

**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 September 28, 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)

91-1287341
(Employer Identification No.)

1015 A Street, Tacoma, Washington
(Address of Principal Executive Offices)

98402
(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 No

As of November 5, 2001, the Registrant had 40,516,936 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

LABOR READY, INC.

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Part I. Financial Information

**LABOR READY, INC.
CONSOLIDATED BALANCE SHEETS**

In Thousands

ASSETS

	(Unaudited) September 28, 2001	December 31, 2000
CURRENT ASSETS:		
Cash and cash equivalents	\$ 43,201	\$ 36,048
Accounts receivable	5,729	100,678
Accounts receivable pledged under securitization agreement	101,285	--
Allowance for doubtful accounts	(7,714)	(7,661)
Workers' compensation deposits and credits	3,868	4,497
Prepaid expenses and other	8,101	6,878
Income tax receivable	-	195
Deferred income taxes	11,080	9,771
Total current assets	<u>165,550</u>	<u>150,406</u>
PROPERTY AND EQUIPMENT:		
Buildings and land	17,954	7,057
Computers and software	31,513	29,912
Cash dispensing machines	13,473	13,790
Furniture and equipment	1,671	1,620
Construction in progress	--	8,850
	64,611	61,229
Less accumulated depreciation	<u>23,517</u>	<u>17,827</u>
Property and equipment, net	<u>41,094</u>	<u>43,402</u>
OTHER ASSETS:		
Restricted cash	2,953	1,696
Deferred income taxes	11,189	9,521
Other assets	1,022	398
Total other assets	<u>15,164</u>	<u>11,615</u>
Total assets	<u>\$ 221,808</u>	<u>\$ 205,423</u>

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	(Unaudited) September 28, 2001	December 31, 2000
CURRENT LIABILITIES:		
Accounts payable	\$ 17,507	\$ 18,683
Accrued wages and benefits	14,110	10,201
Current portion of workers' compensation claims reserve	24,424	19,452
Income taxes payable	4,350	--
Current maturities of long-term debt	1,813	7,911
Total current liabilities	<u>62,204</u>	<u>56,247</u>
LONG-TERM LIABILITIES:		
Long-term debt, less current maturities	5,469	6,843
Workers' compensation claims reserve	<u>36,135</u>	<u>30,229</u>

Total long-term liabilities	41,604	37,072
Total liabilities	103,808	93,319
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, no par value, 100,000 shares authorized; 40,493 and 40,941 shares issued and outstanding	50,326	52,074
Cumulative foreign currency translation adjustment	(353)	(250)
Retained earnings	68,027	60,280
Total shareholders' equity	118,000	112,104
Total liabilities and shareholders' equity	\$ 221,808	\$ 205,423

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

In Thousands (Except Per Share Amounts)

(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 28, 2001	September 29, 2000	September 28, 2001	September 29, 2000
Revenues from services	\$ 259,928	\$ 283,025	\$ 702,668	\$ 718,555
Cost of services	180,328	199,012	491,245	501,468
Gross profit	79,600	84,013	211,423	217,087
Selling, general and administrative expenses	64,903	68,668	193,266	198,363
Depreciation and amortization	2,004	1,952	6,200	5,528
Income from operations	12,693	13,393	11,957	13,196
Interest and other income (expense), net	(64)	(399)	540	(569)
Income before taxes	12,629	12,994	12,497	12,627
Taxes on income	4,750	4,873	4,750	4,654
Net income	\$ 7,879	\$ 8,121	\$ 7,747	\$ 7,973
Basic net income per common share	\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.19
Diluted net income per common share	0.19	0.19	0.19	0.19
Weighted average shares outstanding:				
Basic	40,509	41,995	40,586	42,531
Diluted	40,786	42,066	40,676	42,794

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In Thousands

(Unaudited)

	Thirty-Nine Weeks Ended	
	September 28, 2001	September 29, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 7,747	\$ 7,973
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,200	5,528
Provision for doubtful accounts	13,144	10,681
Deferred income taxes	(2,987)	(2,110)
Loss on disposal of property and equipment	152	--
Changes in operating assets and liabilities		
Accounts receivable	(19,546)	(28,689)
Workers' compensation deposits and credits	629	458
Prepaid expenses and other	(1,216)	2,478
Accounts payable	(654)	2,631
Accrued wages and benefits	3,920	3,303

Income taxes	4,527	6,080
Workers' compensation claims reserve	10,885	9,119
Net cash provided by operating activities	22,801	17,452
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(5,891)	(13,674)
Restricted cash	(1,257)	366
Intangible assets and other	(636)	(370)
Proceeds from sale of property and equipment	1,809	--
Net cash used in investing activities	(5,975)	(13,678)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds (payments) on short term borrowing	(515)	2,846
Proceeds from options and warrants exercised	210	659
Proceeds from sale of stock through employee benefit plans	1,015	1,110
Purchase and retirement of common stock	(2,973)	(7,202)
Purchase and retirement of preferred stock	--	(854)
Proceeds (payments) on long-term debt	(7,471)	5,231
Preferred stock dividends paid	--	(65)
Net cash provided by (used in) financing activities	(9,734)	1,725
Effect of exchange rates on cash	61	(140)
Net increase in cash and cash equivalents	7,153	5,359
CASH AND CASH EQUIVALENTS, beginning of period	36,048	16,845
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 43,201</u>	<u>\$ 22,204</u>

See accompanying notes to consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(In Thousands)

(Unaudited)

Common stock	
Balance at December 31, 2000	52,074
Common stock issued on the exercise of options and warrants	210
Common stock issued through employee benefit plans	1,015
Common stock repurchased	(2,973)
Balance at September 28, 2001	<u>50,326</u>
Cumulative translation adjustment	
Balance at December 31, 2000	(250)
Foreign currency translation	(103)
Balance at September 28, 2001	<u>(353)</u>
Retained earnings	
Balance at December 31, 2000	60,280
Net income	7,747
Balance at September 28, 2001	68,027
Total shareholders' equity	<u>\$ 118,000</u>

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 thirty-nine week period ended September 28, 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 ("FASB") 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.

In August 2001, FASB approved SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), which will be effective beginning fiscal year 2003. SFAS 143 addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. In October 2001, FASB approved SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS 121") and the accounting and reporting provisions of APB No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for the disposal of a segment of a business. SFAS 144 retains many of the fundamental provisions of SFAS 121, but resolves certain implementation issues associated with that Statement. SFAS 144 will be effective for fiscal year 2002. We are in the process of evaluating the financial statement impact of adoption of SFAS 143 and SFAS 144.

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 September 28, 2001 and December 31, 2000 are workers' compensation claims reserves of \$60.6 million and \$49.7 million. The claims reserves were computed using a discount rate of 6.0%.

Workers' compensation expense totaling \$16.5 million and \$16.5 million was recorded as a component of cost of services in each of the thirteen weeks ended September 28, 2001 and September 29, 2000. Workers' compensation expense totaling \$44.5 million and \$38.8 million was recorded as a component of cost of services in each of the thirty-nine weeks ended September 28, 2001 and September 29, 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, 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, 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. We had 2.7 million anti-dilutive options outstanding for both the thirteen and thirty-nine weeks ended September 28, 2001. For the thirteen and thirty-nine weeks ended September 29, 2000, we had 4.0 million and 3.5 million anti-dilutive options outstanding.

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 28, 2001	September 29, 2000	September 28, 2001	September 29, 2000
Basic:				
Net income	\$ 7,879	\$ 8,121	\$ 7,747	\$ 7,973
Less preferred stock dividends	--	(2)	--	(22)
Income allocable to common shareholders	7,879	8,119	7,747	7,951
Weighted average shares outstanding	40,509	41,995	40,586	42,531
Net income per share	\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.19
Diluted:				
Income allocable to common shareholders	\$ 7,879	\$ 8,119	\$ 7,747	\$ 7,951
Weighted average shares outstanding	40,509	41,995	40,586	42,531
Plus options to purchase common stock outstanding at end of period	5,446	4,585	5,446	4,585
Less shares assumed repurchased	(5,169)	(4,514)	(5,356)	(4,322)
Weighted average shares outstanding, including dilutive effect of options	40,786	42,066	40,676	42,794
Net income per share	\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.19

SUPPLEMENTAL CASH FLOW INFORMATION

	(Amounts in Thousands)	
	September 28, 2001	September 29, 2000
Cash paid during the period for:		
Interest	\$ 1,255	\$ 962

Income taxes	\$	3,182	\$	722
Non-cash investing and financing activities:				
Tax benefits related to stock options	\$	--	\$	439
Assets acquired with capital lease obligations	\$	--	\$	2,161

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 \$0.8 million. 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 "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 Creditor's commercial paper rate, and fees for the letter of credit portion of the facility are based upon the 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 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 September 28, 2001, \$80.4 million was available under this facility, of which we have committed \$54.9 million for letters of credit to our insurance carriers, leaving \$25.5 million available for future borrowing.

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) national and global economic conditions; (2) our ability to continue to attract and retain customers and maintain profit margins in the face of new and existing competition; (3) our ability to attract and retain competent employees in key positions; and (4) other risks as set forth in our filings with the Securities and Exchange Commission including our Form 10-K for the year ended December 31, 2000. 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 811 dispatch offices at September 28, 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 \$703 million for the thirty-nine weeks ended September 28, 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 31 dispatch offices during the first thirty-nine weeks of 2001 and closed 36 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 an increase in temporary labor demand in the spring, summer and early fall months, and lower demand in the late fall and winter months.

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 September 28, 2001 Compared to Thirteen Weeks Ended September 29, 2000

The following table compares the operating results for the thirteen weeks ended September 28, 2001 and September 29, 2000 (in thousands):

	Thirteen Weeks Ended		
	September 28, 2001	Percent Change	September 29, 2000
Revenues from services	\$ 259,928	(8.2)	\$ 283,025
Cost of services	180,328	(9.4)	199,012
Selling, general and administrative expenses	64,903	(5.5)	68,668
Depreciation and amortization	2,004	2.7	1,952
Interest and other expense, net	64	(84.0)	399
Income before taxes	12,629	(2.8)	12,994
Net income	\$ 7,879	(3.0)	\$ 8,121

Dispatch Offices

The number of offices decreased to 811 at September 28, 2001 from 812 locations at June 29, 2001, a net decrease of 1 dispatch office, or (0.1)%. The number of offices grew to 852 for the thirteen weeks ended September 29, 2000 from 839 locations at June 30, 2000, a net increase of 13 dispatch offices, or 1.5%.

Revenues from Services

The decrease in revenues is due primarily to a 4% decrease in the number of offices in operation and the fact that the average office produced 4% less revenue during the thirteen week period ending September 28, 2001 as compared to the same period in 2000. Included in revenues from services for the thirteen weeks ended September 28, 2001 and September 29, 2000 are CDM fees of \$2.1 million and \$2.4 million.

Cost of Services

The decrease in cost of services is directly related to the corresponding decrease in revenues. Cost of services was 69.4% of revenue for the thirteen weeks ended September 28, 2001 compared to 70.3% of revenue for the same period in 2000, a decrease of 0.9%.

Selling, General and Administrative Expenses

The thirteen week comparative decrease in selling, general and administrative expenses is largely due to the decrease in the number of offices and their respective administrative costs partially offset by approximately \$2 million of accrued costs associated with the decision to close additional offices and other non-recurring items. Selling, general and administrative expenses were 25.0% of revenues for the third quarter of 2001 as compared to 24.3% of revenues in the third 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 net addition of \$7.2 million of property and equipment since the third quarter of 2000. These additions primarily include building, computer equipment, software, and other equipment.

Interest and Other Expense, Net

The decrease in net interest and other expense was the result of the decreased balance outstanding on the line of credit over the period.

We expect to incur less interest expense during the balance of 2001, as the collection of receivables from our busiest time of the year should allow us to maintain a positive cash flow and to increase our short-term investment income. However, cash balances held in the CDMs for payment of temporary worker payrolls will continue to limit cash available for investing.

Taxes on Income

The decrease in taxes for the quarter is commensurate with the decrease in income from operations for each thirteen week period and a decrease in the impact of the foreign losses. Our effective tax rate was 37.6% in the third quarter of 2001 as compared to 37.5% 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 \$22.3 million at September 28, 2001, resulting primarily from workers' compensation deposits, credits and reserves and the allowance for doubtful accounts. 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 \$1.3 million.

Net Income

As a percentage of revenues from services, net income was 3.0% for the third quarter of 2001 compared to 2.9% for the third quarter of 2000, an increase of 0.1%. This increase in net income as a percentage of revenue was related to the decrease in costs of services and interest and other expense as a percentage of revenue for the same period.

Thirty-Nine Weeks Ended September 28, 2001 Compared to Thirty-Nine Weeks Ended September 29, 2000

The following table compares the operating results for the thirty-nine weeks ended September 28, 2001 and September 29, 2000 (in thousands):

	Thirty-Nine Weeks Ended		
	September 28, 2001	Percent Change	September 29, 2000
Revenues from services	\$ 702,668	(2.2)	\$ 718,555
Cost of services	491,245	(2.0)	501,468
Selling, general and administrative expenses	193,266	(2.6)	198,363
Depreciation and amortization	6,200	12.2	5,528
Interest and other income (expense), net	540	194.9	(569)
Income before taxes	12,497	(1.0)	12,627
Net income	\$ 7,747	(2.8)	\$ 7,973

Dispatch Offices

We opened 31 and closed 36 dispatch offices for a net closure of 5 dispatch offices during the thirty-nine weeks ended September 28, 2001 as compared to 165 openings during the same period of the prior year. The total number of offices decreased to 811 at September 28, 2001 from 852 locations at September 29, 2000, a net decrease of 41 dispatch offices, or (4.8)%. We expect to close approximately 50 additional offices during the balance of the year, while continuing to serve customers from neighboring offices.

Revenues from Services

The decrease in revenues is due primarily to the continued decrease in the number of offices in operation and same office sales declines. This is a result of weak demand among manufacturing and retail service customers, which is only partially offset by growth in construction. Included in revenues from services for the thirty-nine weeks ended September 28, 2001 and September 29, 2000 are CDM fees of \$5.8 million and \$6.2 million.

Cost of Services

The decrease in cost of services is primarily due to the corresponding decrease in revenues. Cost of services was 69.9% of revenue for the thirty-nine weeks ended September 28, 2001 compared to 69.8% of revenue for the same period in 2000, an increase of 0.1%.

Selling, General and Administrative Expenses

The decrease in selling, general and administrative expenses is largely due to the opening of fewer offices in 2001 and reductions in other overhead expenses from 2000 to 2001. Selling, general and administrative expenses were 27.5% of revenues for the first thirty-nine weeks of 2001 as compared to 27.6% of revenues in the first thirty-nine weeks 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 net addition of \$7.2 million of property and equipment since the third 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 pretax realized gain of \$0.8 million for the sale of real estate. Additionally, we had cash balances of approximately \$15.8 million held in the CDMs at September 28, 2001 compared to \$17.4 million at September 29, 2000.

We expect to incur less interest expense during the balance of 2001, as the collection of receivables from our busiest time of the year should allow us to maintain a positive cash flow and to increase our short-term investment income. However, cash balances held in the CDMs for payment of temporary worker payrolls will continue to limit cash available for investing.

Taxes on Income

The increase in taxes on income is a result of the decrease in the impact of the foreign losses. The Company's effective tax rate was 38.0% for the first three quarters of 2001 as compared to 36.9% for the first three 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 \$22.3 million at September 28, 2001, resulting primarily from workers' compensation deposits, credits and reserves and the allowance for doubtful accounts. 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 \$1.3 million.

Net Income

The net income for the thirty-nine week period ended September 28, 2001 decreased by 2.8% as compared to 2000. This decrease was related to the decrease in income from operations as a percentage of service revenue and the increase in the effective tax rate partially offset by the increase in interest and other income, including the \$0.8 million realized pretax gain on the sale of real estate.

Liquidity and Capital Resources

Net cash provided by operating activities was \$22.8 million for the thirty-nine week period ended September 28, 2001 compared to \$17.5 million for the same period ended September 29, 2000. This increase is largely due to the decrease in accounts receivable and an increase in workers' compensation reserves, which were partially offset by the increase in prepaid expenses.

We used net cash in investing activities of \$6.0 million in the first thirty-nine weeks of 2001, compared to \$13.7 million in the first thirty-nine 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 (\$9.7 million) for the period ended September 28, 2001 and \$1.7 million for the period ended September 29, 2000. The increase in cash used in financing activities in 2001 as compared to 2000 is due mainly to the \$7.5 million of payments on long term debt, which includes our new corporate headquarters and capital leases. We also purchased and retired approximately 0.8 million shares of common stock at an aggregate purchase price of approximately \$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 September 28, 2001, \$80.4 million was available, of which we have committed \$54.9 million for letters of credit to our insurance carriers, leaving \$25.5 available for future borrowing.

Included in cash and cash equivalents at September 28, 2001 is approximately \$15.8 million, as compared to \$17.4 million at September 29, 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 September 28, 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 September 28, 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.

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	Separation Agreement between Labor Ready, Inc. and Richard King dated October 9, 2001.
10.2	Consulting Agreement between Labor Ready, Inc. and Richard King dated October 9, 2001.
10.3	Employment Agreement between Labor Ready, Inc. and Joseph P. Sambataro, Jr. dated October 2, 2001.
10.4	Third Amendment to Securitization Agreements between Labor Ready Funding Corporation, Redwood Receivables Corporation, Labor Ready, Inc. and General Electric Capital Corporation dated November 8, 2001.

(b) Reports on Form 8-K

We filed the following reports on Form 8-K during the quarter covered by this Form 10-Q:

On September 25, 2001, we filed a Form 8-K reporting the resignation of Richard L. King as President and Chief Executive Officer and from our Board of Directors and the appointment of Joseph P. Sambataro, Jr. as new President and Chief Executive Officer.

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 9th day of November 2001.

LABOR READY, INC.

/s/ Joseph P. Sambataro, Jr.
Chief Executive Officer and President

/s/ Steven C. Cooper
Chief Financial Officer and Executive Vice President

SEPARATION AGREEMENT AND GENERAL RELEASE

This Agreement is entered into between Richard L. King ("Mr. King") and Labor Ready, Inc. (together with its subsidiaries, the "Company") as of this 9th day of October, 2001, in order to sever their employment relationship. In consideration of the mutual promises below, the Company and Mr. King agree as follows:

1. Termination of Employment. Mr. King's employment with the Company, and that certain Executive Employment Agreement between the Company and Mr. King dated May 16, 2000 (the "Employment Agreement"), were terminated effective as of September 20, 2001.
2. Compensation. Subject to Mr. King's compliance with all of the terms and conditions of this Agreement and as a material inducement to Mr. King to enter into this Agreement, the Company shall pay Mr. King the sum of One Hundred Thousand Dollars (\$100,000.00) on or before seven (7) days after mutual execution hereof.
3. Continuation of Health Insurance. Subject to Mr. King's compliance with all of the terms and conditions of this Agreement and as a material inducement to Mr. King to enter into this Agreement, the Company shall continue to provide the health insurance coverage currently provided to Mr. King and his wife, until the earlier of (a) the date Mr. King secures employment with another employer, or (b) one (1) year after the date hereof.
4. Termination of Stock Options. The parties acknowledge that the following represent all stock options granted Mr. King by the Company to date, and that no such options have heretofore been exercised:

<u>Option Grant</u>	<u>Grant Date</u>
350,000 shares	May 16, 2000
150,000 shares	August 1, 2000
12,000 shares	February 21, 2001

All said options shall be deemed terminated and of no further force or effect as of the date hereof.

5. Additional Terms and Conditions. Mr. King expressly agrees to all of the following terms and conditions:
 - a) Mr. King shall not issue or make any written or verbal statement to anyone which addresses the Company or his employment with the Company in a negative or derogatory manner.
 - b) Mr. King shall comply with all of the surviving covenants and provisions set forth in his Employment Contract.
 - c) Mr. King shall reasonably cooperate with the Company on an as-requested basis in any pending matters which in the Company's reasonable judgment require Mr. King's involvement.
6. Waiver and Release by Mr. King. Mr. King expressly acknowledges that the payment and benefits provided for hereinabove constitutes sufficient consideration for any and all compensation and benefits due Mr. King as well as Mr. King's promises set forth herein and the settlement, waiver, release and discharge of any and all claims arising under the Employment Agreement, common law, any federal, state and local statute or regulation, or otherwise. Mr. King represents that he has not filed any complaint, charge or action against the Company, its officers, agents or employees with any local, state or federal agency or court arising from his employment relationship with the Company. Mr. King represents that he will not seek damages, monetary or otherwise, or any other type of relief through any such complaint at any time in the future. Mr. King, for himself and his successors and assigns, waives, releases and forever discharges the Company, its officers, directors, agents and employees of and from any and all claims, causes of action, rights, demands, debts, damages and actions of whatever nature arising from or relating to Mr. King's employment relationship with the Company, including the termination of such relationship and the Employment Agreement, and also including any cause of action pertaining to employment discrimination based on age, race, creed, color, religion, sex, national origin or disability.
7. Opportunity to Review; Revocation. Mr. King expressly acknowledges that the Company has encouraged and given him the opportunity to thoroughly discuss all aspects of this Agreement with his attorney or other advisor before signing and that he has thoroughly discussed or in the alternative has freely elected to waive any further opportunities to thoroughly discuss this Agreement with his attorney or other advisor. Mr. King understands that he has fourteen (14) days to review this Agreement and determine whether or not to sign. Signature prior to the expiration of 14 days waives the remaining consideration period. Mr. King has seven (7) days from the date this Agreement is executed to revoke the waiver of any claim under the Age Discrimination in Employment Act. If Mr. King does not revoke the Agreement within the seven-day period, the Agreement shall become fully effective and the payment terms referred to herein shall become effective. If Mr. King does revoke this Agreement, the Company's payment obligation under this Agreement shall be null and void.
8. Knowing and Voluntary. Mr. King expressly acknowledges that he understands all of the provisions of this Agreement, and that he is knowingly and voluntarily entering into this Agreement.
9. Governing Law. This Agreement is made and entered into in the State of Washington and shall in all respects be interpreted, enforced and governed under the laws of this state.
10. Severability. Should any provision of this Agreement be declared or be determined by any court of competent jurisdiction to be illegal, invalid, void or unenforceable, the legality, validity and enforceability of the remaining parts, terms or provisions shall not be affected thereby and any such illegal, unenforceable or invalid part, term or provision shall be deemed to be revised in the legal, enforceable and valid manner which most closely reflects the intention of the parties.
11. Entire Agreement. This Agreement, along with all of the ongoing covenants of the Employment Contract, set forth the entire agreement between the parties and supersede any and all prior agreements or understandings between these parties pertaining to the subject matter hereof.

LABOR READY, INC.

By:

Joseph P. Sambataro, Jr.
President and Chief Executive Officer

Richard L. King

CONSULTING AGREEMENT

THIS AGREEMENT is made and entered into as of October 9, 2001 by and between Labor Ready, Inc., a Washington corporation (the "Company"), and Richard L. King ("Mr. King").

WHEREAS Mr. King was President and Chief Executive Officer of the Company from May, 2000 until September, 2001; and

WHEREAS, as a result of his experience with the Company and in previous positions, Mr. King has developed certain valuable knowledge and expertise; and

WHEREAS the Company wishes to retain the services of Mr. King in a consulting capacity, on the terms and conditions set forth below: and

WHEREAS King is willing to provide said services, on the terms and conditions set forth below;

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Consultation Services. Mr. King agrees to provide consultation to the Company during the term of this Agreement. Such consultation shall consist of communicating with, providing information to, advising and assisting the Company's executive officers, upon the reasonable request of such officers from time to time. Such communication shall be primarily by telephone, e-mail and fax. However, it is further contemplated that Mr. King may travel to the Company's headquarters to the extent necessary from time to time. The Company understands that Mr. King may relocate from the Tacoma area and/or obtain other employment, and recognizes that his availability for communication with and travel to the Company may be thereby constrained. However, Mr. King agrees to make reasonable efforts to accommodate the Company so as to provide the services contemplated hereby.
2. Consulting Fee. As consideration for Mr. King's agreement to provide consultation as set forth herein, the Company shall pay Mr. King a fee (the "Consulting Fee") in the total amount of Three Hundred Twenty Five Thousand Dollars (\$325,000.00), payable in equal bi-weekly installments throughout the term hereof. In addition, the Company shall reimburse Mr. King for all reasonable travel, telephone, postage and other out-of-pocket expenses incurred by Mr. King in providing services to the Company hereunder.
3. Term. The term of this Agreement shall be for twelve months, commencing October 1, 2001 and expiring September 30, 2002.
4. Relationship of Parties. The parties intend that Mr. King shall be an independent contractor, and nothing herein shall be construed as an agreement for employment or any other relationship between the Company and Mr. King. Mr. King shall be responsible for all taxes and any other governmental assessments with respect to the Consulting Fee.
5. Miscellaneous. This Agreement represents the entire agreement of the parties with respect to the subject matter hereof, and may only be amended in writing. Both parties acknowledge they have had the opportunity to seek the advice of independent legal counsel with respect to this Agreement. This Agreement shall be binding upon the parties hereto and their respective heirs, successors and assigns; provided, however, that Mr. King shall not assign any obligations hereunder. In the event of any legal action arising in connection with this Agreement, the prevailing party shall be entitled to its reasonable costs and attorneys fees from the other party. This Agreement shall be governed by the laws of the State of Washington without regard to choice of law principles. Venue for any such action shall be limited exclusively to the Washington State Superior Courts for Pierce County, or the United States District Court for the Western District of Washington at Tacoma.

IN WITNESS WHEREOF the parties have executed this Agreement as of the date first set forth above.

LABOR READY, INC.

By:

Joseph P. Sambataro, Jr.
President and Chief Executive Officer

Richard L. King

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 Joseph P. Sambataro, Jr. ("Executive"), effective as of September 24, 2001.

RECITALS

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 employ Executive and Executive is willing to be employed by Company; and

WHEREAS, the Company's Board of Directors has elected Executive to the offices of President and Chief Executive Officer;

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 the employment of the Company, subject to the supervision and direction of the Board of Directors. Executive's employment shall be for a period commencing on September 24, 2001 and ending on December 31, 2004, unless such period is extended by written agreement of the parties or is sooner terminated pursuant to the provisions of Paragraphs 4, 13 or 14.
2. **Duties of Executive**. Executive agrees to devote the necessary time, attention, skill and efforts to the performance of his duties as President and Chief Executive Officer of the Company and/or 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 Five Hundred Thousand and No/100 Dollars (\$500,000.00) per year, payable biweekly, from September 24, 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. Executive's 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 400,000 shares of the Company's common stock. The terms and conditions of the options are set forth in Exhibit A.
6. **Reimbursement for Expenses**. Company shall reimburse Executive for reasonable out-of-pocket expenses that Executive shall incur in connection with his services for Company contemplated by this Agreement, on presentation by Executive of appropriate vouchers and receipts for such expenses to Company.
7. **Spousal Travel Allowance**. Company shall reimburse Executive for reasonable travel expenses incurred by Executive's wife while accompanying Executive on Company-related travel, up to a maximum of Fifteen Thousand Dollars (\$15,000.00) per year, on presentation by Executive of appropriate vouchers and receipts for such expenses to Company.
8. **Housing Allowance**. Company shall reimburse Executive for reasonable housing expenses incurred by Executive as a result of his need to be in Company's Tacoma office, up to a maximum of Two Thousand Dollars (\$2,000.00) per month, on presentation by Executive of appropriate evidence of such expenditures to Company. In the event Company terminates this Agreement under Paragraph 13(b), Company shall indemnify Executive with respect to any remaining liability on a residential lease under this paragraph, up to a maximum of 12 months.
9. **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.
10. **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.
11. **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 loss, cost, damage and expense including attorneys' fees and court costs and any portion of the insurance deductible incurred or sustained by Executive, arising out of the proper discharge by Executive of his duties hereunder in good faith.
12. **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. In addition, following expiration of this Agreement and until Executive and his wife both reach the age of 65 or are eligible for Medicare, whichever is later, Executive shall have the option of maintaining health insurance through the Company's employee health insurance plan covering Executive and his wife, provided that Executive reimburses the Company therefor in an amount equal to the then-applicable employee contribution for such insurance.
13. **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 of a crime involving dishonesty, fraud or moral turpitude;
 - (ii) Executive has engaged in fraud, embezzlement, theft or other dishonest acts;

- (iii) Executive violates Company's Drug Free Workplace Policy;
- (iv) Executive takes any action intended to damage the assets (including tangible and intangible assets, such as name or reputation) of Company;
- (v) Executive fails to perform his duties in good faith, within ten (10) days after written notice from Company;
- (vi) Executive fails to commence implementation of actions approved by resolution of the board of directors, within ten (10) days after written notice from Company, or to thereafter diligently pursue the completion thereof; 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.

In the event of termination under this subparagraph, Company shall pay Executive all amounts due hereunder which are then accrued but unpaid, within thirty (30) days after Executive's last day of employment.

(b) Company shall have the right to terminate this Agreement at any time without cause by written notice to Executive. In the event of termination under this subparagraph, Company shall continue to pay Executive's salary until the earlier of (i) one (1) year after the date of such termination, or (ii) the expiration date of this Agreement as provided in Paragraph 1 above.

14. Termination by Executive.

(a) Executive may terminate this Agreement and his employment with Company at any time, upon giving Company at least thirty (30) days prior written notice. In the event of termination under this subparagraph 14(a), Company shall pay Executive all amounts due hereunder which are then accrued but unpaid, within thirty (30) days after Executive's last day of employment.

(b) Executive may terminate this Agreement for cause at any time upon written notice to Company. Cause shall exist if Company has materially breached this Agreement and such material breach has not been cured by Company within ten (10) business days after receipt by Company of written notification from Executive of the details of such breach. If termination of the Agreement occurs pursuant to this subparagraph 14(b), Company shall continue to pay Executive's salary until the earlier of (i) one (1) year after the date of such termination, or (ii) the expiration date of this Agreement as provided in Paragraph 1 above.

15. 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.

16. 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.

17. 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 Chairman of the Board or the Chief Executive Officer of Company, he shall immediately return all Confidential Information, including any copies of Confidential Information in his possession.

18. 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 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.

19. **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 Agreement and the existence of any claim or cause of action of Executive against Company, whether predicated on this 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.

20. **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.

21. **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.

22. **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.

23. **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.

24. **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.

25. **Attorneys' Fees.** In the event that any action (including arbitration pursuant to Paragraph 21 above) 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.

26. **Notices.** Any notice provided for or concerning this Agreement shall be in writing and shall be personally delivered or sent by certified or registered mail, return receipt requested, to the respective address of each party as set forth below, or such other address as each party shall designate by written notice. Notice shall be deemed delivered upon actual receipt.

27. **Survival of Certain Terms.** The terms and conditions set forth in Paragraphs 17 through 22 and Paragraph 25 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:

Joseph P. Sambataro, Jr.

Date: _____

COMPANY:

Labor Ready, Inc., a Washington corporation

By: _____
Date: _____

EXHIBIT A
Stock Option Grant

GRANT DATE: October 2, 2001

GRANT PRICE: Closing price on the Grant Date

TOTAL NUMBER OF SHARES: 400,000

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

<u>DATE</u>	<u>NUMBER OF SHARES</u>
October 2, 2001	100,000
October 2, 2002	100,000
October 2, 2003	100,000
October 2, 2004	100,000

TERMS AND CONDITIONS OF THE STOCK OPTION GRANT:

1. Except as otherwise provided herein, all unexercised options shall expire five (5) years after the Grant Date. The foregoing notwithstanding,
 - (a) If this Agreement is terminated by Company for cause pursuant to Paragraph 13(a) hereof, all unexercised options shall expire upon the date of termination;
 - (b) If this Agreement is terminated by Company pursuant to Paragraph 13(b) hereof, all options shall immediately vest and will not expire until five (5) years after the Grant Date; and
 - (c) If this Agreement is terminated by Executive pursuant to Paragraph 14 hereof, all unexercised options shall expire ninety (90) days 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 October 2, 2001 was \$3.05.

THIRD AMENDMENT TO SECURITIZATION AGREEMENTS

THIS THIRD AMENDMENT TO SECURITIZATION AGREEMENTS (this “**Amendment**”), is made and entered into as of November 8, 2001 (the “**Effective Date**”), by and among **LABOR READY, INC.**, a Washington corporation (the “**Parent**”), each of the Parent’s Subsidiaries listed on the signature pages hereto as a “**Selling Subsidiary**” (each, a “**Selling Subsidiary**”; Parent and each Selling Subsidiary are hereinafter sometimes referred to individually as an “**Originator**” and collectively as the “**Originators**”), **LABOR READY FUNDING CORPORATION**, a Delaware corporation (the “**Buyer**”; Buyer and each Originator are hereinafter sometimes referred to individually as a “**Company**” and collectively as the “**Companies**”), **REDWOOD RECEIVABLES CORPORATION**, a Delaware corporation (“**Redwood**”), as Conduit Lender (in such capacity, the “**Conduit Lender**”), and **GENERAL ELECTRIC CAPITAL CORPORATION**, a Delaware corporation (“**GE Capital**”), as Committed Lender (in such capacity, the “**Committed Lender**”; together with the Conduit Lender referred to herein collectively as the “**Lenders**”), as Administrative Agent for the Lenders (in such capacity, the “**Administrative Agent**”), as Collateral Agent for the Conduit Lender and the Conduit Lender Secured Parties (in such capacity, the “**Collateral Agent**”), as Operating Agent for Redwood (in such capacity, the “**Operating Agent**”), and as Liquidity Agent for the Liquidity Lenders (in such capacity, the “**Liquidity Agent**”).

W I T N E S S E S :

WHEREAS, each of the Selling Subsidiaries and the Parent are parties to a certain Receivables Sale Agreement, dated as of March 1, 2001 (as amended to the date hereof, the “**Receivables Sale Agreement**”; capitalized terms used herein and not otherwise defined herein shall have the meanings given such terms in Annex X to the Receivables Sale Agreement as amended by this Amendment), whereby each Selling Subsidiary has agreed to sell or otherwise transfer to the Parent, and the Parent has agreed to purchase or otherwise acquire from such Selling Subsidiaries, all of the right, title and interest of such Selling Subsidiaries in the Receivables; and

WHEREAS, the Parent and the Buyer are parties to a certain Receivables Sale and Contribution Agreement, dated as of March 1, 2001 (as amended to the date hereof, the “**Transfer Agreement**”), whereby the Parent has agreed to sell, contribute or otherwise transfer to Buyer, and Buyer has agreed to purchase or otherwise acquire from the Parent, all of the right, title and interest of the Parent in the Receivables; and

WHEREAS, the Buyer, the Lenders and the Administrative Agent are parties to a certain Receivables Funding Agreement, dated as of March 1, 2001 (as amended to the date hereof, the “**Funding Agreement**”), pursuant to which, among other things, the Lenders have agreed, subject to certain terms and conditions, to make Advances to the Buyer to fund its purchases of the Receivables; and

WHEREAS, Redwood and GE Capital, as Liquidity Agent, Initial Liquidity Lender, Collateral Agent and Operating Agent are parties to a certain Liquidity Loan and Asset Purchase Agreement, dated as of March 1, 2001 (the “**Liquidity Loan Agreement**”; the Receivables Sale Agreement, the Transfer Agreement, the Funding Agreement and the Liquidity Loan Agreement, together with all exhibits and annexes thereto, are referred to herein collectively as the “**Securitization Agreements**”), pursuant to which, among other things, the Liquidity Lenders have agreed, subject to certain terms and conditions, to make Liquidity Loans to Redwood; and

WHEREAS, the Companies have requested that the Securitization Agreements be amended in certain respects, and the Lenders, the Administrative Agent and the Collateral Agent are willing to agree to such amendments subject to the terms and conditions of this Amendment.

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Amendments of Securitization Agreements.** Subject to the terms and conditions of this Amendment, including without limitation the fulfillment of the conditions precedent specified in Section 6 below, the Funding Agreement shall be amended as follows:

1.1 The Minimum Fixed Charge Coverage Ratio covenant set forth in paragraph (a) to Annex G to the Funding Agreement is hereby deleted in its entirety, and the following new covenant is substituted in lieu thereof:

(a) **Minimum Fixed Charge Coverage Ratio.** The Parent and its Subsidiaries shall have on a consolidated basis for each fiscal quarter set forth below and for the Rolling Period then ended a Fixed Charge Coverage Ratio of not less than the ratio set forth below:

<u>Fiscal Quarter</u>	<u>Fixed Charge Coverage Ratio</u>
The first fiscal quarter of fiscal year 2001	1.25 to 1.00
The second fiscal quarter of fiscal year 2001	1.30 to 1.00
The third fiscal quarter of fiscal year 2001	1.00 to 1.00
The fourth fiscal quarter of fiscal year 2001	1.05 to 1.00
The first fiscal quarter of fiscal year 2002	1.05 to 1.00
The second fiscal quarter of fiscal year 2002	1.14 to 1.00
The third fiscal quarter of fiscal year 2002	1.14 to 1.00
The fourth fiscal quarter of fiscal year 2002	1.14 to 1.00
The first fiscal quarter of fiscal year 2003 and each fiscal quarter thereafter	1.20 to 1.00

1.2 The Minimum EBITDA covenant set forth in paragraph (b) to Annex G to the Funding Agreement is hereby deleted in its entirety, and the following new covenant is substituted in lieu thereof:

(b) Minimum EBITDA. Parent and its Subsidiaries shall have on a consolidated basis for each fiscal quarter set forth below an EBITDA for the Rolling Period then ended of not less than the following:

<u>Fiscal Quarter</u>	<u>Minimum EBITDA</u>
The first fiscal quarter of fiscal year 2001	\$20,000,000
The second fiscal quarter of fiscal year 2001	\$20,000,000
The third fiscal quarter of fiscal year 2001	\$22,000,000
The fourth fiscal quarter of fiscal year 2001	\$22,000,000
The first fiscal quarter of fiscal year 2002	\$22,000,000
The second fiscal quarter of fiscal year 2002	\$22,000,000
The third fiscal quarter of fiscal year 2002	\$22,000,000
The fourth fiscal quarter of fiscal year 2002	\$22,000,000
The first fiscal quarter of fiscal year 2003	\$22,000,000
The second fiscal quarter of fiscal year 2003	\$22,000,000
The third fiscal quarter of fiscal year 2003	\$22,500,000
The fourth fiscal quarter of fiscal year 2003	\$23,000,000
The first fiscal quarter of fiscal year 2004	\$24,000,000
The second fiscal quarter of fiscal year 2004	\$25,000,000
The third fiscal quarter of fiscal year 2004	\$26,000,000
The fourth fiscal quarter of fiscal year 2004	\$27,000,000
The first fiscal quarter of fiscal year 2005	\$28,000,000
The second fiscal quarter of fiscal year 2005	\$29,000,000
The third fiscal quarter of fiscal year 2005	\$30,000,000
The fourth fiscal quarter of fiscal year 2005	\$31,000,000

2. **No Other Amendments.** Except for the amendments expressly set forth and referred to in Section 1 above, the Securitization Agreements shall remain unchanged and in full force and effect.

3. **Representations and Warranties.** Each Company hereby represents and warrants to the Lenders, the Administrative Agent and the Collateral Agent that (a) this Amendment has been duly authorized, executed and delivered by each Company, (b) after giving effect to this Amendment, no Termination Event, Incipient Termination Event, Event of Servicer Termination or Incipient Servicer Termination Event has occurred and is continuing as of this date, and (c) after giving effect to this Amendment, all of the representations and warranties made by each Company in the Securitization Agreements are true and correct in all material respects on and as of the date of this Amendment (except to the extent that any such representations or warranties expressly referred to a specific prior date). Any breach in any material respect by any Company of any of its representations and warranties contained in this Section 3 shall be a Termination Event and an Event of Servicer Termination for all purposes of the Securitization Agreements.

4. **Ratification.** Each Company hereby ratifies and reaffirms each and every term, covenant and condition set forth in the Securitization Agreements and all other documents delivered by such Company in connection therewith (including without limitation the other Related Documents to which each Company is a party), effective as of the date hereof.

5. **Estoppel.** To induce the Lenders and the Administrative Agent to enter into this Amendment, each Company hereby acknowledges and agrees that, as of the date hereof, there exists no right of offset, defense or counterclaim in favor of any Company as against any Lender, the Administrative Agent or the Collateral Agent with respect to the obligations of any Company to any Lender, the Administrative Agent or the Collateral Agent under the Securitization Agreements or the other Related Documents, either with or without giving effect to this Amendment.

6. **Conditions to Effectiveness.** This Amendment shall be effective as of the Effective Date upon the satisfaction of the following conditions: (i) receipt by the Administrative Agent of this Amendment, duly executed, completed and delivered by each of the Companies, each Lender, the Administrative Agent and the Collateral Agent and (ii) receipt by the Administrative Agent of an amendment fee in the amount of \$100,000 payable by Borrower to Administrative Agent (the "**Amendment Fee**").

The Amendment Fee shall be fully earned and non-refundable when paid.

7. **Reimbursement of Expenses.** Each Company hereby agrees that it shall reimburse the Administrative Agent on demand for all costs and expenses (including without limitation reasonable attorney’s fees) incurred by such parties in connection with the negotiation, documentation and consummation of this Amendment and the other documents executed in connection herewith and therewith and the transactions contemplated hereby and thereby.

8. **Governing Law.** THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK FOR CONTRACTS TO BE PERFORMED ENTIRELY WITHIN SAID STATE.

9. **Severability of Provisions.** Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction. To the extent permitted by Applicable Law, each Company hereby waives any provision of law that renders any provision hereof prohibited or unenforceable in any respect.

10. **Counterparts.** This Amendment may be executed in any number of several counterparts, all of which shall be deemed to constitute but one original and shall be binding upon all parties, their successors and permitted assigns.

11. **Entire Agreement.** The Securitization Agreements as amended by this Amendment embody the entire agreement between the parties hereto relating to the subject matter hereof and supersede all prior agreements, representations and understandings, if any, relating to the subject matter hereof.

12. **Parent and GECC’s Capacities.** The Parent is executing and delivering this Amendment both in its capacity as an Originator under the Transfer Agreement and as the Servicer under the Funding Agreement, and all references herein to the “Parent” shall be deemed to include the Parent in both such capacities unless otherwise expressly indicated. GECC is executing and delivering this Amendment both in its capacity as a Lender and as the Administrative Agent for the Lenders and the Collateral Agent for the Conduit Lender and the Conduit Lender Secured Parties, and all references herein to “GECC” shall be deemed to include it in both such capacities unless otherwise expressly indicated.

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IN WITNESS WHEREOF, the parties have caused this Third Amendment to Securitization Agreements to be duly executed by their respective officers thereunto duly authorized, as of the date first above written.

REDWOOD RECEIVABLES CORPORATION, as the Conduit Lender

By: _____
Name:
Title:

GENERAL ELECTRIC CAPITAL CORPORATION, as Committed Lender, Administrative Agent and Collateral Agent

By: _____
Its Duly Authorized Signatory

LABOR READY FUNDING CORPORATION

By: _____
Name:
Title:

LABOR READY, INC.

By: _____
Name:
Title:

SELLING SUBSIDIARIES:

LABOR READY CENTRAL, INC.

By: _____
Name
Title:

LABOR READY CENTRAL II, LLC

By: Labor Ready Central, Inc., as its sole Member

By: _____
Name
Title:

LABOR READY CENTRAL III, LP

By: Labor Ready Central, Inc., as its sole General Partner

By: _____
Name:
Title:

LABOR READY GP CO., INC.

By: _____
Name:
Title:

LABOR READY MID-ATLANTIC, INC.

By: _____
Name
Title:

LABOR READY MID-ATLANTIC II, INC.

By: _____

LABOR READY MID-ATLANTIC III, LP

By: Labor Ready GP Co., Inc., as its sole General Partner

By: _____
Name:
Title:

LABOR READY MIDWEST, INC.

By: _____
Name:
Title:

LABOR READY NORTHEAST, INC.

By: _____
Name:
Title:

LABOR READY NORTHWEST, INC.

By: _____
Name
Title:

LABOR READY SOUTHEAST, INC.

By: _____

LABOR READY SOUTHEAST II, INC.

By: _____
Name:
Title:

LABOR READY SOUTHEAST III, LP

By: Labor Ready GP Co., Inc., as its sole General Partner

By: _____
Name:
Title:

LABOR READY SOUTHWEST, INC.

By: _____
Name:
Title:

LABOR READY PUERTO RICO, INC.

By: _____

Name

Title: