UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

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

For the quarter ended October 2, 1998

Commission File Number 0-23828

Labor Ready, Inc.

(Exact Name of Registrant as specified in its charter)

Washington	91-1287341
(State of Incorporation)	(Employer Identification No.)

1016 S. 28th Street, Tacoma, Washington	98409
(Address of Principal Executive Offices)	(Zip Code)

(253) 383-9101

(Registrant's Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes (X) No ( )

As of November 5, 1998, the Registrant had 27,880,878 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

LABOR READY, INC.

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LABOR READY, INC.
CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

ASSETS

<TABLE>
<CAPTION>

<S>	(UNAUDITED) OCTOBER 2, 1998 <C>	DECEMBER 31, 1997 <C>
CURRENT ASSETS:		
Cash and cash equivalents	$ 25,583	$22,117
Accounts receivable, less allowance for doubtful accounts of $3,587 and $2,851	80,384	36,614
Workers' compensation deposits and credits	2,761	1,082
Prepaid expenses and other	3,876	2,660
Deferred income taxes	4,075	3,144
Total current assets	116,679	65,617
PROPERTY AND EQUIPMENT:		
Buildings and land	4,724	4,448
Computers and software	11,889	8,220
Cash dispensing machines	7,252	--
Furniture and equipment	565	497
	24,430	13,165
Less accumulated depreciation	5,079	2,839
Property and equipment, net	19,351	10,326
OTHER ASSETS:		
Intangible assets and other, less amortization of $5,835 and $3,569	2,545	3,076
Deferred income taxes	2,011	1,212
Restricted cash	151	136
Total other assets	4,707	4,424
Total assets	$140,737	$80,367

</TABLE>

See accompanying notes to consolidated financial statements.

LABOR READY, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

LIABILITIES AND SHAREHOLDERS' EQUITY

<TABLE>
<CAPTION>

<S>	(UNAUDITED) OCTOBER 2, 1998 <C>	DECEMBER 31, 1997 <C>
CURRENT LIABILITIES:		
Line of credit	$ 21,125	$ --
Accounts payable	6,223	3,711
Accrued wages and benefits	8,344	4,080
Reserve for workers' compensation claims	12,890	7,109
Income taxes payable	4,896	875
Current maturities of long-term debt	751	13
Total current liabilities	54,229	15,788
LONG-TERM LIABILITIES:		
Long-term debt, less current maturities	5,256	76
Reserve for workers' compensation claims	9,984	6,462
Total long-term liabilities	15,240	6,538
Total liabilities	69,469	22,326
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, $0.197 par value 20,000 shares authorized; 4,324 shares issued and outstanding	854	854

Common stock, no par value 100,000 shares authorized; 27,856 and 27,662 shares issued and outstanding	52,832	49,694
Cumulative other comprehensive income (expense):		
Cumulative foreign currency translation adjustment	(336)	86
Retained earnings	17,918	7,407
Total shareholders' equity	71,268	58,041
Total liabilities and shareholders' equity	$140,737	$80,367

</TABLE>

See accompanying notes to consolidated financial statements.

LABOR READY, INC.
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

<TABLE>
<CAPTION>

	THIRTY-NINE WEEKS ENDED		THIRTEEN WEEKS ENDED	
	OCTOBER 2, 1998	SEPTEMBER 26, 1997	OCTOBER 2, 1998	SEPTEMBER 26, 1997
<S>	<C>	<C>	<C>	<C>
Revenues from services	$428,879	$231,047	$191,851	$101,713
Cost of services	300,750	162,713	134,466	72,544
Gross profit	128,129	68,334	57,385	29,169
Selling, general and administrative expense	103,244	57,329	41,420	21,001
Depreciation and amortization	4,543	3,192	1,440	1,109
Income from operations	20,342	7,813	14,525	7,059
Interest income (expense), net	(58)	460	(170)	183
Income before taxes on income	20,284	8,273	14,355	7,242
Taxes on income	8,249	3,787	5,813	3,341
Net income	$ 12,035	$ 4,486	$ 8,542	$ 3,901
Earnings per common share:				
Basic	$ .43	$ .16	$ .31	$ .14
Diluted	$ .42	$ .16	$ .30	$ .14
Weighted average shares:				
Basic	27,769	27,678	27,848	27,594
Diluted	28,736	27,948	28,909	28,096

</TABLE>

See accompanying notes to consolidated financial statements.

LABOR READY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

<TABLE>
<CAPTION>

	THIRTY-NINE WEEKS ENDED	
	OCTOBER 2, 1998	SEPTEMBER 26, 1997
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTVITIES:		
Net income	$ 12,035	$ 4,486
Adjustments to reconcile net income to net cash used in operating activities:		

Depreciation and amortization	4,543	3,192
Net change in allowance for doubtful accounts	896	3,873
Deferred income taxes	(1,730)	(2,951)
Gain on restricted fund investments	--	(29)
Changes in assets and liabilities		
Accounts receivable	(44,948)	(26,746)
Workers' compensation deposits and credits	(1,678)	(5,197)
Prepaid expenses and other	(1,236)	117
Accounts payable	2,532	587
Accrued wages and benefits	4,218	1,307
Reserve for workers' compensation claims	9,304	6,434
Income taxes payable	5,802	5,235
Net cash used in operating activities	(10,262)	(9,692)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(6,645)	(6,275)
Restricted cash	(15)	(750)
Net cash used in investing activities	(6,660)	(7,025)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings on line of credit	21,125	--
Checks issued against future deposits	--	1,299
Proceeds from options and warrants exercised	1,190	20
Proceeds from sale of stock through Employee Stock Purchase Plan	476	238
Purchase and retirement of common stock	(1,917)	(1,396)
Dividends paid	--	(32)
Payments on capital lease obligations	(387)	--
Payments on long-term debt	(89)	(10)
Net cash provided by financing activities	20,398	119
Effect of exchange rates on cash	(10)	(20)
Net increase (decrease) in cash and cash equivalents	3,466	(16,618)
CASH AND CASH EQUIVALENTS, beginning of period	22,117	17,598
CASH AND CASH EQUIVALENTS, end of period	$ 25,583	$ 980

</TABLE>

See accompanying notes to consolidated financial statements.

ITEM 1. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures usually found in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's 1997 annual report on Form 10-K. The accompanying consolidated financial statements reflect all adjustments, including normal recurring adjustments, which in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented. Operating results for the thirty-nine week period ended October 2, 1998 are not necessarily indicative of the results that may be expected for the year ending December 31, 1998.

NOTE 2. WORKERS' COMPENSATION

The Company provides workers' compensation insurance to its temporary workers and regular employees. For workers' compensation claims originating in the majority of states (the 43 non-monopolistic states), the Company has purchased a large-deductible insurance policy. Under terms of the policy, the Company's workers' compensation exposure is limited to a deductible amount per occurrence and a maximum aggregate stop-loss limit. Should any single occurrence exceed the deductible amount per occurrence, all losses beyond the deductible amount are paid by independent insurance companies unrelated to the Company. Similarly, should the total of paid losses related to any one year period exceed the maximum aggregate stop-loss limit for that year, all losses beyond the maximum aggregate stop-loss limit are paid by independent insurance companies unrelated to the Company. In 1997, the per occurrence deductible amount was $250,000 per claim, to an aggregate maximum of $11.60 per $100 of temporary worker payroll, or $18.8 million. For claims arising in 1998, the per occurrence deductible amount was increased to $350,000 and the maximum aggregate stop-loss limit was reduced to $10.41 per $100 of temporary worker payroll, or $20.5 million through October 2, 1998.

For claims arising in years prior to 1997, the Company has insured all losses beyond amounts reserved in its financial statements with independent insurance companies unrelated to the Company. The difference between the maximum aggregate stop-loss limit for claims arising in 1997 and the 39 weeks ended October 2, 1998 and the total of claims paid and reserved for in the Company's financial statements for the same periods is $2.0 million. This amount represents the maximum additional exposure, net of tax, to the Company before its maximum aggregate stop-loss limits are met for all periods before October 2, 1998.

The Company establishes its reserve for workers' compensation claims using actuarial estimates of the future cost of claims and related expenses that have been reported but not settled, and that have been incurred but not reported. Adjustments to the claims reserve are charged or credited to expense in the periods in which they occur. Included in the accompanying consolidated balance sheet as of October 2, 1998 and December 31, 1997, are workers' compensation claims reserves in the non-monopolistic states of $22.0 million and $12.9 million, respectively. The claims reserves were computed using a discount rate of 6.0% at October 2, 1998 and December 31, 1997.

Workers' compensation expense totaling $10.3 million and $6.7 million was recorded as a component of cost of services in each of the thirteen weeks ended October 2, 1998 and September 26, 1997, respectively. Workers' compensation expense totaling $22.6 million and $13.5 million was recorded as a component of cost of services in each of the thirty-nine weeks ended October 2, 1998 and September 26, 1997, respectively.

The Company is required to provide collateral in the amount of the maximum aggregate stop-loss limits, less claims paid to date. The Company provides approximately 50% of the required collateral in the form of a surety bond, and 50% in letters of credit. Accordingly, at October 2, 1998, $14.5 million of the collateral was satisfied with surety bonds and $12.6 million was satisfied with letters of credit.

For workers' compensation claims originating in Washington, Ohio, Nevada and West Virginia (the monopolistic states), and Canada and Puerto Rico, the Company pays workers' compensation insurance premiums as required by state administered programs. The insurance premiums are established by each jurisdiction, generally 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 October 2, 1998 and December 31, 1997, the Company recorded workers' compensation credit receivables of $1.4 million and $1.1 million and workers' compensation liabilities of $0.9 million and $0.6 million related to the monopolistic states.

The Company has established a risk management department at its corporate headquarters to manage its insurers, third party claims administrators, and medical service providers. To reduce wage-loss compensation claims, the Company employs claims coordinators throughout the United States. The claims coordinators manage the acceptance, processing and final resolution of claims and administer the Company's return to work program. Workers in the program are employed on customer assignments that require minimal physical exertion or within the Company in the local dispatch office. The Company has an on-line connection with its third party administrator that allows the claims coordinators to maintain visibility of all claims, manage their progress and generate required management information.

NOTE 3. RECENTLY ISSUED ACCOUNTING STANDARD

Certain pre-opening costs incurred to open new dispatch offices, including salaries, recruiting, testing, training, lease and other related costs, are capitalized and amortized over two years using the straight-line method. In March 1998, the Accounting Standards Executive Committee (the "AcSEC") issued Statement of Position 98-5, "Reporting on the Costs of Start-up Activities" ("the Statement"). The Statement establishes new rules for the financial reporting of start-up costs, and will require the Company to expense the cost of establishing new dispatch offices as incurred and write off, as a cumulative effect of adopting the Statement, any capitalized pre-opening costs in the first quarter of the year adopted. The Statement is effective for years beginning after December 31, 1998 and the Company will adopt it in the first quarter of 1999. The effect of adopting the Statement will be to recognize a non-operating expense, net of tax, of approximately $1.2 million, plus any additional pre-opening costs capitalized during the quarter ended December 31, 1998, net of amortization expense recognized during the fourth quarter.

NOTE 4. SUPPLEMENTAL CASH FLOW INFORMATION

<TABLE>

<CAPTION>

	(AMOUNTS IN THOUSANDS) THIRTY-NINE WEEKS ENDED	
	OCTOBER 2, 1998	SEPTEMBER 26, 1997
<S>	<C>	<C>
Cash paid during the period for:		
Interest.	$ 534	$ 7
Income taxes.	$3,850	$2,206
Non-cash investing and financing activities:		
Tax effect of disqualifying dispositions on options exercised.	$1,782	--
Preferred stock dividends accrued	$ 32	--
Contribution of common stock to 401(k) plan	$ 116	$ 81
Assets acquired with capital lease obligations.	$6,393	--

</TABLE>

NOTE 5. 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 share equivalents outstanding during the year. Common share equivalents for the Company include the dilutive effect of outstanding options, except where their inclusion would be anti-dilutive.

Basic and diluted earnings per share were calculated as follows (amounts in thousands, except per share data):

<TABLE>
<CAPTION>

	THIRTY-NINE WEEKS ENDED		THIRTEEN WEEKS ENDED	
	OCTOBER 2, 1998	SEPTEMBER 26, 1997	OCTOBER 2, 1998	SEPTEMBER 26, 1997
<S>	<C>	<C>	<C>	<C>
BASIC:				
Net income	$12,035	$ 4,486	$ 8,542	$ 3,901
Less preferred stock dividends	(32)	(32)	(11)	(11)
Income allocable to common shareholders	$12,003	$ 4,454	$ 8,531	$ 3,890
Weighted average shares outstanding. .	27,769	27,678	27,848	27,594
Net income per share	$ .43	$ .16	$ .31	$ .14
DILUTED:				
Income allocable to common shareholders	$12,003	$ 4,454	$ 8,531	$ 3,890
Weighted average shares outstanding. .	27,769	27,678	7,848	27,594
Plus options to purchase common stock at end of period	2,420	1,733	2,420	1,733
Less shares assumed repurchased. . . .	(1,453)	(1,463)	(1,359)	(1,231)
Weighted average shares outstanding including options.	28,736	27,948	28,909	28,096
Net income per share	$ .42	$ .16	$ .30	$ .14

</TABLE>

All share and per share data for 1998 and 1997 have been restated to reflect the Company's 3-for-2 stock splits which were effective on June 9, 1998 and October 24, 1997.

NOTE 6. COMPREHENSIVE INCOME

The Company's comprehensive income is as follows (amounts in thousands):

<TABLE>
<CAPTION>

	THIRTY-NINE WEEKS ENDED		THIRTEEN WEEKS ENDED	
	OCTOBER 2, 1998	SEPTEMBER 26, 1997	OCTOBER 2, 1998	SEPTEMBER 26, 1997
<S>	<C>	<C>	<C>	<C>
Net income	$12,035	$4,486	$8,542	$3,901
Other comprehensive income (expense) net of income taxes:				
Foreign currency translation . . .	(249)	(11)	(107)	(7)
Comprehensive income	$11,786	$4,475	$8,435	$3,894

</TABLE>

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

Certain matters discussed in this Form 10-Q, including statements about the Company's revenue growth, the demand for temporary labor, its plans for opening new offices, and its plans for installing new Cash Dispensing Machines ("CDM") are forward-looking statements within the meaning of the Private Litigation Reform Act of 1995. As such, these forward-looking statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, but are not limited to (1) the Company's ability to manage and continue its rapid growth, (2) economic conditions in its key market areas, and (3) other risks as set forth in Item 7 of the Company's Form 10-K for the year ended December 31, 1997. Although the Company believes the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that its expectations will be attained.

OVERVIEW

Labor Ready is the leading, national provider of temporary workers for manual labor jobs. The Company's customers are primarily in the construction, freight handling, warehousing, landscaping, light manufacturing, and other light industrial industries. The Company has rapidly grown from eight dispatch offices in 1991 to 485 dispatch offices at October 2, 1998. Substantially all of the growth in dispatch offices was achieved by opening Company-owned locations rather than through acquisitions or franchising. The Company's annual revenues have grown from approximately $6 million in 1991 to $335 million in 1997 and $429 million for the first thirty-nine weeks of 1998. This revenue growth has been generated both by opening new dispatch offices in markets throughout the U.S. and Canada and by continuing to increase sales at existing dispatch offices.

The Company opened 169 dispatch offices during the first thirty-nine weeks of 1998 and expects to open at least 200 additional dispatch offices in 1999. The Company expects the average cost of opening each new dispatch office in 1999 to be approximately $50,000, or approximately $37,000 of capital costs and $13,000 of preopening costs. The cost of opening a new dispatch office includes extensive management training, the installation of sophisticated computer and other office systems and a CDM. 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 generally bills its customers weekly. Consequently, the Company experiences negative cash flows from operating and investment activities during periods of high growth. The Company may continue to experience periods of negative cash flows from operating and investment activities while it rapidly opens dispatch offices and may require additional sources of working capital in order to continue to grow.

Approximately 20% to 25% of the Company's customers are construction and landscaping businesses, which are significantly affected by the weather. Construction and landscaping businesses and, to a lesser degree, other customer businesses typically increase activity in spring, summer and early fall months and decrease activity in late fall and winter months. Further, 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 customer mix diversifies. From time to time during peak

periods, the Company experiences shortages of available temporary workers. By October 2, 1998, the Company completed the installation of the CDMs in substantially all of its dispatch offices in the United States. The CDMs provide the Company's temporary workers with the option of receiving cash payment instead of a payroll check. The Company believes this additional feature is unique among its direct competitors and should increase the Company's ability to attract available temporary workers.

Revenue from services includes revenues earned on services provided by the Company's temporary workers and fees generated by the CDMs.

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, the use of higher pay rates to attract more skilled workers and the changing geographic mix of new and established, more mature markets. Although the Company has implemented policies and procedures to prevent unplanned increases in pay rates, and is no longer required to discount billing rates to attract new customers, significant continuing fluctuations in cost of services can be expected as the Company pursues further aggressive growth.

Selling, general and administrative expenses include the salaries and wages of the Company's operations and administrative personnel, dispatch office operating expenses, corporate office operating expenses and the cost of the CDM program.

Temporary workers assigned to customers remain Labor Ready employees. Labor Ready is responsible for the employee-related expenses of its temporary workers, including workers' compensation coverage, 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 its 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 not material during any period presented herein.

RESULTS OF OPERATIONS

The following table compares the operating results of the Company for the thirty-nine and thirteen weeks ended October 2, 1998 and September 26, 1997 (amounts in thousands):

<TABLE>
<CAPTION>

	THIRTY-NINE WEEKS ENDED			THIRTEEN WEEKS ENDED		
	OCT. 2, 1998	PERCENT CHANGE	SEPT. 26, 1997	OCT. 2, 1998	PERCENT CHANGE	SEPT. 26, 1997
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues from services	$428,879	85.6	$231,047	$191,851	88.6	$101,713
Cost of services	300,750	84.8	162,713	134,466	85.4	72,544
Gross profit	128,129	87.5	68,334	57,385	96.7	29,169
Selling, general and administrative expense. . . .	103,244	80.1	57,329	41,420	97.2	21,001
Depreciation and amortization.	4,543	42.3	3,192	1,440	29.8	1,109
Income from operations	20,342	160.4	7,813	14,525	105.8	7,059
Interest income (expense), net	(58)	(112.6)	460	(170)	(192.9)	183
Income before taxes on income.	20,284	145.2	8,273	14,355	98.2	7,242

Taxes on income.	8,249	117.8	3,787	5,813	74.0	3,341
Net income	$ 12,035	168.3	$ 4,486	$ 8,542	119.0	$ 3,901

</TABLE>

THIRTEEN WEEKS ENDED OCTOBER 2, 1998 COMPARED TO THIRTEEN WEEKS ENDED SEPTEMBER 26, 1997

DISPATCH OFFICES

The number of offices grew to 485 at October 2, 1998 from 481 locations at July 3, 1998, a net increase of 4 dispatch offices, or 0.1%. During the thirteen weeks ended September 26, 1997, the number of offices grew to 312 from 300 locations at June 30, 1997, a net increase of 12 dispatch offices, or 4.0%. The Company has met its target for 1998 dispatch office openings and does not expect to open a material number of offices during the balance of 1998.

REVENUES FROM SERVICES

The Company's revenues from services increased to $191.9 million for the thirteen weeks ended October 2, 1998, as compared to $101.7 million for the thirteen weeks ended September 26, 1997, an increase of $90.2 million or 88.7%. The increase in revenues is due primarily to the increase in the number of dispatch offices and continued increases in revenues from mature dispatch offices. Additionally, the Company opened more stores in the first three quarters of 1998 than in the same period in 1997, and the Company's management has become more skilled and efficient at opening stores. Included in revenues from services for the thirteen weeks ended October 2, 1998 and September 26, 1997 are CDM fees of $1.2 million and $0, respectively.

COST OF SERVICES

Cost of services increased to $134.5 million for the thirteen weeks ended October 2, 1998 as compared to $72.5 million for the thirteen weeks ended September 26, 1997, an increase of $62.0 million or 85.5%. This increase is directly related to the corresponding increase in revenues during the period. Cost of services was 70.1% of revenue in the third quarter of 1998 compared to 71.3% of revenue in the third quarter of 1997. Cost of services as a percentage of revenues decreased 1.2% as compared to the third quarter of 1997 primarily because the Company's workers' compensation claims experience continued to improve. Additionally, beginning in 1998, the Company began earning revenue from the CDMs, which is included in revenues from services in the accompanying consolidated financial statements.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE

Selling, general and administrative expenses were $41.4 million in the third quarter of 1998 as compared to $21.0 million in the third quarter of 1997, an increase of $20.4 million or 97.1%. The increase was largely due to the 88.7% increase in revenue from 1997 to 1998. Selling, general and administrative expenses were 21.6% of revenues in the third quarter of 1998 as compared to 20.6% of revenues in the third quarter of 1997. The increase in selling, general and administrative expenses as a percentage of revenue in the third quarter of 1998 is due mainly to increased customer acquisition costs as the Company conducted extensive direct mail and telephone solicitation campaigns and hired new sales representatives in the local dispatch offices. Included in selling, general and administrative expense for the thirteen weeks ended October 2, 1998 and September 26, 1997 are CDM related expenses of $.5 million and $0, respectively.

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 operating and administrative capabilities to accommodate anticipated revenue and dispatch office growth.

DEPRECIATION AND AMORTIZATION EXPENSE

Depreciation and amortization expense was $1.4 million in the third quarter of 1998 and $1.1 million in the third quarter of 1997, an increase of $0.3 million or 27.3%. The increase in depreciation and amortization expense is primarily the result of amortization of dispatch office pre-opening costs as the Company continued its rapid expansion by adding 114 stores in 1997 and 169 stores during the thirty-nine weeks ended October 2, 1998. Additionally, the Company added approximately $3.9 million in property and equipment during 1997 and $11.3 million in the first thirty-nine weeks of 1998. These additions consist primarily of the CDMs and computer equipment, software, and other equipment

needed for the new stores opened during the period. Included in depreciation and amortization expense for the thirteen weeks ended October 2, 1998 and September 26, 1997 are depreciation on CDMs of $.3 million and $0, respectively.

Certain pre-opening costs incurred to open new dispatch offices, including salaries, recruiting, testing, training, lease and other related costs, are capitalized and amortized over two years using the straight-line method. In March 1998, the Accounting Standards Executive Committee (the "AcSEC") issued Statement of Position 98-5, "Reporting on the Costs of Start-up Activities" ("the Statement"). The Statement establishes new rules for the financial reporting of start-up costs, and will require the Company to expense the cost of establishing new dispatch offices as incurred and write off, as a cumulative effect of adopting the Statement, any capitalized pre-opening costs in the first quarter of the year adopted. The Statement is effective for years beginning after December 31, 1998 and the Company will adopt it in the first quarter of 1999. The effect of adopting the Statement will be to recognize a non-operating expense, net of tax, of approximately $1.2 million, plus any additional pre-opening costs capitalized during the quarter ended December 31, 1998, net of amortization expense recognized during the fourth quarter.

INTEREST INCOME (EXPENSE), NET

The Company recorded net interest expense of $170,000 in the third quarter of 1998 as compared to net interest income of $183,000 in the third quarter of 1997. The increase in net interest expense was the result of lower invested cash balances in the third quarter of 1998 as compared to the third quarter of 1997. The decrease in invested cash balances is primarily the result of the Company's 88.7% growth in sales and the use of cash in the CDM program. Additionally, because the Company has recorded the acquisition of the CDMs as capital leases, the Company recorded interest expense of $135,220 in the third quarter of 1998 as compared to none in the third quarter of 1997.

Cash balances of approximately $17.9 million at October 2, 1998, held in the CDMs for payment of temporary worker payrolls, will continue to reduce cash available for investing. However, the Company expects to incur less interest expense in the fourth quarter of 1998 as the collection of receivables from the Company's busiest time of year will allow the Company to reduce or eliminate its borrowings on the revolving line of credit.

TAXES ON INCOME

Taxes on income increased to a provision of $5.8 million in the third quarter of 1998 from a provision of $3.3 million in the third quarter of 1997, an increase of $2.5 million or 75.8%. The increase in taxes was due to the increase in pretax income to $14.4 million in the third quarter of 1998 from pretax income of $7.2 million in the third quarter of 1997. The Company's effective tax rate was 40.5% in the third quarter of 1998 as compared to 46.1% in the third quarter of 1997. The decrease in the effective rate was primarily due to changes in estimated prior period amounts in the 1997 tax provision. The principal difference between the statutory federal income tax rate and the Company's effective income tax rate result from state income taxes and certain non-deductible expenses.

The Company had a net deferred tax asset of approximately $6.1 million at October 2, 1998, resulting primarily from workers' compensation claims 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

The Company reported net income of $8.5 million for the thirteen weeks ended October 2, 1998, as compared to net income of $3.9 million, for the thirteen weeks ended September 26, 1997, an increase of $4.6 million or 117.9%. As a percentage of revenues from services, net income increased to 4.5% for the third quarter of 1998, which compares to 3.8%, for the third quarter of 1997, an increase of .7%. This increase in net income is primarily the result of increased revenues and gross margin, offset by an increase in the Company's selling, general and administrative expenses as a percentage of sales in the third quarter of 1998.

THIRTY-NINE WEEKS ENDED OCTOBER 2, 1998 COMPARED TO THIRTY-NINE WEEKS ENDED SEPTEMBER 26, 1997

DISPATCH OFFICES

The Company opened 169 dispatch offices during the thirty-nine weeks ended October 2, 1998 as compared to 114 dispatch offices opened during the same period of the prior year. The total number of dispatch offices grew from 312 at September 26, 1997 to 485 at October 2, 1998, an increase of 55.4%. The Company has met its target for 1998 dispatch office openings and does not expect to open any material number of offices during the balance of 1998. The Company

estimates that its aggregate costs of opening 169 new dispatch offices in the first three quarters of 1998 was approximately $8.5 million, an average of approximately $50,000 per dispatch office, compared to aggregate costs of approximately $3.7 million, an average of approximately $33,000 per dispatch office, to open 114 new stores in the first three quarters of 1997. The increase in per-store costs in 1998 was primarily the result of the addition of a CDM to each dispatch office. Approximately $2.1 million of 1998 costs includes dispatch office pre-opening costs such as 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 $6.4 million includes computer systems and other equipment related costs, CDMs, and leasehold improvements.

REVENUES FROM SERVICES

The Company's revenues from services increased to $428.9 million for the thirty-nine weeks ended October 2, 1998, as compared to $231.0 million for the thirty-nine weeks ended September 26, 1997, an increase of $197.9 million or 85.7%. The increase in revenues is due primarily to the increase in the number of dispatch offices and continued increases in revenues from mature dispatch offices. Additionally, the Company opened more stores in the first three quarters of 1998 than in the same period in 1997, and the Company's management has become more skilled and efficient at opening stores. Included in revenues from services for the thirty-nine weeks ended October 2, 1998 and September 26, 1997 are CDM fees of $2.3 million and $0, respectively.

COST OF SERVICES

Cost of services increased to $300.8 million for the thirty-nine weeks ended October 2, 1998 as compared to $162.7 million for the thirty-nine weeks ended September 26, 1997, an increase of $138.1 million or 84.9%. This increase is directly related to the corresponding increase in revenues during the period. Cost of services was 70.1% of revenue in the thirty-nine weeks ended October 2, 1998 compared to 70.4% of revenue in the same period of 1997. Cost of services as a percentage of revenues decreased .3% as compared to the first half of 1997 primarily because the Company's workers' compensation claims experience continued to improve. Additionally, beginning in 1998, the Company began earning revenue from the CDMs, which is included in Revenue from Services in the accompanying consolidated financial statements.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE

Selling, general and administrative expenses were $103.2 million in the thirty-nine weeks ended October 2, 1998 as compared to $57.3 million in the same period of 1997, an increase of $45.9 million or 80.1%. The increase was largely due to the 85.7% increase in revenue from 1997 to 1998. Selling, general and administrative expenses were 24.1% of revenues in the thirty-nine weeks ended October 2, 1998 as compared to 24.8% of revenues in the thirty-nine weeks ended September 26, 1997. The decrease in selling, general and administrative expenses as a percentage of revenue in the first three quarters of 1998, is due mainly to economies of scale on fixed and semi-fixed dispatch office operating and corporate administrative costs. Included in selling, general and administrative expense for the thirty-nine weeks ended October 2, 1998 and September 26, 1997 are CDM related expenses of $.9 million and $0, respectively.

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 operating and administrative capabilities to accommodate anticipated revenue and dispatch office growth.

DEPRECIATION AND AMORTIZATION EXPENSE

Depreciation and amortization expense was $4.5 million in the first three quarters of 1998 and $3.2 million in the first three quarters of 1997, an increase of $1.3 million or 40.6%. The increase in depreciation and amortization expense is primarily the result of amortization of dispatch office pre-opening costs as the Company continued its rapid expansion by adding 114 stores in 1997 and 169 stores during the thirty-nine weeks ended October 2, 1998. Additionally, the Company added approximately $3.9 million in property and equipment during 1997 and $11.3 million in the first three quarters of 1998. These additions primarily include the CDMs and computer equipment, software, and other equipment needed for the new stores opened during the period. Included in depreciation and amortization expense for the thirty-nine weeks ended October 2, 1998 and September 26, 1997 are depreciation on CDMs of $.6 million and $0, respectively.

Certain pre-opening costs incurred to open new dispatch offices, including salaries, recruiting, testing, training, lease and other related costs, are capitalized and amortized over two years using the straight-line method. In March 1998, the Accounting Standards Executive Committee (the "AcSEC") issued Statement of Position 98-5, "Reporting on the Costs of Start-up Activities" ("the Statement"). The Statement establishes new rules for the financial reporting of start-up costs, and will require the Company to expense the cost of

establishing new dispatch offices as incurred and write off, as a cumulative effect of adopting the Statement, any capitalized pre-opening costs in the first quarter of the year adopted. The Statement is effective for years beginning after December 31, 1998 and the Company will adopt it in the first quarter of 1999. The effect of adopting the Statement will be to recognize a non-operating expense, net of tax, of approximately $1.2 million, plus any additional pre-opening costs capitalized during the quarter ended December 31, 1998, net of amortization expense recognized during the fourth quarter.

INTEREST INCOME (EXPENSE), NET

The Company recorded net interest expense of $58,000 in the thirty-nine weeks ended October 2, 1998 as compared to net interest income of $460,000 in the same period of 1997. The increase in net interest expense was the result of lower invested cash balances in the first three quarters of 1998 as compared to the first three quarters of 1997. The decrease in invested cash balances is primarily the result of the Company's 85.6% growth in sales and the use of cash in the CDM program. Additionally, because the Company has recorded the acquisition of the CDMs as capital leases, during the thirty-nine weeks ended October 2, 1998, the Company recorded interest expense of $320,530 as compared to none in the same period of 1997.

Cash balances of approximately $17.9 million at October 2, 1998, held in the CDMs for payment of temporary worker payrolls, will continue to reduce cash available for investing. However, the Company expects to incur less interest expense in the fourth quarter of 1998 as the collection of receivables from the Company's busiest time of year will allow the Company to reduce or eliminate its borrowings on the revolving line of credit.

TAXES ON INCOME

Taxes on income increased to a provision of $8.2 million in the first three quarters of 1998 from a provision of $3.8 million in the first three quarters of 1997, an increase of $4.4 million or 115.8%. The increase in taxes was due to the increase in pretax income to $20.3 million through the third quarter of 1998 from pretax income of $8.3 million through the third quarter of 1997. The Company's effective tax rate was 40.7% in the first three quarters of 1998 as compared to 45.8% in the same period of 1997. The decrease in the effective rate was primarily due to changes in estimated prior period amounts in the 1997 tax provision. The principal difference between the statutory federal income tax rate and the Company's effective income tax rate result from state income taxes and certain non-deductible expenses.

The Company had a net deferred tax asset of approximately $6.1 million at October 2, 1998, resulting primarily from workers' compensation claims 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

The Company reported net income of $12.0 million for the thirty-nine weeks ended October 2, 1998, as compared to net income of $4.5 million, for the thirty-nine weeks ended September 26, 1997, an increase of $7.5 million or 166.7%. As a percentage of revenues from services, net income increased to 2.8% for the first three quarters of 1998, which compares to 1.9%, for the first three quarters of 1997, an increase of 0.9%. This increase in net income is primarily the result of increased revenues and gross margin and economies of scale realized on selling, general and administrative expenses as a percentage of sales in the first three quarters of 1998.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was $10.3 million in the first three quarters of 1998 compared to $9.7 million in the first three quarters of 1997. The increase in cash used in operations in 1998 is largely due to the increase in accounts receivable as compared to the same period in 1997, offset by increases in net income, accounts payable, accrued wages and benefits and the workers' compensation claims reserve. Additionally, the increase in workers compensation deposits and credits was less in 1998 than in 1997 because the company was able to use letters of credit and a surety bond instead of cash as collateral for its workers compensation insurance carrier.

The Company used net cash in investing activities of $6.7 million in first three quarters of 1998, compared to $7.0 million in the first three quarters of 1997. The decrease in cash used in investing activities in 1998 as compared to 1997 is due primarily to the replacement of restricted cash held by the Company's captive insurance subsidiary with letters of credit in December 1997, eliminating the need to invest additional cash as capital in the captive. The Company's capital expenditures include dispatch office pre-opening costs, and property and equipment acquired other than through capital leases. Capital expenditures in the first three quarters of 1998 increased by $.4 million over

the first three quarters of 1997. This increase does not include the lease-purchase of the CDMs which are accounted for as a non-cash transaction.

Net cash provided by financing activities was $20.4 million in the first three quarters of 1998 and $0.1 million in the first three quarters of 1997. The increase in cash provided by financing activities in 1998 as compared to 1997 is due mainly to the Company's net borrowings on the line of credit and an increase in proceeds from options and warrants exercised.

In June 1998, the Company entered into a new line of credit agreement with U.S. Bank. The new agreement allows the company to borrow up to the lesser of $40 million or 80% of eligible accounts receivable, as defined by the bank, with interest at the lesser of the bank's prime rate (8.5% at October 2, 1998) or the London Inter-Bank Offering Rate (LIBOR) plus 1.44%. The line of credit is secured primarily by the Company's accounts receivable and is due in full on June 30, 2000. The line of credit agreement requires that the Company maintain certain minimum net worth and working capital amounts and ratios. The Company was in compliance with the requirements at October 2, 1998.

The Company has received a commitment letter from U.S. Bank to increase borrowings available on the line of credit to $60 million on terms and conditions substantially similar to those discussed above.

As discussed further in Note 2 to the consolidated financial statements, the Company has provided collateral to its workers' compensation insurance carrier in the form of irrevocable letters of credit totaling $12.6 million at October 2, 1998. The letters of credit bear annual fees of .75% and are supported by an equal amount of available borrowings on the line-of-credit. Accordingly, at October 2, 1998, borrowings of $21.1 million were outstanding on the line of credit, $12.6 million was committed by the letters of credit and $6.3 million was available for borrowing. The Company expects to increase the collateral required by its insurance carrier through the end of 1998, however, the Company is currently finalizing the renewal of its workers compensation insurance policy for 1999, and beginning in 1999, expects to be able to satisfy the collateral requirement entirely with surety bonds.

In December 1997, the Company entered into an agreement to lease the CDMs for installation in all of the Company's dispatch offices. The fair market value of the CDMs at inception of the lease was 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. During the thirty-nine weeks ended October 2, 1998, the Company installed CDMs in its dispatch offices throughout the United States. Accordingly, the Company recorded assets under capital lease and capital lease obligations totaling $6.4 million with future minimum lease payments over the next 5 years of approximately $1.3 million per year. The Company anticipates installing CDMs in all new offices opened in the United States during 1999.

Included in cash and cash equivalents at October 2, 1998, is approximately $17.9 million of cash which is located in the CDMs for payment of temporary worker payroll. The Company anticipates further increases in cash held in the CDMs during 1999 as it installs CDMs in new offices opened in the United States.

Historically, the Company has financed its operations through cash generated by external financing including term loans, lines-of-credit and a common stock offering completed in 1996. The principal use of cash is to finance the growth in receivables, fund the cost of opening new dispatch offices and to fund the initial deposit of cash into newly installed CDMs. 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.

INFORMATION PROCESSING SYSTEMS AND THE YEAR 2000

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 information processing systems and technology embedded within its information processing equipment and believes them to be substantially year 2000 compliant.

Management has not yet completed its assessment of the systems of third parties with which it deals. The Company is currently conducting a survey of its largest vendors and customers in order to assess the readiness of these key third parties with which it deals. This project is not expected to require significant additional costs to complete because it can be adequately managed with existing staffing within the Company's MIS department. If the Company

determines that any of these third parties are unable to adequately address year 2000 issues, the Company believes that alternatives could be found before the year 2000.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS:
The following exhibits are being filed as a part of this Report:

EXHIBIT NO.	DESCRIPTION
10.11	Excess Bond to Secure Premium and Deductible Obligations between between Labor Ready, Inc., Travelers Casualty and Surety Company of America, Mutual Indemnity (U.S.) Ltd., and Legion Insurance Company, dated September 1, 1998.
27	Financial Data Schedules as of October 2, 1998 and September 26, 1997 and for each of the thirty-nine week periods then ended.

(b) REPORTS ON FORM 8-K
None.

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.

REGISTRANT: LABOR READY, INC.

By: /s/ Glenn A. Welstad — November 13, 1998

Glenn A. Welstad — Date
Chairman of the Board, Chief Executive Officer and President

By:/s/ Joseph P. Sambataro, Jr. — November 13, 1998

Joseph P. Sambataro, Jr. — Date
Executive Vice President,
Chief Financial Officer, Treasurer
and Assistant Secretary

EXCESS BOND TO SECURE PREMIUM AND DEDUCTIBLE OBLIGATIONS

Bond Number: 19 S 101180112 BCM

KNOW ALL MEN BY THESE PRESENTS:

That Labor Ready, Inc., as principal ("Principal") and Travelers Casualty and Surety Company of America as surety ("Surety"), are held and firmly bound unto Mutual Indemnity (U.S.) Ltd., Legion Insurance Company and each of its affiliates and subsidiaries, as obligee (herein collectively and individually referred to as "Obligee") for the payment of the Obligations (hereafter defined), up to the maximum penal sum of Fourteen Million Five Hundred Thousand and no/100 dollars ($14,500,000.00) lawful money of the United States to payment of which sum, Principal and Surety hereby bind themselves, their successors and assigns, jointly and severally, firmly by these presents.

WHEREAS. Obligee has issued certain insurance policies on behalf of the Principal and has entered into certain other agreements with the Principal which are described on Exhibit A hereto and as may be amended and/or renewed from time to time (herein collectively referred to as the "Agreement(s)'). and:

WHEREAS, the Obligee requires security for the Principal's Obligations to Obligee under each of the Agreements ("Obligations").

WHEREAS, the Obligee currently holds, or will hold, security for the Obligations ("Underlying Security") and now desires "excess" security.

WHEREAS. such excess security will not be liquidated until all other forms of Underlying Security for the Obligations have been liquidated.

NOW, THEREFORE. if and when the Obligations shall be fully and finally paid and satisfied this Excess Bond shall be null and void; otherwise this Excess Bond shall remain in full force and effect and Principal and Surety in any event agree as follows:

1) Within ten (10) business days of Surety's receipt of a demand for payment under this Excess Bond ('Demand"), Surety shall pay to the Obligee the amount of such Demand. The Obligee's Demand to the Surety of the amount due. either as security or for payment or for reimbursement of Obligations pursuant to the Agreement(s), shall be absolute proof of the existence and extent of the liability of the Principal and the Surety to the Obligee hereunder. The Obligee may present one or more Demands at any time in its sole discretion, provided however, Surety shall not be obligated to pay an aggregate amount in excess of the penal sum of the Excess Bond.

2) In the event that Obligee shall demand either a portion of the penal sum of the Excess Bond or the entire penal sum of the Excess Bond (less any previous amounts paid to Obligee under the Excess Bond) under a Demand, Obligee shall hold all funds ("Excess Bond Collateral") received as security for the Obligations and shall apply such Excess Bond Collateral to the Obligations from time to time in its sole discretion; provided, however, that the Obligee shall not apply such Excess Bond Collateral to the Obligations until the full amount of all Underlying Security has been applied to the Obligations. At such time as Obligee determines in its sole discretion that all of the Obligations are fully and finally paid and such payment is not subject to avoidance or other turnover, Obligee shall return to the Surety the unapplied portion of the Excess Bond Collateral. The Surety, whether in its capacity as surety or subrogee of the Principal, waives, to the fullest extent permitted by applicable law each and every right which it may have to contest Obligee's computation of the Obligations or the application of the Excess Bond Collateral by the Obligee to the Obligations, and waives, to the fullest extent permitted by applicable law, each and every right which it may have to seek reimbursement, restitution or recovery of any Excess Bond Collateral. Obligee shall not be required to (i) segregate Excess Bond Collateral from its general funds, (ii) hold or invest Excess Bond Collateral in an interest-bearing or income-producing investment or (iii) account to Surety for interest or income in the event the same would be otherwise attributable to Excess Bond Collateral. The Principal shall not at any time have any rights or property interests in this Excess Bond, the Excess Bond Collateral or other proceeds of this Excess Bond.

3) Failure to pay or reimburse the Obligee as herein provided shall cause the Surety to be additionally liable for any and all reasonable costs and expenses, including attorney's fees and interest, incurred by the Obligee in enforcing this Excess Bond, such liability to be in addition to the bond penalty.

4) Surety's obligations hereunder shall not be affected by (i) any matter or proceeding arising in connection with any modification, limitation, discharge, assumption, or reinstatement with respect to any Agreements or Obligations. (ii) any modification of or amendment to any Agreements or Obligations without Surety's consent or prior notification provided that the penal sum of the Excess

Bond may not be increased without the consent of Surety; however failure to give such consent will not prevent Obligee from drawing up to the full amount of the Excess Bond (less any previous amounts paid to Obligee under the Excess Bond) either as security or for payment or for reimbursement under the Agreements, or (iii) any other circumstances which might otherwise constitute a legal or equitable discharge or defense for Surety.

5) This Excess Bond shall become effective September 1, 1998 and shall remain in full force and effect thereafter for a period of one year and will automatically extend for additional one year periods from the expiry date hereof, or any future expiration date, unless the Surety provides to the Obligee not less than ninety (90) days advance written notice of its intent not to renew this Excess Bond or unless this Excess Bond is earlier canceled pursuant to the following. This Excess Bond may be canceled at any time upon ninety (90) days advance written notice from Surety to Obligee, via overnight express mail. It is understood and agreed that the Obligee may recover the full amount of the Excess Bond (less any previous amounts paid to Obligee under the Excess Bond) if the Surety cancels or nonrenews the Excess Bond and, within thirty (30) days prior to the effective date of cancellation or nonrenewal, the Obligee has not received collateral acceptable to it to replace the Excess Bond.

6) Any notice, Demand or request for payment, given or made under this Excess Bond shall be made in writing and shall be given by a personal delivery or expedited delivery service, postage pre-paid, addressed to the parties at the addresses specified below or to such other address as shall have been specified by such parties to each of the parties to the transactions contemplated hereby. Such notice, Demand or request for payment shall be accompanied by the Obligee's written certification that: "All other bonds, letters of credit and other similar instruments required as security for Obligations under Agreements described in Exhibit A of Travelers bond number 19 S 101180112 BCM have been drawn upon and all funds thereunder have been received by Mutual Indemnity (U.S.) Ltd., Legion Insurance Company and each of its affiliates and subsidiaries as Obligee", together with satisfactory written proof of actual receipt of said funds by the Obligee.

If to the Surety:

Travelers Casualty and Surety Company of America
One Tower Square, 3PB
Hartford, CT 06183-9062
Attention: Bond Claim

If to Obligee:

Mutual Indemnity (U.S.) Ltd.
44 Church Street
P.O. Box HM 2064
Hamilton HM HX
Bermuda
Attention: Neville Bilimoria, Vice President

If to the Principal:

Labor Ready, Inc.
1016 South 28th Street
Tacoma, Washington 98402
Attention: Glen A. Welstad. Chairman

7) In no event shall the Surety be liable in the aggregate to any, some, or all entities listed as Obligee for more than the penalty of this bond, nor shall it be liable except for a single payment for each single Demand. At the Surety's election, any payment due to any entity or entities listed as Obligee may be made by its draft issued jointly to all.

Notice given under this Excess Bond shall be effective only when received.

In WITNESS THEREOF. the said Principal and Surety have signed and sealed this instrument on this 7th day of August, 1998.

By /s/ Joseph P. Sambataro, Jr.

Principal

By /s/ Lora L. Cottrell

Attorney-in-fact

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA
TRAVELERS CASUALTY AND SURETY COMPANY
FARMINGTON CASUALTY COMPANY
HARTFORD, CONNECTICUT 06183-9062
TRAVELERS CASUALTY AND SURETY COMPANY OF ILLINOIS
LISLE, ILLINOIS 60532

POWER OF ATTORNEY AND CERTIFICATE OF AUTHORITY OF ATTORNEY(S)-IN-FACT

KNOW ALL PERSONS BY THESE PRESENTS, THAT TRAVELERS CASUALTY AND SURETY COMPANY

OF AMERICA. TRAVELERS CASUALTY AND SURETY COMPANY and FARMINGTON CASUALTY COMPANY, corporations duly organized under the laws of the State of Connecticut, and having their principal offices in the City of Hartford, County of Hartford, State of Connecticut, and TRAVELERS CASUALTY AND SURETY COMPANY OF ILLINOIS, a corporation duly organized under the laws of the State of Illinois, and having its principal office in the City of Lisle, County of DuPage. State of Illinois, (hereinafter the "Companies") hath made. constituted and appointed, and do by these presents make, constitute and appoint: Richard C. Schultz, Lora L. Cottrell, P.J. McKinnis, Nora O. Garza, Mary Bescher, Lisa D. Kadel, Mary P. Demos, Brian Sandy, Kip R. McBean, Mary E. Davis, Neil L. Randerson, Joan M. Kelley, Kristen C. Fox or George J. Bowdouris * *

of Englewood, CO, their true and lawful Attorney(s)-in-Fact, with full power and authority hereby conferred to sign, execute and acknowledge, at any place within the United States, or, if the following line be filled in, within the area there designated the following instrument(s):

by his/her sole signature and act, any and all bonds, recognizances, contracts of indemnity, and other writings obligatory in the nature of a bond, recognizance, or conditional undertaking and any and all consents incident thereto

and to bind the Companies, thereby as fully and to the same extent as if the same were signed by the duly authorized officers of the Companies, and all the acts of said Attorney(s)-in-Fact, pursuant to the authority herein given, are hereby ratified and confirmed.

This appointment is made under and by authority of the following Standing Resolutions of said Companies, which Resolutions are now in full force and effect:

VOTED: That the Chairman, the President, any Vice Chairman, any Executive Vice President, any Senior Vice President, any Vice President, any Second Vice President, the Treasurer, any Assistant Treasurer, the Corporate Secretary or any Assistant Secretary may appoint Attorneys-in-Fact and Agents to act for and on behalf of the company and may give such appointee such authority as his or her certificate of authority may prescribe to sign with the Company's name and seal with the Company's seal bonds, recognizances, contracts of indemnity, and other writings obligatory in the nature of a bond, recognizance, or conditional undertaking, and any of said officers or the Board of Directors at any tune may remove any such appointee and revoke the power given him or her.

VOTED: That the Chairman, the President, any Vice Chairman, any Executive Vice President, any Senior Vice President or any Vice President may delegate all or any part of the foregoing authority to one or more officers or employees of this Company, provided that each such delegation is in writing and a copy thereof is filed in the office of the Secretary.

VOTED; That any bond, recognizance, contract of indemnity, or writing obligatory in the nature of a bond, recognizance, or conditional undertaking shall be valid and binding upon the Company when (a) signed by the President, any Vice Chairman, any Executive Vice President, any Senior Vice President or any Vice President, any Second Vice President. the Treasurer, any Assistant Treasurer, the Corporate Secretary or any Assistant Secretary and duly attested and sealed with the Company's seal by a Secretary' or Assistant Secretary, or (b) duly executed (under seal, if required) by one or more Attorneys-in-Fact and Agents pursuant to the power prescribed in his or her certificate or their certificates of authority or by one or more Company officers pursuant to a written delegation of authority.

This Power of Attorney and Certificate of Authority is signed and sealed by facsimile under and by authority of the following Standing Resolution voted by the Boards of Directors of TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY, FARMINGTON CASUALTY COMPANY and TRAVELERS CASUALTY AND SURETY COMPANY OF ILLINOIS, which Resolution is now in full force and effect:

VOTED: That the signature of each of the following officers: President, any Executive Vice President, any Senior Vice President, any Vice President, any Assistant Vice President, any Secretary, any Assistant Secretary, and the seal of the Company may be affixed by facsimile to any power of attorney or to any certificate relating thereto appointing Resident Vice Presidents, Resident Assistant Secretaries or Attorneys-in-Fact for purposes only of executing and attesting bonds and undertakings and other writings obligatory in the nature thereof, and any such power of attorney or certificate bearing such facsimile signature or facsimile seal shall be valid and binding upon the Company and any such power so executed and certified by such facsimile signature and facsimile seal shall be valid and binding upon the Company in the future with respect to any bond or undertaking to which it is attached.

IN WITNESS WHEREOF, TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY, FARMINGTON CASUALTY COMPANY and TRAVELERS CASUALTY AND SURETY COMPANY OF ILLINOIS have caused this instrument to be signed by their

Senior Vice President, and their corporate seals to be hereto affixed this 22nd day of April, 1998.

STATE OF CONNECTICUT } SS. Hartford
COUNTY OF HARTFORD

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA
TRAVELERS CASUALTY AND SURETY COMPANY
FARMINGTON CASUALTY COMPANY
TRAVELERS CASUALTY AND SURETY COMPANY OF ILLINOIS

By/s/George W. Thompson

George W. Thompson
Senior Vice President

On this 22nd day of April, 1998 before me personally came GEORGE W. THOMPSON to me known, who, being by me duly sworn, did depose and say: that he/she is Senior Vice President of TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY, FARMINGTON CASUALTY COMPANY and TRAVELERS CASUALTY AND SURETY COMPANY OF ILLINOIS, the corporations described in and which executed the above instrument; that he/she knows the seals of said corporations; that the seals affixed to the said instrument are such corporate seals; and that he/she executed the said instrument on behalf of the corporations by authority of his/her office under the Standing Resolutions thereof.

/s/ Marie C. Tetreault

My commission expires June 30. 2001 Notary Public
Marie C. Tetreault

CERTIFICATE

I, the undersigned, Assistant Secretary of TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA, TRAVELERS CASUALTY AND SURETY COMPANY and FARMINGTON CASUALTY COMPANY, stock corporations of the State of Connecticut, and TRAVELERS CASUALTY AND SURETY COMPANY OF ILLINOIS, stock corporation of the State of Illinois, DO HEREBY CERTIFY that the foregoing and attached Power of Attorney and Certificate of Authority remains in full force and has not been revoked; and furthermore. that the Standing Resolutions of the Boards of Directors, as set forth in the Certificate of Authority, are now in force.

Signed and Sealed at the Home Office of the Company, in the City of Hartford, State of Connecticut.
Dated this 7th day of August, 1998.

By /s/ Rose Gonsoulin

Rose Gonsoulin
Assistant Secretary, Bond

EXHIBIT A TO EXCESS BOND NUMBER 19 S 101180112 BCM

"Agreement(s)" shall be defined as those Agreements listed below, including any modifications that may be made from time to time, and the insurance policies described therein:

1. Agreement(s): REINSURANCE AGREEMENT between MUTUAL INDEMNITY (U.S.) LIMITED and LABOR READY ASSURANCE CO., dated January 1, 1997 and January 1, 1998.

2. Agreement(s): MUTUAL INDEMNITY (U.S.) LTD. WORKERS' COMPENSATION DEDUCTIBLE REIMBURSEMENT COVERAGE issued to LABOR READY, INC., POLICY NO. UST2 190-97 dated January 1, 1997, UST2190-98 dated January 1.1998.

3. Agreement(s): LEGION INSURANCE COMPANY WORKERS' COMPENSATION/EMPLOYERS" LIABILITY POLICY issued to LABOR READY. INC., POLICY NO. WC1 0575684 dated January 1, 1998, WC1 0265679 dated January 1. 1997, XS1 01796661 dated January 1, 1997.

4. Agreement(s): Date:

5. Agreement(s): Date:

6. Agreement(s): Date:

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE OCTOBER
2, 1998 CONSOLIDATED FINANCIAL STATEMENTS INCLUDED IN THE COMPANY'S FORM 10-Q
AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FORM 10-Q.
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SEPTEMBER 26, 1997 CONSOLIDATED FINANCIAL STATEMENTS INCLUDED IN THE COMPANY'S
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<F1>Adjusted for the Company's 3 for 2 stock splits effective 6/9/98
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