each state

based upon the job classification of the insured workers and the previous claims experience of the Company. The Washington program provides for a retroactive adjustment of workers' compensation payments based upon actual claims experience. Upon adjustment, overpayments to the program are returned to the Company and underpayments, if any are assessed. At December 31, 1996 and 1997, the Company recorded workers' compensation credit receivables of \$835,566 and \$1,081,813 and workers' compensation liabilities of \$587,411 and \$606,354 related to the monopolistic states.

For workers' compensation claims originating in the remaining states (the non-monopolistic states), the Company self-insures the deductible amount per claim to a maximum aggregate stop loss limit and has engaged a third party administrator to manage the claims and an off-shore captive insurance company for the payment of claims and related expenses. The deductible amount was \$250,000 per claim to an aggregate maximum of approximately \$5.0 million, \$6.5 million and \$19.0 million in 1995, 1996 and 1997. In January 1998, the Company renewed its insurance program, the terms of which included a reduction of the 1995 and 1996 aggregate maximums to \$4.5 million and \$5.2 million, respectively.

During 1997, the Company deposited \$13.9 million with the offshore company for the payment of workers' compensation claims and related expenses originating in the non-monopolistic states and \$7.4 million was paid on these claims. As discussed further in Note 3 to the consolidated financial statements, the Company replaced these deposits with letters of credit as collateral to the offshore company for the payment of future non-monopolistic claims and related expenses.

The Company establishes provisions for future claim liabilities based upon 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 claim reserve are charged or credited to expense in the periods in which they occur. At December 31, 1996 and 1997, the Company had recorded a reserve for claims and claim related expenses arising in non-monopolistic states of \$4,449,986 and \$12,686,860. The reserve for workers' compensation claims was computed using a discount rate of 7.5% and 6.0% at December 31, 1996 and 1997.

Workers' compensation expense totaling \$5,907,771, \$9,981,411 and \$19,245,733 was recorded as a component of cost of services for the years ended December 31, 1995, 1996 and 1997, respectively.

The Company has formed a wholly-owned, offshore captive, Labor Ready Assurance Company for the management and payment of workers' compensation claims and claim related expenses. During 1996, the Company deposited \$1,714,744 for the statutory capitalization of Labor Ready Assurance and during 1997, increased that capitalization by \$750,000. As discussed further in Note 3 to the consolidated financial statements, during 1997 the Company replaced these deposits with letters of credit as collateral for the statutory capitalization of Labor Ready Assurance. At December 31, 1997, \$135,929 remains on deposit with Labor Ready Assurance and is recorded as restricted cash in the accompanying consolidated balance sheets.

8

The Company has established a risk management department at its corporate headquarters to manage its insurers, third party administrators, and the medical service providers. To reduce wage-loss compensation claims, the Company has established a "light duty" transitional return to work program. Workers in the program are employed within the Company in the local dispatch office or on customer assignments that require minimal physical exertion. The Company's information system generates weekly workers' compensation loss minimization reports for both corporate and dispatch office use. The Company has an on-line connection with its third party administrator that allows the Company to maintain visibility of all claims, manage their progress and generate required management information.

#### GOVERNMENT REGULATIONS.

**SAFETY PROGRAMS.** As an employer, the Company is subject to applicable state and/or federal statutes and administrative regulations pertaining to jobsite safety. Where states do not have a safety program certified by the federal Occupational Safety & Health Administration ("OSHA"), the Company is subject to the standards prescribed by the federal Occupational Safety & Health Act and rules promulgated by OSHA. However, the Company's temporary workers are generally considered the customer's employees while on the customer's jobsite for the purpose of applicable safety standards compliance.

In 1997, the Company's accident rate was approximately one incident per 7,764 man hours worked, an improvement over the Company's accident rate of approximately one incident per 7,400 per man hours worked in 1996. The Company continues to emphasize safety awareness, which helps control workers' compensation costs, through training of its management employees and office staff, safety sessions with temporary workers, issuing safety equipment, monitoring job sites, and communicating with customers to assure that job orders can be safely accomplished. Temporary workers are trained in safety procedures primarily by showing safety tapes at the beginning of each day. Bulletin boards with safety-related posters are prominently displayed. Additionally, "Tailgate" safety training sessions are conducted at the



manager's and regional safety director's discretion.

The Company maintains its own inventory of safety equipment at each dispatch office. Standard equipment includes hard hats, metal-toed boots, gloves, back braces, earplugs, and safety goggles. Equipment is checked out to workers as appropriate. All construction jobs require steel-toed boots and a hard hat. The dispatch office general manager ensures that workers take basic safety equipment to job sites.

Dispatch office personnel are trained to discuss job safety parameters with customers on incoming work order requests. Managers conduct jobsite visits for new customer job orders and periodic "spot checks" of existing customers to review safety conditions at job sites. Workers are encouraged to report unsafe working conditions to the Company.

WAGE AND HOUR REGULATION. Labor Ready is required to comply with applicable state and federal wage and hour laws. These laws require that the Company pay its employees minimum wage and overtime at applicable rates when the employee works more than forty hours in a workweek. In some states, overtime pay may be required after eight or ten hours of work in a single day.

#### COMPETITION

The short-term, light industrial manual labor sector of the temporary services industry is highly fragmented and highly competitive, with limited barriers to entry. A large percentage of temporary staffing companies serving this sector of the industry are local operations with fewer than five offices. Within local or regional markets, these firms actively compete with the Company for business. The primary basis of competition among local firms is service and the ability to provide the requested amount of workers on time, and to a lesser extent, price. While entry into the market has limited barriers, lack of working capital frequently limits growth of smaller competitors.

9

Although there are several very large full-service and specialized temporary labor companies competing in national, regional and local markets, to date, those companies have not aggressively expanded in the Company's targeted market segment. However, many of these competitors have substantially greater financial and marketing resources than those of the Company. One or more of these competitors may decide at any time to enter or expand their existing activities in the short-term, light industrial market and provide new and increased competition to Labor Ready. The Company believes that, among the larger competitors, the primary competitive factors in obtaining and retaining customers are the cost of temporary labor, the quality of the temporary workers provided, the responsiveness of the temporary labor company, and the number and location of offices. The availability to the Company's customers of multiple temporary service providers can create significant pricing pressure as competitors compete for the available customers, and this pricing pressure could adversely impact profit margins.

#### TRADEMARKS

The Company's business is not presently dependent on any patents, licenses, franchises, or concessions. "Labor Ready," and the service mark "Work Today, Paid Today" are registered with the U.S. Patent and Trademark Office. The Company has filed with the U.S. Patent and Trademark Office, for registration of the service mark "Work Today, Cash Today" and has commenced a patent application for the system of controlling a network of CDMs for the disbursement of payroll.

#### ITEM 2. PROPERTIES

The company leases virtually all of its dispatch offices. Dispatch office leases generally permit the Company to terminate the lease on 30 days notice and upon payment of three months rent. Certain leases have a minimum one-year term and require additional payments for taxes, insurance, maintenance and renewal options.

In February 1995, the Company purchased a labor dispatch building that also serves as a warehouse facility for supplies and storage in Tacoma, Washington. The Company also owns a 24,000 square foot facility in Tacoma, Washington that is currently listed as available for lease or sale. In August 1996, the Company purchased a 44,000 square foot office building and adjoining 10,000 square foot print shop in Tacoma, Washington to accommodate the Company's continuing expansion. The building currently serves as Labor Ready's headquarters and administrative offices. Additionally, the Company owns a dispatch office in Kansas City, Missouri. During 1997, the Company sold a building formerly used as a dispatch office in Kent, Washington for proceeds of \$120,000. Management believes all of the Company's facilities are currently suitable for their intended use. At present growth rates, management believes that its headquarters facility will be adequate through the year 2000.

#### ITEM 3. LEGAL PROCEEDINGS

The Company is not currently subject to any material legal proceedings.

The Company may from time to time become a party to various legal proceedings arising in the normal course of its business. These actions could include employee-related issues and disputes with customers. The Company carries insurance for actions or omissions of its temporary employees. Since the temporary workers are under the supervision of the customer or its employees, the Company believes the terms of its contracts with its customers, which provide that the customers are responsible for all actions or omissions of the temporary workers, limit the Company's liability. Nevertheless, any future claims are subject to the uncertainties related to litigation and the ultimate outcome of any such proceedings or claims cannot be predicted. See "Risk Factors -Liability for Acts of Temporary Workers."

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter ended December 31, 1997.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock commenced trading on the Nasdaq National Market on June 12, 1996. Prior to that date, the Company's common stock was traded over-the-counter. The high and low bids for the last two years were as follows:

<TABLE>  
<CAPTION>

QUARTER ENDED	HIGH*	LOW*
<S>	<C>	<C>
March 31, 1996.....	9.77	6.00
June 30, 1996.....	12.45	12.00
September 30, 1996.....	16.67	11.00
December 31, 1996.....	11.83	7.17
March 31, 1997.....	9.25	5.04
June 30, 1997.....	6.83	4.71
September 30, 1997.....	15.50	7.08
December 31, 1997.....	25.38	14.75

</TABLE>

\* Dollar amounts are adjusted to reflect the three-for-two stock splits which were effective on July 7, 1996 and October 24, 1997.

The Company had 631 shareholders of record as of December 31, 1997. The quotation information has been derived from the Nasdaq Stock Market and does not include retail markups or markdowns or commissions. No cash dividends have been declared on the Company's common stock to date and the Company does not intend to pay a cash dividend on common stock in the foreseeable future. Future earnings will be used to finance the growth and development of the Company.

ITEM 6. SELECTED FINANCIAL INFORMATION.

The following selected consolidated financial information of the Company has been derived from the Company's audited Consolidated Financial Statements. The Consolidated Balance Sheet as of December 31, 1997, and the Consolidated Statements of Income, Shareholders' Equity, and Cash Flows for the year then ended were audited by Arthur Andersen LLP, whose report thereon appears elsewhere herein. The Consolidated Balance Sheet as of December 31, 1996, and the Consolidated Statements of Income, Shareholders' Equity, and Cash Flows for the years ended December 31, 1995 and 1996 were audited by BDO Seidman, LLP, whose report thereon appears elsewhere herein. The Statement of Operations Data for the years ended December 31, 1993 and 1994, and the balance Sheet Data at December 31, 1993, 1994 and 1995 are derived from the Company's audited financial statements which do not appear herein. The data should be read in conjunction with the Company's Consolidated Financial Statements and the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,				
	1993	1994	1995	1996	1997
<S>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data:					
Revenues from services.....	\$ 15,659	\$ 38,951	\$ 94,362	\$ 163,450	\$ 335,409
Gross profit.....	4,917	12,095	29,479	47,919	98,742
Income before taxes and extraordinary item.....	253	1,188	3,214	3,507	12,522
Extraordinary item, net of income tax.....	48	--	--	(1,197)	--

Net income.....	269	852	2,062	724	6,963
Earnings per common share					
Basic.....	\$ 0.03	\$ 0.08	\$ 0.16	\$ 0.04	\$ 0.38
Diluted.....	\$ 0.03	\$ 0.08	\$ 0.15	\$ 0.04	\$ 0.37
Weighted average shares outstanding (1)					
Basic.....	8,255	9,818	12,433	15,865	18,446
Diluted.....	8,255	9,818	13,039	16,288	18,778

</TABLE>

<TABLE>

<CAPTION>

AT DECEMBER 31,

	1993	1994	1995	1996	1997
	(IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
Balance Sheet Data:					
Current assets.....	\$ 2,313	\$ 7,572	\$ 20,730	\$ 48,534	\$ 65,617
Total assets.....	3,153	8,912	26,182	64,125	80,367
Current liabilities.....	1,706	5,631	7,956	10,961	15,788
Long-term liabilities.....	777	319	9,695	1,572	6,538
Total liabilities.....	2,483	5,950	17,650	12,533	22,326
Shareholders' equity.....	670	2,962	8,532	51,592	58,041
Cash dividends declared (2).....	50	43	43	43	43
Working capital.....	607	1,941	12,774	37,573	49,829
Operating Data: (unaudited)					
Revenues from dispatch offices open for full year.....	\$ 12,960	\$ 27,311	\$ 65,798	\$ 133,156	\$ 280,538
Revenues from dispatch offices opened during year.....	\$ 2,699	\$ 11,640	\$ 28,564	\$ 30,294	\$ 54,871
Dispatch offices open at period end.....	17	51	106	200	316

</TABLE>

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- (1) The weighted average shares outstanding have been adjusted to reflect the three for two stock splits which were each effective on November 22, 1995, July 7, 1996 and October 24, 1997.
- (2) Represents cash dividends on the Preferred Stock. The Company has never paid cash dividends on its Common Stock and does not anticipate that it will do so in the foreseeable future. See "Price Range of Common Stock and Dividend Policy."

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in connection with the Company's Consolidated Financial Statements and the notes thereto and other financial information included elsewhere in this document.

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 17 dispatch offices in 1993 to 316 dispatch offices at December 31, 1997. All of the growth in dispatch offices was achieved by opening Company-owned locations rather than through acquisitions. The Company's revenues grew from approximately \$15.6 million in 1993 to \$335.4 million in 1997. This revenue growth has been generated both by opening new dispatch offices and by continuing to increase sales at existing dispatch offices. In 1997, the average annual revenue per dispatch office open for more than a full year was approximately \$1.4 million (approximately \$1.3 million in 1996).

The Company expects to open 167 new dispatch offices in 1998 and 200 dispatch offices in 1999. In 1997, the Company incurred costs of approximately \$3.8 million to open 116 new dispatch offices, an average of approximately \$33,000 per dispatch office. Approximately \$18,000 of these costs includes salaries, recruiting, testing, training, lease and other related costs, which are capitalized as dispatch office pre-opening costs and amortized using the straight-line method over two years. The remaining approximately \$15,000 of the cost of opening a dispatch office includes computer systems and other equipment related costs and leasehold improvements. The Company expects the average cost of opening a dispatch office in 1998 to increase to approximately \$50,000 due primarily to the addition of a CDM to each dispatch office. 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. The average collection cycle for 1997 was approximately 40 days. Consequently, the Company historically has experienced significant negative cash flow from operations and investment activities during periods of high growth. The Company may continue to experience periods of negative cash flow from operations and investment activities while it rapidly opens dispatch offices and may require additional sources of working capital in order to continue to grow. See "Liquidity and Capital Resources" and "Outlook: Issues and Uncertainties --

Working Capital Requirements."

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. From time to time during peak periods, the Company experiences shortages of available temporary workers. See "Outlook: Issues and Uncertainties--Dependence on Availability of Temporary Workers."

Cost of services includes the wages and related payroll taxes of temporary workers, workers' compensation expense, unemployment compensation insurance, and transportation. Cost of services as a percentage of revenues has historically been affected by numerous factors, including the use of lower introductory rates to attract new customers at new dispatch offices.

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, and Medicare and Social Security taxes. 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 interest income and other in the consolidated financial statements and were not material during any period presented herein.

The typical customer order is for two temporary workers and the typical payroll check paid by the Company is less than \$50. The Company is not dependent on any individual customer for more than 2% of its annual revenues. During 1997, the Company provided temporary workers to in excess of 70,000 customers and filled more than 2.8 million work orders.

RESULTS OF OPERATIONS

The following table sets forth the percentage of revenues represented by certain items in the Company's Consolidated Statements of Operations for the periods indicated.

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1995	1996	1997
	<C>	<C>	<C>
Revenues from services.....	100.0%	100.0%	100.0%
Cost of services.....	68.8	70.7	70.6
Selling, general and administrative expenses.....	26.4	26.3	25.1
Depreciation and amortization.....	.6	1.1	1.2
Interest (income) expense and other, net.....	.9	(.2)	(.6)
Income before taxes on income and extraordinary item.....	3.4	2.1	3.7
Net income.....	2.2	.4	2.1

</TABLE>

YEARS ENDED DECEMBER 31, 1995, 1996 AND 1997

DISPATCH OFFICES. The number of offices grew to 316 at December 31, 1997 from 200 locations at December 31, 1996, a net increase of 116 dispatch offices, or 58.0%. The Company estimates that its aggregate costs of opening 116 new dispatch offices in 1997 was \$3.8 million, an average of approximately \$33,000 per dispatch office, compared to aggregate costs of approximately \$5.6 million, an average of approximately \$60,000 per dispatch office, to open 94 new stores in 1996. The decrease in per-store costs in 1997 was primarily the result of a shorter manager training period and the use of regional training centers. Approximately \$18,000 of 1997 pre-opening costs includes salaries, recruiting, testing, training, lease and other related costs, which are capitalized and amortized using the straight-line method over two years. The remaining approximately \$15,000 of pre-opening costs includes computer systems and other equipment related costs and leasehold improvements. The number of dispatch offices grew to 200 at December 31, 1996 from 106 locations at December 31, 1995, a net increase of 94 dispatch offices, or 88.7%. The Company estimates that its aggregate costs of opening 94 new dispatch offices in 1996 was approximately \$5.6 million (an average of approximately \$60,000 per dispatch office) compared to aggregate costs of approximately \$2.0 million (an average of approximately \$35,000 per dispatch office) to open 57 new stores in 1995. The

increases in 1996 were primarily the result of a longer manager training period, the establishment of Labor Ready University and the added opening costs related to the use of more sophisticated computer and other office systems.

REVENUES FROM SERVICES. Revenues from services increased to \$335.4 million in 1997 as compared to \$163.5 million in 1996, an increase of \$171.9 million or 105.2%. The increase in revenues is primarily due to continued increases in revenues from mature dispatch offices as the Company consolidates its position in the marketplace and builds brand awareness. Additionally, the Company opened 116 new dispatch offices in 1997 and increased its average revenues per new dispatch office from approximately \$322,000 in 1996 to approximately \$473,000 in 1997. In 1997, the Company opened 97 of its 116 new dispatch offices in the first half of the year, compared to 45 dispatch offices opened in the first half and 49 opened in the second half of 1996. Opening dispatch offices in the first half of the year enables each new dispatch office to realize higher revenues during the Company's busiest time of the year. Additionally, the minimum wage rate was increased from \$4.75 per hour to \$5.15 per hour in October 1997.

Revenues from services increased to \$163.5 million for 1996 from \$94.4 million for 1995, an increase of \$69.1 million, or 73.2%. This increase in revenues from services resulted primarily from increases in revenues from dispatch offices open for the full period, as indicated below, and to a lesser extent from revenues from dispatch offices open for less than a year. This difference from prior years was the result of the timing of dispatch office openings in 1996 as 45 dispatch offices were opened in the first half of 1996. The Company opened 94 offices in 1996 as compared to 55 new dispatch offices opened in 1995. Additionally, the minimum wage rate was increased from \$4.25 per hour to \$4.75 per hour in October 1996.

14

<TABLE>  
<CAPTION>

	1995	1996	1997
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Increase in revenues from dispatch offices open for full year.....	\$ 26,847	\$ 38,794	\$ 117,088
Revenues from new dispatch offices opened during year.....	\$ 28,564	\$ 30,294	\$ 54,871
Total increase over prior year.....	\$ 55,411	\$ 69,088	\$ 171,959

</TABLE>

COST OF SERVICES. Cost of services increased to \$236.7 million in 1997 from \$115.5 million in 1996, an increase of \$121.2 million or 104.9%. The increase in cost of services was due largely to the 105.2% increase in revenue from 1996 to 1997. Cost of services was 70.6% of revenue in 1997 compared to 70.7% of revenue in 1996. Cost of services as a percentage of revenues remained approximately constant as compared to 1996 levels as the Company is generally no longer required to use introductory lower rates to attract new customers in new dispatch offices. Additionally, cost increases including minimum wage increases, workers' compensation and unemployment insurance rate increases are passed through to customers as higher billing rates.

Cost of services increased to \$115.5 million in 1996 from \$64.9 million in 1995, an increase of \$50.6 million, or 78.1%. Cost of services as a percentage of revenues increased to 70.7% in 1996 as compared to 68.8% in 1995, an increase of 1.9%. This increase in costs as a percentage of revenues reflected the use of lower introductory rates to attract new customers at new dispatch offices.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were \$84.1 million in 1997 as compared to \$42.9 million in 1996, an increase of \$41.2 million or 95.7%. The increase was largely due to a 105.2% increase in revenue from 1996 to 1997. Selling, general and administrative expenses were 25.1% of revenues in 1997 as compared to 26.3% of revenues in 1996. The decrease in selling, general and administrative expenses as a percentage of revenue is due mainly to economies of scale on fixed and semi-fixed administrative costs. The Company expects that selling, general and administrative expenses as a percentage of revenues may fluctuate in future periods as the Company from time to time upgrades its administrative capabilities to accommodate anticipated revenue growth.

Selling, general, and administrative expenses increased to \$42.9 million in 1996 from \$24.9 million in 1995, an increase of \$18.0 million, or 72.7%. The increase was largely due to a 73.2% increase in revenue from 1995 to 1996. As a percentage of revenues, selling, general, and administrative expenses decreased to 26.3% in 1996 from 26.4% in 1995. The relatively small decrease was primarily the result of economies of scale on fixed and semi-fixed administrative costs offset by new management, operational and sales personnel hired to effectively manage the Company's anticipated growth over the next several years.

DEPRECIATION AND AMORTIZATION EXPENSE. Depreciation and amortization expenses were \$4.0 million in 1997 and \$1.8 million in 1996, an increase of \$2.2 or 123.2%. The increase in depreciation and amortization expense is the result of amortization of dispatch office pre-opening costs as the Company continued its rapid expansion by adding 116 stores in 1997. Additionally, the Company added approximately \$4.0 million in property and equipment during the year including information systems and equipment for the new stores and enhanced

management information systems hardware and software.

In April 1997, the Accounting Standards Executive Committee (the "AcSEC") issued an exposure draft of a Proposed Statement of Position, "Reporting on the Costs of Start-up Activities". The proposed statement would establish new rules for the financial reporting of start-up costs, and if adopted, would require the Company to expense dispatch office pre-opening costs as incurred and write off any capitalized pre-opening costs in the first quarter of the year adopted. The AcSEC expects to issue a final statement in 1998, which will likely be effective for the Company's 1999 year. As of December 31, 1997 the Company had recorded pre-opening costs of \$2.6 million, net of accumulated amortization.

Depreciation and amortization expenses were \$1,796,618 in 1996 and \$522,436 in 1995, an increase of \$1,274,182 or 243.9%. The increase in depreciation and amortization expense is the result of amortization of dispatch pre-opening costs as the Company began its rapid expansion by adding 94 stores in 1996, and the addition of approximately \$5.7 million in property and equipment during the year including equipment for the new stores and the Company's headquarters building in Tacoma, Washington.

INTEREST AND OTHER, NET. Interest income and other, net was \$1,871,066 in 1997 compared to \$339,769 in 1996, an increase of \$1,531,297 or 450.7%. Approximately \$1.2 million of the increase was due to investment income earned during 1997 on the Company's workers' compensation deposits. Because the Company has replaced its workers' compensation deposits with letters of credit, investment income is likely to decrease significantly in future years.

15

Interest income and other, net, was a positive contribution to income of \$339,769 in 1996, compared to an expense of \$866,113 in 1995, an increase of \$1,205,882 or 354.9%. This reversal resulted from the Company's completion of the public offering in June 1996, the subsequent prepayment of substantially all debt, including the subordinated debentures, the investment of surplus funds in short-term corporate debt obligations, and investment income on the Company's workers' compensation deposits. As a percentage of revenues, interest income and other expenses, net, increased from an expense of 0.9% in 1995 to a positive contribution to income of 0.2% in 1996.

TAXES ON INCOME. Taxes on income increased to \$5,558,890 in 1997 from \$881,828 in 1996, an increase of \$4,677,062 or 530.3%. The increase in taxes was largely due to the increase in pretax income to \$12.5 million in 1997 from \$3.5 million in 1996. The Company's effective tax rate was 44.4% in 1997 as compared to 54.9% in 1996. The decrease in the effective income tax rate was due primarily to the decrease in prior period amounts as a percentage of total tax provision. The principal difference between the effective income tax rate and the statutory rate are adjustments to taxes resulting from prior years. Prior year amounts primarily represent corrections of state tax rates and results of revenue agent reviews of the 1995 and 1996 federal income tax returns.

Taxes on income increased to \$1,585,028 in 1996 (before adjustment for the tax effect of the 1996 extraordinary item) from \$1,151,713 in 1995, an increase of approximately \$433,315, or 37.6%. This increase was the direct result of the corresponding increase in the Company's pretax income in 1996, the expense incurred related to a change in the prior year's estimated deferred tax asset and the higher overall effective tax rates as the Company expanded into more states and cities which impose a local income tax.

The Company had a net deferred tax asset of approximately \$4.4 million at December 31, 1997, resulting primarily from workers' compensation deposits, credits and reserves. The Company has not established a valuation allowance against this net deferred tax asset as management believes that it is more likely than not that the tax benefits will be realized in the future based on the historical levels of pre-tax income and expected future taxable income.

NET INCOME. Net income in 1997 increased to \$6,963,021 from 1996 net income of \$724,283, an increase of \$6,238,738 or 861.4%. The increase was largely due to a 105.2% increase in revenues in 1997 to \$335.4 million from 1996 revenues of \$163.5 million. Contributing to the increase in net income was a decrease in selling, general and administrative costs as a percentage of revenues to 25.1% of revenues in 1997 from 26.3% of revenues in 1996, and recognition of \$1.2 million of investment interest on the Company's workers' compensation deposits. Additionally, in 1996, the Company incurred an extraordinary charge of \$1,197,400 related to the retirement of its subordinated debt.

Net income for 1996 decreased to \$724,283 from \$2,061,807 in 1995, a decrease of \$1,337,524 or 64.9%. The decrease was primarily the result of an increase in cost of services as a percentage of revenue to 70.7% of revenue in 1996 from 68.7% of revenue in 1995, an increase in depreciation and amortization as a percentage of revenue to 1.1% of revenue in 1996 from .6% of revenue in 1995 and the recognition of an extraordinary loss on retirement of the Company's subordinated debt in 1996. Retirement of the debt required that the deferred financing costs and the debt discount, which were previously being amortized over the original life of the debt, be immediately charged to expense.

#### LIQUIDITY AND CAPITAL RESOURCES

Net cash (used in) provided by operating activities was (\$3.7) million, (\$7.1) million and \$11.3 million, in 1995, 1996 and 1997, respectively. The

increase in cash flows from operations in 1997 as compared to 1996 is largely due to net income for the year, increases in non-cash expenses including depreciation and amortization and the provision for doubtful accounts, offset by an increase in the Company's net deferred tax asset during the year. Additionally, the reserve for workers' compensation claims grew by \$8.5 million, due mainly to the increase in revenues over 1996, and workers' compensation deposits and credits declined by \$7.2 million when the Company replaced its cash deposits with letters of credits (see Note 2 to the consolidated financial statements). Finally, income taxes payable, net of income taxes receivable, increased by \$2.1 million as a result of the Company's increased profitability over 1996. These increases were offset by the increase in accounts receivable of \$21.3 million over 1996. The increase in accounts receivable is a result of the Company's growth and because of seasonal fluctuations, accounts receivable balances are historically higher in the fourth quarter. Net cash used in operating activities in 1996 increased as compared to 1995, principally due to the significant growth in the Company's revenues and accounts receivable, an increase in workers' compensation deposits, and an increase in income taxes receivable.

16

The Company used net cash in investing activities of \$2.5 million in 1995, \$11.0 million in 1996 and \$4.9 million in 1997. The decrease in cash used in investing activities in 1997 as compared to 1996 is due primarily to the purchase and improvement of the corporate office building in 1996 and the replacement of \$1.6 million of restricted cash held by the Company's captive insurance subsidiary with a letter of credit in 1997 (see Note 2 to the consolidated financial statements). Additionally, the Company's expenditures for new dispatch office pre-opening costs declined to \$2.6 million in 1997 compared to \$3.6 million in 1996. Net cash used in investing activities increased in 1996 as compared to 1995 due mainly to the acquisition and improvement of the Company's corporate office building, an increase in restricted cash held by the captive insurance subsidiary and expenditures for new dispatch office pre-opening costs.

Net cash provided by (used in) financing activities was \$11.0 million, \$30.4 million and (\$1.9) million in 1995, 1996 and 1997 respectively. The decrease in cash provided by financing activities in 1997 as compared to 1996 is due mainly to the Company's sale of common stock for net proceeds of \$33.6 million in 1996. Additionally, in 1997, checks issued against future deposits decreased by \$1.1 million and the Company used cash of \$1.4 million to repurchase 229,256 shares of its common stock on the open market. Net cash provided by financing activities increased in 1996 compared to 1995 principally due to the Company's common stock offering completed in 1996 for net proceeds of \$33.6 million. This increase was offset in part by the repayment of a note payable and the subordinated debt.

During 1997, the Company entered into a line-of-credit agreement with U.S. Bank with interest at the bank's prime rate (8.5% at December 31, 1997). The agreement allows the company to borrow up to the lesser of \$30 million or 80% of eligible accounts receivable, as defined by the bank. The line-of-credit is secured primarily by the Company's accounts receivable and expires in June 1999. The line-of-credit agreement requires that the Company maintain minimum net worth and working capital amounts. The Company was in compliance with the requirements at December 31, 1997.

As discussed further in Note 2 to the consolidated financial statements, the Company replaced the cash deposits required by its workers' compensation program with irrevocable letters of credit totaling \$15.9 million. The letters of credit bear fees of .75% and are supported by an equal amount of available borrowings on the line-of-credit. Accordingly, at December 31, 1997, no borrowings were outstanding on the line-of-credit, \$15.9 million was committed by the letters of credit and \$14.1 million was available for borrowing.

Historically, the Company has financed its operations through cash generated by external financing including term loans, lines-of-credit and the common stock offering. The principal use of cash is to finance the growth in receivables and the cost of opening new dispatch offices. The Company may experience cash flow deficits from operations and investing activities while the Company expands its operations, including the acceleration of opening new dispatch offices. Management expects cash flow deficits to be financed by profitable operations, the use of the Company's line of credit, and may consider other equity or debt financings as necessary. The Company analyzes acquisition opportunities from time to time and may pursue acquisitions in certain circumstances. Any acquisitions the Company enters into may require additional equity or debt financing.

#### OUTLOOK: ISSUES AND UNCERTAINTIES

Labor Ready does not provide forecasts of future financial performance. While Labor Ready's management is optimistic about the Company's long-term prospects, the following issues and uncertainties, among others, should be considered in evaluating its growth outlook.

**MANAGE GROWTH.** The Company's growth is dependent upon such factors as its ability to attract and retain sufficient qualified management personnel to manage multiple and individual dispatch offices, the availability of sufficient temporary workers to meet customer needs, workers' compensation costs,

collection of accounts receivable and availability of working capital, all of which are subject to uncertainties. The Company must continually adapt its management structure and internal control systems as it continues its rapid growth.

**KEY PERSONNEL.** The Company's success depends to a significant extent upon the continued service of its Chief Executive Officer and other members of the Company's executive management. Future performance depends on its ability to recruit, motivate and retain key management personnel.

17

**GOVERNMENT REGULATIONS AND WORKERS' COMPENSATION.** The Company incurs 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. The Company attempts to increase fees charged to its customers to offset increased costs relating to these laws and regulations, but may be unable to do so. If Congress or state legislatures adopt laws specifying benefits for temporary workers, demand for the Company's services may be adversely affected. In addition, workers' compensation expenses are based on the Company's actual claims experiences in each state and the actual aggregate workers' compensation costs may exceed estimates.

**QUALIFIED MANAGERS.** The Company relies heavily on the performance and productivity of its dispatch office general managers, who manage the operation of the dispatch offices, including recruitment and daily dispatch of temporary workers, marketing and providing quality customer service. The Company opened 116 dispatch offices in 1997 and plans to open 167 new offices in 1998 and 200 in 1999. The Company must therefore recruit a sufficient number of managers to staff each new office and to replace managers lost through turnover, attrition or termination. The Company's future growth and performance depends on its 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.

**COMPETITION.** The short-term, light industrial niche of the temporary services industry is highly fragmented and 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 the Company in the staffing industry. Competition in some markets is intense, particularly for provision of light industrial personnel, and price pressure from both competitors and customers is increasing.

**WORKING CAPITAL REQUIREMENTS.** The Company has historically experienced significant negative cash flow from operations and investment activities resulting from the rapid growth in dispatch offices. In 1997, the Company incurred costs of approximately \$3.8 million to open 116 new dispatch offices, an average of approximately \$33,000 per dispatch office. The Company expects the cost of opening a dispatch office in 1998 to increase to approximately \$50,000, due primarily to the addition of a CDM in each office. Once open, the Company invests significant additional cash into the operations of new dispatch offices until they begin to generate sufficient revenue to cover their operating costs. In addition, the Company pays its temporary personnel on a daily basis and bills its customers on a weekly basis. The Company expects to require additional sources of capital in order to continue to grow especially during seasonal peaks in revenue experienced in the third and fourth quarter of the year.

**INDUSTRY RISKS.** Temporary staffing companies employ people in the workplace of their customers. Attendant risks include potential litigation based on claims of discrimination and harassment, violations of health and safety and wage and hour laws, criminal activity, and other claims. While the Company tries to limit its liability by contract, it may be held responsible for the actions at a jobsite of workers not under the Company's direct control. Temporary staffing companies are also affected by fluctuations and interruptions in the business of their customers.

**ECONOMIC FLUCTUATIONS.** The general level of economic activity, interest rates and unemployment in the U.S. and specifically within the construction, landscaping and light industrial trades may significantly affect demand for the Company's services.

**SEASONALITY.** Many of the Company's customers are in the construction and landscaping industries, which are significantly affected by seasonal factors such as the weather. The Company generally experiences increased demand in the spring, summer and early fall, while inclement weather is generally coupled with lower demand for the Company's services.

**AVAILABILITY OF TEMPORARY WORKERS.** The Company competes with other temporary personnel companies to meet its customer needs. The Company must continually attract reliable temporary workers to fill positions and may from time to time experience shortages of available temporary workers.

18

**INFORMATION PROCESSING.** The Company's management information systems, located at its headquarters, are essential for communication with dispatch offices throughout the country. Any interruption, impairment or loss of data



integrity or malfunction of these systems could severely hamper the Company's business.

As the year 2000 approaches, there are uncertainties concerning whether computer systems will properly recognize date-sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or fail. Management believes that the year 2000 does not pose a significant operational problem for the Company's computer systems. The Company has completed its assessment of its significant systems and believes them to be year 2000 compliant. Management has not completed its assessment of the systems of third parties with which it deals. While it is not possible at this time to assess the effect of a third party's inability to adequately address year 2000 issues, management does not believe the potential problems associated with year 2000 will have a material effect on its financial condition or results of operations.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data required hereunder are included in the Annual Report as set forth in Item 14 hereof.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company filed a report on Form 8-K on September 25, 1997 that reported a change in the Company's independent auditor to Arthur Andersen LLP, replacing BDO Seidman, LLP which is hereby incorporated by reference.

19

### PART III

#### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

##### TENURE OF DIRECTORS AND OFFICERS

The names, ages and positions of the directors, executive officers and certain key employees of the Company as of March 1, 1998 are listed below along with their business experience during the past five years. No family relationships exist among any of the directors or executive officers of the Company, except that Todd A. Welstad is the son of Glenn A. Welstad.

<TABLE> <CAPTION> NAME	AGE	POSITION
-	-	-
<S>	<C>	<C>
Glenn A. Welstad.....	54	Chairman of the Board, Chief Executive Officer and President
Ralph E. Peterson.....	63	Director and Executive Vice President -- Corporate and Business Development
Ronald L. Junck.....	49	Director, General Counsel and Secretary
Richard W. Gasten.....	60	Director and Vice President and Secretary of Labour Ready Temporary Services, Ltd.
Thomas E. McChesney.....	51	Director
Robert J. Sullivan.....	67	Director
Joseph P. Sambataro, Jr.....	47	Executive Vice President, Chief Financial Officer, Treasurer and Assistant Secretary
Dennis Diamond.....	37	Executive Vice President of Operations
Robert H. Sovern.....	49	Assistant Treasurer
Robert F. Groen.....	47	Director of Risk Management
Todd A. Welstad.....	28	Chief Information Officer
Joseph L. Havlin.....	43	Corporate Controller

##### BUSINESS EXPERIENCE

The business experience and brief resumes on each of the Directors, Executive Officers, and significant employees are as follows:

Glenn A. Welstad has served as the Company's Chairman of the Board of Directors, Chief Executive Officer and President since February 1988. Prior to joining the Company, Mr. Welstad was an officer of Body Toning, Inc., W.I.T. Enterprises, and Money Mailer from February 1987 to March 1989. In 1969 Mr. Welstad founded Northwest Management Corporation, a holding company for restaurant operations. Over the course of 15 years, Mr. Welstad expanded the operations to twenty-two locations in five states, which included eight Hardee's Hamburger Restaurants as well as pizza and Mexican restaurants. In March 1984, Mr. Welstad sold his ownership interest in Northwest Management Corporation.

Ralph E. Peterson has served the Company as Executive Vice President -- Corporate and Business Development since August 1997 and has served as a Director of the Company since January 1996. From January 1996 through September 1996, Mr. Peterson served as Chief Financial Officer, Treasurer and Assistant Secretary. From September 1996 until August 1997, Mr. Peterson was Executive Vice President and Chief Operating Officer. Prior to joining Labor Ready, from December 1991 through August 1995, Mr. Peterson was Executive Vice President and Chief Financial Officer of Rax Restaurants, Inc. From March 1974 to February

1979 and from April 1983 through his retirement in December 1991, Mr. Peterson was Executive Vice President and Chief Financial Officer and a Director of Hardee's Food Systems, Inc., a restaurant company operating and franchising over 4,000 locations throughout the United States and abroad.

Ronald L. Junck has served as a Director and Secretary of the Company since November 1995. He is an attorney in Phoenix, Arizona where he has specialized in business law and commercial transactions since 1974. Additionally, Mr. Junck serves as general counsel to the Company.

20

Richard W. Gasten has served as a Director of the Company since August 1996. Mr. Gasten has also served as a Director of Labour Ready Temporary Services, Ltd., the Company's Canadian subsidiary and as a consultant to the Company since September 1995. In June 1997, Mr. Gasten was appointed to the position of Vice President and Secretary of Labour Ready. With this appointment, the consulting agreement with Mr. Gasten terminated. Mr. Gasten has over 25 years experience as a member of executive management with Western Capital Trust Company, Vancouver, B.C., Unity Bank of Canada and The Bank of Nova Scotia.

Thomas E. McChesney has served as a director of the Company since July 1995. In September 1996, Mr. McChesney became associated with Blackwell Donaldson and Company, as director of investment banking. Mr. McChesney was associated with Bathgate and McColley Capital, L.L.C, from January 1996 to September 1996. Mr. McChesney is also a director of Firstlink Communications, Inc. and THISoftware Co., Inc. Previously, Mr. McChesney was an officer and director of Paulson Investment Co. and Paulson Capital Corporation from March 1977 to June 1995.

Robert J. Sullivan has served as a director of the Company since November 1994. Prior to joining the Company he served as a financial consultant of the Company from July 1993 to June 1994. Mr. Sullivan served as Chief Financial Officer of Unifast Industries, Inc. from June 1990 to November 1991, and General Manager of Reserve Supply Company of Long Island from July 1992 to December 1993. Additionally, Mr. Sullivan has an extensive career of over 33 years in financial management, as both a CPA and audit manager with Price Waterhouse & Co. and as a member of executive management with companies listed on NYSE and AMEX such as American Express Company, Bush Universal, Inc., Cablevision Systems, Inc. and Micron Products, Inc.

Joseph P. Sambataro, Jr. has served as Executive Vice President, Treasurer, Chief Financial Officer and Assistant Secretary of the Company since August 1997. Prior to joining the Company, he served as the Managing Partner of the Seattle office of BDO Seidman, LLP an accounting and consulting firm from 1990 to 1997. In 1985 Mr. Sambataro was co-founder, and served as Director and Officer of Ecova Corporation, an on-site toxic waste remediation company until 1989. From 1972 until 1985 Mr. Sambataro was a Partner with KPMG Peat Marwick in the New York, Miami and Seattle offices.

Dennis Diamond has served as executive Vice President of Operations since March 10, 1998. Since joining the Company in 1993, Mr. Diamond has served in a variety of positions of increasing responsibility, most recently, as Vice President of Operations for the Western Division (since October 1997). Mr. Diamond started with Labor Ready in 1993 as a dispatch office general manager and has served as a District Manager and Area Director in various locations with the Company. Mr. Diamond received his Masters of Business Administration from Kansas State University in 1991 and his Bachelor's Degree in Political Science from Clemson University in 1982.

Robert H. Sovern has served as Assistant Treasurer of the Company since June 1996. Mr. Sovern joined the Company in March 1996 as Director of Accounts Receivable, Credit and Collection. Prior to joining the Company he was an entrepreneur operating Hallmark gift shops. Mr. Sovern was President and Chief Executive Officer of Heritage Savings and Loan Association, Olympia, Washington from December 1984 to July 1989 and served as an executive with Great Northwest Federal Savings, Bremerton and Poulsbo, Washington from July 1977 to December 1984. Mr. Sovern also served as a banking officer for three years with Federal Home Loan Bank and University Federal Savings.

Robert F. Groen has served the Company as Director of Risk Management since March 1998. From March 1989 to August 1997, Mr. Groen was employed by Humana, Inc. as Director of Corporate Insurance and Risk Management. Mr. Groen also served as Chief Operating Officer of Illinois Providence Trust and Illinois Compensation Trust from October 1980 to March 1989.

Todd A. Welstad has served as Chief Information Officer of the Company since August 1997. Mr. Welstad joined the Company in January 1994 as the manager of the Tacoma dispatch office and in August 1994 was promoted to Systems Analyst in the MIS Department. From October 1994 until August 1997, Mr. Welstad served as Director of the MIS Department. From February 1989 to December 1994, Mr. Welstad was employed as a Technical Supervisor at Micro-Rel, a division of Medtronics.

Joseph L. Havlin has served as Corporate Controller of the Company since September 1997. Prior to joining the Company he served as Chief Financial Officer for West 175 Enterprises, Inc. from July 1996 to September 1997 and as Audit Partner in the Seattle office of BDO Seidman, LLP from October 1993 to July 1996. Mr. Havlin served as Chief Financial Officer of the United States operations of a large Chinese trading company from 1989 to 1991 and from 1984 to 1989 he served as audit manager in the Seattle office of Arthur Young & Co. Mr.

Havlin obtained a degree in accounting from Western Washington University in 1984 and is a member of the American Institute of Certified Public Accountants.

Item 11. Executive Compensation

The following table sets forth the compensation earned by the Chief Executive Officer and the next four most highly compensated executive officers of the Company. None of the other executive officers of the Company received compensation in excess of \$100,000 in 1997.

SUMMARY COMPENSATION TABLE (1)

<TABLE>  
<CAPTION>

NAME AND POSITION	ANNUAL COMPENSATION		LONG -TERM COMPENSATION AWARDS
	YEAR	SALARY (\$)	SECURITIES UNDERLYING OPTIONS/ SARS (#)
<S>	<C>	<C>	<C>
Glenn A. Welstad	1997	452,958	--
Chairman of the Board, Chief	1996	401,486	--
Executive Officer and President	1995	375,000	--
Ralph E. Peterson	1997	265,026	337,500
Executive Vice President--Corporate	1996	154,772	--
And Business Development	1995	--	--
Dennis D. Diamond	1997	172,917	60,225
Executive Vice President of Operations	1996	170,233	--
	1995	88,481	--
Ralph A. Peterson	1997	172,739	62,250
Executive Vice President of Operations	1996	94,402	--
Eastern Division	1995	--	--
Todd A. Welstad	1997	102,211	78,950
Chief Information Officer	1996	78,105	--
	1995	52,456	--

</TABLE>

(1) None of the named executives received compensation reportable under the Restricted Stock Awards or Long-Term Incentive Plan Payouts columns.

Option Grants During 1997 Fiscal Year

The following table provides information related to options granted to the named executive officers during 1997.

<TABLE>  
<CAPTION>

OPTION/SAR GRANTS IN LAST FISCAL YEAR

NAME	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (1)	
	NUMBER OF SECURITIES UNDERLYING OPTIONS/ SARS GRANTED (2)	% OF TOTAL OPTIONS/ SARS EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE (\$/ SH) (3)	EXPIRATION DATE	5%	10%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Dennis D. Diamond	750	--	6.58	3/11/02	\$ 1,363	\$ 3,013
Executive Vice President of	15,000	2%	6.00	5/13/02	\$ 24,900	\$ 54,900
Operations	37,500	4%	13.33	9/16/02	\$ 137,888	\$ 796,388
Ralph A. Peterson	750	--	6.58	3/11/02	\$ 1,363	\$ 3,013
Executive Vice President of	15,000	2%	6.00	5/13/02	\$ 24,900	\$ 54,900
Operations--Eastern Division	37,500	4%	13.33	9/16/02	\$ 137,888	\$ 796,388
Todd A. Welstad	225	--	6.58	3/11/02	\$ 409	\$ 904
Chief Information Officer	15,000	2%	6.00	5/13/02	\$ 24,900	\$ 54,900
	50,000	6%	19.56	12/19/02	\$ 270,350	\$ 597,350

</TABLE>

- (1) The potential realizable value portion of the table illustrates value that might be realized upon exercise of the options immediately prior to the expiration of their term, assuming the specified compounded rates of appreciation on the Company's Common Stock over the term of the options. These numbers do not take into account certain provisions of the options providing for cancellation of the option following termination of employment.
- (2) Options to acquire shares of Common Stock. The options expiring on 5/13/02 vest 25% on date of grant and 25% annually over the next three years. All other options vest 25% per year over four years.
- (3) The option exercise price may be paid in shares of Common Stock owned by the executive officer, in cash, or in any other form of valid consideration or a combination of any of the foregoing, as determined by the Compensation Committee in its discretion.

23

Option Exercises During 1997 and Year End Option Values

The following table provides information related to options exercised by the named executive officers during 1997 and the number and value of options held at year-end. The Company does not have any outstanding stock appreciation rights ("SARs").

(AGGREGATE) OPTION/SAR EXERCISES IN 1997 AND  
YEAR END OPTION/SAR VALUE

<TABLE>  
<CAPTION>

(1) NAME UNEXERCISABLE	SHARES		NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT DECEMBER 31, 1997 (#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT DECEMBER 31, 1997 (\$)	
	ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Ralph E. Peterson Executive Vice President Corporate and Business Development..... 2,337,323	--	--	135,000	202,500	\$ 1,558,215	\$
Dennis D. Diamond Executive Vice President of Operations..... 420,105	--	--	8,081	52,144	\$ 118,205	\$
Ralph A. Peterson Executive Vice President of Operations-- Eastern Division..... 426,391	--	--	6,000	56,250	\$ 65,001	\$
Todd A. Welstad Chief Information Officer..... 222,503	--	--	13,144	65,806	\$ 211,048	\$

(1) The closing price for the Company's common stock as reported by Nasdaq on December 31, 1997, was \$19.25.

Compensation Committee:

The Company's executive compensation is determined by a compensation committee comprised of two outside members of the Board of Directors. Messrs. Sullivan and McChesney (who serves as the Committee's Chairman) are members of the Compensation Committee. Compensation is determined by the Directors using comparative statistics from other temporary labor service businesses.

Employment Agreements:

On October 31, 1995, the Company entered into an employment agreement with Glenn Welstad, the Company's Chairman and Chief Executive Officer, which provides for annual compensation of \$31,250 per month at inception of the agreement, subject to annual increases on the anniversary date of the agreement of 10% of the prior period's base salary. In addition, the employment agreement provides for a bonus, as determined by the compensation committee, based on Mr. Welstad's performance, and the overall performance of the Company. The term of Mr. Welstad's employment agreement runs from October 31, 1995 through December 31, 1998.

In March 1997, the Company entered into an employment agreement with Ralph E. Peterson, the Company's Executive Vice President -- Corporate and

Business Development, which provides for annual compensation of \$20,000 per month at inception of the agreement, subject to annual increases on the anniversary date of the agreement at the discretion of the Board of Directors. In addition, the employment agreement provides for a bonus, as determined by the compensation committee, based on Mr. Peterson's performance, and the overall performance of the Company. The agreement provides Mr. Peterson with options to purchase 225,000 of the Company's common stock at its fair market value at date of grant of \$8.92. 45,000 of the options vest on the date of grant and the balance in equal annual amounts to 2000. The agreement expires in 2000 unless extended by mutual agreement between Mr. Peterson and the Board of Directors or is terminated pursuant to its terms.

In August 1997, the Company entered into an employment agreement with Joseph P. Sambataro, Jr., the Company's Executive Vice President, Chief Financial Officer, Treasurer and Assistant Secretary, which provides for annual compensation of \$13,500 per month, subject to annual increases on the anniversary date of the agreement at the discretion of the Board of Directors. In addition, the employment agreement provides for a bonus, as determined by the compensation committee, based on Mr. Sambataro's performance, and the overall performance of the Company. The agreement provides Mr. Sambataro with options to purchase 180,000 of the Company's common stock at its fair market value at date of grant of \$8.33. 45,000 of the options vest on the date of grant and 22,500 options vest semi-annually to 2000. The agreement expires in 2001 unless extended by mutual agreement between Mr. Sambataro and the Board of Directors or is terminated pursuant to its terms.

Item 12. Principal Shareholders

The following table sets forth certain information regarding the beneficial ownership of each class of equity securities of the Company as of December 31, 1997 for (i) each person known to the Company to own beneficially 5% or more of any such class as of December 31, 1997, (ii) each director of the Company, (iii) each executive officer of the Company required to be identified as a Named Executive Officer pursuant to Item 402 of Regulation S-K and (iv) all officers and directors of the Company as a group. Except as otherwise noted, the named beneficial owner has sole voting and investment power. See "Management" for a description of each individual's position with the Company, if any.

<TABLE>  
<CAPTION>

NAME & ADDRESS OF BENEFICIAL OWNER	TITLE OF CLASS	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP (NUMBER OF SHARES) (1)	PERCENT OF CLASS
<S>	<C>	<C>	<C>
Glenn A. Welstad (2).....	Common Stock	2,633,808	14.0%
.....	Preferred Stock	1,962,732	68.1%
Ralph E. Peterson (3).....	Common Stock	135,000	*
Ronald L. Junck (4).....	Common Stock	107,206	*
Richard W. Gasten (4).....	Common Stock	2,850	*
Thomas E. McChesney (5).....	Common Stock	60,950	*
Robert J. Sullivan (6).....	Common Stock	30,950	*
All Officers and Directors as.....	Common Stock	3,210,613	17.3%
Group (10 Individuals).....	Preferred Stock	1,962,732	68.1%

</TABLE>

\* Less than 1%

- (1) Beneficial ownership is calculated in accordance with Rule 13d-3(d) (1) of the Securities Exchange Act of 1934, as amended and includes shares of Common Stock issuable upon exercise of options, warrants, and other securities convertible into or exchangeable for Common Stock currently exercisable or exercisable within 60 days of December 31, 1997.
- (2) The business address of Mr. Welstad is 1016 S. 28th Street, Tacoma, WA., 98409.
- (3) Includes currently exercisable options to purchase 45,000 shares of Common Stock at \$5.29 per share and 90,000 shares of Common Stock at \$8.92 per share.
- (4) Includes currently exercisable options to purchase 1,350 shares of Common Stock at \$6.05 per share and 1,500 shares of Common Stock at \$8.67 per share.
- (5) Includes currently exercisable options to purchase 1,350 shares of Common Stock at \$3.32 per share, 12,500 shares of Common Stock at \$19.56 per share and 1,500 shares of Common Stock at \$6.00 per share.

(6) Includes currently exercisable options to purchase 12,500 shares of Common Stock at \$19.56 per share and 1,500 shares of Common Stock at \$8.67 per share.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Mr. Junck is a member of the board of directors, and is also a shareholder in a law firm that received approximately \$176,000, \$337,000 and \$587,000 in payment for legal services performed for the Company in 1995, 1996 and 1997, respectively.

25  
PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

The Financial Statements are found on pages F-1 through F-20 of this Form 10-K. The Financial Statement Table of Contents is on Page F-1. The Exhibit Index is found on Page 27 of this Form 10-K.

No reports on Form 8-K were filed during the quarter ended December 31, 1997.

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/ GLENN A. WELSTAD                      3/30/98  
-----  
Signature                                      Date  
BY: Glenn A. Welstad, Chairman of The  
Board, Chief Executive Officer and  
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Glenn A. Welstad                      3/30/98  
-----  
Signature                                      Date  
Glenn A. Welstad, Chairman of the  
Board, Chief Executive Officer and  
President

/s/ Ralph E. Peterson                      3/30/98  
-----  
Signature                                      Date  
Ralph E. Peterson, Executive Vice  
President--Corporate and Business  
Development and Director

/s/ Joseph P. Sambataro, Jr.              3/30/98  
-----  
Signature                                      Date  
Joseph P. Sambataro, Jr., Executive  
Vice President, Chief Financial  
Officer, Treasurer and Assistant  
Secretary

/s/ Ronald L. Junck                        3/30/98  
-----  
Signature                                      Date  
Ronald L. Junck, Secretary, General  
Counsel and Director

/s/ Robert J. Sullivan                      3/30/98  
-----  
Signature                                      Date  
Robert J. Sullivan, Director

/s/ Richard W. Gasten                      3/30/98

-----  
Signature Date

Richard W. Gasten, Vice President and  
Secretary, Labour Ready Temporary  
Services, Ltd. and Director

/s/ Thomas E. McChesney 3/30/98  
-----

Signature Date

Thomas E. McChesney, Director

EXHIBIT INDEX  
FORM 10-K  
LABOR READY, INC.

EXHIBIT NUMBER	DESCRIPTION	
<C>	<S>	<C>
3	Articles of Incorporation	(1)
3.1	Articles of Amendment to Articles of Incorporation	(1)
3.2	Bylaws	
(1)		
4	Instruments Defining Rights of Security Holders	(1)
4.1	Rights Agreement Dated January 6, 1998	(2)
10	Material Contracts	
10.1	Warrant Purchase Agreements	(1)
10.2	Executive Employment Agreement between Labor Ready, Inc. And Glenn A. Welstad	(1)
10.3	Employment Agreement between Labor Ready, Inc. and Joseph P. Sambataro, Jr. dated August 1, 1997	
10.4	Business Loan Agreement between Labor Ready, Inc. and U.S. Bank of Washington, N.A., dated November 10, 1997	
10.5	Form of Lease for Labor Ready, Inc. dispatch office	(1)
10.6	1996 Employee Stock Option and Incentive Plan	(1)
10.7	1996 Employee Stock Purchase Plan	(1)
10.8	Employment Agreement between Labor Ready, Inc. and Ralph E. Peterson dated March 19, 1997	
16	Letter re change in certifying accountant	(3)
23	Consents of Independent Certified Public Accountants	
23.1	Consent of Arthur Andersen LLP -- Independent Public Accountants	
23.2	Consent of BDO Seidman, LLP -- Independent Certified Public Accountants	
27	Financial Data Schedules	
27.1	December 31, 1997 and for the year then ended	
27.2	December 31, 1995 and 1996, for each of the two years in the period ended December 31, 1996	
27.3	March 31, June 30 and September 26, 1997 and for each of the three, six and nine month periods then ended	

- (1) Incorporated by reference to the Company's Form 10 Registration Statement, SEC File No. 0-2382.
- (2) Incorporated by reference to the Company's Current Report on Form 8-K Filed on January 16, 1998.
- (3) Incorporated by reference to the Company's Current Report on Form 8-K filed on September 26, 1997.

COPIES OF EXHIBITS MAY BE OBTAINED UPON REQUEST DIRECTED TO MR. JOSEPH P. SAMBATARO, JR., LABOR READY, INC., 1016 S. 28TH STREET, TACOMA, WASHINGTON, 98409.

LABOR READY, INC.  
CONSOLIDATED FINANCIAL STATEMENTS  
TABLE OF CONTENTS

	PAGE
<S>	<C>
Reports of Independent Certified Public Accountants.....	F-2
Consolidated Balance Sheets December 31, 1996 and 1997.....	F-4
Consolidated Statements of Income Years Ended December 31, 1995, 1996 and 1997.....	F-6
Consolidated Statements of Shareholders' Equity Years Ended December 31, 1995, 1996 and 1997.....	F-7
Consolidated Statements of Cash Flows Years Ended December 31, 1995, 1996 and 1997.....	F-8
Notes to Consolidated Financial Statements.....	F-10

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders of  
Labor Ready, Inc.

We have audited the accompanying consolidated balance sheet of Labor Ready, Inc. and subsidiaries as of December 31, 1997, and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Labor Ready, Inc. as of December 31, 1996, were audited by other auditors whose report dated February 24, 1997, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Labor Ready, Inc. and subsidiaries as of December 31, 1997, and the consolidated results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

Seattle, Washington  
February 24, 1998

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders of  
Labor Ready, Inc.

We have audited the accompanying consolidated balance sheet of Labor Ready, Inc. and subsidiaries as of December 31, 1996 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the two years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Labor Ready, Inc. and subsidiaries as of December 31, 1996 and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

/s/ BDO Seidman, LLP

Spokane, Washington  
February 24, 1997

LABOR READY, INC.

CONSOLIDATED BALANCE SHEETS

December 31, 1996 and 1997

ASSETS



<CAPTION>

	1996	1997
	-----	-----
<S>	<C>	<C>
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 17,597,821	\$ 22,116,633
Accounts receivable, less allowance for doubtful accounts of \$1,236,776 and \$2,851,226.....	21,010,653	36,614,156
Workers' compensation deposits and credits.....	5,285,552	1,081,813
Prepaid expenses and other.....	1,983,961	2,659,789
Income taxes receivable.....	1,194,633	--
Deferred income taxes.....	1,461,731	3,144,202
Total current assets.....	48,534,351	65,616,593
PROPERTY AND EQUIPMENT:		
Buildings and land.....	3,733,202	4,448,135
Computers and software.....	5,036,410	8,219,832
Furniture and equipment.....	486,524	497,516
Less accumulated depreciation.....	9,256,136	13,165,483
Property and equipment, net.....	7,824,574	10,326,479
OTHER ASSETS:		
Intangible assets and other, less accumulated amortization of \$979,572 and \$3,568,849.....	3,071,933	3,076,638
Workers' compensation deposits and credits, less current portion.....	2,979,018	--
Deferred income taxes.....	--	1,211,747
Restricted cash in captive insurance subsidiary.....	1,714,744	135,929
Total other assets.....	7,765,695	4,424,314
Total assets.....	\$ 64,124,620	\$ 80,367,386

</TABLE>

See accompanying notes to consolidated financial statements.

F-4  
LABOR READY, INC.

CONSOLIDATED BALANCE SHEETS

December 31, 1996 and 1997

LIABILITIES AND SHAREHOLDERS' EQUITY

<TABLE>  
<CAPTION>

	1996	1997
	-----	-----
<S>	<C>	<C>
CURRENT LIABILITIES:		
Checks issued against future deposits.....	\$ 1,139,555	\$ --
Accounts payable.....	2,230,721	3,711,141
Accrued wages and benefits.....	3,046,084	4,080,366
Workers' compensation claims reserve, current portion.....	4,532,625	7,108,723
Income taxes payable.....	--	874,948
Current maturities of long-term debt.....	11,905	12,979
Total current liabilities.....	10,960,890	15,788,157
LONG-TERM LIABILITIES:		
Long-term debt, less current maturities.....	90,352	76,337
Workers' compensation claims reserve, less current portion.....	544,061	6,461,780
Deferred income taxes.....	937,401	--
Total long-term liabilities.....	1,571,814	6,538,117
Total liabilities.....	12,532,704	22,326,274
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, \$0.296 par value 5,000,000 shares authorized; 2,882,530 shares issued and outstanding.....	854,082	854,082
Common stock, no par value 25,000,000 shares authorized; 18,560,364 and 18,441,530 shares issued and outstanding.....	49,516,834	49,693,433
Cumulative foreign currency translation adjustment.....	(50,126)	86,221
Retained earnings.....	1,271,126	7,407,376
Total shareholders' equity.....	51,591,916	58,041,112
Total liabilities and shareholders' equity.....	\$ 64,124,620	\$ 80,367,386

</TABLE>

See accompanying notes to consolidated financial statements.

## LABOR READY, INC.

## CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 1995, 1996 and 1997

&lt;TABLE&gt;

&lt;CAPTION&gt;

	1995	1996	1997
<S>	<C>	<C>	<C>
Revenues from services.....	\$ 94,361,629	\$ 163,449,620	\$ 335,408,832
Cost of services.....	64,881,955	115,531,110	236,666,368
Gross profit.....	29,479,674	47,918,510	98,742,464
Selling, general and administrative expense.....	24,877,605	42,954,950	84,080,568
Depreciation and amortization.....	522,436	1,796,618	4,011,051
Income from operations.....	4,079,633	3,166,942	10,650,845
Interest (income) expense and other, net.....	866,113	(339,769)	(1,871,066)
Income before taxes on income and extraordinary item.....	3,213,520	3,506,711	12,521,911
Taxes on income.....	1,151,713	1,585,028	5,558,890
Income before extraordinary item.....	2,061,807	1,921,683	6,963,021
Extraordinary item, net of income tax benefit of \$703,200.....	--	(1,197,400)	--
Net income.....	\$ 2,061,807	\$ 724,283	\$ 6,963,021
Basic income per common share:			
Income before extraordinary item.....	\$ 0.16	\$ 0.12	\$ 0.38
Extraordinary item, net.....	--	(0.08)	--
Net income.....	\$ 0.16	\$ 0.04	\$ 0.38
Diluted income per common share:			
Income before extraordinary item.....	\$ 0.15	\$ 0.12	\$ 0.37
Extraordinary item, net.....	--	(0.08)	--
Net income.....	\$ 0.15	\$ 0.04	\$ 0.37
Weighted average shares outstanding			
Basic.....	12,432,540	15,865,221	18,446,113
Diluted.....	13,038,540	16,288,613	18,778,202

&lt;/TABLE&gt;

See accompanying notes to consolidated financial statements.

## LABOR READY, INC.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Year Ended December 31, 1995, 1996 and 1997

&lt;TABLE&gt;

&lt;CAPTION&gt;

	COMMON STOCK		PREFERRED STOCK		CUMULATIVE RETAINED EARNINGS (ACCUMULATED DEFICIT)	FOREIGN CURRENCY TRANSLATION ADJUSTMENT
	SHARES	AMOUNT	SHARES	AMOUNT		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE, January 1, 1995.....	11,187,435	\$ 3,540,187	2,882,530	\$ 854,082	\$ (1,429,556)	\$ (2,853)
Net income for the year.....	--	--	--	--	2,061,807	--
Common stock issued on conversion of debt.....	336,154	382,364	--	--	--	--
Common stock issued for 401(k) Plan.....	2,693	7,679	--	--	--	--
Common stock issued from private placement.....	31,500	69,998	--	--	--	--
Common stock issued on the exercise of warrants.....	1,602,990	1,781,100	--	--	--	--
Common stock issued on the exercise of options.....	67,500	45,000	--	--	--	--
Detachable stock warrants issued.....	--	1,290,094	--	--	--	--
Preferred stock dividend.....	--	--	--	--	(42,704)	--
Foreign currency translation.....	--	--	--	--	--	(25,854)

BALANCE, January 1, 1996.....	13,228,272	7,116,422	2,882,530	854,082	589,547	(28,707)
Net income for the year.....	--	--	--	--	724,283	--
Common stock issued for 401(k) Plan.....	7,707	48,250	--	--	--	--
Common stock issued from public stock offering.....	3,363,750	33,586,259	--	--	--	--
Common stock issued on debt extinguishment and warrants exercised.....	1,535,328	7,961,074	--	--	--	--
Common stock issued on the exercise of options.....	425,307	804,829	--	--	--	--
Preferred stock dividend.....	--	--	--	--	(42,704)	--
Foreign currency translation.....	--	--	--	--	--	(21,419)
<hr/>						
BALANCE, January 1, 1997.....	18,560,364	49,516,834	2,882,530	854,082	1,271,126	(50,126)
Net income for the year.....	--	--	--	--	6,963,021	--
Common stock repurchased.....	(229,256)	(611,454)	--	--	(784,067)	--
Common stock issued for 401(k) Plan.....	9,054	81,485	--	--	--	--
Common stock acquired through Employee Stock Purchase Plan.....	52,899	375,032	--	--	--	--
Common stock issued on the exercise of warrants.....	21,300	110,460	--	--	--	--
Common stock issued on the exercise of options.....	27,169	221,076	--	--	--	--
Preferred stock dividend.....	--	--	--	--	(42,704)	--
Foreign currency translation.....	--	--	--	--	--	136,347
<hr/>						
BALANCE, December 31, 1997.....	18,441,530	\$ 49,693,433	2,882,530	\$ 854,082	\$ 7,407,376	\$ 86,221

</TABLE>

See accompanying notes to consolidated financial statements.

F-7

LABOR READY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 1995, 1996 and 1997

<TABLE>  
<CAPTION>

	1995	1996	1997
<S>	<C>	<C>	<C>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income.....	\$ 2,061,807	\$ 724,283	\$ 6,963,021
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization.....	522,436	1,796,618	4,011,051
Loss (gain) on capital assets sold.....	--	3,729	(75,577)
Provision for doubtful accounts.....	1,084,526	2,078,489	5,761,610
Extinguishment of debt, extraordinary item.....	--	1,900,601	--
Deferred income taxes.....	(502,451)	191,077	(3,831,619)
Changes in assets and liabilities			
Accounts receivable.....	(8,104,502)	(10,906,336)	(21,279,041)
Workers' compensation deposits and credits.....	(1,871,348)	(4,950,021)	7,182,757
Prepaid expenses and other.....	(324,697)	(1,381,909)	(675,828)
Accounts payable.....	753,442	1,160,890	1,605,274
Accrued wages and benefits.....	774,339	1,457,937	1,034,284
Workers' compensation claims reserve.....	1,234,469	3,133,348	8,493,817
Income taxes payable (receivable).....	664,000	(2,355,633)	2,120,669
Net cash (used in) provided by operating activities.....	(3,707,979)	(7,146,927)	11,310,418
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital expenditures.....	(2,471,001)	(5,749,935)	(3,967,448)
Proceeds from sale of capital assets.....	--	8,891	120,000
(Increase) decrease in restricted cash.....	--	(1,714,744)	1,578,815
Additions to intangible assets and other.....	--	(3,558,609)	(2,594,638)
Net cash used in investing activities.....	(2,471,001)	(11,014,397)	(4,863,271)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net payments on note payable.....	(1,569,374)	(1,591,206)	--
Checks issued against future deposits.....	514,842	624,713	(1,139,555)
Proceeds from issuance of common stock.....	69,998	--	--
Net proceeds from public offering.....	--	33,586,259	--
Proceeds from warrants exercised.....	1,781,100	--	110,460
Proceeds from options exercised.....	45,000	804,829	169,988
Proceeds from sale of stock through employee stock purchase plan.....	--	--	375,032
Purchase and retirement of treasury stock.....	--	--	(1,395,521)
Debt issue costs.....	(816,769)	--	--
Repayment of subordinated debt.....	--	(2,069,643)	--
Borrowings on long-term debt.....	11,529,951	--	--
Payments on long-term debt.....	(552,074)	(890,797)	(12,941)
Preferred stock dividends paid.....	(42,704)	(42,704)	--
Net cash provided by financing activities.....	10,959,970	30,421,451	(1,892,537)
Effect of exchange rates on cash.....	(25,854)	(21,419)	(35,798)
Net increase in cash and cash equivalents.....	4,755,136	12,238,708	4,518,812

CASH AND CASH EQUIVALENTS, beginning of year.....	603,977	5,359,113	17,597,821
CASH AND CASH EQUIVALENTS, end of year.....	\$ 5,359,113	\$ 17,597,821	\$ 22,116,633

</TABLE>

See accompanying notes to consolidated financial statements.

F-8

LABOR READY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 1995, 1996 and 1997

<TABLE>

<CAPTION>

	1995	1996	1997
	<C>	<C>	<C>
<S>			
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest.....	\$ 1,302,929	\$ 332,479	\$ 30,387
Income taxes.....	\$ 990,164	\$ 2,858,941	\$ 7,972,732
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Contribution of common stock to 401(k) Plan.....	\$ 7,679	\$ 48,250	\$ 81,485
Debentures converted to common stock.....	\$ 75,000	--	--
Issuance of a note receivable on the sale of capital assets.....	--	\$ 23,250	--
Issuance of common stock on debt retirement.....	--	\$ 7,961,074	--
Preferred stock dividends accrued.....	--	--	\$ 42,704
Tax effect of disqualifying dispositions on options exercised.....	--	--	\$ 51,088

</TABLE>

See accompanying notes to consolidated financial statements.

F-9

LABOR READY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 1995, 1996 and 1997

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

Labor Ready, Inc. and its wholly-owned subsidiaries Labour Ready Temporary Services Ltd. and Labor Ready Assurance Company (together, "the Company") provide temporary staffing for manual labor jobs to customers primarily in the construction, landscaping and light manufacturing industries from 316 offices located throughout the United States and Canada. The Company provides services to a wide variety of customers, none of which individually comprise a significant portion of revenues within a geographic region or for the Company as a whole. The consolidated financial statements include the accounts of Labor Ready, Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

B. REVENUE RECOGNITION

Revenue from the sale of services is recognized at the time the service is performed. A portion of the Company's income is derived from franchise fees, which are insignificant for all years presented.

C. COST OF SERVICES

Cost of services includes the wages of temporary workers, related payroll taxes, workers' compensation expenses and transportation.

D. CASH AND CASH EQUIVALENTS

The Company considers all highly liquid instruments purchased with a maturity of three months or less at date of purchase to be cash equivalents.

E. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which are 31 to 39 years for buildings and improvements, 3 to 5 years for computers and software and 5 to 7 years for furniture and equipment.

F. INTANGIBLE ASSETS AND OTHER

Intangible and other assets consist primarily of dispatch office pre-opening costs and acquired customer lists and non-compete agreements. Dispatch office pre-opening costs are capitalized until such facilities become operational and are amortized using the straight-line method over an estimated useful life of 2 years. Other intangible assets are stated at cost and are amortized using the straight-line method over periods not exceeding ten years. Management evaluates, on an ongoing basis, the carrying value of intangible assets and makes a specific provision against the asset when an impairment is identified.

G. INCOME TAXES

Deferred income taxes are provided for temporary differences between the financial statement and income tax bases of assets and liabilities using enacted tax rates in effect for the year in which the temporary differences are expected to reverse. If it is more likely than not that some portion of a deferred tax asset will not be realized, a valuation allowance is recorded.

F-10

LABOR READY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years Ended December 31, 1995, 1996 and 1997

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. FOREIGN CURRENCY TRANSLATION

Cumulative foreign currency translation adjustment relates to the Company's consolidated foreign subsidiary, Labour Ready Temporary Services, Ltd. Foreign currency translation is calculated by application of the current rate method and is included in the determination of consolidated shareholders' equity at the respective balance sheet dates.

I. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. NEW ACCOUNTING STANDARDS

The Company is required to adopt SFAS No. 130, "Reporting Comprehensive Income" effective January 1, 1998. Comprehensive income and its components will be required to be presented for each year for which an income statement is presented. It is expected that the adoption of SFAS No. 130 will not have a significant impact on the Company's consolidated results of operations or financial condition.

In April 1997, the Accounting Standards Executive Committee (the "AcSEC") issued an exposure draft of a Proposed Statement of Position, "Reporting on the Costs of Start-up Activities". The proposed statement would establish new rules for the financial reporting of start-up costs, and if adopted, would require the Company to expense the cost of establishing new dispatch offices as incurred and write off any capitalized pre-opening costs in the first quarter of the year adopted. The AcSEC expects to issue a final statement in 1998, which will likely be effective for the Company's 1999 year. Currently, the Company capitalizes certain dispatch office pre-opening costs, and amortizes them using the straight-line method over two years. As of December 31, 1997 the Company had recorded pre-opening costs of \$2,643,641, net of accumulated amortization.

K. RECLASSIFICATION

Certain items in the 1996 and 1995 consolidated financial statements have been reclassified to conform to the 1997 presentation.

F-11

LABOR READY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years Ended December 31, 1995, 1996 and 1997

2. WORKERS' COMPENSATION

The Company provides workers' compensation insurance to its temporary workers and office staff. In Washington, Ohio and West Virginia, (the monopolistic states), the Company is required to make payments into state administered programs, at rates established by each state based upon the job classification of the insured workers and the previous claims experience of the Company. The Washington program provides for a retroactive adjustment of workers' compensation payments based upon actual claims experience. Upon adjustment, overpayments to the program are returned to the Company and underpayments, if any, are assessed. At December 31, 1996 and 1997, the Company recorded workers' compensation credit receivables of \$835,566 and \$1,081,813 and workers' compensation liabilities of \$587,411 and \$606,354 related to the monopolistic states.

For workers' compensation claims originating in the remaining states (the non-monopolistic states), the Company self-insures the deductible amount per claim to a maximum aggregate stop loss limit and has engaged a third party administrator to manage the claims and an off-shore company for the payment of claims and related expenses. The deductible amount was \$250,000 per claim to an aggregate maximum of approximately \$5.0 million, \$6.5 million and \$19.0 million in 1995, 1996 and 1997. In January 1998, the Company renewed its insurance program, the terms of which included a reduction of the 1995 and 1996 aggregate maximums to \$4.5 million and \$5.2 million, respectively.

During 1997, the Company deposited \$13.9 million with the off-shore company for the payment of workers' compensation claims and related expenses originating in the non-monopolistic states and \$7.4 million was paid on these claims. As discussed further in Note 3, the Company replaced these deposits with letters of credit as collateral to the off-shore company for the payment of future non-monopolistic claims and related expenses.

The Company establishes provisions for future claim liabilities based upon 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 claim reserve are charged or credited to expense in the periods in which they occur. At December 31, 1996 and 1997, the Company had recorded a reserve for claims and claim related expenses arising in non-monopolistic states of \$4,449,986 and \$12,686,860. The reserve for workers' compensation claims was computed using a discount rate of 7.5% and 6.0% at December 31, 1996 and 1997.

Workers' compensation expense totaling \$5,907,771, \$9,981,411 and \$19,245,733 was recorded as a component of cost of services for the years ended December 31, 1995, 1996 and 1997, respectively.

The Company has formed a wholly-owned, off-shore captive, Labor Ready Assurance Company for the management and payment of workers' compensation claims and claim related expenses. During 1996, the Company deposited \$1,714,744 for the statutory capitalization of Labor Ready Assurance and during 1997, increased that capitalization by \$750,000. As discussed further in Note 3, during 1997, the Company replaced these deposits with letters of credit as collateral for the statutory capitalization of Labor Ready Assurance Company. At December 31, 1997, \$135,929 remains on deposit with Labor Ready Assurance and is recorded as restricted cash in the accompanying consolidated balance sheets.

F-12

LABOR READY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years Ended December 31, 1995, 1996 and 1997

3. NOTE PAYABLE

In 1996, the Company had a line-of-credit agreement with a bank with interest at the bank's prime rate (8.25% at December 31, 1996). The agreement allowed the Company to borrow up to the lesser of \$20 million or 80% of eligible accounts receivable as defined by the bank. At December 31, 1996, no borrowings were outstanding and \$20 million was available for borrowing. The line-of-credit was secured primarily by the Company's accounts receivable.

During 1997, the Company entered into a line-of-credit agreement with the bank with interest at the bank's prime rate (8.5% at December 31, 1997). The agreement allows the company to borrow up to the lesser of \$30 million or 80% of eligible receivables as defined by the bank. The line-of-credit is secured primarily by the Company's accounts receivable and expires in June 1999. The line-of-credit agreement requires that the Company maintain minimum net worth and working capital amounts. The Company was in compliance with the requirements at December 31, 1997.

As discussed further in Note 2, the Company replaced its cash deposits required by the workers' compensation program with irrevocable letters of credit totaling \$15.9 million. The letters of credit bear fees of .75% per year and are supported by an equal amount of available borrowings on the line-of-credit. Accordingly, at December 31, 1997, no borrowings were outstanding on the line-of-credit, \$15.9 million was committed by the letters of credit and \$14.1 million was available for borrowing.

During the years ended December 31, 1996 and 1997, short-term borrowing activity was as follows:

<TABLE>  
<CAPTION>

	DECEMBER 31,	
	1996	1997
<S>	<C>	<C>
Balance outstanding at year-end.....	\$ --	\$ --
Stated interest rate at year-end, including applicable fees.....	8.63%	8.63%
Maximum amount outstanding during the year.....	\$ 8,018,974	\$ 1,700,000
Average amount outstanding.....	\$ 2,387,188	\$ 1,200,000
Weighted average interest rate during the year, including applicable fees.....	10.87%	11.50%

The average amount outstanding and the weighted average interest rate during the year were computed based upon the average daily balances and rates.

4. EARNINGS PER SHARE

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share" which replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share.

Basic earnings per share is computed by dividing net income less preferred stock dividends by the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed by dividing net income less preferred stock dividends by the weighted average number of common shares and common stock equivalents outstanding during the year. Common stock equivalents for the Company include the dilutive effect of outstanding options. In November 1995, July 1996 and October 1997, the Company declared three-for-two stock splits which have each been retroactively applied in the determination of weighted average shares outstanding. All earnings per share amounts for all years presented have been restated to conform to the provisions of SFAS No. 128.

F-13

LABOR READY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years Ended December 31, 1995, 1996 and 1997

Basic and diluted earnings per share were calculated as follows:

<TABLE>  
<CAPTION>

	1995	1996	1997
<S>	<C>	<C>	<C>
Basic:			
Income before extraordinary item.....	\$ 2,061,807	\$ 1,921,683	\$ 6,963,021
Less preferred stock dividends.....	42,704	42,704	42,704
Income before extraordinary item available to common shareholders.....	\$ 2,019,103	\$ 1,878,979	\$ 6,920,317
Weighted average shares outstanding.....	12,432,540	15,865,221	18,446,113
Income before extraordinary item per share.....	\$ .16	\$ .12	\$ .38
Diluted:			
Income before extraordinary item available to common shareholders.....	\$ 2,019,103	\$ 1,878,979	\$ 6,920,317
Weighted average shares outstanding.....	12,432,540	15,865,221	18,446,113
Plus options to purchase common stock outstanding at end of year.....	2,266,803	624,711	1,355,170
Less shares assumed repurchased.....	(1,660,803)	(201,319)	(1,023,081)
Weighted average shares outstanding, including dilutive effect of options.....	13,038,540	16,288,613	18,778,202
Income before extraordinary item per share.....	\$ .15	\$ .12	\$ .37

</TABLE>

5. SUBORDINATED DEBT

In October 1995, the Company issued subordinated debt with detachable stock warrants for the purchase of 1,670,328 shares at an exercise price of \$5.19 per share, in exchange for \$10,000,000. The debt had a stated interest rate of 13%, was secured by substantially all assets of the Company, and was to be repaid in 17 quarterly installments commencing in October 1998. The Company recorded a debt discount and allocated \$1,290,094 of the proceeds to the value of the detachable stock warrants. In connection with arranging the debt agreement, the Company incurred costs of approximately \$800,000 which were capitalized as intangible assets and other, for amortization over the life of the debt.

In September 1996, the Company repaid the outstanding balance of the subordinated debt and accelerated the exercise date of the detachable stock warrants to allow immediate exercise at a price of \$5.19 per share. Upon pre-payment, 1,535,328 shares of common stock were purchased through the exercise of detachable stock warrants and the cancellation of \$7,961,073 of subordinated debt. The remaining \$2,038,927 of debt was paid by the Company in cash. An extraordinary loss of \$1,197,400 (net of the related income tax benefit of \$703,200) was recorded on the write-off of the unamortized debt discount and debt issue costs. As of December 31, 1997, warrants to purchase 32,700 shares of common stock at an exercise price of \$5.19 per share remained outstanding.

6. RELATED PARTY TRANSACTIONS

A member of the board of directors, is also a shareholder in a law firm that received approximately \$176,000, \$337,000 and \$587,000 in payment for legal services performed for the Company in 1995, 1996 and 1997, respectively.

F-14

LABOR READY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years Ended December 31, 1995, 1996 and 1997

## 7. PREFERRED STOCK

The Company has authorized 5,000,000 shares of blank check preferred stock. The blank check preferred stock is issuable in one or more series, each with such designations, preferences, rights, qualifications, limitations and restrictions as the board of directors of the Company may determine and set forth in supplemental resolutions at the time of issuance, without further shareholder action.

The initial series of blank check preferred stock of the corporation authorized by the board of directors in accordance with the articles of incorporation, was designated as Series A preferred stock. At December 31, 1996 and 1997, the Company had 2,882,530 outstanding shares of \$0.296 par value Series A preferred stock.

Each share of Series A preferred stock is entitled to one vote in all matters submitted to a vote of the shareholders of the Company. The Series A preferred stock will vote on par with the Common Shares as a single class unless the action being considered involves a change in the rights of the Series A preferred stock. The Series A preferred stock bears a cumulative annual dividend rate of five percent accrued on December 31 of each year, is redeemable at par value plus accumulated dividends at the option of the Company at any time after December 31, 1994, and contains an involuntary preferential liquidation distribution equivalent to the par value plus all accumulated dividends remaining unpaid.

In November 1995, July 1996 and October 1997, the board of directors authorized three-for-two preferred stock splits. These preferred stock splits were effected in the form of three shares of preferred stock issued for every two shares of preferred stock outstanding as of each date of declaration. All applicable share and per share data have been adjusted for the effect of the stock splits.

Pursuant to the Rights Plan discussed further in Note 8, 250,000 shares of preferred stock have been reserved for issuance under terms of the Plan.

A preferred stock dividend in the amount of \$42,704 was accrued and paid at December 31, 1995 and 1996. The 1997 preferred stock dividend in the amount of \$42,704 was accrued at December 31, 1997 and paid in January 1998.

## 8. COMMON STOCK

In November 1995, July 1996 and October 1997, the Board of Directors authorized three-for-two common stock splits. These common stock splits were effected in the form of three shares of common stock issued for every two shares of common stock outstanding as of the date of declaration. All applicable share and per share data have been adjusted for the effect of each of these stock splits.

In connection with the issuance of the \$10,000,000 subordinated debt in 1995, the Company issued options and warrants to purchase 1,670,328 shares of Common Stock at an exercise price of \$5.19 per share. 1,535,328 of these warrants were exercised as a result of the Company's prepayment of the subordinated debt in September 1996 (see Note 5).

In June 1996, the Company successfully completed the sale of 2,925,000 shares of common stock, through an underwritten public offering, at a price of \$10.89 per share (\$10.15 net of underwriting costs). An additional 438,750 shares of common stock were sold pursuant to an underwriters over-allotment option, also at the same price per share. Upon the commencement of this offering, the Company's common stock was approved for quotation on the Nasdaq National Market. In connection with the public offering, the Company incurred costs of approximately \$574,000 which were offset against the common stock sale proceeds. These net proceeds were used to prepay debt, purchase of an office building in Tacoma, Washington, fund workers' compensation deposits, and fund the opening of new dispatch offices.

F-15

LABOR READY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years Ended December 31, 1995, 1996 and 1997

## 8. COMMON STOCK (CONTINUED)

During 1997, the Company repurchased 229,256 shares of common stock on the open market for cash consideration of \$1,395,521. The repurchased shares were retired and are not available for reissuance. Excess acquisition cost over the average per share carrying value of common stock is charged to retained earnings.

In 1998, the board of directors adopted a Shareholders Rights Plan ("the Rights Plan") and declared a dividend distribution of one right for each outstanding share of the Company's common stock. Under the terms of the Rights Plan, each Right entitles the holder to purchase one one-hundredth of a share of the Series A preferred stock at an exercise price of \$113.06. The rights are exercisable a specified number of days following (1) the acquisition by a



person or group of persons of 15% or more of the Company's common stock, or (2) the commencement of a tender or exchange offer for 15% or more of the Company's common stock. The Company has reserved 250,000 shares of the Series A Preferred stock for issuance upon exercise of the rights. The rights may be redeemed by the Company, subject to the approval of the board of directors, for \$.01 cents per right in accordance with the provisions of the Rights Plan. If any group or person acquires 50% or more of the Company's common stock, the holders of the unredeemed rights (except for the acquiring group or person) may purchase for the exercise price, the number of common shares having a market value equal to two times the exercise price. The rights expire in January 2008, unless redeemed earlier by the Company.

9. INCOME TAXES

Temporary differences, which give rise to deferred tax assets (liabilities) consist of the following:

<TABLE>  
<CAPTION>

	DECEMBER 31,	
	1996	1997
<S>	<C>	<C>
Allowance for doubtful accounts.....	\$ 469,975	\$ 1,071,624
Prepaid expenses.....	(272,595)	(216,337)
Workers' compensation credits receivable.....	(317,515)	(432,725)
Workers' compensation claims reserve.....	1,690,995	5,074,744
Net operating loss carry-forwards, net of valuation allowances of \$690,833 and \$682,268.....	119,417	115,227
Depreciation and amortization expenses.....	(1,126,603)	(1,477,717)
Vacation accrual.....	69,160	228,141
Other, net.....	(108,504)	(7,008)
Net tax deferrals.....	524,330	4,355,949
Non-current deferred tax (liabilities) assets net.....	(937,401)	1,211,747
Current deferred tax assets, net.....	\$ 1,461,731	\$ 3,144,202

</TABLE>

The Company has assessed its past earnings history and trends, budgeted sales, expiration dates of loss carry-forwards, and its ability to implement tax planning strategies which are designed to accelerate or increase taxable income. Based on the results of this analysis, no valuation allowance on net deferred tax assets has been established for Labor Ready, Inc. as management believes that it is more likely than not that the net deferred tax assets will be realized.

F-16

LABOR READY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years Ended December 31, 1995, 1996 and 1997

9. INCOME TAXES (CONTINUED)

At December 31, 1997, Labour Ready Temporary Services, Limited has federal net operating loss carryforwards of approximately \$182,400 with expiration dates through 2010. The Company has recognized a valuation allowance on the entire related deferred tax asset due to the uncertainty of realizing the benefits thereof.

As of December 31, 1997, Labor Ready, Inc. has net operating loss carry-forwards of approximately \$620,000, the majority of which expire in 2006 as applicable federal tax regulations limit the Company to an annual deduction of approximately \$26,000. The company has recognized a valuation allowance on the portion expiring in 2006.

Taxes on income consists of:

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1995	1996	1997
<S>	<C>	<C>	<C>
Current:			
Federal.....	\$ 1,419,728	\$ 602,942	\$ 7,602,257
State.....	234,436	87,809	1,788,252
Total Current.....	1,654,164	690,751	9,390,509
Deferred			
Federal.....	(482,051)	166,579	(3,258,890)
State.....	(20,400)	24,498	(572,729)

Total deferred.....	(502,451)	191,077	(3,831,619)
Total taxes on income, including \$703,200 tax benefit of extraordinary item in 1996.....	\$ 1,151,713	\$ 881,828	\$ 5,558,890

</TABLE>

The differences between income taxes at the statutory federal income tax rate and income taxes reported in the consolidated income statement are as follows:

	YEAR ENDED DECEMBER 31,					
	1995		1996		1997	
	AMOUNT	%	AMOUNT	%	AMOUNT	
%						
<S>	<C>	<C>	<C>	<C>	<C>	
Income tax expense based on statutory rate.....	\$ 1,092,597	34	\$ 546,078	34	\$ 4,382,669	
Increase (decrease) resulting from:						
State income taxes, net of federal benefit.....	106,046	3	59,089	4	696,808	
Utilization of net operating losses not previously benefited.....	(46,930)	(1)	(9,768)	(1)	--	
Prior year amounts.....	--	--	169,129	11	487,255	
Other, net.....	--	--	117,300	7	(7,842)	
Total taxes on income.....	\$ 1,151,713	36	\$ 881,828	55	\$ 5,558,890	

</TABLE>

Prior year amounts primarily represent corrections of state tax rates and results of revenue agent reviews of the 1995 and 1996 federal income tax returns.

F-17

LABOR READY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years Ended December 31, 1995, 1996 and 1997

10. COMMITMENTS AND CONTINGENCIES

The Company leases substantially all of its dispatch offices. These leases generally provide for termination on 30 days notice and upon payment of three months rent. Certain of these leases have 1 year minimum terms and are cancelable thereafter upon 30 days notice and the payment of three months rent. Most leases require additional payments for taxes, insurance, maintenance and renewal options. Minimum lease commitments under terms of the leases at December 31, 1997 total approximately \$3.3 million, substantially all of which would be payable in 1998. Rent expense for the years ended December 31, 1995, 1996 and 1997 was \$1,113,000, \$2,347,000 and \$5,025,697, respectively.

The Company is, from time to time, involved in various lawsuits arising in the ordinary course of business. Although there can be no absolute assurance, in the opinion of management, these will not have a material effect on the Company's consolidated results of operations or financial condition.

In 1995, the Company entered into an employment agreement with a key officer of the Company, which provides for annual compensation of \$31,250 per month at inception of the agreement, subject to annual increases on the anniversary date of the agreement of 10% of the prior period's base salary. In addition, the employment agreement provides for a bonus, as determined by the compensation committee, based on the officer's performance, and the overall performance of the Company. The employment agreement expires in 1998.

In December 1997, the Company entered into a lease agreement for 450 automated Cash Dispensing Machines ("CDM") for installation in all of the Company's dispatch offices. The fair market value of the CDMs at inception of the lease is approximately \$6.2 million. The lease is payable over 84 months with an imputed interest rate of 9.6% and is secured by the CDMs. At December

31, 1997, the Company had not installed any of the CDMS.

11. RETIREMENT PLAN

In 1994, the Company established a 401(k) savings plan ("the Plan"). Qualifying employees can elect to contribute up to 15% of their annual compensation to the Plan. Profit sharing contributions are made at the discretion of the Company's Board of Directors and have been made in the form of the Company's common stock. Employees are eligible to participate in the Plan the calendar quarter following the completion of one year of service. Employees are fully vested in matching contributions made to the Plan after completing five years of service. The amount charged to expense under the Plan was \$48,250, \$81,700 and \$118,145 for the years ended December 31, 1995, 1996 and 1997, respectively.

12. VALUATION AND QUALIFYING ACCOUNTS

Allowance for doubtful accounts activity was as follows:

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1995	1996	1997
	<C>	<C>	<C>
Balance, beginning of year.....	\$ 365,927	\$ 868,607	\$ 1,236,776
Charged to expense.....	1,084,526	2,078,489	5,761,610
Write-offs, net of recoveries.....	(581,846)	(1,710,320)	(4,147,160)
Balance, end of year.....	\$ 868,607	\$ 1,236,776	\$ 2,851,226

</TABLE>

F-18

LABOR READY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years Ended December 31, 1995, 1996 and 1997

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist primarily of cash and cash equivalents, trade receivables, trade payables and long term debt. The book values of cash and cash equivalents, trade receivables and trade payables are considered to approximate their respective fair values. None of the Company's long term debt instruments outstanding at December 31, 1996 and 1997 have readily ascertainable market values, however, the carrying values are considered to approximate their respective fair values.

14. EMPLOYEE STOCK PURCHASE PLAN

In November, 1996, the Company adopted an Employee Stock Purchase Plan (the "ESPP") to provide substantially all 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 its common stock through payroll deductions. The ESPP permits payroll deductions up to 10% of eligible after-tax compensation. On January 1 and July 1, 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 the six-month period. The ESPP provides that no participant shall purchase stock that the aggregate fair market value exceeds \$25,000 during any calendar year. The ESPP expires on June 30, 2001. 225,000 shares of common stock have been reserved for purchase under the ESPP. During 1997, 52,899 shares were purchased by participants in the plan for cash proceeds of \$375,032.

15. STOCK COMPENSATION PLANS

In June, 1996, the Company adopted the 1996 Employee Stock Option and Incentive Plan (the "Plan"). In accounting for the Plan, the Company applied APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. Under APB Opinion No. 25, because the exercise price of the Company's employee stock options is not less than the market price of the underlying stock at the date of grant, no compensation cost is recognized.

The Plan states that the exercise price of each option may or may not be granted at an amount that equals the market value at the date of grant. The majority of the options vest evenly over a four year period from the date of grant and then expire if not exercised within five years from the date of grant. 525,000 shares of common stock have been reserved for issuance under terms of the Plan.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", requires the Company to provide pro forma information regarding net income and earnings per share as if compensation cost for the

Company's stock option plans had been determined in accordance with the fair value based method prescribed in SFAS No. 123. 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 1995, 1996 and 1997, respectively: expected life of options of 5 years, expected volatility of 11.6%, 11.2% and 66.7%, risk-free interest rates of 6.1%, 6.0% and 6.0%, and a 0% dividend yield. The weighted average fair value at date of grant for options granted during 1995, 1996 and 1997 approximated \$5.13, \$9.72 and \$7.86 per option.

F-19

LABOR READY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years Ended December 31, 1995, 1996 and 1997

15. STOCK COMPENSATION PLANS (CONTINUED)

Under the provisions of SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	1995	1996	1997
	-----	-----	-----
<S>	<C>	<C>	<C>
Net Income			
As reported.....	\$ 2,061,807	\$ 724,283	\$ 6,963,021
Pro forma.....	\$ 1,957,946	\$ 352,222	\$ 6,159,194
Pro forma earnings per share			
Basic.....	\$ 0.15	\$ 0.02	\$ 0.33
Diluted.....	\$ 0.15	\$ 0.02	\$ 0.33

The following table summarizes stock option activity:

	STOCK OPTIONS	WEIGHTED-AVERAGE PRICE PER SHARE
	-----	-----
<S>	<C>	<C>
Outstanding at January 1, 1995.....	509,625	\$ 1.05
Granted.....	1,794,303	5.13
Expired or canceled.....	(37,125)	1.39
Exercised.....	--	--
Outstanding at January 1, 1996.....	2,266,803	4.78
Granted.....	418,500	9.73
Expired or canceled.....	(100,125)	1.95
Exercised.....	(1,960,467)	4.41
Outstanding at January 1, 1997.....	624,711	8.15
Granted.....	850,664	12.46
Expired or canceled.....	(71,736)	7.55
Exercised.....	(48,469)	5.79
Outstanding at December 31, 1997.....	1,355,170	\$ 10.46

</TABLE>

The following table summarizes information about fixed-price stock options outstanding at December 31, 1997:

RANGE OF PRICES	NUMBER OUTSTANDING	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE	
		WEIGHTED- AVERAGE CONTRACTUAL LIFE	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED- AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
\$1.32--5.29....	257,196	2.87	4.43	108,686	4.05
6.00--10.08...	654,224	4.23	8.25	200,579	8.34
12.44--13.33...	213,750	4.55	13.99	8,438	12.44
19.56--25.13...	230,000	4.99	21.83	--	--
\$1.32--25.13...	1,355,170	4.19	\$ 10.46	317,703	\$ 6.98

</TABLE>

## EXECUTIVE EMPLOYMENT AGREEMENT

This Executive Employment Agreement supersedes that Executive Employment Agreement entered into on July 12, 1997, by and between Labor Ready, Inc. and Joseph P. Sambataro, Jr.

This Executive Employment Agreement is made and entered into by and between Labor Ready, Inc., a Washington corporation, including its subsidiaries ("Company") and Joseph P. Sambataro, Jr. ("Executive").

## RECITALS

WHEREAS, Company believes that Executive's experience, knowledge of corporate affairs, reputation and industry contacts are of great potential value to Company's future growth and profits; and

WHEREAS, Company wishes to employ Executive and Executive is willing to be employed by Company; and

WHEREAS, the parties anticipate that Company's Board of Directors will elect Executive to the office of Executive Vice President and Chief Financial Officer of the Company.

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein, the Company and Executive agree as follows:

1. Employment. The Company agrees to and hereby does employ Executive, and Executive agrees to and hereby does become employed by the Company, subject to the supervision and direction of the Chairman, President and Chief Executive Officer and of the Board of Directors. Executive's employment shall be for a period commencing on August 1, 1997 and ending on July 31, 2001, unless such period is extended by written agreement of the parties or is sooner terminated pursuant to the provisions of Paragraphs 4, 11 or 12.

2. Duties of Executive. Executive agrees to devote the necessary time, attention, skill, and efforts to the performance of his duties as Executive Vice President and Chief Financial Officer of the Company or such other duties as may be assigned by the Chairman, President and Chief Executive Officer or the Board of Directors in their discretion.

## 3. Compensation.

(a) Executive's initial salary shall be at the rate of Thirteen Thousand Five Hundred and No/100 Dollars (\$13,500.00) per month, payable semimonthly, from August 1, 1997 until changed by the Board of Directors as provided herein.

(b) Company, acting through its Board of Directors, may (but shall not be required to) increase, but may not decrease, Executive's compensation and award to Executive such bonuses as the board may see fit, in its sole and unrestricted discretion, commensurate with Executive's performance and the overall performance of the Company.

4. Failure to Pay Executive. The failure of Company to pay Executive his salary as provided in Paragraph 3 may, in Executive's sole discretion, be deemed a breach of this Agreement and, unless such breach is cured within fifteen days after written notice to Company, this Agreement shall terminate. Executive's claims against Company arising out of the nonpayment shall survive termination of this Agreement.

5. Options to Purchase Common Stock. Executive is granted an option to purchase 120,000 shares of the Company's common stock. The terms and conditions of the option are set forth in Exhibit A.

6. Reimbursement for Expenses. Company shall reimburse Executive for reasonable out-of-pocket expenses that Executive shall incur in connection with his services for Company contemplated by this Agreement, on presentation by Executive of appropriate vouchers and receipts for such expenses to Company. At times it may be in the best interests of the Company for Executive's spouse to accompany him on such business travel. On such occasions Company shall reimburse Executive for reasonable out-of-pocket expenses incurred for his spouse. Such occasions shall be determined by guidelines established by the Chairman, President and Chief Executive Officer, or in the absence of such guidelines, by Executive's sound discretion.

7. Vacation. Executive shall be entitled each year during the term of

this Agreement to a vacation of fifteen (15) business days, no two of which need be consecutive, during which time his compensation shall be paid in full. The length of annual vacation time shall increase by one day for every year of service to the Company after 1997 to a maximum of 25 business days per year.

8. Change in Ownership or Control. In the event of a change in the ownership of Company, effective control of Company, or the ownership of a substantial portion of Company's assets, all unvested stock options shall immediately vest.

-2-

9. Liability Insurance and Indemnification. The Company shall procure and maintain throughout the term of this Agreement a policy or policies of liability insurance for the protection and benefit of directors and officers of the Company. Such insurance shall have a combined limit of not less than \$2,000,000.00 and may have a deductible of not more than \$100,000.00. To the fullest extent permitted by law, Company shall indemnify and hold harmless Executive for any and all lost, cost, damage and expense including attorneys' fees and court costs incurred or sustained by Executive, arising out of the proper discharge by Executive of his duties hereunder in good faith.

10. Other Benefits. Executive shall be entitled to all benefits offered generally to employees of Company. Nothing in this Agreement shall be construed as limiting or restricting any benefit to Executive under any pension, profit-sharing or similar retirement plan, or under any group life or group health or accident or other plan of the Company, for the benefit of its employees generally or a group of them, now or hereafter in existence.

11. Termination by Company. Company may terminate this Agreement under either of the following circumstances:

(a) This Agreement may be terminated for cause at any time upon thirty (30) days written notice to Executive. Cause shall exist if Executive is guilty of dishonesty, gross neglect of duty hereunder, or other act or omission which impairs Company's ability to conduct its ordinary business in its usual manner. The notice of termination shall specify with particularity the actions or inactions constituting such cause. In the event of termination under this section, Company shall pay Executive all amounts due hereunder which are then accrued but unpaid within thirty (30) days after Executive's last day of employment.

(b) In the event that Executive shall, during the term of his employment hereunder, fail to perform his duties as the result of illness or other incapacity and such illness or other incapacity shall continue for a period of more than six months, the Company shall have the right, by written notice either personally delivered or sent by certified mail, to terminate Executive's employment hereunder as of a date (not less than 30 days after the date of the sending of such notice) to be specified in such notice.

12. Termination by Executive. If Company shall cease conducting its business, take any action looking toward its dissolution or liquidation, make an assignment for the benefit of its creditors, admit in writing its inability to pay its debts as they become due, file a voluntary petition or be the subject of an involuntary petition in bankruptcy, or be the subject of any state or federal insolvency proceeding of any kind, then Executive may, in his sole discretion, by written notice to Company, terminate his employment and Company hereby consents to the release of Executive under such circumstances and agrees that if Company ceases to operate or to exist as a result of such event, the non-

-3-

competition and other provisions of Paragraph 16 of this Agreement shall terminate. In addition, Executive shall have the right to terminate this Agreement upon giving three (3) months written notice to Company.

13. Communications to Company. Executive shall communicate and channel to Company all knowledge, business, and customer contacts and any other matters of information that could concern or be in any way beneficial to the business of Company, whether acquired by Executive before or during the term of this Agreement; provided, however, that nothing under this Agreement shall be construed as requiring such communications where the information is lawfully protected from disclosure as a trade secret of a third party.

14. Binding Effect. This Agreement shall be binding on and shall inure to the benefit of any successor or successors of employer and the personal representatives of Executive.

15. Confidential Information.

(a) As the result of his duties, Executive will necessarily have access to some or all of the confidential information pertaining to Company's business. It is agreed that "Confidential Information" of Company includes:

- (1) The ideas, methods, techniques, formats, specifications, procedures, designs, systems, processes, data and software products which are unique to Company;
- (2) All customer, marketing, pricing and financial information pertaining to the business of Company;
- (3) All operations, sales and training manuals;
- (4) All other information now in existence or later developed which is similar to the foregoing; and
- (5) All information which is marked as confidential or explained to be confidential or which, by its nature, is confidential.

(b) Executive understands that he will necessarily have access to some or all of the Confidential Information. Executive recognizes the importance of protecting the confidentiality and secrecy of the Confidential Information and, therefore, agrees to use his best efforts to protect the Confidential Information from unauthorized disclosure to other persons. Executive understands that protecting the Confidential Information from unauthorized disclosure is critically important to the success and

-4-

competitive advantage of Company and that the unauthorized disclosure of the Confidential Information would greatly damage Company.

(c) Executive agrees not to disclose any Confidential Information to others or use any Confidential Information for his own benefit. Executive further agrees that upon request of the Chairman, President and Chief Executive Officer of Company, he shall immediately return all Confidential Information, including any copies of Confidential Information in his possession.

16. Covenants Against Competition. It is understood and agreed that the nature of the methods employed in Company's business is such that Executive will be placed in a close business and personal relationship with the customers of Company. Thus, during the term of this Executive Employment Agreement and for a period of two (2) years immediately following the termination of Executive's employment, for any reason whatsoever, so long as Company continues to carry on the same business, said Executive shall not, for any reason whatsoever, directly or indirectly, for him or on behalf of, or in conjunction with, any other person, persons, company, partnership, corporation or business entity:

- (a) Call upon, divert, influence or solicit or attempt to call, divert, influence or solicit any customer or customers of Company;
- (b) Divulge the names and addresses or any information concerning any customer of Company;
- (c) Own, manage, operate, control, be employed by, participate in or be connected in any manner with the ownership, management, operation or control of the same, similar, or related line of business as that carried on by Company within a radius of twenty-five (25) miles from any then existing or proposed office of Company; and
- (d) Make any public statement or announcement, or permit anyone else to make any public statement or announcement that Executive was formerly employed by or connected with Company.

The time period covered by the covenants contained herein shall not include any period(s) of violation of any covenant or any period(s) of time required for litigation to enforce any covenant. If the provisions set forth are determined to be too broad to be enforceable at law, then the area and/or length of time shall be reduced to such area and time and that shall be enforceable.

-5-

#### 17. Enforcement of Covenants.

(a) The covenants set forth herein on the part of Executive shall be construed as an agreement independent of any other provision in this Executive Employment Agreement and the existence of any claim or cause of action of Executive against Company, whether predicated on this Executive

Employment Agreement or otherwise, shall not constitute a defense to the enforcement by Company of the covenants contained herein.

(b) Executive acknowledges that irreparable damage will result to Company in the event of the breach of any covenant contained herein and Executive agrees that in the event of any such breach, Company shall be entitled, in addition to any and all other legal or equitable remedies and damages, to a temporary and/or permanent injunction to restrain the violation thereof by Executive and all of the persons acting for or with Executive.

18. Law to Govern Contract. It is agreed that this Agreement shall be governed by, construed, and enforced in accordance with the laws of the State of Washington.

19. Arbitration. Company and Executive agree with each other that any claim of Executive arising out of or relating to this Agreement or the breach of this Agreement or Executive's employment by Company, including, without limitation, any claim for compensation due, wrongful termination and any claim alleging discrimination or harassment in any form shall be resolved by binding arbitration, except for claims in which injunctive relief is sought and obtained. The arbitration shall be administered by the American Arbitration Association under its Commercial Arbitration Rules at the American Arbitration Association Office nearest the place of employment. The award entered by the arbitrator shall be final and binding in all respects and judgment thereon may be entered in any Court having jurisdiction.

20. Entire Agreement. This Agreement shall constitute the entire agreement between the parties and any prior understanding or representation of any kind preceding the date of this Agreement shall not be binding upon either party except to the extent incorporated in this Agreement.

21. Modification of Agreement. Any modification of this Agreement or additional obligation assumed by either party in connection with this Agreement shall be binding only if evidenced in writing signed by each party or an authorized representative of each party.

-6-

22. No Waiver. The failure of either party to this Agreement to insist upon the performance of any of the terms and conditions of this Agreement, or the waiver of any breach of any of the terms and conditions of this Agreement, shall not be construed as thereafter waiving any such terms and conditions, but the same shall continue and remain in full force and effect as if no such forbearance or waiver had occurred.

23. Attorneys' Fees. In the event that any action is filed in relation to this Agreement, the unsuccessful party in the action shall pay to the successful party, in addition to all other required sums, a reasonable sum for the successful party's attorneys' fees.

24. Notices. Any notice provided for or concerning this Agreement shall be in writing and shall be deemed sufficiently given when personally delivered or when sent by certified or registered, return receipt requested mail if sent to the respective address of each party as set forth below, or such other address as each party shall designate by notice.

25. Survival of Certain Terms. The terms and conditions set forth in Paragraphs 16, 17 and 18 of this Agreement shall survive termination of the remainder of this Agreement.

26. Approval of Board of Directors. This Agreement is subject in its entirety to and contingent upon approval by the Company's Board of Directors. If this Agreement is not approved by the Board of Directors, this Agreement and all of the rights, duties and obligations set forth herein shall terminate.

IN WITNESS WHEREOF, each party to this Agreement has caused it to be executed on the date indicated below.

EXECUTIVE:

COMPANY:

Joseph P. Sambataro, Jr.

Labor Ready, Inc., a Washington corporation

By: Joseph P. Sambataro, Jr.  
-----

By: /s/ Glenn A. Welstad  
-----

Glenn Welstad, Chairman, President  
and Chief Executive Officer

Date: August 12, 1997

Date: August 12, 1997



EXHIBIT A

Stock Option Grant

GRANT DATE: August 1, 1997  
GRANT PRICE: \$12.50 (Closing price on the Grant Date)  
TOTAL NUMBER OF SHARES: 120,000  
VESTING SCHEDULE: Options for the specified number of shares shall vest on the following dates:

<TABLE>  
<CAPTION>

DATE	NUMBER OF SHARES
<S>	<C>
8/1/97	30,000
2/1/98	15,000
8/1/98	15,000
2/1/99	15,000
8/1/99	15,000
2/1/00	15,000
8/1/00	15,000

</TABLE>

TERMS AND CONDITIONS OF THE STOCK OPTION GRANT:

1. Except as otherwise provided herein, all unexercised options shall expire five (5) years from the Grant Date or upon the termination date, whichever is earlier, if the Executive Employment Agreement is terminated for cause or terminated by Executive as provided in the last sentence of Paragraph 12 of the Agreement. If the Executive Employment Agreement is terminated for reasons other than specified in the preceding sentence, then all options shall immediately vest and the exercise date shall be extended to a date which is five years after the date of termination.

2. Company shall register all shares acquired through the exercise of Executive's options.

3. Executive shall be responsible for any income tax consequences and expense associated with the grant or exercise of the options, and is responsible for consulting his individual tax advisor.

4. As provided in the Employee Stock Option and Incentive Plan, payment for shares purchased through the exercise of options may be made either in cash or its equivalent or by tendering previously acquired shares at market value, or both.

U.S. BANK

## LOAN AGREEMENT

<TABLE>  
<CAPTION>

Principal	Loan Date	Maturity	Loan No.	Call	Collateral	Account	Officer
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
\$30,000,000.00	11-04-1997	06-30-1999	397-83	00020	365	4919402202	55640

&lt;/TABLE&gt;

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

Borrower: LABOR READY, INC.  
1016 SOUTH 28TH STREET  
TACOMA, WA 98409

Lender: U.S. BANK NATIONAL ASSOCIATION  
Tacoma Corporate Bkg.  
1145 Broadway  
Suite 1100  
Tacoma, WA 98402

THIS LOAN AGREEMENT between LABOR READY, INC. ("Borrower") and U.S. BANK NATIONAL ASSOCIATION ("Lender") is made and executed on the following terms and conditions. Borrower has received prior commercial loans from Lender or has applied to Lender for a commercial loan or loans and other financial accommodations, including those which may be described on any exhibit or schedule attached to this Agreement. All such loans and financial accommodations, together with all future loans and financial accommodations from Lender to Borrower, are referred to in this Agreement Individually as the "Loan" and collectively as the "Loans." Borrower understands and agrees that: (a) In granting, renewing, or extending any Loan, Lender is relying upon Borrower's representations, warranties, and agreements, as set forth in this Agreement; (b) the granting, renewing, or extending of any Loan by Lender at all times shall be subject to Lender's sole judgment and discretion; and (c) all such Loans shall be and shall remain subject to the following terms and conditions of this Agreement.

TERM. This Agreement shall be effective as of November 4, 1997, and shall continue thereafter until all Indebtedness of Borrower to Lender has been performed in full and the parties terminate this Agreement in writing.

DEFINITIONS. The following words shall have the following meanings when used in this Agreement. Terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. All references to dollar amounts shall mean amounts in lawful money of the United States of America.

Agreement. The word "Agreement" means this Loan Agreement, as this Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Loan Agreement from time to time.

Account. The word "Account" means a trade account, account receivable, or other right to payment for goods sold or services rendered owing to Borrower (or to a third party grantor acceptable to Lender).

Account Debtor. The words "Account Debtor" mean the person or entity obligated upon an Account.

Advance. The word "Advance" means a disbursement of Loan funds under this Agreement.

Borrower. The word "Borrower" means LABOR READY, INC. The word "Borrower" also includes, as applicable, all subsidiaries and affiliates of Borrower as provided below in the paragraph titled "Subsidiaries and Affiliates."

Borrowing Base. The words "Borrowing Base" mean, as determined by Lender from time to time, the lesser of (a) \$30,000,000.00; or (b) 80.000% of the aggregate amount of Eligible Accounts.

Business Day. The words "Business Day" means a day on which commercial banks are open for business in the State of Washington.

CERCLA. The word "CERCLA" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended.

Cash Flow. The words "Cash Flow" mean net income after taxes, and exclusive of extraordinary gains and income, plus depreciation and amortization.

Collateral. The word "Collateral" means and includes without limitation all property and assets granted as collateral security for a Loan, whether

real or personal property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, deed of trust, assignment, pledge, chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien, charge, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise. The word "Collateral" includes without limitation all collateral described below in the section titled "COLLATERAL."

Debt. The word "Debt" means all of Borrower's liabilities excluding Subordinated Debt.

Eligible Accounts. The words "Eligible Accounts" mean, at any time, all of Borrower's Accounts which contain selling terms and conditions acceptable to Lender. The net amount of any Eligible Account against which Borrower may borrow shall exclude all returns, discounts, credits, and offsets of any nature. Unless otherwise agreed to by Lender in writing, Eligible Accounts do not include:

- (a) Accounts with respect to which the Account Debtor is an officer, an employee or agent of Borrower.
- (b) Accounts with respect to which the Account Debtor is a subsidiary of, or affiliated with or related to Borrower or its shareholders, officers, or directors.
- (c) Accounts with respect to which goods are placed on consignment, guaranteed sale, or other terms by reason of which the payment by the Account Debtor may be conditional.
- (d) Accounts with respect to which Borrower is or may become liable to the Account Debtor for goods sold or services rendered by the Account Debtor to Borrower.
- (e) Accounts which are subject to dispute, counterclaim, or setoff.
- (f) Account with respect to which the goods have not been shipped or delivered, or the services have not been rendered, to the Account Debtor.
- (g) Accounts with respect to which Lender, in its sole discretion, deems the creditworthiness or financial condition of the Account Debtor to be unsatisfactory.
- (h) Accounts of any Account Debtor who has filed or has had filed against it a petition in bankruptcy or an application for relief under any provision of any state or federal bankruptcy, insolvency, or debtor-in-relief acts; or who has had appointed a trustee, custodian, or receiver for the assets of such Account Debtor; or who has made an assignment for the benefit of creditors or has become insolvent or fails generally to pay its debts (including its payrolls) as such debts become due.
- (i) Accounts which have not been paid in full within 60 days from the invoice date.
- (j) Datings, Progress Billings, Retainages, Cash Sales, Cash on Delivery, and Service Charges.
- (k) Accounts due from Foreign entities or individuals, except for Canadian accounts.
- (l) Accounts which are not collateral.

ERISA. The word "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

Event of Default. The words "Event of Default" mean and include without limitation any of the Events of Default set forth below in the section titled "EVENTS OF DEFAULT."

Expiration Date. The words "Expiration Date" mean the date of termination of Lender's commitment to lend under this Agreement.

Grantor. The word "Grantor" means and includes without limitation each and all of the persons or entities granting a Security Interest in any Collateral for the Indebtedness, including without limitation all Borrowers granting such a Security Interest.

Guarantor. The word "Guarantor" means and includes without limitation each and all of the guarantors, sureties, and accommodation parties in connection with any Indebtedness.

Indebtedness. The word "Indebtedness" means and includes without limitation all Loans, together with all other obligations, debts and liabilities of Borrower to Lender, or any one or more of them, as well as all claims by Lender against Borrower, or any one or more of them, whether now, hereafter existing, voluntary or involuntary, due or not due, absolute or contingent, liquidated or unliquidated; whether Borrower may be liable individually or jointly with others; whether Borrower may be obligated as a guarantor, surety, or otherwise; whether recovery upon such Indebtedness may be or hereafter may become barred by any statute of limitations; and whether such Indebtedness may be or hereafter may become otherwise unenforceable.

Lender. The word "Lender" means U.S. BANK NATIONAL ASSOCIATION, its successors and assigns.

11-04-1997  
Loan No 397-83

LOAN AGREEMENT  
(Continued)

Page 2

Line of Credit. The words "Line of Credit" mean the credit facility described in the Section titled "LINE OF CREDIT" below.

Liquid Assets. The words "Liquid Assets" mean Borrower's cash on hand plus Borrower's readily marketable securities.

Loan. The word "Loan" or "Loans" means and includes without limitation any and all commercial loans and financial accommodations from Lender to Borrower, whether now or hereafter existing, and however evidenced, including without limitation those loans and financial accommodations described herein or described on any exhibit or schedule attached to this Agreement from time to time.

Note. The word "Note" means and includes without limitation Borrower's promissory note or notes, if any, evidencing Borrower's Loan obligations in favor of Lender, as well as any substitute, replacement or refinancing note or notes therefor.

Permitted Liens. The words "Permitted Liens" mean: (a) liens and security interests securing Indebtedness owed by Borrower to Lender; (b) liens for taxes, assessments, or similar charges either not yet due or being contested in good faith; (c) liens of materialmen, mechanics, warehousemen, or carriers, or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (d) purchase money liens or purchase money security interests upon or in any property acquired or held by Borrower in the ordinary course of business to secure indebtedness outstanding on the date of this Agreement or permitted to be incurred under the paragraph of this Agreement titled "Indebtedness and Liens"; (e) liens and security interests which, as of the date of this Agreement, have been disclosed to and approved by the Lender in writing; and (f) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of Borrower's assets.

Related Documents. The words "Related Documents" mean and include without limitation all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

Security Agreement. The words "Security Agreement" mean and include without limitation any agreements, promises, covenants, arrangements, understandings or other agreements, whether created by law, contract, or otherwise, evidencing, governing, representing, or creating a Security Interest.

Security Interest. The words "Security Interest" mean and include without limitation any type of collateral security, whether in the form of a lien, charge, mortgage, deed of trust, assignment, pledge, chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

SARA. The word "SARA" means the Superfund Amendments and Reauthorization Act of 1986 as now or hereafter amended.

Subordinated Debt. The words "Subordinated Debt" mean Indebtedness and liabilities of Borrower which have been subordinated by written agreement to indebtedness owed by Borrower to Lender in form and substance acceptable to Lender.

Tangible Net Worth. The words "Tangible Net Worth" mean Borrower's total

assets excluding all intangible assets (i.e., goodwill, trademarks, patents, copyrights, organizational expenses, and similar intangible items, but including leaseholds and leasehold improvements) less total Debt.

Working Capital. The words "Working Capital" mean Borrower's current assets, excluding prepaid expenses, less Borrower's current liabilities.

LINE OF CREDIT. Lender agrees to make Advances to Borrower from time to time from the date of this Agreement to the Expiration Date, provided the aggregate amount of such Advances outstanding at any time does not exceed the Borrowing Base. Within the foregoing limits, Borrower may borrow, partially or wholly prepay, and reborrow under this Agreement as follows.

Conditions Precedent to Each Advance. Lender's obligation to make any Advance to or for the account of Borrower under this Agreement is subject to the following conditions precedent, with all documents, instruments, opinions, reports, and other items required under this Agreement to be in form and substance satisfactory to Lender:

(a) Lender shall have received evidence that this Agreement and all Related Documents have been duly authorized, executed, and delivered by Borrower to Lender.

(b) Lender shall have received such opinions of counsel, supplemental opinions, and documents as Lender may request.

(c) The security interests in the Collateral shall have been duly authorized, created, and perfected with first lien priority and shall be in full force and effect.

(d) All guaranties required by Lender for the Line of Credit shall have been executed by each Guarantor, delivered to Lender, and be in full force and effect.

(e) Lender, at its option and for its sole benefit, shall have conducted an audit of Borrower's Accounts, books, records, and operations, and Lender shall be satisfied as to their condition.

(f) Borrower shall have paid to Lender all fees, costs, and expenses specified in the Agreement and the Related Documents as are then due and payable.

(g) There shall not exist at the time of any Advance a condition which would constitute an Event of Default under this Agreement, and Borrower shall have delivered to Lender the compliance certificate called for in the paragraph below titled "Compliance Certificate."

Making Loan Advances. Advances under the Line of Credit may be requested either orally or in writing by authorized persons. Lender may, but need not, require that all oral requests be confirmed in writing. Each Advance shall be conclusively deemed to have been made at the request of and for the benefit of Borrower (a) when credited to any deposit account of Borrower maintained with Lender or (b) when advanced in accordance with the instructions of an authorized person. Lender, at its option, may set a cutoff time, after which all requests for Advances will be treated as having been requested on the next succeeding Business Day.

Mandatory Loan Repayments. If at any time the aggregate principal amount of the outstanding Advances shall exceed the applicable Borrowing Base, Borrower, immediately upon written or oral notice from Lender, shall pay to Lender an amount equal to the difference between the outstanding principal balance of the Advances and the Borrowing Base. On the Expiration Date, Borrower shall pay to Lender in full the aggregate unpaid principal amount of all Advances then outstanding and all accrued unpaid interest, together with all other applicable fees, costs and charges, if any, not yet paid.

Loan Account. Lender shall maintain on its books a record of account in which Lender shall make entries for each Advance and such other debits and credits as shall be appropriate in connection with the credit facility. Lender shall provide Borrower with periodic statements of Borrower's account, which statements shall be considered to be correct and conclusively binding on Borrower unless Borrower notifies Lender to the contrary within thirty (30) days after Borrower's receipt of any such statement which Borrower deems to be incorrect.

COLLATERAL. To secure payment of the Line of Credit and performance of all other Loans, obligations and duties owed by Borrower to Lender, Borrower (and others, if required) shall grant to Lender Security Interests in such property and assets as Lender may require (the "Collateral"), including without limitation Borrower's present and future Accounts and general intangibles. Lender's Security Interests in the Collateral shall be continuing liens and shall include the proceeds and products of the Collateral, including without limitation the proceeds of any insurance. With respect to the Collateral, Borrower agrees and

represents and warrants to Lender:

Perfection of Security Interests. Borrower agrees to execute such financing statements and to take whatever other actions are requested by Lender to perfect and continue Lender's Security Interests in the Collateral. Upon request of Lender, Borrower will deliver to Lender any and all of the documents evidencing or constituting the Collateral, and Borrower will note Lender's interest upon any and all chattel paper if not delivered to Lender for possession by Lender. Contemporaneous with the execution of this Agreement, Borrower will execute one or more UCC financing statements and any similar statements as may be required by applicable law, and will file such financing statements and all such similar statements in the appropriate location or locations. Borrower hereby appoints Lender as its irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect or to continue any Security Interest. Lender may at any time, and without further authorization from Borrower, file a carbon, photograph, facsimile, or other reproduction of any financing statement for use as a financing statement. Borrower will reimburse Lender for all expenses for the perfection, termination, and the continuation of the perfection of Lender's security interest in the Collateral. Borrower promptly will notify Lender of any change in Borrower's name including any change to the assumed business names of Borrower. Borrower also promptly will notify Lender of any change in Borrower's Social Security Number or Employer Identification Number. Borrower further agrees to notify Lender in writing prior to any change in address or location of Borrower's principal governance office or should Borrower merge or consolidate with any other entity.

Collateral Records. Borrower does now, and at all times hereafter shall, keep correct and accurate records of the Collateral, all of which records shall be available to Lender or Lender's representative upon demand for inspection and copying at any reasonable time. With respect to the Accounts, Borrower agrees to keep and maintain such records as Lender may require, including without limitation information concerning Eligible Accounts and Account balances and agings.

Collateral Schedules. Concurrently with the execution and delivery of this Agreement, Borrower shall execute and deliver to Lender a schedule of Accounts and Eligible Accounts, in form and substance satisfactory to the Lender. Thereafter Borrower shall execute and deliver to Lender such supplemental schedules of Eligible Accounts and such other matters and information relating to Borrower's Accounts as Lender may request.

Supplemental schedules shall be delivered according to the following schedule: Borrower agrees to submit to Lender Accounts Receivable aging within ten (10) days after the end of each month. The format of aging will be sixty (60) days from Invoice date. Borrower agrees to submit to one collateral audit per year, performed by Lender's staff or Lender approved external examiners. Direct verifications will be required. Borrower agrees to pay all Lender's expenses incurred in connection with the collateral audit. In addition, Borrower shall submit a Borrower's Certificate to Lender at each month-end, in a form satisfactory to Lender, within fifteen (15) days of month-end.

Representations and Warranties Concerning Accounts. With respect to the Accounts, Borrower represents and warrants to Lender: (a) Each Account represented by Borrower to be an Eligible Account for purposes of this Agreement conforms to the requirements of the definition of an Eligible Account; (b) All Account information listed on schedules delivered to Lender will be true and correct, subject to immaterial variance; and (c) Lender, its assigns, or agents shall have the right at any time and at Borrower's expense to inspect, examine, and audit Borrower's records and to confirm with Account Debtors the accuracy of such Accounts.

REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender, as of the date of this Agreement, as of the date of each disbursement of Loan proceeds, as of the date of any renewal, extension or modification of any Loan, and at all times any indebtedness exists:

Organization. Borrower is a corporation which is duly organized, validly existing, and in good standing under the laws of the State of Washington and is validly existing and in good standing in all states in which Borrower is doing business. Borrower has the full power and authority to own its properties and to transact the businesses in which it is presently engaged or presently proposes to engage. Borrower also is duly qualified as a foreign corporation and is in good standing in all states in which the failure to so qualify would have a material adverse effect on its businesses or financial condition.

Authorization. The execution, delivery, and performance of this Agreement and all Related Documents by Borrower, to the extent to be executed, delivered or performed by Borrower, have been duly authorized by all necessary action by Borrower; do not require the consent or approval of any other person, regulatory authority or governmental body; and do not conflict with, result in a violation of, or constitute a default under (a) any provision of its articles of incorporation or organization, or bylaws, or any agreement or other instrument binding upon Borrower or (b) any law, governmental regulation, court decree, or order applicable to Borrower.

Financial Information. Each financial statement of Borrower supplied to Lender truly and completely disclosed Borrower's financial condition as of the date of the statement, and there has been no material adverse change in Borrower's financial condition subsequent to the date of the most recent financial statement supplied to Lender. Borrower has no material contingent obligations except as disclosed in such financial statements.

Legal Effect. This Agreement constitutes, and any instrument or agreement required hereunder to be given by Borrower when delivered will constitute, legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

Properties. Except for Permitted Liens, Borrower owns and has good title to all of Borrower's properties free and clear of all Security Interests, and has not executed any security documents or financing statements relating to such properties. All of Borrower's properties are titled in Borrower's legal name, and Borrower has not used, or filed a financing statement under, any other name for at least the last five (5) years.

Hazardous Substances. The terms "hazardous waste," "hazardous substance," "disposal," "release," and "threatened release," as used in this Agreement, shall have the same meanings as set forth in the "CERCLA," "SARA," the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or Federal laws, rules, or regulations adopted pursuant to any of the foregoing. Except as disclosed to and acknowledged by Lender in writing, Borrower represents and warrants that: (a) During the period of Borrower's ownership of the properties, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any hazardous waste or substance by any person on, under, about or from any of the properties. (b) Borrower has no knowledge of, or reason to believe that there has been (i) any use, generation, manufacture, storage, treatment, disposal, release, or threatened release of any hazardous waste or substance on, under, about or from the properties by any prior owners or occupants of any of the properties, or (ii) any actual or threatened litigation or claims of any kind by any person relating to such matters. (c) Neither Borrower nor any tenant, contractor, agent or other authorized user of any of the properties shall use, generate, manufacture, store, treat, dispose of, or release any hazardous waste or substance on, under, about or from any of the properties; and any such activity shall be conducted in compliance with all applicable federal, state, and local laws, regulations, and ordinances, including without limitation those laws, regulations and ordinances described above. Borrower authorizes Lender and its agents to enter upon the properties to make such inspections and tests as Lender may deem appropriate to determine compliance of the properties with this section of the Agreement. Any inspections or tests made by Lender shall be at Borrower's expense and for Lender's purposes only and shall not be construed to create any responsibility or liability on the part of Lender to Borrower or to any other person. The representations and warranties contained herein are based on Borrower's due diligence in investigating the properties for hazardous waste and hazardous substances. Borrower hereby (a) releases and waives any future claims against Lender for indemnity or contribution in the event Borrower becomes liable for cleanup or other costs under any such laws, and (b) agrees to indemnify and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and expenses which Lender may directly or indirectly sustain or suffer resulting from a breach of this section of the Agreement or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release occurring prior to Borrower's ownership or interest in the properties, whether or not the same was or should have been known to Borrower. The provisions of this section of the Agreement, including the obligation to indemnify, shall survive the payment of the indebtedness and the termination or expiration of this Agreement and shall not be affected by Lender's acquisition of any interest in any of the properties, whether by foreclosure or otherwise.

Litigation and Claims. No material litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Borrower is pending or threatened, and no other event has occurred which may materially adversely affect Borrower's financial condition or properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing.

Taxes. To the best of Borrower's knowledge, all tax returns and reports of Borrower that are or were required to be filed, have been filed, and all

taxes, assessments and other governmental charges have been paid in full, except those presently being or to be contested by Borrower in good faith in the ordinary course of business and for which adequate reserves have been provided.

Lien Priority. Unless otherwise previously disclosed to Lender in writing, Borrower has not entered into or granted any Security Agreements, or permitted the filing or attachment of any Security Interests on or affecting any of the Collateral directly or indirectly securing repayment of Borrower's Loan and Note, that would be prior or that may in any way be superior to Lender's Security Interests and rights in and to such Collateral.

Binding Effect. This Agreement, the Note, all Security Agreements directly or indirectly securing repayment of Borrower's Loan and Note and all of the Related Documents are binding upon Borrower as well as upon Borrower's successors, representatives and assigns, and are legally enforceable in accordance with their respective terms.

Commercial Purposes. Borrower intends to use the Loan proceeds solely for business or commercial related purposes.

Employee Benefit Plans. Each employee benefit plan as to which Borrower may have any liability complies in all material respects with all applicable requirements of law and regulations, and (i) no Reportable Event nor Prohibited Transaction (as defined in ERISA) has occurred with respect to any such plan, (ii) Borrower has not withdrawn from any such plan or initiated steps to do so, (iii) no steps have been taken to terminate any such plan, and (iv) there are no unfounded liabilities other than those previously disclosed to Lender in writing.

Location of Borrower's Offices and Records. Borrower's place of business, or Borrower's Chief executive office, if Borrower has more than one place of business, is located at 1016 SOUTH 28TH STREET, TACOMA, WA 98409. Unless Borrower has designated otherwise in writing this location is also the office or offices where Borrower keeps its records concerning the Collateral.

Information. All Information heretofore or contemporaneously herewith furnished by Borrower to Lender for the purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all information hereafter furnished by or on behalf of Borrower to Lender will be, true and accurate in every material respect on the date as of which such information is dated or certified; and none of such information is or will be incomplete by omitting to state any material fact necessary to make such information not misleading.

Survival of Representations and Warranties. Borrower understands and agrees that Lender, without independent investigation, is relying upon the above representations and warranties in extending Loan Advances to Borrower. Borrower further agrees that the foregoing representations and warranties shall be continuing in nature and shall remain in full force and effect until such time as Borrower's Indebtedness shall be paid in full, or until this Agreement shall be terminated in the manner provided above, whichever is the last to occur.

AFFIRMATIVE COVENANTS. Borrower covenants and agrees with Lender that, while this Agreement is in effect, Borrower will:

Litigation. Promptly inform Lender in writing of (a) all material adverse changes in Borrower's financial condition, and (b) all existing and all threatened litigation, claims, investigations, administrative proceedings or similar actions affecting Borrower or any Guarantor which could materially affect the financial condition of Borrower or the financial condition of any Guarantor.

Financial Records. Maintain its books and records in accordance with generally accepted accounting principles, applied on a consistent basis, and permit Lender to examine and audit Borrower's books and records at all reasonable times.

Financial Statements. Furnish Lender with, as soon as available, but in no event later than one hundred twenty (120) days after the end of each fiscal year, Borrower's balance sheet and income statement for the year ended, audited by a certified public accountant satisfactory to Lender, and, as soon as available, but in no event later than forty five (45) days after the end of each fiscal quarter, Borrower's balance sheet and profit and



loss statement for the period ended, prepared and certified as correct to the best knowledge and belief by Borrower's chief financial officer or other officer or person acceptable to Lender. All financial reports required to be provided under this Agreement shall be prepared in accordance with generally accepted accounting principles, applied on a consistent basis, and certified by Borrower as being true and correct.

Additional Information. Furnish such additional information and statements, lists of assets and liabilities, agings of receivables and payables, inventory schedules, budgets, forecasts, tax returns, and other reports with respect to Borrower's financial condition and business operations as Lender may request from time to time.

Financial Covenants and Ratios. Comply with the following covenants and ratios:

Tangible Net Worth. Maintain a minimum Tangible Net Worth of not less than \$40,000,000.00.

Working Capital. Maintain Working Capital in excess of \$20,000,000.00.

The following provisions shall apply for purposes of determining compliance with the foregoing financial covenants and ratios: Borrower's minimum Tangible Net Worth covenant will increase by 50.000% of the Net profit after taxes for the prior 12/31 Fiscal year-end, to be effective 3/31 of each year. Borrower agrees and understands that all covenants and ratios in this Loan Agreement will be tested quarterly for compliance. Except as provided above, all computations made to determine compliance with the requirements contained in this paragraph shall be made in accordance with generally accepted accounting principles, applied on a consistent basis, and certified by Borrower as being true and correct.

Insurance. Maintain fire and other risk insurance, public liability insurance, and such other insurance as Lender may require with respect to Borrower's properties and operations, in form, amounts, coverages and with insurance companies reasonably acceptable to Lender. Borrower, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days' prior written notice to Lender. Each Insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Borrower or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest for the Loans, Borrower will provide Lender with such loss payable or other endorsements as Lender may require.

Insurance Reports. Furnish to Lender, upon request of Lender, reports on each existing insurance policy showing such information as Lender may reasonably request, including without limitation the following: (a) the name of the insurer; (b) the risks insured; (c) the amount of the policy; (d) the properties insured; (e) the then current property values on the basis of which insurance has been obtained, and the manner of determining those values; and (f) the expiration date of the policy. In addition, upon request of Lender (however not more often than annually), Borrower will have an independent appraiser satisfactory to Lender determine, as applicable, the actual cash value or replacement cost of any Collateral. The cost of such appraisal shall be paid by Borrower.

Other Agreements. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Borrower and any other party and notify Lender immediately in writing of any default in connection with any other such agreements.

Loan Proceeds. Use all Loan proceeds solely for Borrower's business operations, unless specifically consented to the contrary by Lender in writing.

Taxes, Charges and Liens. Pay and discharge when due all of its indebtedness and obligations, including without limitation all assessments, taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that, if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits. Provided however, Borrower will not be required to pay and discharge any such assessment, tax, charge, levy, lien or claim so long as (a) the legality of the same shall be contested in good faith by appropriate proceedings, and (b) Borrower shall have established on its books adequate reserves with respect to such contested assessment, tax, charge, levy, lien, or claim in accordance with generally accepted accounting practices. Borrower, upon demand of Lender, will furnish to Lender evidence of payment of the assessments, taxes, charges, levies, liens and claims and will authorize the appropriate governmental official to deliver to Lender at any time a written statement of any assessments,

taxes, charges, levies, liens and claims against Borrower's properties, income, or profits.

Performance. Perform and comply with all terms, conditions, and provisions set forth in this Agreement and in the Related Documents in a timely manner, and promptly notify Lender if Borrower learns of the occurrence of any event which constitutes an Event of Default under this Agreement or under any of the Related Documents.

Operations. Maintain executive personnel with substantially the same qualifications and experience as the present executive and management personnel; provide written notice to Lender of any change in executive and management personnel; conduct its business affairs in a reasonable and prudent manner and in compliance with all applicable federal, state and municipal laws, ordinances, rules and regulations respecting its properties, charters, businesses and operations, including without limitation, compliance with the Americans With Disabilities Act and with all minimum funding standards and other requirements of ERISA and other laws applicable to Borrower's employee benefit plans.

Inspection. Permit employees or agents of Lender at any reasonable time to inspect any and all Collateral for the Loan or Loans and Borrower's other properties and to examine or audit Borrower's books, accounts, and records and to make copies and memoranda of Borrower's books, accounts, and records. If Borrower now or at any time hereafter maintains any records (including without limitation computer generated records and computer software programs for the generation of such records) in the possession of a third party, Borrower, upon request of Lender, shall notify such party to permit Lender free access to such records at all reasonable times and to provide Lender with copies of any records it may request, all at Borrower's expense.

Compliance Certificate. Unless waived in writing by Lender, provide Lender quarterly and at the time of each disbursement of Loan proceeds with a certificate executed by Borrower's chief financial officer, or other officer or person acceptable to Lender, certifying that the representations and warranties set forth in this Agreement are true and correct as of the date of the certificate and further certifying that, as of the date of the certificate, no Event of Default exists under this Agreement.

Environmental Compliance and Reports. Borrower shall comply in all respects with all environmental protection federal, state and local laws, statutes, regulations and ordinances; not cause or permit to exist, as a result of an intentional or unintentional action or omission on its part or on the part of any third party, on property owned and/or occupied by Borrower, any environmental activity where damage may result to the environment, unless such environmental activity is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal, state or local governmental authorities; shall furnish to Lender promptly and in any event within thirty (30) days after receipt thereof a copy of any notice, summons, lien, citation, directive, letter or other communication from any governmental agency or instrumentality concerning any intentional or unintentional action or omission on Borrower's part in connection with any environmental activity whether or not there is damage to the environment and/or other natural resources.

Additional Assurances. Make, execute and deliver to Lender such promissory notes, mortgages, deeds of trust, security agreements, financing statements, instruments, documents and other agreements as Lender or its attorneys may reasonably request to evidence and secure the Loans and to perfect all Security Interests.

RECOVERY OF ADDITIONAL COSTS. If the imposition of or any change in any law, rule, regulation or guideline, or the interpretation or application of any thereof by any court or administrative or governmental authority (including any request or policy not having the force of law) shall impose, modify or make applicable any taxes (except U.S. federal, state or local income or franchise taxes imposed on Lender), reserve requirements, capital adequacy requirements or other obligations which would (a) increase the cost to Lender for extending or maintaining the credit facilities to which this Agreement relates, (b) reduce the amounts payable to Lender under this Agreement or the Related Documents, or (c) reduce the rate of return on Lender's capital as a consequence of Lender's obligations with respect to the credit facilities to which this Agreement relates, then Borrower agrees to pay Lender such additional amounts as will compensate Lender therefor, within five (5) days after Lender's written demand for such payment, which demand shall be accompanied by an explanation of such imposition or charge and a calculation in reasonable detail of the additional amounts payable by Borrower, which explanation and calculations shall be conclusive in the absence of manifest error.

NEGATIVE COVENANTS. Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall not, without the prior written consent of Lender:

Indebtedness and Liens. (a) Except for trade debt incurred in the normal

course of business and indebtedness to Lender contemplated by this Agreement, create, incur or assume indebtedness for borrowed money, including capital leases, (b) except as allowed as a Permitted Lien, sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of Borrower's assets, or (c) sell with recourse any of Borrower's accounts, except to Lender.

Continuity of Operations. (a) Engage in any business activities substantially different than those in which Borrower is presently engaged, (b) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, change ownership, change its name, dissolve or transfer or sell Collateral out of the ordinary course of business, (c) pay any dividends on Borrower's common stock (other than dividends payable in its stock).

11-04-1997  
Loan No 397-83

LOAN AGREEMENT  
(Continued)

Page 5

provided, however that notwithstanding the foregoing, but only so long as no Event of Default has occurred and is continuing or would result from the payment of dividends, if Borrower is a "Subchapter S Corporation" (as defined in the Internal Revenue Code of 1986, as amended), Borrower may pay cash dividends on its stock to its shareholders from time to time in amounts necessary to enable the shareholders to pay income taxes and make estimated income tax payments to satisfy their liabilities under federal and state law which arise solely from their status as Shareholders of a Subchapter S Corporation because of their ownership of shares of stock of Borrower, or (d) purchase or retire any of Borrower's outstanding shares or alter or amend Borrower's capital structure.

Loans, Acquisitions and Guaranties. (a) Loan, invest in or advance money or assets, (b) purchase, create or acquire any interest in any other enterprise or entity, or (c) incur any obligation as surety or guarantor other than in the ordinary course of business.

CESSATION OF ADVANCES. If Lender has made any commitment to make any Loan to Borrower, whether under this Agreement or under any other agreement, Lender shall have no obligation to make Loan Advances or to disburse Loan proceeds if: (a) Borrower or any Guarantor is in default under the terms of this Agreement or any of the Related Documents or any other agreement that Borrower or any Guarantor has with Lender; (b) Borrower or any Guarantor becomes insolvent, files a petition in bankruptcy or similar proceedings, or is adjudged a bankrupt; (c) there occurs a material adverse change in Borrower's financial condition, in the financial condition of any Guarantor, or in the value of any Collateral securing any Loan; (d) any Guarantor seeks, claims or otherwise attempts to limit, modify or revoke such Guarantor's guaranty of the Loan or any other loan with Lender; or (e) Lender in good faith deems itself insecure, even though no Event of Default shall have occurred.

ACCESS LAWS. Without limiting the generality of any provision of this agreement requiring Borrower to comply with applicable laws, rules, and regulations, Borrower agrees that it will at all times comply with applicable laws relating to disabled access including, but not limited to, all applicable titles of the Americans with Disabilities Act of 1990.

STATUTE OF FRAUDS DISCLOSURE. ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

TOTAL LIABILITIES TO TANGIBLE NET WORTH. Borrower agrees to maintain a Total Liabilities to Tangible Net Worth ratio of no more than 1.50 to 1.00.

INTEREST COVERAGE. Borrower agrees to maintain an interest coverage at not less than the following level: 2.50 to 1.00, defined as: (net profit after taxes plus Non-cash charges plus interest expense) divided by (interest expense), measured on a trailing four quarter basis.

RIGHT OF SETOFF. Borrower grants to Lender a contractual possessory security interest in, and hereby assigns, conveys, delivers, pledges, and transfers to Lender all Borrower's right, title and interest in and to, Borrower's accounts with Lender (whether checking, savings, or some other account), including without limitation all accounts held jointly with someone else and all accounts Borrower may open in the future, excluding however all IRA and Keogh accounts, and all trust accounts for which the grant of a security interest would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the indebtedness against any and all such accounts.

EVENTS OF DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Default on Indebtedness. Failure of Borrower to make any payment when due on the Loans.

Other Defaults. Failure of Borrower or any Grantor to comply with or to perform when due any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents, or failure of Borrower to comply with or to perform any other term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

Default in Favor of Third Parties. Should Borrower or any Grantor default under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's or any Grantor's ability to repay the Loans or perform their respective obligations under this Agreement or any of the Related Documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by or on behalf of Borrower or any Grantor under this Agreement or the Related Documents is false or misleading in any material respect at the time made or furnished, or becomes false or misleading at any time thereafter.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any Security Agreement to create a valid and perfected Security Interest) at any time and for any reason.

Insolvency. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower, any creditor of any Grantor against any collateral securing the indebtedness, or by any governmental agency. This includes a garnishment, attachment, or levy on or of any of Borrower's deposit accounts with Lender.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the indebtedness.

Change in Ownership. Any change in ownership of twenty-five percent (25%) or more of the common stock of Borrower.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the indebtedness is impaired.

Insecurity. Lender, in good faith, deems itself insecure.

EFFECT OF AN EVENT OF DEFAULT. If any Event of Default shall occur, except where otherwise provided in this Agreement or the Related Documents, all commitments and obligations of Lender under this Agreement or the Related Documents or any other agreement immediately will terminate (including any obligation to make Loan Advances or disbursements), and, at Lender's option, all indebtedness immediately will become due and payable, all without notice of any kind to Borrower, except that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional. In addition, Lender shall have all the rights and remedies provided in the Related Documents or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Borrower or of any Grantor shall not affect Lender's right to declare a default and to exercise its rights and remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Applicable Law. This Agreement has been delivered to Lender and accepted by Lender in the State of Washington. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of King

County, the State of Washington. Subject to the provisions on arbitration, this Agreement shall be governed by and construed in accordance with the laws of the State of Washington.

Arbitration. Lender and Borrower agree that all disputes, claims and controversies between them, whether individual, joint, or class in nature, arising from this Agreement or otherwise, including without limitation contract and tort disputes, shall be arbitrated pursuant to the Rules of the American Arbitration Association, upon request of either party. No act to take or dispose of any Collateral shall constitute a waiver of this arbitration agreement or be prohibited by this arbitration agreement. This includes, without limitation, obtaining injunctive relief or a temporary restraining order; invoking a power of sale under any deed of trust or mortgage; obtaining a writ of attachment or imposition of a receiver; or exercising any rights relating to personal property, including taking or disposing of such property with or without judicial process pursuant to Article 9 of the Uniform Commercial Code. Any disputes, claims, or controversies concerning the lawfulness or reasonableness of any act, or exercise of any right, concerning any Collateral, including any claim to rescind, reform, or otherwise modify any agreement relating to the Collateral, shall be arbitrated, provided however that no arbitrator shall have the right or the power to enjoin or restrain any act of any party. Judgment upon any award rendered by any arbitrator may be entered in any court having jurisdiction. Nothing in this Agreement shall preclude any party from seeking equitable relief from a court of competent jurisdiction. The statute of limitations, estoppel, waiver, laches, and similar doctrines which would otherwise be applicable in an action brought by a party shall be applicable in any arbitration proceeding, and the commencement of an arbitration proceeding shall be deemed the commencement of an action for these purposes. The Federal Arbitration Act shall apply to the construction, interpretation, and enforcement of this arbitration provision.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Multiple Parties; Corporate Authority. All obligations of Borrower under this Agreement shall be joint and several, and all references to Borrower shall mean each and every Borrower.

Consent to Loan Participation. Borrower agrees and consents to Lender's sale or transfer, whether now or later, of one or more participation interests in the Loans to one or more purchasers, whether related or unrelated to Lender. Lender may provide, without any limitation whatsoever, to any one or more purchasers, or potential purchasers, any information or knowledge Lender may have about Borrower or about any other matter relating to the Loan, and Borrower hereby waives any rights to privacy it may have with respect to such matters. Borrower additionally waives any and all notices of sale of participation interests, as well as all notices of any repurchase of such participation interests. Borrower also agrees that the purchasers of any such participation interests will be considered as the absolute owners of such interests in the Loans and will have all the rights granted under the participation agreement or agreements governing the sale of such participation interests. Borrower further waives all rights of offset or counterclaim that it may have now or later against Lender or against any purchaser of such a participation interest and unconditionally agrees that either Lender or such purchaser may enforce Borrower's obligation under the Loans irrespective of the failure or insolvency of any holder of any interest in the Loans. Borrower further agrees that the purchaser of any such participation interests may enforce its interests irrespective of any personal claims or defenses that Borrower may have against Lender.

Costs and Expenses. Borrower agrees to pay upon demand all of Lender's expenses, including without limitation attorneys' fees, incurred in connection with the preparation, execution, enforcement, modification and collection of this Agreement or in connection with the Loans made pursuant to this Agreement. Lender may pay someone else to help collect the Loans and to enforce this Agreement, and Borrower will pay that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses, whether or not there is a lawsuit, including attorneys' fees for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Borrower also will pay any court costs, in addition to all other sums provided by law.

Notices. All notices required to be given under this Agreement shall be given in writing, may be sent by telefacsimile (unless otherwise required by law), and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier or deposited in the United States mail, first class, postage prepaid, addressed to the party to whom the notice is to be given at the address shown above. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. To the extent permitted by applicable law, if there is more than one Borrower, notice to any Borrower will constitute notice to all Borrowers. For notice purposes, Borrower will keep Lender informed at all time of Borrower's current address(es).

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be invalid or unenforceable as to any person or circumstance, such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances. If feasible, any such offending provision shall be deemed to be modified to be within the limits of enforceability or validity; however, if the offending provision cannot be so modified, it shall be stricken and all other provisions of this Agreement in all other respects shall remain valid and enforceable.

Subsidiaries and Affiliates of Borrower. To the extent the context of any provisions of this Agreement makes it appropriate, including without limitation any representation, warranty or covenant, the word "Borrower" as used herein shall include all subsidiaries and affiliates of Borrower. Notwithstanding the foregoing however, under no circumstances shall this Agreement be construed to require Lender to make any Loan or other financial accommodation to any subsidiaries or affiliate of Borrower.

Successors and Assigns. All covenants and agreements contained by or on behalf of Borrower shall bind its successors and assigns and shall inure to the benefit of Lender, its successors and assigns. Borrower shall not, however, have the right to assign its rights under this Agreement or any interest therein, without the prior written consent of Lender.

Survival. All warranties, representations, and covenants made by Borrower in this Agreement or in any certificate or other instrument delivered by Borrower to Lender under this Agreement shall be considered to have been relied upon by Lender and will survive the making of the Loan and delivery to Lender of the Related Documents, regardless of any investigation made by Lender or on Lender's behalf.

Waiver. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Borrower, or between Lender and any Grantor, shall constitute a waiver of any of Lender's rights or of any obligations of Borrower or of any Grantor as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent in subsequent instances where such consent is required, and in all cases such consent may be granted or withheld in the sole discretion of Lender.

BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS LOAN AGREEMENT, AND BORROWER AGREES TO ITS TERMS. THIS AGREEMENT IS DATED AS OF NOVEMBER 4, 1997.

BORROWER:

LABOR READY, INC.

By /s/ Joseph P. Sambataro, Jr.

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Title: Executive Vice President and CFO  
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LENDER:

U.S. BANK NATIONAL ASSOCIATION

By: /s/ Bruce Marley

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Authorized Officer

This Addendum to Loan Agreement supplements the Loan Agreement dated as of November 4, 1997, by and between LABOR READY, INC., as Borrower, and U.S. BANK NATIONAL ASSOCIATION, as Lender, to add the following provisions:

1. ACCOMMODATIONS.

(a) Lender may, in its sole discretion, issue or cause to be issued, from time to time, at Borrower's request and on terms and conditions and for purposes satisfactory to Lender, credit accommodations consisting of letters of credit, merchandise purchase guaranties or other guaranties or indemnities for Borrower's account ("Accommodations"). Borrower shall execute and perform additional agreements relating to the Accommodations in form and substance acceptable to Lender and the issuer of any Accommodations, all of which shall supplement the rights and remedies granted herein. Any payments made by Lender or any affiliate of Lender in connection with the Accommodations shall constitute additional Advances to Borrower.

(b) In addition to the fees and costs of any issuer in connection with issuing or administering Accommodations, Borrower shall pay to the Lender, in advance, a charge on open Accommodations at the rate of .75% per annum (the "Accommodation Charges"). Accommodation Charges shall be due and payable on the date of issuance of any Accommodation and on the first day of each calendar quarter thereafter.

(c) No Accommodation will be issued if the Accommodation as requested, plus fees and costs for issuance, would cause the outstanding Indebtedness to exceed the Borrowing Base, or cause the open amount of Accommodations to exceed, at any time, the Accommodation sublimit of \$10,000,000.00.

(d) All indebtedness, liabilities and obligations of any sort whatsoever, however arising, whether present or future, fixed or contingent, secured or unsecured, due or to become due, paid or incurred, arising or incurred in connection with any Accommodation shall be included in the term "Indebtedness," as defined herein, and shall include, without

-1-

limitation, (i) all amounts due or which may become due under any Accommodation; (ii) all amounts charged or chargeable to Borrower or to Lender by any bank, other financial institution or correspondent bank which opens, issues or is involved with such Accommodations; (iii) Lender's Accommodation Charges and all fees, costs and other charges of any issuer of any Accommodation; and (iv) all duties, freight, taxes, costs, insurance and all such other charges and expenses which may pertain directly or indirectly to any Indebtedness or Accommodations are to the goods or documents relating thereto.

(e) Borrower unconditionally agrees to indemnify and hold Lender harmless from any and all loss, claim or liability (including reasonable attorneys' fees) arising from any transactions or occurrences relating to any Accommodations established or opened for Borrower's account, the Collateral relating thereto and any drafts or acceptances thereunder, including any such loss or claim due to any action taken by an issuer of any Accommodation. Borrower further agrees to indemnify and hold Lender harmless for any errors or omissions in connection with the Accommodations, whether caused by Lender, by the issuer of any Accommodation or otherwise. Borrower's unconditional obligation to indemnify and hold Lender harmless under this provision shall not be modified or diminished for any reason or in any manner whatsoever, except for Lender's willful misconduct. Borrower agrees that any charges made to Lender by any issuer of any Accommodation shall be conclusive on borrower and may be charged to Borrower's account.

(f) Lender shall not be responsible for: the conformity of any goods to the documents presented; the validity or genuineness of any documents; delay, default, or fraud by the Borrower or shipper and/or anyone else in connection with the Accommodations or any underlying transaction.

(g) Borrower agrees that with respect to any action taken by Lender, if taken in good faith, or any action taken by an issuer of any Accommodation, under or in connection with any Lender in furtherance thereof, Lender shall have the full right and authority to clear and resolve any questions of noncompliance of documents; to give any instructions as to acceptance or rejection of any documents or goods; to execute for Borrower's account any and all applications for

-2-

steamship or airway guarantes, indemnities or delivery orders; to grant

any extensions of the maturity of time of payment for, or time of presentation of, any drafts, acceptances or documents; and to agree to any amendments, renewals, extensions, modifications, changes or cancellations of any of the terms or conditions of any of the applications or Accommodations. All of the foregoing actions may be taken in Lender's sole name, and the issuer thereof shall be entitled to comply with and honor any and all such documents or instruments executed by or received solely from Lender, all without any notice to or any consent from Borrower. None of the foregoing actions described in this subsection (9) may be taken by Borrower without Lender's express written consent.

2. RESERVES. Lender shall have a continuing right to deduct reserves in determining the Borrowing Base ("Reserves") and to increase and decrease such Reserves from time to time, if and to the extent that, in Lender's reasonable credit judgment, such Reserves are necessary to protect Lender against any state of facts which does, or would, with notice or passage of time or both, constitute an Event of Default or have an adverse effect on any Collateral. Lender may, at its option, implement Reserves by designating as ineligible a sufficient amount of Accounts which would otherwise be Eligible Accounts so as to reduce the Borrowing Base by the amount of the intended Reserve.

3. ACQUISITIONS SUB-LIMIT. Notwithstanding anything to the contrary in the Agreement, Borrower may use up to \$7,500,000.00 of Advances to acquire other enterprises or companies engaged in the same type of business as the Borrower without first obtaining Lender's prior approval.

4. UNUSED LINE FEE. Borrower shall pay Lender quarterly, on the first day of each quarter, in arrears, an Unused Line Fee of .125% for each quarter, calculated upon the amount, if any, by which the \$30,000,000.00 exceeds the average daily balance outstanding on the Indebtedness during the preceding quarter.

5. SEC FILINGS. Borrower covenants and agrees to furnish the Lender with, as soon as available but in no event later than one hundred twenty (120) days after the end of each fiscal year, a copy of Borrower's 10K report as filed with the

- 3 -

Securities and Exchange Commission and, as soon as possible but in no event later than forty-five (45) days after the end of each fiscal quarter, a copy of Borrower's 10Q report as filed with the Security and Exchange Commission.

6. ARBITRATION PROCEDURE AND VENUE. If either party makes a demand for arbitration as provided herein and each party's claim is less than \$100,000, one neutral arbitrator will decide all issues. If a party's claim is \$100,000 or more, then in such case, the parties will each select an arbitrator who will then select a third arbitrator. All arbitration hearings will be held in Seattle, Washington.

The terms of this Addendum are hereby incorporated into the Loan Agreement, which Loan Agreement, as supplemented hereby, is hereby confirmed by the parties in all respects.

NOTICE REGARDING ORAL AGREEMENTS. ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

Borrower acknowledges having read all the provisions of the Loan Agreement and this Addendum, and Borrower agrees to their terms.

DATED as of the day and year first above written.

BORROWER:

LENDER:

LABOR READY, INC.

U.S. BANK NATIONAL ASSOCIATION

By: /s/ Joseph P. Sambataro, Jr.

By: /s/ Bruce Marley

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Title: Executive Vice President and CFO

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Authorized Officer

-4-

ALTERNATIVE RATE OPTIONS  
PROMISSORY NOTE  
(PRIME RATE, LIBOR)

\$30,000,000 00  
LABOR READY, INC.

Dated as of: NOVEMBER 4, 1997  
("Borrower")

U S. BANK NATIONAL ASSOCIATION

("Lender")



1. TYPE OF CREDIT. This note is given to evidence Borrower's obligation to repay all sums which Lender may from time to time advance to Borrower ("Advances") under a:

single disbursement loan. Amounts loaned to Borrower hereunder will be disbursed in a single Advance in the amount shown in Section 2.

X revolving line of credit. No Advances shall be made which create a maximum amount outstanding at any one time which exceeds the maximum amount shown in Section 2. However, Advances hereunder may be borrowed, repaid and reborrowed, and the aggregate Advances loaned hereunder from time to time may exceed such maximum amount.

non-revolving line of credit. Each Advance made from time to time hereunder shall reduce the maximum amount available shown in Section 2. Advances loaned hereunder which are repaid may not be reborrowed.

2. PRINCIPAL BALANCE. The unpaid principal balance of all Advances outstanding under this note ("Principal Balance") at one time shall not exceed \$30,000,000.00.

3. PROMISE TO PAY. For value received Borrower promises to pay to Lender or order at 1145 Broadway, Suite 1100, Tacoma, Washington, 98402 the Principal Balance of this note, with interest thereon at the rate(s) specified in Sections 4 and 11 below.

4. INTEREST RATE. The interest rate on the Principal Balance outstanding may vary from time to time pursuant to the provisions of this note. Subject to the provisions of this note, Borrower shall have the option from time to time of choosing to pay interest at the rate or rates and for the applicable periods of time based on the rate options provided herein; provided, however, that once Borrower notifies Lender of the rate option chosen in accordance with the provisions of this note, such notice shall be irrevocable. The rate options are the Prime Borrowing Rate and the LIBOR Borrowing Rate, each as defined herein

(a) Definitions. The following terms shall have the following meanings:

"Business Day" means any day other than a Saturday, Sunday, or other day that commercial banks in Seattle, Washington, Portland, Oregon or New York City are authorized or required by law to close; provided, however that when used in connection with a LIBOR Rate, LIBOR Amount or LIBOR Interest Period such term shall also exclude any day on which dealings in U.S. dollar deposits are not carried on in the London interbank market.

"LIBOR Amount" means each principal amount for which Borrower chooses to have the LIBOR Borrowing Rate apply for any specified LIBOR Interest Period.

"LIBOR Interest Period" means as to any LIBOR Amount, a period of one, two, three, six, or twelve months commencing on the date the LIBOR Borrowing Rate becomes applicable thereto; provided, however, that: (i) the first day of each LIBOR Interest Period must be a Business Day; (ii) no LIBOR Interest Period shall be selected which would extend beyond June 30, 1999; (iii) no LIBOR Interest Period shall extend beyond the date of any principal payment required under Section 6 of this note, unless the sum of the Prime Rate Amount, plus LIBOR Amounts with LIBOR Interest Periods ending on or before the scheduled date of such principal payment, plus principal amounts remaining unborrowed under a line of credit, equals or exceeds the amount of such principal payment; (iv) any LIBOR Interest Period which would otherwise expire on a day which is not a Business Day, shall be extended to the next succeeding Business Day, unless the result of such extension would be to extend such LIBOR Interest Period into another calendar month, in which event the LIBOR Interest Period shall end on the immediately preceding Business Day; and (v) any LIBOR Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such LIBOR Interest Period) shall end on the last Business Day of a calendar month.

"LIBOR Rate" means, for any LIBOR Interest Period, the rate per annum (computed on the basis of a 360-day year and the actual number of days elapsed and rounded upward to the nearest 1/16 of 1%) established by Lender as its LIBOR Rate, based on Lender's determination, on the basis of such factors as Lender deems relevant, of the rate of interest at which U.S. dollar deposits would be offered to U.S. Bank National Association in the London interbank market at approximately 11 a.m. London time on the date which is two Business Days prior to the first day of such LIBOR Interest Period for delivery on the first day of such LIBOR Interest Period for the number of months therein; provided, however, that the LIBOR Rate shall be adjusted to take into account the maximum reserves required to be maintained for Eurocurrency liabilities by banks during each such LIBOR Interest Period as specified in Regulation D of the Board of Governors of the Federal Reserve System or any successor regulation.

"Prime Rate" means the rate of interest which Lender from time to time establishes as its prime rate and is not, for example, the lowest rate of interest which Lender collects from any borrower or class of borrowers. When the Prime Rate is applicable under Section 4(b) or 11 (b), the interest rate hereunder shall be adjusted without notice effective on the day the Prime Rate changes, but in no event shall the rate of interest be higher than allowed by law.

"Prime Rate Amount" means any portion of the Principal Balance bearing interest at the Prime Borrowing Rate.

(b) The Prime Borrowing Rate.

(i) The Prime Borrowing Rate is a per annum rate equal to the Prime Rate plus 0.00 % per annum.

(ii) Whenever Borrower desires to use the Prime Borrowing Rate option, Borrower shall give Lender notice orally or in writing in accordance with Section 15 of this note, which notice shall specify the requested effective date (which must be a Business Day) and principal amount of the Advance or increase in the Prime Rate Amount, and whether Borrower is requesting a new Advance under a line of credit or conversion of a LIBOR Amount to the Prime Borrowing Rate.

(iii) Subject to Section 11 of this note, interest shall accrue on the unpaid Principal Balance at the Prime Borrowing Rate unless and except to the extent that the LIBOR Borrowing Rate is in effect.

(c) The LIBOR Borrowing Rate.

(i) The LIBOR Borrowing Rate is the LIBOR Rate plus 1.44% per annum.

(ii) Borrower may obtain LIBOR Borrowing Rate quotes from Lender between 8:00 a.m. and 10:00 a.m. (Portland, Oregon time) on any Business Day. Borrower may request an Advance, conversion of any portion of the Prime Rate Amount to a LIBOR Amount or a new LIBOR Interest Period for an existing LIBOR Amount, at such rate only by giving Lender notice in accordance with Section 4 (c) (iii) before 10:00 a.m. (Portland, Oregon time) on such day.

(iii) Whenever Borrower desires to use the LIBOR Borrowing Rate option, Borrower shall give Lender irrevocable notice (either in writing or orally and promptly confirmed in writing) between 8:00 a.m. and 10:00 a.m. (Portland, Oregon time) two (2) Business Days prior to the desired effective date of such rate. Any oral notice shall be given by, and any written notice or confirmation of an oral notice shall be signed by, the person(s) authorized in Section 15 of this note and shall specify the requested effective date of the rate, LIBOR Interest Period and LIBOR Amount, and whether Borrower is requesting a new Advance at the LIBOR Borrowing Rate under a line of credit, conversion of all or any portion of the Prime Rate Amount to a LIBOR Amount, or a new LIBOR Interest Period for an outstanding LIBOR Amount. Notwithstanding in any other term of this note, Borrower may elect the LIBOR Borrowing Rate in the minimum principal amount of \$500,000.00 and in multiples of \$500,000.00 above such amount; provided, however, that no more than (not applicable) separate LIBOR Interest Periods may be in effect at any one time.

(iv) If at any time the LIBOR Rate is unascertainable or unavailable to Lender or if LIBOR Rate loans become unlawful, the option to select the LIBOR Borrowing Rate shall terminate immediately. If the LIBOR Borrowing Rate is then in effect, (A) it shall terminate automatically with respect to all LIBOR Amounts (i) on the last day of each then applicable LIBOR Interest Period, if Lender may lawfully continue to maintain such loans, or (ii) immediately if Lender may not lawfully continue to maintain such loans through such day, and (B) subject to Section 11, the Prime Borrowing Rate automatically shall become effective as to such amounts upon such termination.

(v) If at any time after the date hereof (A) any revision in or adoption of any applicable law, rule, or regulation or in the interpretation or administration thereof (i) shall subject Lender or its Eurodollar lending office to any tax, duty, or other charge, or change the basis of taxation of payments to Lender with respect to any loans bearing interest based on the LIBOR Rate, or (ii) shall impose or modify any reserve, insurance, special deposit, or similar requirements against assets of, deposits with or for the account of, or credit extended by Lender or its Eurodollar lending office, or impose on Lender or its Eurodollar lending office any other condition affecting any such loans, and (B) the result of any of the foregoing is (i) to increase the cost to Lender of making or maintaining any such loans or (ii) to reduce the amount of any sum receivable under this note by Lender or its Eurodollar lending office, Borrower shall pay Lender within 15 days after demand by Lender such additional amount as will compensate Lender for such increased cost or reduction. The determination hereunder by Lender of such additional amount shall be conclusive in the absence of manifest error. If lender demands compensation under this Section 4(c)(v), Borrower may upon three (3) Business Days' notice to Lender pay the accrued interest on all LIBOR Amounts, together with any additional amounts payable under Section 4(c)(vi). Subject to Section 11, upon Borrower's paying such accrued interest and additional costs, the Prime Borrowing Rate immediately

shall be effective with respect to the unpaid principal balance of such LIBOR Amounts.

(vi) Borrower shall pay to Lender, on demand, such amount as Lender reasonably determines (determined as though 100% of the applicable LIBOR Amount had been funded in the London interbank market) is necessary to compensate Lender for any direct or indirect losses, expenses, liabilities, costs, expenses or reductions in yield to Lender, whether incurred in connection with liquidation or re-employment of funds or otherwise, incurred or sustained by Lender as a result of: (A) Any payment or prepayment of a LIBOR Amount, termination of the LIBOR Borrowing Rate or conversion of a LIBOR Amount to the Prime Borrowing Rate on a day other than the last day of the applicable LIBOR Interest Period (including as a result of acceleration or a notice pursuant to Section 4 (c) (v)); or (B) Any failure of Borrower to borrow, continue or prepay any LIBOR Amount or to convert any portion of the Prime Rate Amount to a LIBOR Amount after Borrower has given a notice thereof to Lender.

(vii) If Borrower chooses the LIBOR Borrowing Rate, Borrower shall pay interest based on such rate, plus any other applicable taxes or charges hereunder, even though Lender may have obtained the funds loaned to Borrower from sources other than the London interbank market. Lender's determination of the LIBOR Borrowing Rate and any such taxes or charges shall be conclusive in the absence of manifest error.

(viii) Notwithstanding any other term of this note, Borrower may not select the LIBOR Borrowing Rate if an event of default hereunder has occurred and is continuing.

(ix) Nothing contained in this note, including without limitation the determination of any LIBOR Interest Period or Lender's quotation of any LIBOR Borrowing Rate, shall be construed to prejudice Lender's right, if any, to decline to make any requested Advance or to require payment on demand.

5. COMPUTATION OF INTEREST. All interest under Section 4 and Section 11 will be computed at the applicable rate based on a 360-day year and applied to the actual number of days elapsed.

6. PAYMENT SCHEDULE.

(a) Principal. Principal shall be paid:

on demand.

X on demand, or if no demand, on June 30, 1999.

on

subject to Section 8, in installments of

each, plus accrued interest, beginning on and on the same day of each thereafter until when the entire Principal Balance plus interest thereon shall be due and payable.

each, including accrued interest, beginning on and on the same day of each thereafter until when the entire Principal Balance plus interest thereon shall be due and payable.

(b) Interest.

(i) Interest on the Prime Rate Amount shall be paid:

X on the 15th day of November, 1997, and on the same day of each month

thereafter prior to maturity and at maturity.

at maturity.

at the time each principal installment is due and at maturity.

(ii) Interest on all LIBOR Amounts shall be paid:

on the last day of the applicable LIBOR Interest Period, and if such LIBOR Interest Period is longer than three months, on the last day of each three month period occurring during such LIBOR Interest Period, and at maturity.

X on the 15th day of November, 1997, and on the same day of each month

thereafter prior to maturity and at maturity.

at maturity.

at the time each principal installment is due and at maturity.

7. PREPAYMENT.

(a) Prepayments of all or any part of the Prime Rate Amount may be made at any time without penalty.

(b) Except as otherwise specifically set forth herein, Borrower may not prepay all or any part of any LIBOR Amount or terminate any LIBOR Borrowing Rate, except on the last day of the applicable LIBOR Interest Period.

(c) Principal prepayments will not postpone the date of or change the amount of any regularly scheduled payment. At the time of any principal prepayment, all accrued interest, fees, costs and expenses shall also be paid.

8. CHANGE IN PAYMENT AMOUNT. Each time the interest rate on this note changes the holder of this note may, from time to time, in holder's sole discretion, increase or decrease the amount of each of the installments remaining unpaid at the time of such change in rate to an amount holder in its sole discretion deems necessary to continue amortizing the Principal Balance at the same rate established by the installment amounts specified in Section 6(a), whether or not a "balloon" payment may also be due upon maturity of this note. Holder shall notify the undersigned of each such change in writing. Whether or not the installment amount is increased under this Section 8, Borrower understands that, as a result of increases in the rate of interest the final payment due, whether or not a "balloon" payment, shall include the entire Principle Balance and interest thereon then outstanding, and may be substantially more than the installment specified in Section 6.

9. ALTERNATE PAYMENT DATE. Notwithstanding any other term of this note, if in any month there is no day on which a scheduled payment would otherwise be due (e.g February 31), such payment shall be paid on the last banking day of that month.

10. PAYMENT BY AUTOMATIC DEBIT.

Borrower hereby authorizes Lender to automatically deduct the amount of all principal and interest payments from account number 0547-517821 at Lender's Pacific Avenue branch. If there are insufficient funds in the account to pay the automatic deduction in full, Lender may allow the account to become overdrawn, or Lender may reverse the automatic deduction. Borrower will pay all the fees on the account which result from the automatic deductions, including any overdraft and non-sufficient funds charges. If for any reason Lender does not charge the account for a payment, or if an automatic payment is reversed the payment is still due according to this note. If the account is a Money Market Account, the number of withdrawals from that account is limited as set out in the account agreement. Lender may cancel the automatic deduction at any time in its discretion.

Provided, however, if no account number is entered above, Borrower does not want to make payments by automatic debit.

11. DEFAULT.

(a) Without prejudice to any right of Lender to require payment on demand or to decline to make any requested Advance, each of the following shall be an event of default: (i) Borrower fails to make any payment when due. (ii) Borrower fails to perform or comply with any term, covenant or obligation in this note or any agreement related to this note, or in any other agreement or loan Borrower has with Lender. (iii) Borrower defaults under any loan, extension of credit security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's ability to repay this note or perform Borrower's obligations under this note or any related documents. (iv) Any representation or statement made or furnished to Lender by Borrower or on Borrower's behalf is false or misleading in any material respect either now or at the time made or furnished. (v) Borrower dies, becomes insolvent, liquidates or dissolves, a receiver is appointed for any part of Borrower's property, Borrower makes an assignment for the benefit of creditors, or any proceeding is commenced either by Borrower or against Borrower under any bankruptcy or insolvency laws. (vi) Any creditor tries to take any of Borrower's property on or in which Lender has a lien or security interest. This includes a garnishment of any of Borrower's accounts with Lender. (vii) Any of the events described in this default section occurs with respect to any general partner in Borrower or any guarantor of this note, or any guaranty of Borrower's indebtedness to Lender ceases to be, or is asserted not to be, in full force and effect. (viii) There is any material adverse change in the financial condition or management of Borrower or Lender in good faith deems itself insecure with respect to the payment or performance of Borrower's obligations to Lender. If this note is payable on demand, the inclusion of specific events of default shall not prejudice Lender's right to require payment on demand or to decline to make any requested Advance.

(b) Without prejudice to any right of Lender to require payment on demand, upon the occurrence of an event of default, Lender may declare the entire unpaid Principal Balance on this note and all accrued unpaid interest immediately due and payable, without notice. Upon default, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, increase the interest rate on this note to a rate equal to the Prime Borrowing Rate plus 5%. The interest rate will not exceed the maximum rate permitted by applicable law. In addition, if any payment of principal or interest is 15 or more days past due, Borrower will be charged a late charge of 5% of the delinquent payment.

12. EVIDENCE OF PRINCIPAL BALANCE; PAYMENT ON DEMAND. Holder's records shall, at any time, be conclusive evidence of the unpaid Principal Balance and interest owing on this note. Notwithstanding any other provisions of this note, in the event holder makes Advances hereunder which result in an unpaid Principal Balance on this note which at any time exceeds the maximum amount specified in Section 2, Borrower agrees that all such Advances, with interest, shall be payable on demand.

13. LINE OF CREDIT PROVISIONS. If the type of credit indicated in Section 1 is a revolving line of credit or a non-revolving line of credit, Borrower agrees that Lender is under no obligation and has not committed to make any Advances hereunder. Each Advance hereunder shall be made at the sole option of Lender.

14. DEMAND NOTE. If this note is payable on demand, Borrower acknowledges and agrees that (a) Lender is entitled to demand Borrower's immediate payment in full of all amounts owing hereunder and (b) neither anything to the contrary contained herein or in any other loan documents (including but not limited to, provisions relating to defaults, rights of cure, default rate of interest, Installment payments, late charges, periodic review of Borrower's financial condition, and covenants) nor any act of Lender pursuant to any such provisions shall limit or impair Lender's right or ability to require Borrower's payment in full of all amounts owing hereunder immediately upon Lender's demand.

15. REQUESTS FOR ADVANCES.

(a) Any Advance may be made or Interest rate option selected upon the request of Borrower (if an individual), any of the undersigned (if Borrower consists of more than one individual), any person or persons authorized in subsection (b) of this Section 15, and any person or persons otherwise authorized to execute and deliver promissory notes to Lender on behalf of Borrower.

(b) Borrower hereby authorizes any one of the following individuals to request Advances and to select interest rate options: Glenn Welstad; Ralph Peterson; Bob Sovem; Joseph P. Samataro, Jr.; and/or Misty Cleveland unless Lender is otherwise instructed in writing.

(c) All Advances shall be disbursed by deposit directly to Borrower's account number 0547-517821 at Pacific Avenue branch of Lender, or by cashiers check issued to Borrower.

(d) Borrower agrees that Lender shall have no obligation to verify the identity of any person making any request pursuant to this Section 15, and Borrower assumes all risks of the validity and authorization of such requests. In consideration of Lender agreeing, at its sole discretion, to make Advances upon such requests, Borrower promises to pay holder, in accordance with the provisions of this note, the Principal Balance together with interest thereon and other sums due hereunder, although any Advances may have been requested by a person or persons not authorized to do so.

16. PERIODIC REVIEW. Lender will review Borrower's credit accommodations periodically. At the time of the review, Borrower will furnish Lender with any additional information regarding Borrower's financial condition and business operations that Lender requests. This information may include but is not limited to, financial statements, tax returns, lists of assets and liabilities, agings of receivables and payables, inventory schedules, budgets and forecasts. If upon review, Lender, in its sole discretion, determines that there has been a material adverse change in Borrower's financial condition, Borrower will be in default. Upon default, Lender shall have all rights specified herein.

17. NOTICES. Any notice hereunder may be given by ordinary mail, postage paid and addressed to Borrower at the last known address of Borrower as shown on holder's records: If Borrower consists of more than one person, notification of any of said persons shall be complete notification of all.

18. ATTORNEY FEES. Whether or not litigation or arbitration is commenced, Borrower promises to pay all costs of collecting overdue amounts. Without limiting the foregoing, in the event that holder consults an attorney regarding the enforcement of any of its rights under this note or any document securing the same, or if this note is placed in the hands of an attorney for collection or if suit or litigation is brought to enforce this note or any document securing the same, Borrower promises to pay all costs thereof including such additional sums as the court or arbitrator(s) may adjudge reasonable as attorney fees, including without limitation, costs and attorney fees incurred in any appellate court, in any proceeding under the bankruptcy code, or in any receivership and postjudgment attorney fees incurred in enforcing any judgment.

19. WAIVERS; CONSENT. Each party hereto, whether maker, co-maker, guarantor or otherwise, waives diligence, demand, presentment for payment, notice of non-payment, protest and notice of protest and waives all defenses based on suretyship or impairment of collateral. Without notice to Borrower and without diminishing or affecting Lender's rights or Borrower's obligations hereunder,

Lender may deal in any manner with any person who at any time is liable for, or provides any real or personal property collateral for, any indebtedness of Borrower to Lender, including the indebtedness evidenced by this note. Without limiting the foregoing, Lender may, in its sole discretion: (a) make secured or unsecured loans to Borrower and agree to any number of waivers, modifications, extensions and renewals of any length of such loans, including the loan evidenced by this note; (b) impair, release (with or without substitution of new collateral), fail to perfect a security interest in, fail to preserve the value of, fail to dispose of in accordance with applicable law, any collateral provided by any person; (c) sue, fail to sue, agree not to sue, release, and settle or compromise with, any person.

20. JOINT AND SEVERAL LIABILITY. All undertakings of the undersigned Borrowers are joint and several and are binding upon any marital community of which any of the undersigned are members. Holder's rights and remedies under this note shall be cumulative.

21. SEVERABILITY. If any term or provision of this note is declared by a court of competent jurisdiction to be illegal, invalid or unenforceable for any reason whatsoever, such illegality, invalidity or unenforceability shall affect the balance of the terms and provisions hereof, which terms and provisions shall remain binding and enforceable, and this note shall be construed as if such illegal, invalid or unenforceable provision had not been contained herein.

22. GOVERNING LAW. This note shall be governed by and construed and enforced in accordance with the laws of the State of Washington without regard to conflicts of law principles; provided however, that to the extent that Lender has greater rights or remedies under Federal law, this provision shall not be deemed to deprive Lender of such rights and remedies as may be available under Federal law.

24. DISCLOSURE.

Oral agreements or oral commitments to loan money, extend credit, or to forbear from enforcing repayment of a debt are not enforceable under Washington law.

EACH OF THE UNDERSIGNED HEREBY ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS DOCUMENT.

LABOR READY, INC.

Borrower Name (Corporation, Partnership or other Entity)

By: /s/ Joseph P. Sambataro, Jr.

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Executive Vice President &  
Chief Financial Officer

For valuable consideration, Lender agrees to the terms of the arbitration provision set forth in this note.

Lender Name: U.S. Bank National Association

By: /s/ Bruce Marley

-----  
Title: Vice President

Date: December 10, 1997

COMMERCIAL SECURITY AGREEMENT

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.  
loan item

Borrower: LABOR READY, INC.  
1016 SOUTH 28TH STREET  
TACOMA, WA 98409

-Lender: U.S. BANK NATIONAL ASSOCIATION  
Tacoma Corporate Bkg.  
1145 Broadway  
Suite 1100  
Tacoma, WA 98402

THIS COMMERCIAL SECURITY AGREEMENT is entered into between LABOR READY, INC. (referred to below as "Grantor"); and U.S. BANK NATIONAL ASSOCIATION (referred to below as "Lender"). For valuable consideration, Grantor grants to Lender a security interest in the Collateral to secure the Indebtedness and agrees that

Lender shall have the rights stated in this Agreement with respect to the Collateral, In addition to all other rights which Lender may have by law.

DEFINITIONS. The following words shall have the following meanings when used in this Agreement. Terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. All references to dollar amounts shall mean amounts in lawful money of the United States of America.

Agreement. The word "Agreement" means this Commercial Security Agreement, as this Commercial Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Security Agreement from time to time.

Collateral. The word "Collateral" means the following described property of Grantor, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

All chattel paper, accounts and general Intangibles

In addition, the word "Collateral" Includes all the following, whether now owned or hereafter acquired, whether now existing or hereafter acquired, and wherever located:

(a) All accessions, accessories, increases, and additions to and all replacements of and substitutions for any property described above.

(b) All products and produce of any of the properly described in this Collateral section.

(c) All accounts, general intangibles, instruments, rents, monies, payments, and all other rights, arising out of a sale, lease, or other disposition of any of the property described in this Collateral section.

(d) All proceeds (Including insurance proceeds) from the sale, destruction, loss, or other disposition of any of the property described in this Collateral section.

(e) All records and data relating to any of the property described in this Collateral section, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media, together with all of Grantor's right, title, and interest in and to all computer software required to utilize, create, maintain, and process any such records or data on electronic media.

Event of Default. The words "Event of Default" mean and include without limitation any of the Events of Default set forth below in the section titled "Events of Default".

Grantor. The word "Grantor" means LADOR READY, INC., its successors and assigns

Guarantor. The word "Guarantor" means and includes without limitation each and all of the guarantors, sureties, and accommodation parties in connection with the indebtedness.

Indebtedness. The word "indebtedness" means the Indebtedness evidenced by the Note, including all principal and Interest, together with all other indebtedness and costs and expenses for which Grantor is responsible under this Agreement or under any of the Related Documents. In addition, the word "Indebtedness" includes all other obligations, debts and liabilities, plus interest thereon, of Grantor, or any one or more of them, to Lender, as well as all claims by Lender against Grantor, or any one or more of them, whether existing now or later, whether they are voluntary or involuntary, due or not due, direct or indirect, absolute or contingent, liquidated or unliquidated; whether Grantor may be liable individually or jointly with others, whether Grantor may be obligated as guarantor, surely, accommodation party or otherwise; whether recovery upon such indebtedness may be or hereafter may become barred by any statute of limitations; and whether such indebtedness may be or hereafter may become otherwise unenforceable.

Lender. The word "Lender" means U.S. BANK NATIONAL ASSOCIATION, its successors and assigns.

Note. The word "Note" means the note or credit agreement dated November 4, 1997, in the principal amount of \$30,000,000.00 from LABOR READY, INC. to Lender, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of and substitutions for the note or credit agreement.

Related Documents. The words "Related Documents" mean and include without

limitation all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

RIGHT OF SETOFF. Grantor hereby grants Lender a contractual possessory security interest in and hereby assigns, conveys, delivers, pledges, and transfers all of Grantor's right, title and interest in and to Grantor's accounts with Lender (whether checking, savings, or some other t including all accounts held jointly with someone else and all accounts Grantor may open in the future, excluding, however, all IRA and Keogh accounts, and all trust accounts for which the grant of a security interest would be prohibited by law. Grantor authorizes Lender, to the extent permitted by applicable law, to charge or setoff all indebtedness against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided in this paragraph.

OBLIGATIONS OF GRANTOR. Grantor warrants and covenants to Lender as follows:

Perfection of Security Interest. Grantor agrees to execute such financing statements and to take whatever other actions are requested by Lender to perfect and continue Lender's security interest in the Collateral. Upon request of Lender, Grantor will deliver to Lender any and all of the documents evidencing constituting the Collateral, and Grantor will note Lender's Interest upon any and all chattel paper if not delivered to Lender for possession by Lender. Grantor hereby appoints Lender as its irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect or to continue the security interest granted in this Agreement. Lender may at any time, and without further authorization from Grantor, file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Grantor will reimburse Lender for all expenses for the perfection and the continuation of the perfection of Lender's security interest in the Collateral. Grantor promptly will notify Lender before any change in Grantor's name including any change to the assumed business names of grantor. This is a continuing Security Agreement and will continue in effect even though all or any part of the indebtedness is paid in full and even though for a period of time Grantor may not be indebted to Lender.

No Violation. The execution and delivery of this Agreement will not violate any law or agreement governing Grantor or to which Grantor is a party, and Its certificate or articles of incorporation and bylaws do not prohibit any term or condition of this Agreement.

Enforceability of Collateral. To the extent the Collateral consists of accounts, chattel paper, or general intangibles, the Collateral is enforceable in accordance with its terms, is genuine, and complies with applicable laws concerning form, content and manner of preparation and execution, and all persons appearing to be obligated on the Collateral have authority and capacity to contract and are in fact obligated as they appear to be on the Collateral, At the time any account becomes subject to a security interest in favor of Lender, the account shall be a good and valid account representing an undisputed, bona fide indebtedness incurred by the account debtor, for merchandise held subject to delivery instructions or theretofore shipped or delivered pursuant to a contract of sale, or for services theretofore performed by Grantor with or for the account debtor; there shall be no setoffs or counterclaims against any such account; and no agreement under which any deductions or discounts may be calmed shall have been made with the account debtor except those disclosed to Lender in writing.

Removal of Collateral. Grantor shall keep the Collateral (or to the extent the Collateral consists of intangible property such as accounts, the records concerning the Collateral) at Grantor's address shown above, or at such other locations as are acceptable to Lender. Except in the ordinary course of its business, including the sales of inventory, Grantor shall not remove the Collateral from its existing locations without the prior written consent of Lender. To the extent that the Collateral consists of vehicles, or other titled property, Grantor shall not take or permit any action which would require application for certificates of title for the vehicles outside the State of Washington, without prior written consent of Lender.

Transactions involving Collateral. Except for inventory sold or accounts collected in the ordinary course of Grantor's business, Grantor shall not sell, offer to sell, or otherwise transfer or dispose of the Collateral. Grantor shall not pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest, encumbrance, or charge, other than the security interest provided for in the Agreement, without the prior written consent of Lender. This includes security interests even if junior in right to the security interests granted under



this Agreement. Unless waived by Lender, all proceeds from any disposition of the Collateral (for whatever reason) shall be held in trust for Lender and shall not be commingled with any other funds; provided however, this requirement shall not constitute by lender to any sale or other disposition. Upon receipt, grantor shall immediately deliver any such proceeds to Lender.

Title. Grantor represents and warrants to Lender that it holds good and marketable title to the Collateral, free and clear of all liens and encumbrances except for the lien of this Agreement. No financing statement covering any of the Collateral is on file in any public office other than those which reflect the security interest created by this Agreement or to which Lender has specifically consented. Grantor shall defend Lender's rights in the Collateral against the claims and demands of all other persons.

Collateral Schedules and Locations. As often as Lender shall require, and insofar as the Collateral consists of accounts and general intangibles, Grantor shall deliver to Lender schedules of such Collateral, including such information as Lender may require, including without limitation names and addresses of account debtors and aging of accounts and general intangibles. Such information shall be submitted for Grantor and each of its subsidiaries or related companies.

Maintenance and Inspections of Collateral. Grantor shall maintain all tangible Collateral in good condition and repair. Grantor will not commit or permit damage to or destruction of the Collateral or any part of the Collateral. Lender and its designated representatives and agents shall have the right at all reasonable times to examine, inspect, and audit the Collateral wherever located. Grantor shall immediately notify Lender of all cases involving the return, rejection, repossession, loss or damage of or to any Collateral; of any request for credit or adjustment or of any other dispute arising with respect to the Collateral; and generally of all happenings and events affecting the Collateral or the value or the amount of the Collateral.

Taxes, Assessments and Liens. Grantor will pay when due all taxes, assessments and lens upon the Collateral, its use or operation, upon this Agreement, upon any promissory note or notes evidencing the indebtedness, or upon any of the other Related Documents. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized in Lender's sole opinion. If the Collateral is subjected to a lien which is not discharged within fifteen (15) days, Grantor shall deposit with Lender cash, a sufficient corporate surety bond or other security satisfactory to Lender in an amount adequate to provide for the discharge of the lien plus any interest, costs, attorneys' fees or other charges that could accrue as a result of foreclosure or sale of the Collateral. Grantor shall name lender as an additional obligee under any surety bond furnished in the contest proceedings.

Compliance With Governmental Requirements. Grantor shall comply promptly with all laws, ordinances, rules and regulations of all governmental authorities, now or hereafter in effect, applicable to the ownership, production, disposition, or use of the Collateral. Grantor may contest in good faith any such law, ordinance or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Lender's interest in the Collateral, in Lender's opinion, is not jeopardized.

Hazardous Substances. Grantor represents and warrants that the Collateral never has been, and never will be so long as this Agreement remains a lien on the Collateral, used for the generation, manufacture, storage, transportation, treatment, disposal, release or threatened release of any hazardous waste or substance, as those terms are defined in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or Federal laws, rules, or regulations adopted pursuant to any of the foregoing. The terms "hazardous waste" and "hazardous substance" shall also include, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos. The representations and warranties contained herein are based on Grantor's due diligence in investigating the Collateral for hazardous wastes and substances. Grantor hereby (a) releases and waives any future claims against Lender for indemnity or contribution in the event Grantor becomes liable for cleanup or other costs under any such laws, and (b) agrees to indemnify and hold harmless Lender against any and all claims and losses resulting from a breach of this provision of this Agreement. This obligation to indemnify shall survive the payment of the indebtedness and the satisfaction of this Agreement.

Maintenance of Casualty Insurance. Grantor shall procure and maintain all risks insurance, including without limitation fire, theft and liability coverage together with such other insurance as Lender may require with respect to the Collateral, in form, amounts, coverages and basis reasonably acceptable to Lender and issued by a company or companies reasonably acceptable to Lender. Grantor, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be canceled or diminished without at least ten (10) days' prior written notice to Lender and not including any disclaimer of the insurer's liability for failure to give such a notice. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Grantor or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest, Grantor or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest, Grantor will provide Lender with such loss payable or other endorsements as Lender may require. If Grantor at any time fails to obtain or maintain any insurance as required under this Agreement, Lender may (but shall not be obligated to) obtain such insurance as Lender deems appropriate, including if it so chooses "single interest insurance." Which will cover only Lender's interest in the Collateral.

Application of Insurance Proceeds. Grantor shall promptly notify Lender of any loss or damage to the Collateral. Lender may make proof of loss if Grantor fails to do so within fifteen (15) days of the casualty. All proceeds of any insurance on the Collateral, including accrued proceeds thereon, shall be held by Lender as part of the Collateral. If Lender consents to repair or replacement of the damaged or destroyed Collateral, thereon, shall upon satisfactory proof of expenditure, pay or reimburse Grantor from the proceeds for the reasonable cost of repair or restoration. If Lender does not consent to repair or replacement of the Collateral, Lender shall retain a sufficient amount of the proceeds to pay all of the indebtedness, and shall pay the balance to Grantor. Any proceed which have not been disbursed within (6) months after their receipt and which Grantor has not committed to the repair or restoration of the Collateral shall be used to prepay the indebtedness.

Insurance Reserves. Lender may require Grantor to maintain with Lender reserves for payment of insurance premiums, which reserves shall be created by monthly payments from Grantor of a sum estimated by Lender to be sufficient to produce, at least fifteen (15) days before the premium due date, amounts at least equal to the insurance premiums to be paid. If fifteen (15) days before payment is due, the reserve funds are insufficient, Grantor shall upon demand pay any deficiency to Lender. The reserve funds shall be held by Lender as a general deposit and shall constitute a non-interest-bearing account which Lender may satisfy by payment of the insurance premiums required to be paid by Grantor as they become due. Lender does not hold the reserve funds in trust for Grantor, and Lender is not the agent of Grantor for payment of the insurance premiums required to be paid by Grantor. The responsibility for the payment of premiums shall remain Grantor's sole responsibility.

Insurance Reports. Grantor, upon request of Lender, shall furnish to Lender report on each existing policy of insurances showing such information as Lender may reasonable request including the following: (a) the name of the insurer; (b) the risks insured; (c) the amount of the policy; (d) the property insured; (e) the then current value on the basis of which insurance has been obtained and the manner of determining that value; and (f) the expiration date of the policy. In addition, Grantor shall upon request by Lender (however not more often than annually) have an independent appraiser satisfactory to Lender determine, as applicable, the cash value or replacement cost of the Collateral.

GRANTOR'S RIGHT TO POSSESSION AND TO COLLECT ACCOUNTS. Until default and except as otherwise provided below with respect to accounts, Grantor may have possession of the tangible personal property and beneficial use of all the Collateral and may use it in any lawful manner not inconsistent with this Agreement or the Related Documents, provided that Grantor's right to possession and beneficial use shall not apply to any Collateral share possession of the Collateral by Lender is required by law to perfect Lender's security interest in such Collateral. Until otherwise notified by Lender, Grantor may collect any of the Collateral consisting of accounts. At any time and even though no Event of Default exists, Lender may exercise its rights to collect the accounts and to notify account debtors to make payments directly to Lender for application to the indebtedness. If Lender at any time has possession of any Collateral, whether before or after an Event of Default, Lender shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if Lender takes such action for that purpose as Grantor shall not of itself be deemed to be a failure to exercise reasonable care. Lender shall not be

required to take any steps necessary to preserve any rights in the Collateral against prior parties, nor to protect, preserve or maintain any security interest given to secure the indebtedness.

EXPENDITURES BY LENDER. If not discharged or paid when due, Lender may (but shall not be obligated to) discharge or pay any amounts required to be discharged or paid by Grantor under this Agreement including without limitation all taxes, liens, security interests, encumbrances, and other claims, at any time levied or placed on the Collateral. Lender also may (but shall not be obligated to) pay all costs for insuring, maintaining, and preserving the Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Grantor. All such expenses shall become a part of the indebtedness and, at Lender's option, will (a) be payable on demand, (b) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (i) the term of any applicable insurance policy or (ii) the remaining term of the Note, or (c) be treated as a balloon payment which will be due and payable at the Note's maturity. This Agreement also will secure payment of these amounts. Such

11-04-1998 COMMERCIAL SECURITY AGREEMENT  
Loan No. 397-83 (Continued)

right shall be in addition to all other rights and remedies to which Lender may be entitled upon the occurrence of an Event of Default.

EVENTS OF DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Default on Indebtedness. Failure of Grantor to make any payment when due on the indebtedness.

Other Defaults. Failure of Grantor to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or in any other note, security agreement, lease agreement or lease schedule, loan agreement or other agreement, whether now existing or hereafter made, between Grantor and U.S. Bancorp or any direct or indirect subsidiary of U.S. Bancorp.

Default in Favor of Third Parties. Should Borrower or any Grantor default under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's or any Grantor's ability to repay the Loans or perform their respective obligations under this Agreement or any of the Related Documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by or on behalf of Grantor under this Agreement, the Note or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral documents to create a valid and perfected security interest or lien) at any time and for any reason.

Insolvency. The dissolution or termination of Grantor's existence as a going business, the insolvency of Grantor, the appointment of a receiver for any part of Grantor's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Grantor.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or foreclosure proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Grantor or by any governmental agency against the Collateral or any other collateral securing indebtedness. This includes a garnishment of any of Grantor's deposit accounts with Lender.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the indebtedness or such Guarantor dies or becomes incompetent.

Insecurity. Lender, in good faith, deems itself insecure.

RIGHTS AND REMEDIES ON DEFAULT. If an Event of Default occurs under this Agreement, at any time thereafter, Lender shall have all the rights of a secured party under the Washington Uniform Commercial Code. In addition and without limitation, Lender may exercise any one or more of the following rights and

remedies:

Accelerate Indebtedness. Lender may declare the entire indebtedness, including any prepayment penalty which Grantor would be required to pay, immediately due and payable, without notice.

Assemble Collateral. Lender may require Grantor to deliver to Lender all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Lender may require Grantor to assemble the Collateral and make it available to Lender at a place to be designated by Lender. Lender also shall have full power to enter upon the property of Grantor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Grantor agrees Lender may take such other goods, provided that Lender makes reasonable efforts to return them to Grantor after repossession.

Sell the Collateral. Lender shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in its own name or that of Grantor. Lender may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of type customarily sold on a recognized market, Lender will give Grantor reasonable notice of the time after which any private sale or any other intended disposition of the Collateral is to be made. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

Appoint Receiver. To the extent permitted by applicable law, Lender shall have the following rights and remedies regarding the appointment of a receiver: (a) Lender may have a receiver appointed as a matter of right, (b) the receiver may be an employee of Lender and may serve without bond, and (c) all fees of the receiver and his or her attorney shall become part of the indebtedness secured by this Agreement and shall be payable on demand, with interest at Note rate from date of expenditure until repaid.

Collect Revenues, Apply Amounts. Lender, either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Lender may at any time in its discretion transfer any Collateral into its own name or that of its nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the indebtedness or apply it to payment of the indebtedness in such order of preference as Lender may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Lender may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, or realize on the Collateral as Lender may determine, whether or not indebtedness or Collateral is then due. For these purposes, Lender may, on behalf of an in the name of Grantor, receive, open and dispose of mail addressed to Grantor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Lender may notify account debtors and obligors on any Collateral to make payments directly to Lender.

Obtain Deficiency. If Lender chooses to sell any or all of the Collateral, Lender may obtain a judgment against Grantor for any deficiency remaining on the indebtedness due to Lender after application of all amounts received from the exercise of the rights provided in this Agreement. Grantor shall be liable for a deficiency even if the transactions described in this subsection is a sale of accounts or chattel paper.

Other Rights and Remedies. Lender shall have all the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, as may be amended from time to time. In addition, Lender shall have and may exercise any or all other rights and remedies it may have available at law, in equity, or otherwise.

Cumulative Remedies. All of Lender's rights and remedies, whether evidenced by this Agreement or the Related Documents or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Grantor under this Agreement, after Grantor's failure to perform, shall not affect Lender's rights to declare a default and to exercise its remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Applicable Law. This Agreement has been delivered to Lender and accepted by Lender in the State of Washington. If there is a lawsuit, Grantor agrees upon Lender's request to submit to the jurisdiction of the court of King County, the State of Washington. Subject to the provisions on arbitration, the Agreement shall be governed by and construed in accordance with the laws of the State of Washington.

Arbitration. Lender and Grantor agree that all disputes, claims and controversies between them, whether individual, joint, or class in nature, arising from this Agreement or otherwise, including without limitation contract and tort disputes, shall be arbitrated pursuant to the Rules of the American Arbitration Association, upon request if either party. No act to take or dispose of any Collateral shall constitute a waiver of this arbitration agreement or be prohibited by this arbitration agreement. This includes, without limitation, obtaining injunction relief or a temporary restraining order; invoking a power of sale under any deed of trust or mortgage; obtaining a writ of attachment or imposition of a receiver; or exercising any rights relating to personal property, including taking or disposing of such property with or without judicial process pursuant to Article 9 of the Uniform Commercial Code. Any disputes, claims, or controversies concerning the lawfulness or reasonableness of any act, or exercise of any right, concerning any Collateral, including any claim to rescind, reform, or otherwise modify any agreement relating to the Collateral, shall also be arbitrated, provided however that no arbitrator shall have the right or the power to enjoin or restrain any act of any party. Judgment upon any award rendered by any arbitrator may be entered in any court having jurisdiction. Nothing in this Agreement shall preclude any party from seeking equitable relief from a court of competent jurisdiction. Nothing in this Agreement shall similar doctrines which would otherwise be applicable in an action brought by a party shall be applicable in any arbitration proceeding, and the commencement of an arbitration proceeding shall be deemed the commencement of an action for these purposes. The Federal Arbitration Act shall apply to the construction, interpretation, and enforcement of this arbitration provision.

Attorneys' Fees Expenses. Grantor agrees to pay upon demand all of Lender's costs and expenses, including attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may pay someone else to help enforce this Agreement, and Grantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (and including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Grantor also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Multiple Parties; Corporate Authority. All obligations of Grantor under this Agreement shall be joint and several, and all references to Grantor shall mean each and every Grantor. This means that each of the persons signing below is responsible for all obligations in this Agreement.

Notices. All notices required to be given under this Agreement shall be given in writing, may be sent by telefacsimile (unless otherwise required by law), and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier or deposited in the United States mail, first class, postage prepaid, addressed to the party to whom the notice is to be given at the address shown above. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. To the extent permitted by applicable law, if there is more than one Grantor, notice to any Grantor will constitute notice to all Grantors. For notice purposes, Grantor will keep Lender

informed at all times of Grantor's current address(es).

Power of Attorney. Grantor hereby appoints Lender as its true and lawful attorney-in-fact, irrevocably, with full power of substitution to do the following: (a) to demand, collect, receive, receipt for, sue and recover all sums of money or other property which may now or hereafter become due, owing or payable from the Collateral; (b) to execute, sign and endorse any and all claims, instruments, receipts, checks, drafts or warrants issued in payment for the Collateral; (c) to settle or compromise any and all claims arising under the Collateral, and, in the place and stead of Grantor, to execute and deliver its release and settlement for the claim; and (d) to file any claim or claims or to take any action or institute or take part in any proceedings, either in its own name or in the name of Grantor, or otherwise, which in the discretion of Lender may seem to be necessary or advisable. This power is given as security for the indebtedness, and the authority hereby conferred is and shall be irrevocable and shall remain in full force and effect until renounced by Lender.

Preference Payments. Any monies Lender pays because of an asserted preference claim in Borrower's bankruptcy will become a part of the indebtedness and, at Lender's option shall be payable by Borrower as provided above in the "EXPENDITURES BY LENDER" paragraph.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be invalid or unenforceable as to any other persons or circumstances. If feasible, any such offending provision shall be stricken and all other provisions of this Agreement in all other respects shall remain valid and enforceable.

Successor Interests. Subject to the limitations set forth above on transfer of the Collateral, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns.

Waiver. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provisions of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lender's rights or of any of Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Waiver of Co-obligor's Rights. If more than one person is obligated for the indebtedness, Borrower irrevocably waives, disclaims and relinquishes all claims against such other person which Borrower has or would otherwise have by virtue of payment of the indebtedness or any part thereof, specifically including but not limited to all rights of indemnity, contribution or exoneration.

GRANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS COMMERCIAL SECURITY AGREEMENT, AND GRANTOR AGREES TO IS TERMS, THIS AGREEMENT IS DATED NOVEMBER 4, 1997

GRANTOR:

LABOR READY, INC.

BY: /s/ Joseph P. Sambataro, Jr.

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Title: Executive Vice President &  
Chief Financial Officer

EXECUTIVE EMPLOYMENT AGREEMENT

This Executive Employment Agreement is made and entered into by and between Labor Ready, Inc., a Washington corporation, including its subsidiaries ("Company") and Ralph E. Peterson ("Executive").

RECITALS

WHEREAS, Executive is a valued employee and key executive of the Company and the parties wish to provide for his continued employment and future services upon the terms and conditions set forth in this Agreement; and

WHEREAS, it is the consensus of the Board of Directors that Executive's services have been of exceptional merit and an invaluable contribution to the profits and position of the Company. The board further believes that Executive's experience, knowledge of corporate affairs, reputation and industry contacts are of such value and his continued services essential to Company's future growth and profits and that it would suffer great financial loss should Executive terminate his services; and

WHEREAS, the Board of Directors has elected Executive to the offices of Executive Vice President and Chief Operating Officer of the Company.

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein, the Company and Executive agree as follows:

1. Employment. The Company agrees to and hereby does continue Executive in its employment, and Executive agrees to and hereby does continue in the employment of the Company, subject to the supervision and direction of the Chairman, President and Chief Executive Officer and of the Board of Directors. Executive's employment shall be for a period commencing on September 13, 1996 and ending on September 12, 2000, unless such period is extended by written agreement of the parties or is sooner terminated pursuant to the provisions of Paragraphs 4, 12 or 13.

2. Duties of Executive. Executive agrees to continue to devote the necessary time, attention, skill, and efforts to the performance of his duties as Executive Vice President and Chief Operating Officer of the Company or such other duties as may be assigned by the Chairman, President and Chief Executive Officer or the Board of Directors in their discretion.

3. Compensation.

(a) Executive's initial salary shall be at the rate of Twenty Thousand and No/100 Dollars (\$20,000.00) per month, payable semi-monthly, from September 13, 1996 until changed by the Board of Directors as provided herein.

(b) Company, acting through its Board of Directors, may (but shall not be required to) increase, but may not decrease, Executive's compensation and award to Executive such bonuses as the board may see fit, in its sole and unrestricted discretion, commensurate with Executive's performance and the overall performance of the Company.

4. Failure to Pay Executive. The failure of Company to pay Executive his salary as provided in Paragraph 3 may, in Executive's sole discretion, be deemed a breach of this Agreement and, unless such breach is cured within fifteen days after written notice to Company, this Agreement shall terminate. Executive's claims against Company arising out of the nonpayment shall survive termination of this Agreement.

5. Options to Purchase Common Stock. Executive is granted an option vesting in annual increments to purchase 150,000 shares of the Company's common stock.

6. Reimbursement for Expenses. Company shall reimburse Executive for reasonable out-of-pocket expenses that Executive shall incur in connection with his services for Company contemplated by this Agreement, on presentation by Executive of appropriate vouchers and receipts for such expenses to Company. At times it may be in the best interests of the Company for Executive's spouse to accompany him on such business travel. On such occasions Company shall reimburse Executive for reasonable out-of-pocket expenses incurred for his spouse. Such occasions shall be determined by guidelines established by the Chairman, President and Chief Executive Officer, or in the absence of such guidelines, by Executive's sound discretion.

7. Vacation. Executive shall be entitled each year during the term of this Agreement to a vacation of twenty-one (21) days, no two of which need be

consecutive, during which time his compensation shall be paid in full. The length of annual vacation time shall increase by one day for every year of service to the Company after 1996 to a maximum of 35 days per year.

8. Change in Ownership or Control. In the event of a change in the ownership of Company, effective control of Company, or the ownership of a substantial portion of Company's assets, all unvested stock options shall immediately vest.

2

9. Liability Insurance. The Company shall procure and maintain throughout the term of this Agreement a policy or policies of liability insurance for the protection and benefit of directors and officers of the Company. Such insurance shall have a combined limit of not less than \$2,000,000.00 and may have a deductible of not more than \$100,000.00.

10. Other benefits. Executive shall be entitled to all benefits offered generally to employees of Company. Nothing in this Agreement shall be construed as limiting or restricting any benefit to Executive under any pension, profit-sharing or similar retirement plan, or under any group life or group health or accident or other plan of the Company, for the benefit of its employees generally or a group of them, now or hereafter in existence.

11. Termination. Company may terminate this Agreement under either of the following circumstances:

(a) This Agreement may be terminated for cause at any time upon thirty (30) days written notice to Executive. Cause shall exist if Executive is guilty of dishonesty, gross neglect of duty hereunder, or other act or omission which impairs Company's ability to conduct its ordinary business in its usual manner. The notice of termination shall specify with particularity the actions or inactions constituting such cause. In the event of termination under this section, Company shall pay Executive all amounts due hereunder which are then accrued but unpaid within thirty (30) days after Executive's last day of employment.

(b) In the event that Executive shall, during the term of his employment hereunder, fail to perform his duties as the result of illness or other incapacity and such illness or other incapacity shall continue for a period of more than six months, the Company shall have the right, by written notice either personally delivered or sent by certified mail, to terminate Executive's employment hereunder as of a date (not less than 30 days after the date of the sending of such notice) to be specified in such notice.

12. Termination by Executive. If Company shall cease conducting its business, take any action looking toward its dissolution or liquidation, make an assignment for the benefit of its creditors, admit in writing its inability to pay its debts as they become due, file a voluntary petition or be the subject of an involuntary petition in bankruptcy, or be the subject of any state or federal insolvency proceeding of any kind, then Executive may, in his sole discretion, by written notice to Company, terminate his employment and Company hereby consents to the release of Executive under such circumstances and agrees that if Company ceases to operate or to exist as a result of such event, the noncompetition and other provisions of Paragraph 17 of this Agreement shall terminate.

3

13. Communications to Company. Executive shall communicate and channel to Company all knowledge, business, and customer contacts and any other matters of information that could concern or be in any way beneficial to the business of Company, whether acquired by Executive before or during the term of this Agreement; provided, however, that nothing under this Agreement shall be construed as requiring such communications where the information is lawfully protected from disclosure as a trade secret of a third party.

14. Binding Effect. This Agreement shall be binding on and shall inure to the benefit of any successor or successors of employer and the personal representatives of Executive.

15. Confidential Information.

(a) As the result of his duties, Executive will necessarily have access to some or all of the confidential information pertaining to Company's business. It is agreed that "Confidential Information" of Company includes:

(1) The ideas, methods, techniques, formats, specifications, procedures, designs, systems, processes, data and software products which



are unique to Company;

(2) All customer, marketing, pricing and financial information pertaining to the business of Company;

(3) All operations, sales and training manuals;

(4) All other information now in existence or later developed which is similar to the foregoing; and

(5) All information which is marked as confidential or explained to be confidential or which, by its nature, is confidential.

(b) Executive understands that he will necessarily have access to some or all of the Confidential Information. Executive recognizes the importance of protecting the confidentiality and secrecy of the Confidential Information and, therefore, agrees to use his best efforts to protect the Confidential Information from unauthorized disclosure to other persons. Executive understands that protecting the Confidential Information from unauthorized disclosure is critically important to the success and competitive advantage of Company and that the unauthorized disclosure of the Confidential Information would greatly damage Company.

4

(c) Executive agrees not to disclose any Confidential Information to others or use any Confidential Information for his own benefit. Executive further agrees that upon request of the Chairman, President and Chief Executive Officer of Company, he shall immediately return all Confidential Information, including any copies of Confidential Information in his possession.

16. Covenants Against Competition. It is understood and agreed that the nature of the methods employed in Company's business is such that Executive will be placed in a close business and personal relationship with the customers of Company. Thus, during the term of this Executive Employment Agreement and for a period of two (2) years immediately following the termination of Executive's employment, for any reason whatsoever, so long as Company continues to carry on the same business, said Executive shall not, for any reason whatsoever, directly or indirectly, for him or on behalf of, or in conjunction with, any other person, persons, company, partnership, corporation or business entity:

(a) Call upon, divert, influence or solicit or attempt to call, divert, influence or solicit any customer or customers of Company;

(b) Divulge the names and addresses or any information concerning any customer of Company;

(c) Own, manage, operate, control, be employed by, participate in or be connected in any manner with the ownership, management, operation or control of the same, similar, or related line of business as that carried on by Company within a radius of twenty-five (25) miles from any then existing or proposed office of Company; and

(d) Make any public statement or announcement, or permit anyone else to make any public statement or announcement that Executive was formerly employed by or connected with Company.

The time period covered by the covenants contained herein shall not include any period(s) of violation of any covenant or any period(s) of time required for litigation to enforce any covenant. If the provisions set forth are determined to be too broad to be enforceable at law, then the area and/or length of time shall be reduced to such area and time and that shall be enforceable.

17. Enforcement of Covenants.

(a) The covenants set forth herein on the part of Executive shall be construed as an agreement independent of any other provision in this Executive Employment Agreement and the existence of any claim or cause of action of Executive against Company, whether predicated on this Executive Employment Agreement or

5

otherwise, shall not constitute a defense to the enforcement by Company of the covenants contained herein.

(b) Executive acknowledges that irreparable damage will result to Company in the event of the breach of any covenant contained herein and

Executive agrees that in the event of any such breach, Company shall be entitled, in addition to any and all other legal or equitable remedies and damages, to a temporary and/or permanent injunction to restrain the violation thereof by Executive and all of the persons acting for or with Executive.

18. Law to Govern Contract. It is agreed that this Agreement shall be governed by, construed, and enforced in accordance with the laws of the State of Washington.

19. Arbitration. Company and Executive agree with each other that any claim of Executive arising out of or relating to this Agreement or the breach of this Agreement or Executive's employment by Company, including, without limitation, any claim for compensation due, wrongful termination and any claim alleging discrimination or harassment in any form shall be resolved by binding arbitration, except for claims in which injunctive relief is sought and obtained. The arbitration shall be administered by the American Arbitration Association under its Commercial Arbitration Rules at the American Arbitration Association Office nearest the place of employment. The award entered by the arbitrator shall be final and binding in all respects and judgment thereon may be entered in any Court having jurisdiction.

20. Entire Agreement. This Agreement shall constitute the entire agreement between the parties and any prior understanding or representation of any kind preceding the date of this Agreement shall not be binding upon either party except to the extent incorporated in this Agreement.

21. Modification of Agreement. Any modification of this Agreement or additional obligation assumed by either party in connection with this Agreement shall be binding only if evidenced in writing signed by each party or an authorized representative of each party.

22. No Waiver. The failure of either party to this Agreement to insist upon the performance of any of the terms and conditions of this Agreement, or the waiver of any breach of any of the terms and conditions of this Agreement, shall not be construed as thereafter waiving any such terms and conditions, but the same shall continue and remain in full force and effect as if no such forbearance or waiver had occurred.

23. Attorneys' Fees. In the event that any action is filed in relation to this Agreement, the unsuccessful party in the action shall pay to the successful party, in

6

addition to all other required sums, a reasonable sum for the successful party's attorneys' fees.

24. Notices. Any notice provided for or concerning this Agreement shall be in writing and shall be deemed sufficiently given when personally delivered or when sent by certified or registered, return receipt requested mail if sent to the respective address of each party as set forth below, or such other address as each party shall designate by notice.

25. Survival of Certain Term~. The terms and conditions set forth in Paragraphs 16, 17 and 18 of this Agreement shall survive termination of the remainder of this Agreement.

26. Approval of Board of Directors. This Agreement is subject in its entirety to and contingent upon approval by the Company's Board of Directors. If this Agreement is not approved by the Board of Directors, this Agreement and all of the rights, duties and obligations set forth herein shall terminate.

IN WITNESS WHEREOF, each party to this Agreement has caused it to be executed on the date indicated below.

EXECUTIVE:

COMPANY:

RALPH E. PETERSON

LABOR READY, INC., a Washington corporation

By: /s/ Ralph E. Peterson

By: /s/ Glenn A. Welstad

-----  
Ralph E. Peterson

-----  
Glenn Welstad, Chairman, President  
and Chief Executive Officer  
1016 South 28th Street  
Tacoma, Washington 98409

Date: March 19, 1997

Date: March 19, 1997



CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K into the Company's previously filed Registration Statement No. 333-36191, 333-16455 and 333-16459.

/s/ Arthur Andersen LLP

March 25, 1998

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Labor Ready, Inc.  
Tacoma, Washington

We hereby consent to the incorporation by reference of our report, dated February 24, 1997, relating to the consolidated financial statements of Labor Ready, Inc. as of December 31, 1996 and for the two year period then ended included in the Company's Form 10-K for the year ended December 31, 1997, into the Company's previously filed Registration Statement on Form S-8 Nos. 333-36191, 333-16455 and 333-16459.

/s/ BDO Seidman, LLP

March 25, 1998  
Spokane, Washington

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE  
CONSOLIDATED FINANCIAL STATEMENTS OF LABOR READY INC. AT DECEMBER 31, 1997 AND  
FOR THE YEAR THEN ENDED.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF LABOR READY, INC. AT DECEMBER 31, 1995 AND 1996 AND FOR EACH OF THE TWO YEARS IN THE PERIOD ENDING DECEMBER 31, 1996.

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<F1>Adjusted for the Company's 3 for 2 stock split effective 10/24/97 and restated for the adoption in Fourth Quarter 1997 of FAS 128.

</FN>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM CONSOLIDATED FINANCIAL STATEMENTS AT MARCH 31, JUNE 30 AND SEPTEMBER 26, 1997 AND FOR THE 3, 6, AND 9 MONTH PERIODS THEN ENDED.

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<FN> Restated for the adoption in Fourth Quarter 1997 of FAS 128, and for the quarters ended March 31 and June 30, 1997, adjusted for the Company's 3 for 2 stock split effective 10/24/97.

</FN>

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