

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended **June 29, 2001**

OR

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

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

Commission File Number **0-23828**

**Labor Ready, Inc.**

---

(Exact Name of Registrant as specified in its charter)

**Washington**

---

(State of Incorporation)

**1015 A Street, Tacoma, Washington**

---

(Address of Principal Executive Offices)

**91-1287341**

---

(Employer Identification No.)

**98402**

---

(Zip Code)

**(253) 383-9101**

---

(Registrant's Telephone Number)

**1016 S. 28<sup>th</sup> Street, Tacoma, Washington**

---

(Registrant's Former Address)

**98409**

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  No

---

As of August 3, 2001, the Registrant had 40,432,227 shares of Common Stock outstanding.

---

DOCUMENTS INCORPORATED BY REFERENCE: **None.**

---

---

**LABOR READY, INC.**

**INDEX**

**Part I. Financial Information**

Item 1.      Consolidated Balance Sheets  
June 29, 2001 and December 31, 2000

[Consolidated Statements of Income](#)  
[Thirteen and Twenty-Six Weeks Ended](#)  
[June 29, 2001 and June 30, 2000](#)

[Consolidated Statements of Cash Flows](#)  
[Twenty-Six Weeks Ended](#)  
[June 29, 2001 and June 30, 2000](#)

[Condensed Consolidated Statement of Shareholders' Equity](#)  
[June 29, 2001](#)

[Notes to Consolidated Financial Statements](#)

[Item 2.](#)      [Management's Discussion and Analysis of](#)  
[Financial Condition and Results of Operations](#)

[Item 3.](#)      [Qualitative and Quantitative Disclosures](#)  
[About Market Risk](#)

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

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

[Item 5.](#)      [Other Information](#)

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

[Signatures](#)

## **Part I. Financial Information**

### **LABOR READY, INC.** **CONSOLIDATED BALANCE SHEETS** **In Thousands**

#### **ASSETS**

	<b>(Unaudited)</b>		<b>December 31,</b>
	<b>June 29,</b>		<b>2000</b>
	<b>2001</b>		
	<hr/>		<hr/>
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 34,780	\$	36,048
Accounts receivable	2,543		100,678
Accounts receivable pledged under securitization agreement	90,834		--
Allowance for doubtful accounts	(7,320)		(7,661)
Workers' compensation deposits and credits	4,147		4,497
Prepaid expenses and other	7,148		6,878
Income tax receivable	252		195
Deferred income taxes	10,382		9,771
	<hr/>		<hr/>
Total current assets	142,766		150,406
	<hr/>		<hr/>
<b>PROPERTY AND EQUIPMENT:</b>			
Buildings and land	17,913		7,057
Computers and software	31,376		29,912
Cash dispensing machines	13,903		13,790
Furniture and equipment	1,729		1,620
Construction in progress	--		8,850
	<hr/>		<hr/>
	64,921		61,229
Less accumulated depreciation	21,876		17,827

Property and equipment, net	43,045	43,402
<b>OTHER ASSETS:</b>		
Restricted cash	2,926	1,696
Deferred income taxes	10,218	9,521
Other assets	1,022	398
Total other assets	14,166	11,615
Total assets	\$ 199,977	\$ 205,423

See accompanying notes to consolidated financial statements.

**LABOR READY, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**In Thousands (Except Per Share Amounts)**  
**LIABILITIES AND SHAREHOLDERS' EQUITY**

	(Unaudited) June 29, 2001	December 31, 2000
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 15,919	\$ 18,683
Accrued wages and benefits	11,812	10,201
Current portion of workers' compensation claims reserve	19,996	19,452
Current maturities of long-term debt	1,766	7,911
Total current liabilities	49,493	56,247
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt, less current maturities	5,948	6,843
Workers' compensation claims reserve	34,819	30,229
Total long-term liabilities	40,767	37,072
Total liabilities	90,260	93,319
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock, no par value, 100,000 shares authorized; 40,371 and 40,941 shares issued and outstanding	49,912	52,074
Cumulative foreign currency translation adjustment	(343)	(250)
Retained earnings	60,148	60,280
Total shareholders' equity	109,717	112,104
Total liabilities and shareholders' equity	\$ 199,977	\$ 205,423

See accompanying notes to consolidated financial statements.

**LABOR READY, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**In Thousands (Except Per Share Amounts)**

(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2001	June 30, 2000	June 29, 2001	June 30, 2000
Revenues from services	\$ 240,004	\$ 242,080	\$ 442,740	\$ 435,530
Cost of services	168,555	167,720	310,917	302,456
Gross profit	71,449	74,360	131,823	133,074
Selling, general and administrative expenses	65,198	68,928	128,363	129,695
Depreciation and amortization	2,128	1,811	4,196	3,576
Income (loss) from operations	4,123	3,621	(736)	(197)
Interest and other income (expense), net	520	(178)	604	(170)
Income (loss) before taxes (benefit)	4,643	3,443	(132)	(367)
Taxes (benefit) on income (loss)	1,773	1,272	--	(219)
Net income (loss)	\$ 2,870	\$ 2,171	\$ (132)	\$ (148)
Basic net income per common share	\$ 0.07	\$ 0.05	\$ 0.00	\$ 0.00
Diluted net income per common share	0.07	0.05	0.00	0.00
Weighted average shares outstanding:				
Basic	40,508	42,779	40,624	42,799
Diluted	40,559	43,093	40,624	42,799

See accompanying notes to consolidated financial statements.

**LABOR READY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

In Thousands

(Unaudited)

	Twenty-Six Weeks Ended	
	June 29, 2001	June 30, 2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (132)	\$ (148)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,188	3,577
Provision for doubtful accounts	8,908	7,039
Deferred income taxes	(1,321)	(664)
Gain on disposal of property and equipment	(763)	--
Changes in operating assets and liabilities		
Accounts receivable	(2,066)	(10,726)
Workers' compensation deposits and credits	350	458
Prepaid expenses and other	(283)	2,185
Accounts payable	(1,820)	3,084
Accrued wages and benefits	1,618	2,154
Income taxes	(75)	(131)
Workers' compensation claims reserve	5,136	4,139

Net cash provided by operating activities	13,740	10,967
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(4,916)	(6,139)
Restricted cash	(1,230)	(815)
Intangible assets and other	(632)	(453)
Proceeds from sale of property and equipment	1,809	--
Net cash used in investing activities	(4,969)	(7,407)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds (payments) on short term borrowing	(879)	3,496
Proceeds from options and warrants exercised	24	646
Proceeds from sale of stock through employee benefit plans	787	859
Purchase and retirement of common stock	(2,973)	(2,068)
Payments on long-term debt	(7,040)	(598)
Preferred stock dividends paid	--	(43)
Net cash provided by (used in) financing activities	(10,081)	2,292
Effect of exchange rates on cash	42	(65)
Net increase (decrease) in cash and cash equivalents	(1,268)	5,787
CASH AND CASH EQUIVALENTS, beginning of period	36,048	16,845
CASH AND CASH EQUIVALENTS, end of period	\$ 34,780	\$ 22,632

See accompanying notes to consolidated financial statements.

**LABOR READY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(In Thousands)  
(Unaudited)

<b>Common stock</b>	
Balance at December 31, 2000	52,074
Common stock issued on the exercise of options and warrants	24
Common stock issued through employee benefit plans	787
Common stock repurchased	(2,973)
Balance at June 29, 2001	49,912
<b>Cumulative translation adjustment</b>	
Balance at December 31, 2000	(250)
Foreign currency translation	(93)
Balance at June 29, 2001	(343)
<b>Retained earnings</b>	
Balance at December 31, 2000	60,280
Net income	(132)
Balance at June 29, 2001	60,148
Total Shareholders' equity	\$ 109,717

See accompanying notes to consolidated financial statements.

**Item 1. Notes to Consolidated Financial Statements**

**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 our 2000 annual report on Form 10-K. Certain amounts in the consolidated balance sheet at December 31, 2000 have been reclassified to conform to the 2001 presentation. 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 twenty-six week period ended June 29, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

## NEW ACCOUNTING STANDARDS

In June 2001 the Financial Accounting Standards Board approved Statement of Financial Accounting Standard ("SFAS") No. 141, "Business Combinations" ("SFAS 141"), and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 prospectively prohibits the pooling of interest method of accounting for business combinations initiated after June 30, 2001. SFAS 142 requires companies to cease amortizing goodwill that existed at June 30, 2001. The amortization of existing goodwill will cease on December 31, 2001. Any goodwill resulting from acquisitions completed after June 30, 2001 will not be amortized. SFAS 142 also establishes a new method of testing goodwill for impairment on an annual basis or on an interim basis if an event occurs or circumstances change that would reduce the fair value of a reporting unit below its carrying value. We are in the process of evaluating the financial statement impact of adoption of SFAS 142.

## WORKERS' COMPENSATION

We provide workers' compensation insurance to our temporary workers and regular employees. For workers' compensation claims originating in the majority of states, we have purchased a deductible insurance policy. Under terms of the policy, our workers' compensation exposure is limited to a \$350,000 deductible amount per occurrence and a maximum aggregate stop-loss limit. Should any single occurrence exceed the deductible amount per occurrence, all losses and expenses beyond the deductible amount are to be paid by independent insurance companies unrelated to us. 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 us.

We establish a reserve for workers' compensation claims using actuarial estimates of the future cost of claims and related expenses that have been reported but not settled, and that have been incurred but not reported. Adjustments to the claims reserve are charged or credited to expense in the periods in which they occur. Included in the accompanying consolidated balance sheets as of June 29, 2001 and December 31, 2000 are workers' compensation claims reserves of \$54.8 million and \$49.7 million. The claims reserves were computed using a discount rate of 6.0%.

Workers' compensation expense totaling \$15.3 million and \$12.3 million was recorded as a component of cost of services in each of the thirteen weeks ended June 29, 2001 and June 30, 2000. Workers' compensation expense totaling \$28.0 million and \$22.3 million was recorded as a component of cost of services in each of the twenty-six weeks ended June 29, 2001 and June 30, 2000.

For workers' compensation claims originating in Washington, Ohio, West Virginia, Canada and Puerto Rico, we pay workers' compensation insurance premiums as required by government administered programs. The insurance premiums are established by each jurisdiction, generally based upon the job classification of the insured workers and our previous claims experience.

For workers' compensation claims originating in the United Kingdom, we have purchased an employers' liability insurance policy. This policy carries a 10 million GBP limit.

## LONG-TERM DEBT

In February of 2001, we paid the \$6.2 million outstanding balance, as of December 31, 2000, on the secured credit facility from U.S. Bank for our new corporate headquarters and administrative offices.

## EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income (loss), less preferred stock dividends, by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income (loss), less preferred stock dividends, by the weighted average number of common shares and common share equivalents outstanding during the period. Common share equivalents 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 amounts):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2001	June 30, 2000	June 29, 2001	June 30, 2000
<b>Basic:</b>				
Net income (loss)	\$ 2,870	\$ 2,171	\$ (132)	\$ (148)
Less preferred stock dividends	--	(11)	--	(21)
Income (loss) allocable to common shareholders	2,870	2,160	(132)	(169)
Weighted average shares outstanding	40,508	42,779	40,624	42,799
Net income per share	\$ 0.07	\$ 0.05	\$ 0.00	\$ 0.00
<b>Diluted:</b>				
Income (loss) allocable to common shareholders	\$ 2,870	\$ 2,160	\$ (132)	\$ (169)
Weighted average shares outstanding	40,508	42,779	40,624	42,799

Plus options to purchase common stock outstanding at end of period	5,965	3,345	--	--
Less shares assumed repurchased	(5,914)	(3,031)	--	--
Weighted average shares outstanding, including dilutive effect of options	40,559	43,093	40,624	42,799
Net income per share	\$ 0.07	\$ 0.05	\$ 0.00	\$ 0.00

## SUPPLEMENTAL CASH FLOW INFORMATION

	(Amounts in Thousands)	
	June 29, 2001	June 30, 2000
Cash paid during the period for:		
Interest	\$ 696	\$ 455
Income taxes	\$ 1,597	\$ 424
Non-cash investing and financing activities:		
Tax benefits related to stock options	\$ --	\$ 439
Assets acquired with capital lease obligations	\$ --	\$ 1,868
Accrued preferred stock dividends	\$ --	\$ 21

## INTEREST AND OTHER INCOME (EXPENSE)

In June of 2001, we sold certain real property in Tacoma, Washington, which resulted in a realized pretax gain of \$834,000. This gain was partially offset by interest expense.

## ACCOUNTS RECEIVABLE SECURITIZATION

In March 2001, we entered into a letter of credit facility and an accounts receivable securitization facility with certain unaffiliated financial institutions (the "New Creditors"). Subject to certain availability requirements, these facilities provide a maximum combined borrowing capacity of \$100 million, all of which may be utilized as a revolving line of credit and up to \$80 million of which may be used to obtain letters of credit (but any usage for letters of credit will reduce the amount available for use as loans). Interest on advances under the line of credit facility is generally based upon the New Creditor's commercial paper rate, and fees for the letter of credit portion of the facility are based upon the New Creditor's cost of issuance. The line of credit facility is secured by eligible accounts receivable of Labor Ready, Inc. and certain of its subsidiaries, which are transferred by them to Labor Ready Funding Corporation, ("LRF") a wholly owned, special purpose, bankruptcy remote subsidiary of Labor Ready, Inc. and pledged to the New Creditors on an ongoing basis. The letter of credit facility is secured by Labor Ready, Inc.'s pledge of all of the outstanding capital stock of LRF. Additionally, Labor Ready, Inc. acts as a servicer for LRF in the collection and administration of the pledged accounts receivable.

At June 29, 2001, \$71.7 million was available under this facility, of which we have committed \$48.9 million for letters of credit to our insurance carriers, leaving \$22.8 million available for future borrowing. We have committed an additional \$5.6 million for letters of credit to our insurance carriers, which will be issued on September 1, 2001.

## 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 our revenue growth, the demand for temporary labor and our plans for opening new offices, 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 by us 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) our ability to manage and continue our growth, (2) economic conditions in our key market areas, and (3) other risks as set forth in the Form 10-K for the year ended December 31, 2000 that we filed with the Securities and Exchange Commission. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be attained.

### Overview

Labor Ready is the nation's leading provider of temporary manual labor. Our customers are primarily in the freight handling, warehousing, landscaping, construction, light manufacturing, and other light industrial businesses. We have grown from eight dispatch offices in 1991 to 812 dispatch offices at June 29, 2001. Substantially all of the growth in dispatch offices was achieved by opening Company-owned locations rather than through acquisitions or franchising. Our annual revenues have grown from approximately \$6 million in 1991 to \$977 million in 2000, and were \$443 million for the twenty-six weeks ended June 29, 2001. This revenue growth has been generated by opening new dispatch offices in markets throughout the U.S., Canada, United Kingdom and Puerto Rico.

We opened 30 dispatch offices during the first twenty-six weeks of 2001 and closed 34 offices. The average cost of opening each new dispatch office in 2001 decreased to approximately \$30,000 as compared to approximately \$45,000 in 2000, due primarily to our redistribution of previously purchased Cash Dispensing Machines ("CDM") from our closed branches. Approximately \$13,000 of this cost is for salaries, recruiting, testing, training, lease and related expensed costs, and the remaining \$17,000 is for property and equipment including leasehold improvements, computer systems and other equipment and installation.

Further, once open, we invest additional cash into the operations of new dispatch offices until they begin to generate sufficient revenue to cover their operating costs, generally within one year. We pay our temporary workers on a daily basis, and bill our customers weekly. Consequently, we may experience significant negative cash flow from operations and investment activities during periods of high growth and may require additional sources of working capital in order to continue to grow.

Approximately 30% of our 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, we have 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, we experience shortages of available temporary workers. We provide temporary workers with the option of receiving cash payment instead of a payroll check. We believe this additional feature is unique among our direct competitors and should increase our ability to attract available temporary workers.

Revenue from services includes revenues earned on services provided by our 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, changes in the workers' compensation reserve rates and the changing geographic mix of new and established, more mature markets. Although we have implemented policies and procedures to prevent unplanned increases in pay rates, significant continuing fluctuations in cost of services may be experienced.

Selling, general and administrative expenses include the salaries and wages of our operations and administrative personnel, dispatch office operating expenses, corporate office operating expenses and the costs of the CDM program.

Labor Ready pays employee-related expenses of its temporary workers, including workers' compensation coverage, unemployment compensation insurance, and Social Security and Medicare taxes. We do not provide health, dental, disability or life insurance to the temporary workers. We bill our customers for the hours worked by our temporary workers assigned to the customer. Because we pay our temporary workers only for the hours actually worked, wages for the temporary workers are a variable cost that increases or decreases directly in proportion to revenue. We have one franchisee, which operates five dispatch offices. We currently have no plans to grant additional franchises. Royalty revenues from the franchised dispatch offices are not material during any period presented herein.

## Results of Operations

### Thirteen Weeks Ended June 29, 2001 Compared to Thirteen Weeks Ended June 30, 2000

The following table compares the operating results for the thirteen weeks ended June 29, 2001 and June 30, 2000 (in thousands):

	Thirteen Weeks Ended		
	June 29, 2001	Percent Change	June 30, 2000
Revenues from services	\$ 240,004	(0.9)	\$ 242,080
Cost of services	168,555	0.5	167,720
Selling, general and administrative expenses	65,198	(5.4)	68,928
Depreciation and amortization	2,128	17.5	1,811
Interest and other income (expense), net	520	392.1	(178)
Income before taxes	4,643	34.9	3,443
Net income	\$ 2,870	32.2	\$ 2,171

#### Dispatch Offices

The number of offices decreased to 812 at June 29, 2001 from 824 locations at March 30, 2001, a net decrease of 12 dispatch offices, or (1.5)%. The number of offices grew to 839 for the thirteen weeks ended June 30, 2000 from 830 locations at March 31, 2000, a net increase of 9 dispatch offices, or 1.1%.

#### Revenues from Services

The decrease in revenues is due primarily to the continued decrease in same office sales for our dispatch offices which are at least three years old. This is a result of weak demand among manufacturing and retail service customers, which is only partially offset by strong growth in construction. Included in revenues from services for the thirteen weeks ended June 29, 2001 and June 30, 2000 are CDM fees of \$2.0 million and \$2.1 million.

#### Cost of Services

The increase in cost of services is primarily due to the increase in the average pay rate and workers' compensation costs. Cost of services was 70.2% of revenue for the thirteen weeks ended June 29, 2001 compared to 69.3% of revenue for the same period in 2000, an increase of 0.9%.

#### Selling, General and Administrative Expenses

The thirteen week comparative decrease in selling, general and administrative expenses is largely due to a reduction in advertising and other overhead expenses. Selling, general and administrative expenses were 27.2% of revenues for the second quarter of 2001 as compared to 28.5% of revenues in the second quarter of 2000.

We expect that selling, general and administrative expenses as a percentage of revenues may fluctuate in future periods as we may adjust our staffing at the dispatch offices as well as our operating and administrative capabilities.

#### Depreciation and Amortization Expense

The increase in quarterly depreciation and amortization expense is primarily the result of the addition of \$15.3 million of property and equipment since the second quarter of 2000. These additions primarily include building, computer equipment, software, and other equipment.

#### Interest and Other Income (Expense), Net

The increase in net interest and other income was the result of the realized gain of \$834,000 for the sale of real estate.

We expect to incur interest expense during the balance of 2001 as our cash demands will increase during our busiest time of year, which will result in increased borrowing on our credit facility. Additionally, cash balances held in the CDMs for payment of temporary worker payrolls will continue to reduce cash available for investing.



### **Taxes on Income**

The increase in taxes for the quarter is commensurate with the increase in income from operations on a quarter over quarter basis and a decrease in the impact of the foreign losses. Our effective tax rate was 38.2% in the second quarter of 2001 as compared to 36.9% for the same period in 2000. The principal difference between the statutory federal income tax rate and our effective income tax rate results from state income taxes, certain non-deductible expenses and the valuation allowance discussed below.

We had a net deferred tax asset of approximately \$20.6 million at June 29, 2001, resulting primarily from workers' compensation deposits, credits and reserves. Due to the uncertainty of the realization of certain tax planning measures, we have established a valuation allowance against this net deferred tax asset in the amount of \$1.0 million.

### **Net Income**

As a percentage of revenues from services, net income was 1.2% for the second quarter of 2001 compared to 0.9% for the second quarter of 2000, an increase of 0.3%. This increase in net income as a percentage of revenue was related to the decrease in selling, general and administrative expenses as a percentage of sales and an increase in interest and other expense, which reflects the \$834,000 realized pretax gain on the sale of real estate.

### **Twenty-Six Weeks Ended June 29, 2001 Compared to Twenty-Six Weeks Ended June 30, 2000**

The following table compares the operating results of the Company for the twenty-six weeks ended June 29, 2001 and June 30, 2000 (in thousands):

	Twenty-Six Weeks Ended		
	June 29, 2001	Percent Change	June 30, 2000
Revenues from services	\$ 442,740	1.7	\$ 435,530
Cost of services	310,917	2.8	302,456
Selling, general and administrative expenses	128,363	(1.0)	129,695
Depreciation and amortization	4,196	17.3	3,576
Interest and other income (expense), net	604	455.3	(170)
Loss before taxes	(132)	(64.0)	(367)
Net loss	\$ (132)	(10.8)	\$ (148)

### **Dispatch Offices**

The company opened 30 and closed 34 dispatch offices for a net closure of 4 dispatch offices during the twenty-six weeks ended June 29, 2001 as compared to 193 openings during the same period of the prior year. The total number of offices decreased to 812 at June 29, 2001 from 839 locations at June 30, 2000, a net decrease of 27 dispatch offices, or (3.2)%. The company does not expect to open a material number of offices during the balance of the year.

### **Revenues from Services**

The increase in revenues is due primarily to the increase in sales of our dispatch offices opened in 2000 offset by the decrease in same office sales for our three year and older dispatch offices. Included in revenues from services for the twenty-six weeks ended June 29, 2001 and June 30, 2000 are CDM fees of \$3.7 million and \$3.7 million.

### **Cost of Services**

The increase in cost of services as a percentage of revenue is primarily due to an increase in the average pay rate and workers' compensation costs. Cost of services was 70.2% of revenue for the twenty-six weeks ended June 29, 2001 compared to 69.5% of revenue for the same period in 2000, an increase of 0.7%.

### **Selling, General and Administrative Expenses**

The decrease in selling, general and administrative expenses is largely due to the reduction of advertising and other overhead expenses from 2000 to 2001. Selling, general and administrative expenses were 29.0% of revenues for the first half of 2001 as compared to 29.8% of revenues in the first half of 2000.

We expect that selling, general and administrative expenses as a percentage of revenues may fluctuate in future periods as we may adjust our staffing at the dispatch offices as well as our operating and administrative capabilities.

### **Depreciation and Amortization Expense**

The increase in depreciation and amortization expense is primarily the result of the addition of \$15.3 million of property and equipment since the second quarter of 2000. These additions primarily include building, computer equipment, software, and other equipment.

### **Interest and Other Income (Expense), Net**

The increase in net interest and other income was the result of the realized gain of \$834,000 for the sale of real estate. Additionally, the Company had cash balances of approximately \$17.9 million held in the CDMs at June 29, 2001 compared to \$17.5 million at June 30, 2000.

We expect to incur interest expense during the balance of 2001 as our cash demands will increase during our busiest time of year, which will result in increased borrowing on our credit facility. Additionally, cash balances held in the CDMs for payment of temporary worker payrolls will continue to reduce cash available for investing.

### **Benefit on Loss**

The decrease in the tax benefit for the current period is commensurate with the decrease in income from operations on a year over year basis and a decrease in the impact of the foreign losses. The Company's effective tax rate was 38.2% benefit for the first two quarters of 2001 as compared to 59.7% expense for the first two quarters of 2000. The principal difference between the statutory federal income tax rate and our effective income tax rate results from state income taxes, certain non-deductible expenses and the valuation allowance as discussed below.

We had a net deferred tax asset of approximately \$20.6 million at June 29, 2001, resulting primarily from workers' compensation deposits, credits and reserves. Due to the uncertainty of the realization of certain tax planning measures, we have established a valuation allowance against this net deferred tax asset in the amount of \$1.0 million.

### **Net Loss**

The net loss for the twenty six week period ended June 29, 2001 decreased by 10.8% as compared to 2000. This decrease was related to an increase in interest and other income, which reflects the \$834,000 realized pretax gain on the sale of real estate offset by the increase in depreciation and amortization for the period.

### Liquidity and Capital Resources

Net cash provided by operating activities was \$13.8 million for the twenty-six week period ended June 29, 2001 compared to \$11.0 million for the same period ended June 30, 2000. This increase is largely due to the decrease in accounts receivable and increase in workers' compensation reserves, which were partially offset by the decrease in accounts payable.

We used net cash in investing activities of \$4.9 million in the first twenty-six weeks of 2001, compared to \$7.4 million in the first twenty-six weeks of 2000. The decrease in cash used in investing activities in 2001 as compared to 2000 is due primarily to the proceeds received from the sale of property and equipment and decreased capital expenditures.

Net cash provided by (used in) financing activities was (\$10.1 million) for the period ended June 29, 2001 and \$2.3 million for the period ended June 30, 2000. The increase in cash used in financing activities in 2001 as compared to 2000 is due mainly to the \$7.0 million of payments on long term debt, which includes our new corporate headquarters and capital leases. We also purchased and retired approximately 816,000 shares of common stock at an aggregate purchase price of \$3.0 million.

In March 2001, we entered into an accounts receivable securitization facility with certain unaffiliated financial institutions, which replaced our previous financing agreement with U.S. Bank. Subject to certain availability requirements, these facilities allow us to borrow a maximum of \$100 million, up to \$80 million of which may be used to obtain letters of credit. At June 29, 2001, \$71.7 million was available, of which we have committed \$48.9 million for letters of credit to our insurance carriers, leaving \$22.8 available for future borrowing. We have committed an additional \$5.6 million for letters of credit to our insurance carriers, which will be issued on September 1, 2001.

Included in cash and cash equivalents at June 29, 2001 is approximately \$17.9 million as compared to \$17.5 million at June 30, 2000 of cash which is located in the CDMs for payment of temporary worker payrolls.

Historically, we have experienced cash flow deficits from time to time due to seasonal sales fluctuations and expansion of operations. Management expects cash flow deficits to be financed by profitable operations and the use of the credit facility, and we may also consider other equity or debt financings as necessary or appropriate. We analyze acquisition opportunities from time to time and may pursue acquisitions in certain circumstances. Any acquisitions we enter into may require additional equity or debt financing.

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

We are exposed to market risk related to changes in interest rates, and to a minor extent, foreign currency exchange rates, each of which could adversely affect the value of our investments. We do not currently use derivative financial instruments. At June 29, 2001, our purchased investments have maturities of less than 90 days. As such, an increase in interest rates immediately and uniformly by 10% from levels at June 29, 2001 would not have a material effect upon our cash and cash equivalent balances. Because of the relative short maturities of the investments we hold, we do not expect our operating results or cash flows to be affected to any significant degree by a sudden change in market interest rates on our cash and cash equivalents portfolio.

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

## Part II. Other Information

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

On June 20, 2001, at the Company's Annual Meeting of Shareholders ("the Annual Meeting") the shareholders of the Company voted to: (1) elect 8 directors and (2) appoint Arthur Andersen LLP as the Company's independent auditors for the year ended December 31, 2001. The results of the proposals voted upon at the Annual Meeting are as follows:

		For	Against	Withheld	Abstain	
1.	a)	Election of Robert J. Sullivan	38,536,641	—	353,539	—
	b)	Election of Richard L. King	36,607,768	—	2,282,412	—
	c)	Election of Thomas E. McChesney	38,537,129	—	353,051	—
	d)	Election of Richard W. Gasten	36,607,768	—	2,282,412	—
	e)	Election of Carl W. Schafer	38,541,794	—	348,386	—
	f)	Election of Joseph P. Sambataro, Jr.	38,536,641	—	353,539	—
	g)	Election of Gates McKibbin	38,496,424	—	393,756	—
	h)	Election of George E. Northcroft	38,541,794	—	348,386	—
2.		Ratification of Arthur Andersen LLP as the Company's independent auditors for the calendar year ended December 31, 2001.	38,207,822	130,603	—	63,677

### Item 5. Other Information

At the annual meeting of the board of directors immediately following the Annual Meeting, the board appointed Mark R. Beatty as a director.

### 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
10.1	Employment Agreement between Labor Ready, Inc. and Timothy J. Adams.
10.2	Irrevocable Letter of Credit between Labor Ready, Inc., First Union National Bank, GE Capital Corporation and Greenwich Insurance Company dated April 25, 2001.

- 10.3 Irrevocable Letter of Credit between Labor Ready, Inc., First Union National Bank, GE Capital Corporation and Lumbermens Mutual Casualty Company dated June 4, 2001.
- 10.4 Irrevocable Letter of Credit between Labor Ready, Inc., First Union National Bank, GE Capital Corporation and Reliance National Insurance Company dated May 15, 2001.
- 10.5 Irrevocable Letter of Credit between Labor Ready, Inc., First Union National Bank, GE Capital Corporation and Travelers Casualty and Surety Company of America dated April 25, 2001.
- 10.6 Irrevocable Letter of Credit between Labor Ready, Inc., First Union National Bank, GE Capital Corporation and US Bank National Association dated February 26, 2001.

**(b) Reports on Form 8-K**

None.

**SIGNATURES**

Pursuant to the requirements 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, on this 13<sup>th</sup> day of August, 2001.

LABOR READY, INC.

/s/ Richard L. King

---

Chief Executive Officer and President

/s/ Steven C. Cooper

---

Chief Financial Officer and Executive Vice President

## 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 Timothy J. Adams ("Executive"), effective as of May 28, 2001.

### RECITALS

WHEREAS, Executive has been serving as Director of Legal Services for the Company;

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

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

WHEREAS, the Company's Board of Directors has elected Executive to the offices of Executive Vice President and General Counsel;

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 hereby agrees to continue in the employment of the Company, subject to the supervision and direction of the Chief Executive Officer and the Board of Directors. Executive's employment shall be for a period commencing on May 28, 2001 and ending on May 27, 2006, 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 General Counsel of the Company and such other duties as may be assigned by the Board of Directors in its discretion.

3. **Compensation.**

(a) Executive's initial salary shall be at the rate of Two Hundred Twenty Thousand and No/100 Dollars (\$220,000) per year, payable biweekly, from May 28, 2001, 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. Executives compensation shall be reviewed annually by the Compensation Committee of the Board of Directors.

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 unvested options to purchase 250,000 shares of the Company's common stock. The terms and conditions of the options are set forth in Exhibits A and B.

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 Chief Executive Officer or the Board of Directors, 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 (20) 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 2001 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.

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 \$10,000,000.00 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) Company may terminate this Agreement and Executive's employment for cause (as defined hereinbelow) at any time upon written notice to Executive. The notice of termination must specify those actions or inactions upon which the termination is based. Cause shall exist if any of the following occurs:

- (i) Executive is convicted or indicted of a crime involving dishonesty, fraud or moral turpitude;
- (ii) Company believes in good faith that Executive has engaged in fraud, embezzlement, theft or other dishonest acts;
- (iii) Executive violates Company's Drug Free Workplace Policy;
- (iv) Executive commits any willful act or omission with an intent to negatively impact Company;

- (v) Executive refuses to attempt in good faith to perform his normal duties to the best of his ability, within ten (10) days after written notice from Company;
  - (vi) Executive is guilty of insubordination which materially hinders the maximization of productivity between Executive and his superiors; or
  - (vii) Executive breaches this Agreement in any other material respect and does not cure such breach within ten (10) days after written notice from Company.
- (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-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 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 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 himself 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) Solicit, induce or otherwise influence or attempt to solicit, induce or otherwise influence any employee of the Company to leave his or her employment;
- (d) 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

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

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 or Company 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 Employment 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 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 15 through 19 of this Agreement shall survive termination of the remainder of this Agreement.

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

EXECUTIVE:

COMPANY:

Labor Ready, Inc.,  
a Washington corporation

By:

\_\_\_\_\_  
Timothy J. Adams

\_\_\_\_\_  
Richard L. King  
President and CEO

Date:

Date:

**EXHIBIT A**

**Stock Option Grant**

GRANT DATE: May 28, 2001

GRANT PRICE: Closing price on the Grant Date

TOTAL NUMBER OF SHARES: 150,000

VESTING SCHEDULE: Options for the specified number of shares shall vest on the following dates:

DATE	NUMBER OF SHARES
May 28, 2002	37,500
May 28, 2003	37,500
May 28, 2004	37,500
May 28, 2005	37,500

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. If the Executive Employment Agreement is terminated by Executive without cause, then all options shall terminate ninety days after termination of employment. If the Executive Employment Agreement is terminated for any other reason, 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. The options are categorized as non-qualified stock options. A non-qualified stock option requires payment of income taxes on the difference between the option price and the market value on the date of exercise. 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.

3. 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.

The closing price on May 28, 2001 was \$3.74.

## EXHIBIT B

### Stock Option Grant

GRANT DATE: May 28, 2001

GRANT PRICE: Closing price on the Grant Date

TOTAL NUMBER OF SHARES: 100,000

VESTING SCHEDULE: Options for the specified number of shares shall vest on the following dates:

DATE	NUMBER OF SHARES
November 28, 2005	100,000

#### 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. If the Executive Employment Agreement is terminated by Executive without cause, then all options shall terminate ninety days after termination of employment. If the Executive Employment Agreement is terminated for any other reason, 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. The options are categorized as non-qualified stock options. A non-qualified stock option requires payment of income taxes on the difference between the option price and the market value on the date of exercise. 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.

3. 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.

The closing price on May 28, 2001 was \$3.74.

OUR CREDIT NUMBER SM441521P	ISSUE DATE APRIL 25,2001	EXPIRY DATE DEC. 31,2001	LETTER OF CREDIT AMOUNT USD1,890,000.00
--------------------------------	-----------------------------	-----------------------------	--

BENEFICIARY:  
GREENWICH INSURANCE COMPANY  
160 WATER STREET 16<sup>T</sup> FLOOR  
NEW YORK, NY 10038

ISSUER::  
GE CAPITAL CORPORATION.

DEAR BENEFICIARY:

AT THE REQUEST OF THE ABOVE ISSUER WE HAVE BEEN INSTRUCTED TO ADVISE YOU THAT THE ATTACHED IRREVOCABLE STANDBY LETTER OF CREDIT HAS BEEN ESTABLISHED IN YOUR FAVOR, AS BENEFICIARY.

ALL DEMANDS FOR PAYMENTS MUST BE SENT TO FIRST UNION NATIONAL BANK, ONE SOUTH BROAD STREET, PHILADELPHIA, PA 19106, MAIL CODE PA 4928, ATTN: GE CORPORATE FINANCE STANDBY TEAM.

DOCUMENTS MUST CONFORM STRICTLY WITH THE TERMS OF THE ATTACHED LETTER OF CREDIT. IF YOU ARE UNABLE TO COMPLY WITH SAME, PLEASE COMMUNICATE DIRECTLY WITH YOUR CUSTOMER IN ORDER TO HAVE THE ISSUER AMEND THE RELEVANT CONDITIONS. THIS SHOULD ELIMINATE DIFFICULTIES AND DELAYS IN PAYMENT IN THE EVENT DOCUMENTS ARE PRESENTED FOR NEGOTIATION.

ALL DEMANDS HEREUNDER MUST INDICATE THE ABOVE REFERENCED LETTER OF CREDIT NUMBER.

EXCEPT SO FAR AS OTHERWISE EXPRESSLY STATED, THIS LETTER OF CREDIT IS SUBJECT TO THE "UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1993 REVISION), INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 500."

ALL INQUIRIES REGARDING THIS CREDIT SHOULD BE DIRECTED TO FIRST UNION NATIONAL BANK AT OUR PHONE NUMBER (215) 973-7012.

/s/ Richard Fortino

\_\_\_\_\_  
FIRST UNION NATIONAL BANK  
AUTHORIZED SIGNATURE

**GE Capital**

*General Electric Capital Corporation*

LETTER OF CREDIT NO	ISSUE DATE	EXPIRY DATE
SE441521P	APRIL 25,2001	DEC. 31,2001

FDL

BENEFICIARY: APPLICANT:  
GREENWICH INSURANCE COMPANY  
160 WATER STREET 16<sup>TH</sup> FLOOR  
NEW YORK, NY 10038

LABOR READY, INC.  
TREASURY DEPARTMENT  
P.O BOX 2910  
TACOMA, WASHINGTON 98401

DEAR BENEFICIARY,

AT THE REQUEST OF LABOR READY, INC., WE, FIRST UNION NATIONAL BANK HAVE OPENED AN IRREVOCABLE LETTER OF CREDIT IN YOUR FAVOR FOR UP TO AN AMOUNT NOT EXCEEDING USD1,890,000.00, AVAILABLE BY YOUR DRAFTS AT SIGHT ON GE CAPITAL CORPORATION.

WE WARRANT TO YOU THAT ALL YOUR DRAFTS UNDER THIS IRREVOCABLE LETTER OF CREDIT WILL BE DULY HONORED UPON PRESENTATION AT OUR LETTER OF CREDIT DEPARTMENT, ONE SOUTH BROAD STREET, 9TH FLOOR, ATTENTION INTERNATIONAL TRADE OPERATIONS PA4928, PHILADELPHIA, PA 19107 ON OR BEFORE THE EXPIRATION DATE OR ON OR BEFORE ANY AUTOMATICALLY EXTENDED DATE AS SET FORTH BELOW.

EXCEPT AS EXPRESSLY STATED HEREIN, THIS IRREVOCABLE LETTER OF CREDIT IS NOT SUBJECT TO ANY CONDITION OR QUALIFICATION AND IS OUR INDIVIDUAL OBLIGATION WHICH IS IN NO WAY CONTINGENT UPON REIMBURSEMENT.

THIS IRREVOCABLE LETTER OF CREDIT IS EFFECTIVE APRIL 19,2001 AND EXPIRES ON DECEMBER 31,2001, BUT WILL AUTOMATICALLY BE EXTENDED WITHOUT AMENDMENT FOR SUCCESSIVE ONE YEAR PERIODS FROM THE CURRENT EXPIRATION DATE AND ANY FUTURE EXPIRATION DATE UNLESS AT LEAST 45 DAYS PRIOR TO THE EXPIRATION DATE WE NOTIFY YOU BY LETTER SENT CERTIFIED MAIL AT THE ABOVE LISTED



ADDRESS THAT WE ELECT NOT TO RENEW FOR SUCH ADDITIONAL ONE YEAR PERIODS.

EXCEPT SO FAR AS OTHERWISE EXPRESSLY STATED, THIS LETTER OF CREDIT IS SUBJECT TO THE "UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1993 REVISION), INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 500."

ALL INQUIRIES REGARDING THIS CREDIT SHOULD BE DIRECTED TO US AT OUR PHONE NUMBERS (215) 973-5981; (215) 973-8157; (215) 973-1944.

/s/ Richard Fortino

/s/ Diane Ruch

---

RICHARD FORTINO  
ASST. VICE PRESIDENT

---

DIANE RUCH  
TEAM LEADER

*A GE Capital Services Company*

FIRST UNION NATIONAL BANK

OUR CREDIT NO. DATE  
 SE441640P June 4, 2001

To Beneficiary:  
 Lumbermens Mutual Casualty Company  
 American Motorist Insurance Company  
 American Manufacturers Mutual Insurance Company  
 American Protection Insurance Company  
 One Kemper Drive  
 Long Grove, IL 60049  
 Attn: RMG Collections M- I

Issuer:  
 General Electric Capital Corporation

Dear beneficiary:

At the request of the above issuer and on behalf of Labor Ready, Inc. (The, Applicant). We hereby irrevocably confirm General Electric Capital Corporation's (the "issuer") Letter of Credit No SE441640P, the "Letter of Credit"), and hereby undertake to honor each draft drawn and presented in strict accordance with its terms to us.

The Confirmation is deemed to be automatically extended without amendment for one year from the expiration date or any future expiration date unless 60 days prior to such expiration date, we notify you by Registered Mail that this Letter of Credit will not be renewed for any such additional period.

This Confirmation is subject to and governed by the laws of the State of Illinois and the 1993 Revision of the Uniform Customs and Practice for Documentary Credits of the International Chamber of Commerce (Publication No. 500) and, in the event of any conflict, the laws of the State of Illinois will control. If this credit expires during an interruption of business as described in Article 17 of said Publication 500, the issuer hereby specifically agrees to effect payment of this Credit if drawn against within 30 days after the resumption of business.

Please note that any and all correspondence related to this letter of credit should be sent to First Union National Bank One South Board St, 9th Floor Mail Code PA4928 Philadelphia, Pa. 19107 Attn: GE Capital Standby Letters Of Credit. All telephone inquiries regarding this credit should be directed to us at our phone numbers (215) 973-5981; (215) 973-8793; (215) 973-1944; (215) 973-8803.

/s/ Diane Ruch

AUTHORIZED SIGNATURE

*GE Capital*

*General Electric Capital Corporation*

Issue Date: June 4, 2001

Irrevocable Clean Letter of Credit No. SE441640P  
 To Beneficiary,: Lumbermens Mutual Casualty Company  
 American Motorist Insurance Company  
 American Manufacturers Mutual Insurance Company  
 American Protection Insurance Company  
 One Kemper Drive  
 Long Grove, IL 60049  
 Attn: RMG Collections M- I

We have established this clean irrevocable, and unconditional Letter of Credit in your favor as Beneficiary for drawings up to U.S. \$16,800,000.00 effective immediately. This Letter of Credit is issued, presentable and payable at our office located at One South Board St, 9th Floor Mail Code PA4928 Philadelphia, Pa. 19107 Attn: GE Capital Standby Letters Of Credit Department and expires with our close of business on June 4, 2002, unless extended as hereinafter provided. Except when the amount of this Letter of Credit is increased, this Credit cannot be modified or revoked without your consent.

The term "Beneficiary" includes any successor by operation of law of the named Beneficiary. If a court of law appoints a successor in interest to the named Beneficiary, then the named Beneficiary includes and is limited to the court-appointed domiciliary receiver (including conservator, rehabilitator or liquidator).

It is a condition of this Letter of Credit that the amount available to you will automatically increase as follows:

Increase By	Increase Dates	Amount Available
US\$5,600,000	September 1, 2001	US\$22,400,000

We hereby undertake to promptly honor your sight draft(s) drawn on us, indicating our credit No. SE441640P, for all or any part of this Credit upon presentation of your draft drawn on us at our address above or before the expiration date hereof or any automatically extended expiry date.

Except as expressly stated herein, this undertaking is not subject to any agreement, requirement or qualification. The obligation of General Electric Capital Corporation under this Credit is the individual obligation of General Electric Capital Corporation and is in no way contingent upon reimbursement with respect thereto, or upon our ability to perfect any lien, security interest or any other reimbursement.

The Letter of Credit is deemed to be automatically extended without amendment for one year from the expiration date or any future expiration date unless 60 days prior to

such expiration date, we notify you by Registered Mail that this Letter of Credit will not be renewed for any such additional period.

This Letter of Credit is subject to and governed by the laws of the State of Illinois and the 1993 Revision of the Uniform Customs and Practice for Documentary Credits of the International Chamber of Commerce (Publication No. 500) and, in the event of any conflict, the laws of the State of Illinois will control. If this credit expires during an interruption of business as described in Article 17 of said Publication 500, the issuer hereby specifically agrees to effect payment of this Credit if drawn against within 30 days after the resumption of business.

All telephone inquiries regarding this credit should be directed to us at our phone numbers (215) 973-5981;

(215) 973-8793; (215) 973-1944; (215) 973-8803.

Very Truly Yours,

/s/ Richard Fortino

---

AUTHORIZED SIGNATURE

FIRST UNION NATIONAL BANK  
ONE SOUTH BOARD ST  
9TH FLOOR MAIL CODE PA4928  
PHILADELPHIA, PA. 19107  
ATTENTION STANDBY LETTER OF CREDIT DEPARTMENT,  
GE CORPORATE FINANCE STANDBY TEAM

RELIANCE INSURANCE COMPANY  
5 HANOVER SQUARE, 8TH FLOOR  
TREASURY OPERATIONS DEPARTMENT  
NEW YORK, NY 10004

GENERAL ELECTRIC CAPITAL CORPORATION  
ICO FIRST UNION NATIONAL BANK  
ONE SOUTH BOARD ST  
9TH FLOOR MAIL CODE PA4928  
PHILADELPHIA, PA. 19107  
ATTN: STANDBY LETTER OF CREDIT DEPT  
GE CORPORATE FINANCE STANDBY TEAM.

IRREVOCABLE CONFIRMATION NO.: SM441600P      ISSUE DATE: MAY 15, 2001

STANDBY LETTER OF CREDIT AMOUNT: \$19,500,000.00

EXPIRY DATE: MAY 15, 2002  
APPLICANT NAME: LABOR READY, INC.

WE HEREBY IRREVOCABLY CONFIRM GE CAPITAL CORPORATION (THE "ISSUER") LETTER OF CREDIT NO. SM441600P, A COPY OF WHICH IS ATTACHED HERETO AS (THE "LETTER OF CREDIT"), AND HEREBY UNDERTAKE TO HONOR EACH DRAFT DRAWN AND PRESENTED IN ACCORDANCE WITH ITS TERMS TO US AFTER THE ISSUING BANK FAILS TO PAY A PROPERLY PRESENTED DRAFT THEREUNDER AND OUR RECEIPT FROM YOU OF A STATEMENT TO THAT EFFECT AND COPIES OF SUCH DRAFT PRESENTED THEREWITH AT OUR COUNTERS AT FIRST UNION NATIONAL BANK ONE SOUTH BOARD STREET, PHILADELPHIA, PA. 19107 ATTN: STANDBY LETTER OF CREDIT DEPT 9TH FLOOR MAIL CODE PA4928, ON OR BEFORE THE EXPIRATION DATE OF THIS CONFIRMATION.

THIS CONFIRMATION SHALL EXPIRE MAY 15, 2002 AND WILL BE AUTOMATICALLY RENEWED FOR ADDITIONAL SUCCESSIVE PERIODS OF ONE YEAR FROM THE PRESENT OR FUTURE EXPIRATION DATE UNLESS 60 DAYS PRIOR TO SUCH EXPIRATION DATE WE NOTIFY YOU IN WRITING BY REGISTERED MAIL AT THE ABOVE ADDRESS THAT WE ELECT NOT TO RENEW THIS CONFIRMATION FOR SUCH ADDITIONAL PERIOD.

WE AGREE TO PAY ALL DRAWINGS HEREUNDER WITH OUR OWN FUNDS.

THIS CONFIRMATION IS SUBJECT TO AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK AND THE 1993 REVISION OF THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS OF THE INTERNATIONAL CHAMBER OF COMMERCE (ICC PUBLICATION 500). IN THE EVENT OF CONFLICT, THE LAWS OF THE STATE OF NEW YORK WILL CONTROL.

IF THIS CONFIRMATION EXPIRES DURING AN INTERRUPTION OF BUSINESS AS DESCRIBED IN ARTICLE 17 OF ICC PUBLICATION 500, WE AGREE TO HONOR ANY DRAFTS PRESENTED ON OR BEFORE THE THIRTIETH DAY AFTER RESUMPTION OF BUSINESS.

/s/ Diane Ruch

\_\_\_\_\_  
AUTHORIZED SIGNATURE

**GE Capital**

*General Electric Capital Corporation*

GENERAL ELECTRIC CAPITAL CORPORATION  
ICO FIRST UNION NATIONAL BANK  
ONE SOUTH BOARD ST,  
9TH FLOOR MAIL CODE PA4928  
PHILADELPHIA, PA. 19107

ATTN: STANDBY LETTER OF CREDIT DEPARTMENT,  
GE CORPORATE FINANCE STANDBY TEAM.

RELIANCE INSURANCE COMPANY  
5 HANOVER SQUARE, 8TH FLOOR  
TREASURY OPERATIONS, FINANCE DEPARTMENT  
NEW YORK, NY 10004  
ATTN REESE ROCHE

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

IRREVOCABLE LETTER OF CREDIT NO.: SE441600P      ISSUE DATE: MAY 15, 2001

EXPIRY DATE: MAY 15, 2002

WE HAVE ESTABLISHED THIS CLEAN, UNCONDITIONAL, AND IRREVOCABLE LETTER OF CREDIT IN YOUR FAVOR, AS BENEFICIARY, FOR DRAWINGS UP TO U.S. \$19,500,000.00 EFFECTIVE IMMEDIATELY. THIS LETTER OF CREDIT IS ISSUED, PRESENTABLE, AND PAYABLE AT OUR OFFICE AT FIRST UNION NATIONAL BANK P.O. BOX 13866, 1345 CHESTNUT STREET, NINTH FLOOR, MAIL CODE PA4928, ATTENTION: LETTER OF CREDIT DEPARTMENT, PHILADELPHIA, PA. 19107 AND EXPIRES WITH OUR CLOSE OF BUSINESS ON MAY 15, 2002.

EXCEPT WHEN THE AMOUNT OF THIS LETTER OF CREDIT IS INCREASED, THIS CREDIT CANNOT BE MODIFIED OR REVOKED WITHOUT YOUR CONSENT.

THE TERM "BENEFICIARY" INCLUDES ANY SUCCESSOR BY OPERATION OF LAW OF THE NAMED BENEFICIARY INCLUDING WITHOUT LIMITATION ANY LIQUIDATOR, REHABILITATOR, RECEIVER OR CONSERVATOR. DRAWINGS BY ANY LIQUIDATOR, REHABILITATOR, RECEIVER OR CONSERVATOR SHALL BE FOR THE BENEFIT OF ALL OF THE BENEFICIARYS POLICYHOLDERS.

WE HEREBY UNDERTAKE TO PROMPTLY HONOR YOUR SIGHT DRAFF(S) DRAWN ON US, INDICATING OUR LETTER OF CREDIT NUMBER SE441600P, FOR ALL OR ANY PART OF THIS CREDIT IF PRESENTED AT OUR OFFICE SPECIFIED ABOVE IN PARAGRAPH ONE ON OR BEFORE THE EXPIRATION DATE OR ANY AUTOMATICALLY EXTENDED EXPIRATION DATE.

EXCEPT AS EXPRESSLY STATED HEREIN, THIS UNDERTAKING IS NOT SUBJECT TO ANY AGREEMENT, CONDITION, OR QUALIFICATION, OR BY ANY OTHER AGREEMENT, DOCUMENT OR UNDERSTANDING WHETHER REFERRED TO HEREIN OR TO WHICH THIS LETTER OF CREDIT MAY RELATE. OUR OBLIGATION UNDER THIS LETTER OF CREDIT SHALL BE THE INDIVIDUAL OBLIGATION OF THE ISSUER IN NO WAY CONTINGENT UPON REIMBURSEMENT WITH RESPECT THERETO, OR UPON OUR ABILITY TO PERFECT ANY LIEN, SECURITY INTEREST, OR ANY OTHER REIMBURSEMENT.

THIS LETTER OF CREDIT SHALL BE DEEMED AUTOMATICALLY EXTENDED WITHOUT AMENDMENT FOR ONE YEAR FROM THE EXPIRATION DATE OR ANY FUTURE EXPIRATION DATE, UNLESS AT LEAST SIXTY DAYS PRIOR TO ANY EXPIRATION DATE, WE NOTIFY YOU BY REGISTERED MAIL THAT THIS LETTER OF CREDIT WILL NOT BE RENEWED FOR ANY SUCH ADDITIONAL PERIOD.

ATTACHED TO AND FORMING PART OF STANDBY CREDIT NO. SE441600P DATED MAY 15,2001 PAGE 2

SHOULD YOU HAVE OCCASION TO COMMUNICATE WITH US REGARDING THIS LETTER OF CREDIT, KINDLY DIRECT YOUR COMMUNICATION TO THE ATTENTION OF OUR LETTER OF CREDIT DEPARTMENT, MAKING SPECIFIC REFERENCE TO OUR LETTER OF CREDIT NUMBER SE441600P. ALL TELEPHONE INQUIRIES REGARDING THIS CREDIT SHOULD BE DIRECTED TO US AT OUR PHONE NUMBERS (215) 973-5981; (215) 973-8793; (215) 973-1944; (215) 973-8803.

THIS LETTER OF CREDIT IS SUBJECT TO AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK AND THE 1993 REVISION OF THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS OF THE INTERNATIONAL CHAMBER OF COMMERCE (ICC PUBLICATION 500). IN THE EVENT OF CONFLICT, THE LAWS OF THE STATE OF NEW YORK WILL CONTROL.

IF THIS LETTER OF CREDIT EXPIRES DURING AN INTERRUPTION OF BUSINESS AS DESCRIBED IN ARTICLE 17 OF ICC PUBLICATION 500, WE AGREE TO HONOR ANY DRAFTS PRESENTED ON OR BEFORE THE THIRTIETH DAY AFTER RESUMPTION OF BUSINESS.

/s/ Richard Fortino

---

AUTHORIZED SIGNATURE

OUR CREDIT NUMBER SE441524P	ISSUE DATE APRIL 25,2001	EXPIRY DATE DEC. 31,2001	LETTER OF CREDIT AMOUNT USD3,125,000.00
--------------------------------	-----------------------------	-----------------------------	--

BENEFICIARY:  
TRAVELERS CASUALTY AND  
SURETY COMPANY OF AMERICA  
ONE TOWER SQUARE H.O.  
BOND, 3 PB  
HARTFORD, CT. 06183-9062

ISSUER:  
GE CAPITAL CORPORATION.

DEAR BENEFICIARY:

AT THE REQUEST OF THE ABOVE ISSUER WE HAVE BEEN INSTRUCTED TO ADVISE YOU THAT THE ATTACHED IRREVOCABLE STANDBY LETTER OF CREDIT HAS BEEN ESTABLISHED IN YOUR FAVOR, AS BENEFICIARY.

ALL DEMANDS FOR PAYMENTS MUST BE SENT TO FIRST UNION NATIONAL BANK, ONE SOUTH BROAD STREET, PHILADELPHIA, PA 19106, MAIL CODE PA 4928, ATTN: GE CORPORATE FINANCE STANDBY TEAM.

DOCUMENTS MUST CONFORM STRICTLY WITH THE TERMS OF THE ATTACHED LETTER OF CREDIT. IF YOU ARE UNABLE TO COMPLY WITH SAME, PLEASE COMMUNICATE DIRECTLY WITH YOUR CUSTOMER IN ORDER TO HAVE THE ISSUER AMEND THE RELEVANT CONDITIONS. THIS SHOULD ELIMINATE DIFFICULTIES AND DELAYS IN PAYMENT IN THE EVENT DOCUMENTS ARE PRESENTED FOR NEGOTIATION.

ALL DEMANDS HEREUNDER MUST INDICATE THE ABOVE REFERENCED LETTER OF CREDIT NUMBER.

EXCEPT SO FAR AS OTHERWISE EXPRESSLY STATED, THIS LETTER OF CREDIT IS SUBJECT TO THE "UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1993 REVISION), INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 500."

ALL INQUIRIES REGARDING THIS CREDIT SHOULD BE DIRECTED TO FIRST UNION NATIONAL BANK AT OUR PHONE NUMBER (215) 973-7012.

/s/ Richard Fortino

---

FIRST UNION NATIONAL BANK  
AUTHORIZED SIGNATURE

**GE Capital**

*General Electric Capital Corporation*

LETTER OF CREDIT NO	ISSUE DATE	EXPIRY DATE
SE441524P	APRIL 25, 2001	DEC. 31, 2001

FDL

BENEFICIARY:  
TRAVELERS CASUALTY AND  
SURETY COMPANY OF AMERICA  
ONE TOWER SQUARE H.O.  
BOND, 3 PB  
HARTFORD, CT. 06183-9062

APPLICANT:  
LABOR READY, INC.  
TREASURY DEPARTMENT  
P.O BOX 2910  
TACOMA, WASHINGTON 98401

ATTENTION: COLLATERAL PROCESSING, NATIONAL RESOURCES  
H.O. BOX 3PB (BRANCH, SEATTLE CODE 018)

DEAR BENEFICIARY,

WE HEREBY ESTABLISH OUR IRREVOCABLE STANDBY LETTER OF CREDIT IN YOUR FAVOR AND AUTHORIZE YOU (TRAVELERS CASUALTY AND SURETY CO. OF AMERICA, INDIVIDUALLY AND COLLECTIVELY "YOU" TO DRAW ON US, UP TO THE AGGREGATE AMOUNT OF \$3,125,000.00 AND

WE ENGAGE WITH YOU THAT ALL DRAFTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT WILL BE FULLY HONORED BY US IF PRESENTED AT THIS OFFICE LOCATED AT GE CAPITAL CORPORATION, ONE SOUTH BROAD STREET, 9<sup>TH</sup> FLOOR MAIL CODE PA4928 ATTN: INTERNATIONAL STANDBY LETTER OF CREDIT DEPT. PHILADELPHIA, PA. 19107 ON OR BEFORE 12/31/01 OR ANY EXTENDED DATE, PROVIDED:

1. THIS LETTER OF CREDIT SHALL BE AUTOMATICALLY EXTENDED FOR ADDITIONAL PERIODS OF ONE YEAR FROM THE PRESENT OR EACH FUTURE EXPIRATION DATE UNLESS WE HAVE NOTIFIED YOU IN WRITING, NOT LESS THAN SIXTY (60) DAYS BEFORE SUCH DATE, THAT WE ELECT NOT TO RENEW THIS LETTER OF CREDIT. OUR NOTICE OF SUCH ELECTION SHALL BE SENT BY OVERNIGHT COURIER TO THE ABOVE ADDRESS, ATTENTION OF "COLLATERAL PROCESSING, NATIONAL RESOURCES, H.O. BOND, 3PB."

CONTINUED ON NEXT PAGE WHICH FORMS AN INTEGRAL PART OF THIS LETTER OF CREDIT

IRREVOCABLE STANDBY LETTER OF CREDIT NO. SESE441524P

PAGE NO. 2

2. ANY DRAFTS DRAWN BY YOU UNDER THIS LETTER OF CREDIT SHALL BE ACCOMPANIED BY YOUR WRITTEN CERTIFICATION THAT YOU, AS SURETY, HAVE EXECUTED OR PROCURED THE EXECUTION OF THE BOND(S), UNDERTAKING(S), AGREEMENT(S) OF INDEMNITY, OR OTHER INSTRUMENT(S) OF SURETYSHIP AT THE REQUEST OF LABOR READY, INC. 1016 SO. 28<sup>TH</sup> STREET, TACOMA, WA. 98409 AND THAT EITHER OF THE FOLLOWING ALTERNATIVES EXISTS: (A) CLAIMS HAVE BEEN OR MAY BE MADE THEREUNDER AND THAT IN YOUR SOLE JUDGMENT AS SURETY THE FUNDS REPRESENTED BY YOUR DRAFT(S) ARE REQUIRED FOR YOUR PROTECTION AND FOR THE PROTECTION OF YOUR CO-SURETY(IES) AND RE-INSURER(S) IF ANY; (B) OUR NOTICE OF ELECTION NOT TO RENEW HAS BEEN RECEIVED AND THAT YOU HAVE NOT BEEN RELEASED FROM LIABILITY UNDER THE BOND(S), UNDERTAKING(S), AGREEMENT(S), OR INSTRUMENT(S) AFORESAID AND THAT THE PROCEEDS OF YOUR DRAFT(S) WILL BE HELD BY YOU AS COLLATERAL AGAINST LOSS, COST OR EXPENSE THEREUNDER.

3. WE HEREBY REPRESENT AND AFFIRM THAT THE EXECUTION OF THIS LETTER OF CREDIT WILL NOT CONSTITUTE A VIOLATION OF ANY LAW OR REGULATION WHICH MAY LIMIT THE AMOUNT OF CREDIT WHICH CAN BE EXTENDED BY THIS BANK TO ANY SINGLE BORROWER OR CUSTOMER.

4. YOUR ACCEPTANCE OF THIS LETTER OF CREDIT WILL CONSTITUTE YOUR AGREEMENT TO REPAY TO US FUNDS PAID TO YOU HEREUNDER TO THE EXTENT THAT SUCH FUNDS EXCEED THE TOTAL OF YOUR LOSS, COST AND EXPENSE (INCLUDING UNPAID PREMIUMS) UNDER THE MENTIONED BOND(S), UNDERTAKING(S), AGREEMENT(S), OR INSTRUMENT(S).

DRAFT(S) DRAWN UNDER THIS CREDIT MUST SPECIFICALLY REFERENCE OUR CREDIT NUMBER.

EXCEPT SO FAR AS OTHERWISE EXPRESSLY STATED HEREIN THIS ORIGINAL LETTER OF CREDIT IS SUBJECT TO THE "UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS: (1993 REVISION), INTERNATIONAL CHAMBER OF COMMERCE, PUBLICATION NO. 500."

ALL INQUIRIES REGARDING THIS CREDIT SHOULD BE DIRECTED TO US AT OUR PHONE NUMBERS: 215-973-5981, 215-973-7012, 215-973-8803.

/s/ Richard Fortino

\_\_\_\_\_  
AUTHORIZED SIGNATURE

A GE Capital Services Company

OUR CREDIT NUMBER SE441429P	ISSUE DATE FEB. 26, 2001	EXPIRY DATE FEB. 26, 2002	LETTER OF CREDIT AMOUNT USD37,675,000.00
--------------------------------	-----------------------------	------------------------------	---

BENEFICIARY:  
US BANK NATIONAL ASSOCIATION  
INTERNATIONAL DEPARTMENT  
1420 FIFTH AVENUE, 9<sup>TH</sup> FLOOR  
SEATTLE, WA. 98101

ISSUER:  
GE CAPITAL CORPORATION

DEAR BENEFICIARY:

AT THE REQUEST OF THE ABOVE ISSUER WE HAVE BEEN INSTRUCTED TO ADVISE YOU THAT THE ATTACHED IRREVOCABLE STANDBY LETTER OF CREDIT HAS BEEN ESTABLISHED IN YOUR FAVOR, AS BENEFICIARY.

ALL DEMANDS FOR PAYMENTS MUST BE SENT TO FIRST UNION NATIONAL BANK, ONE SOUTH BROAD STREET, PHILADELPHIA, PA 19106, MAIL CODE PA 4928, ATTN: GE CORPORATE FINANCE STANDBY TEAM.

DOCUMENTS MUST CONFORM STRICTLY WITH THE TERMS OF THE ATTACHED LETTER OF CREDIT. IF YOU ARE UNABLE TO COMPLY WITH SAME, PLEASE COMMUNICATE DIRECTLY WITH YOUR CUSTOMER IN ORDER TO HAVE THE ISSUER AMEND THE RELEVANT CONDITIONS. THIS SHOULD ELIMINATE DIFFICULTIES AND DELAYS IN PAYMENT IN THE EVENT DOCUMENTS ARE PRESENTED FOR NEGOTIATION.

ALL DEMANDS HEREUNDER MUST INDICATE THE ABOVE REFERENCED LETTER OF CREDIT NUMBER.

EXCEPT SO FAR AS OTHERWISE EXPRESSLY STATED HEREIN, THIS LETTER OF CREDIT IS SUBJECT TO THE "INTERNATIONAL STANDBY PRACTICES (1998 EDITION), INTERNATIONAL CHAMBER OF COMMERCE, PUBLICATION NUMBER 590"

ALL INQUIRIES REGARDING THIS CREDIT SHOULD BE DIRECTED TO FIRST UNION NATIONAL BANK AT OUR PHONE NUMBER (215) 973-7012.

/s/ Richard Fortino

\_\_\_\_\_  
FIRST UNION NATIONAL BANK  
AUTHORIZED SIGNATURE

**GE Capital**

*General Electric Capital Corporation*

OUR CREDIT NO. SE441429P	ISSUE DATE FEBRUARY 26, 2001	EXPIRY DATE FEBRUARY 26, 2002	LETTER OF CREDIT AMOUNT USD 37,675,000.00
-----------------------------	---------------------------------	----------------------------------	--

BENEFICIARY:                      APPLICANT:  
US BANK NATIONAL ASSOCIATION  
INTERNATIONAL DEPARTMENT  
1420 FIFTH AVENUE, 9<sup>TH</sup> FLOOR  
SEATTLE, WA 98101

LABOR READY, INC  
1016 SOUTH 28<sup>TH</sup>  
TACOMA, WA 98409

DEAR BENEFICIARY:

WE HEREBY ESTABLISH, AT THE REQUEST OF AND FOR THE ACCOUNT OF LABOR READY, INC ("LABOR READY") IN YOUR FAVOR, OUR IRREVOCABLE STANDBY LETTER OF CREDIT NO. SE441429P FOR AN AMOUNT NOT TO EXCEED \$37,675,000.00 THIRTY SEVEN MILLION SIX HUNDRED AND SEVENTY FIVE THOUSAND DOLLARS (THE "STATED AMOUNT"), AVAILABLE IMMEDIATELY.

WE HEREBY ESTABLISH OUR IRREVOCABLE STANDBY LETTER OF CREDIT IN YOUR FAVOR, AS BENEFICIARY, WHICH IS AVAILABLE BY SIGHT PAYMENT.

THIS STANDBY LETTER OF CREDIT IS BEING ISSUED TO SUPPORT THE OBLIGATIONS OF LABOR READY (TO THE EXTENT NOT IN EXCESS OF THE



STATED AMOUNT) IN RESPECT TO THE LABOR READY STANDBY LC'S. (AS EACH SUCH TERM IS DEFINED BELOW)

FOR PURPOSES OF THIS STANDBY LETTER OF CREDIT AND ANY DRAWING CERTIFICATE DELIVERED HEREUNDER, THE FOLLOWING TERMS SHALL HAVE THE MEANINGS INDICATED:

"LABOR READY STANDBY LC'S" MEANS ONE OF THE IRREVOCABLE STANDBY LETTERS OF CREDIT ISSUED BY US BANK NATIONAL ASSOCIATION FOR THE ACCOUNT OF LABOR READY SET FORTH ON ANNEX I HERETO.

IT IS A CONDITION OF THIS STANDBY LETTER OF CREDIT THAT IT SHALL BE DEEMED AUTOMATICALLY EXTENDED WITHOUT AMENDMENT FOR ONE YEAR FROM ITS EXPIRY DATE OF FROM ANY FUTURE EXPIRY DATE, UNLESS AT LEAST 30 DAYS PRIOR TO ANY SUCH EXPIRY DATE WE SHALL NOTIFY YOU BY CERTIFIED MAIL THAT WE ELECT NOT TO CONSIDER THIS STANDBY LETTER OF CREDIT RENEWED FOR ANY SUCH ADDITIONAL PERIOD.

AVAILABLE BY SIGHT PAYMENT AGAINST THE FOLLOWING:

THE BENEFICIARY'S TESTED TELEX OR AUTHENTICATED SWIFT SENT TO OUR TELEX NO. 4990118 ANSWERBACK BANKPHILOR SWIFT ADDRESS PNBUS33APHL ON OR PRIOR TO 3 P.M. ON OR BEFORE THE EXPIRY DATE HEREOF STATING THEREIN THE FOLLOWING:

- A) "THE BENEFICIARY HEREBY DEMANDS PAYMENT UNDER GENERAL ELECTRIC CAPITAL CORPORATION LETTER OF CREDIT NUMBER SE441429P AN AMOUNT OF USD (SUPPLY AMOUNT) WHICH AMOUNT REPRESENTS FUNDS DUE AND OWING TO THE BENEFICIARY IN REIMBURSEMENT OF PAYMENT BY THE BENEFICIARY OF DRAWING(S) UNDER OUTSTANDING LETTER(S) OF CREDIT NO.(S) (SUPPLY RELEVANT NUMBER(S)) ISSUED BY THE BENEFICIARY FOR THE ACCOUNT OF LABOR READY. SUCH DRAWING(S) CONFORM TO THE TERMS AND CONDITIONS OF THE RELEVANT LETTER OF CREDIT OR THE PAYMENT OF SUCH DRAWING(S) HAS/HAVE BEEN AUTHORIZED BY \_\_\_\_\_."

SEE CONTINUATION

A GE Capital Services Company

ATTACHED TO AND FORMING PART OF STANDBY CREDIT NO. SE441429P DATED FEBRUARY 26, 2001.  
PAGE TWO

AND/OR

- A) B) "THE BENEFICIARY HEREBY DEMANDS UNDER GENERAL ELECTRIC CAPITAL CORPORATION LETTER OF CREDIT NUMBER SE441429P AN AMOUNT OF USD(SUPPLY AMOUNT) WHICH AMOUNT REPRESENTS FUNDS DUE AND OWING TO THE BENEFICIARY FOR PAYMENT OF CUSTOMARY AND REASONABLE FEES AND CHARGES IN CONNECTION WITH OUTSTANDING LETTER(S) OF CREDIT NO.(S) (SUPPLY RELEVANT-NUBERS) ISSUED BY THE BENEFICIARY FOR THE ACCOUNT OF LABOR READY, INCLUDING WITHOUT LIMITATION THE NEGOTIATION FEE. SUCH FEES AND CHARGES HAVE NOT BEEN PAID BY LABOR READY AS OF THE DATE HEREOF."

(STATE A AND/OR B ABOVE, AS APPLICABLE)

SPECIAL CONDITIONS:

- A) THE STATED AMOUNT OF THIS LETTER OF CREDIT SHALL ALSO BE REDUCED FROM TIME TO TIME, UPON RECEIPT BY FIRST UNION NATIONAL BANK OF THE FOLLOWING:

TESTED TELEX OR AUTHENTICATED SWIFT, DULY TRANSMITTED TO OUR TELEX NO. TELEX NO. 4990118 ANSWERBACK: PNBUS33;OR SWIFT ADDRESS PNBUS33APHL ON OR PRIOR TO THE EXPIRY DATE HEREOF, STATING THEREIN THE FOLLOWING:

- A) "THE OUTSTANDING LETTER(S) OF CREDIT NO.(S) (SUPPLY RELEVANT NUMBER(S)) ISSUED BY US BANK NATIONAL ASSOCIATION FOR THE ACCOUNT OF LABOR READY HAS(HAVE) EXPIRED WITH AN UNUSED BALANCE OF USD(SUPPLY AMOUNT), THEREFORE GENERAL ELECTRIC CAPITAL CORPORATION IS INSTRUCTED AND AUTHORIZED TO REDUCE THE STATED AMOUNT OF THEIR LETTER OF CREDIT NUMBER SE441429P BY SUCH AMOUNT."

AND/OR

- B) "THE OUTSTANDING LETTER(S) OF CREDIT NO.(S) (SUPPLY RELEVANT NUMBER(S)) ISSUED BY US BANK NATIONAL ASSOCIATION FOR THE ACCOUNT OF LABOR READY HAS(HAVE) BEEN RETURNED TO US FOR CANCELLATION AND HAS(HAVE) BEEN TERMINATED BY US WITH AN UNUSED BALANCE OF USD(SUPPLY AMOUNT), THEREFORE GENERAL ELECTRIC CAPITAL CORPORATION IS INSTRUCTED AND AUTHORIZED TO REDUCE THE STATED AMOUNT OF THEIR LETTER OF CREDIT NUMBER SE441429P BY SUCH AMOUNT."

SEE CONTINUATION

A GE Capital Services Company

ATTACHED TO AND FORMING PART OF STANDBY CREDIT NO. SE441429P DATED FEBRUARY 26, 2001.  
PAGE THREE

AND/OR

C) "THE OUTSTANDING LETTER(S) OF CREDIT NO.(S) (SUPPLY RELEVANT NUMBER(S)) ISSUED BY US BANK NATIONAL ASSOCIATION FOR THE ACCOUNT OF LABOR READY HAS(HAVE) BEEN REDUCED BY USD(SUPPLY AMOUNT), THEREFORE GENERAL ELECTRIC CAPITAL CORPORATION IS INSTRUCTED AND AUTHORIZED TO REDUCE THE STATED AMOUNT OF THEIR LETTER OF CREDIT NUMBER SE441429P BY SUCH AMOUNT." THE ORIGINAL OF THIS LETTER OF CREDIT AND ALL, AMENDMENTS, IF ANY, FOR OUR ENDORSEMENT. (IF YOUR DEMAND REPRESENTS A PARTIAL DRAWING HEREUNDER, WE WILL ENDORSE THE ORIGINAL CREDIT AND RETURN SAME TO YOU FOR POSSIBLE FUTURE CLAIMS. IF, HOWEVER, YOUR DEMAND REPRESENTS A FULL DRAWING OR IF SUCH DRAWING IS PRESENTED ON THE DAY OF THE RELEVANT EXPIRATION DATE HEREOF, WE WILL HOLD THE ORIGINAL FOR OUR FILES AND REMOVE SAME FROM CIRCULATION.)

THIS LETTER OF CREDIT SETS FORTH IN FULL THE TERMS OF OUR UNDERTAKING AND SUCH UNDERTAKING SHALL NOT IN ANY WAY BE MODIFIED, AMENDED OR AMPLIFIED BY REFERENCE TO ANY DOCUMENT OR INSTRUMENT REFERRED TO HEREIN OR IN WHICH THIS LETTER OF CREDIT IS REFERRED TO OR TO WHICH THIS LETTER OF CREDIT RELATES AND ANY SUCH REFERENCE SHALL NOT BE DEEMED TO INCORPORATE HEREIN BY REFERENCE ANY DOCUMENT OR INSTRUMENT.

WE ENGAGE WITH YOU THAT ALL DOCUMENTS PRESENTED IN COMPLIANCE WITH THE TERMS OF THIS LETTER OF CREDIT WILL BE DULY HONORED BY US IF DELIVERED TO FIRST UNION NATIONAL BANK, P.O. BOX 13866, 1345 CHESTNUT STREET, NINTH FLOOR, MAIL CODE PA4928, ATTENTION: LETTER OF CREDIT DEPARTMENT, PHILADELPHIA, PA. 19107 PRIOR TO 3 P.M. ON OR BEFORE THE EXPIRY DATE HEREOF.

ALL DEMANDS FOR PAYMENT, NOTICES AND OTHER COMMUNICATIONS TO US IN RESPECT OF THIS LETTER OF CREDIT SHALL i BE IN WRITING AND ADDRESSED AND PRESENTED TO US AT FIRST UNION BANK, N.A., 9<sup>TH</sup> FLOOR, MAIL CODE PA4928,1345 CHESTNUT STREET, PHILADELPHIA, PA. 19107, ATTENTION: INTERNATIONAL STANDBY LETTER OF CREDIT, (OR AT SUCH OTHER OFFICE OR OFFICES AS WE MAY DESIGNATE BY WRITTEN NOTICE TO YOU), AND SHALL MAKE SPECIFIC REFERENCE TO THIS LETTER OF CREDIT BY NUMBER, ii BE PERSONALLY DELIVERED TO US AT THE ADDRESS SPECIFIED ABOVE, OR, iii MAY BE SENT TO US BY TESTED TELEX, SWIFT OR BY TELECOPIER ON YOUR LETTERHEAD SIGNED BY YOUR OFFICER, TO THE FOLLOWING NUMBERS: TELEX NO. 4990118 ANSWERBACK: PNBUS33; SWIFT ADDRESS PNBUS33APHL;TELECOPIER NO.: 215-786-8803.

EXCEPT SO FAR AS OTHERWISE EXPRESSLY STATED HEREIN THIS LETTER OF CREDIT IS SUBJECT TO THE "INTERNATIONAL STANDBY PRACTICES, INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 590 ("ISP98").

ALL INQUIRIES REGARDING THIS CREDIT SHOULD BE DIRECTED TO US AT OUR PHONE NUMBERS (215) 973-8157; (215)973-5981; (215) 973-1944.

/s/ Richard Fortino

\_\_\_\_\_  
 AUTHORIZED SIGNATURE

A GE Capital Services Company

ATTACHED TO AND FORMING PART OF STANDBY CREDIT NO. SE441429P.DATED FEBRUARY 26, 2001.  
 PAGE FOUR

**ANNEX I**

<b>Beneficiary</b>	<b>\$Amount</b>	<b>Expiration</b>	<b>LC #</b>
<b>Mutual Indemnity</b>	<b>\$7,560,000.00</b>	<b>12/31/01</b>	<b>SLCS001461</b>
<b>TOTAL OUTSTANDING SBLCS</b>	<b>\$7,560,000.00</b>		

**OUTSTANDING STANDBY AND DOCUMENTARY LETTERS OF CREDIT**

**END OF ANNEX I**

A GE Capital Services Company