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 March 29, 2002

Commission File Number: 001-14543

LABOR READY, INC.
(Exact name of Registrant as specified in its charter)

Washington (State or other jurisdiction of incorporation or organization)	**91-1287341** (IRS Employer Identification No.)

1015 A Street Tacoma, Washington 98402
(Address of principal executive offices, including zip code)

(253) 383-9101
(Registrant's telephone number, including area code)

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 April 24, 2002, the Registrant had 40,903,830 shares of Common Stock outstanding.

Documents incorporated by reference: None.

LABOR READY, INC.

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LABOR READY, INC.
CONSOLIDATED BALANCE SHEETS
In Thousands

ASSETS
(Unaudited)

	March 29, 2002	December 31, 2001
CURRENT ASSETS:		
Cash and cash equivalents	$ 33,432	$ 48,865
Accounts receivable	4,447	3,902
Accounts receivable pledged under securitization agreement	61,611	64,659
Allowance for doubtful accounts	(4,596)	(5,649)
Workers' compensation deposits and credits	3,697	3,697
Prepaid expenses and other	6,839	7,486
Income tax receivable	391	1,537
Deferred income taxes	10,266	9,031
Total current assets	116,087	133,528
PROPERTY AND EQUIPMENT:		
Buildings and land	15,150	15,119
Computers and software	32,317	31,792
Cash dispensing machines	14,129	13,443
Furniture and equipment	1,671	1,639
	63,267	61,993
Less accumulated depreciation	27,199	25,099
Property and equipment, net	36,068	36,894
OTHER ASSETS:		
Restricted cash	51,364	33,357
Deferred income taxes	11,302	9,189
Other assets	1,175	1,062
Total other assets	63,841	43,608
Total assets	$ 215,996	$ 214,030

See accompanying notes to consolidated financial statements.

LABOR READY, INC.
CONSOLIDATED BALANCE SHEETS
In Thousands (Except Per Share Amounts)

LIABILITIES AND SHAREHOLDERS' EQUITY
(Unaudited)

	March 29, 2002	December 31, 2001
CURRENT LIABILITIES:		
Accounts payable	$ 14,597	$ 14,160
Accrued wages and benefits	10,356	9,340
Current portion of workers' compensation claims reserve	27,284	27,440
Current maturities of long-term debt	2,005	1,845
Total current liabilities	54,242	52,785
LONG-TERM LIABILITIES:		
Long-term debt, less current maturities	5,067	4,998
Workers' compensation claims reserve	39,317	36,554
Total long-term liabilities	44,384	41,552
Total liabilities	98,626	94,337
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, $0.131 par value, 20,000 shares authorized; No shares issued and outstanding	—	—

Common stock, no par value, 100,000 shares authorized; 40,893 and 40,602 shares issued and outstanding	52,058	50,665
Cumulative foreign currency translation adjustment	(587)	(467)
Retained earnings	65,899	69,495
Total shareholders' equity	117,370	119,693
Total liabilities and shareholders' equity	$ 215,996	$ 214,030

See accompanying notes to consolidated financial statements.

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

	Thirteen Weeks Ended	
	March 29, 2002	March 30, 2001
Revenues from services	$ 170,108	$ 202,736
Cost of services	121,346	142,362
Gross profit	48,762	60,374
Selling, general and administrative expenses	52,282	63,165
Depreciation and amortization	2,119	2,068
Loss from operations	(5,639)	(4,859)
Interest and other income (expense), net	(211)	84
Loss before tax benefit	(5,850)	(4,775)
Tax benefit on loss	(2,254)	(1,773)
Net loss	$ (3,596)	$ (3,002)
Basic and diluted loss per common share	$ (0.09)	$ (0.07)
Weighted average basic and diluted shares outstanding	40,720	40,718

See accompanying notes to consolidated financial statements.

LABOR READY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
In Thousands

(Unaudited)

	Thirteen Weeks Ended	
	March 29, 2002	March 30, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (3,596)	$ (3,002)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,159	2,068
Provision for doubtful accounts	2,353	4,048
Deferred income taxes	(3,396)	756
Tax benefit related to stock options	176	
Loss on disposal of property and equipment	73	71
Changes in operating assets and liabilities:		
Accounts receivable	(681)	11,102
Workers' compensation claims reserve	2,607	(1,062)
Other current assets	1,787	(4,832)
Other current liabilities	1,754	(643)
Net cash provided by operating activities	3,236	8,506
CASH FLOWS FROM INVESTING ACTIVITIES:		

Capital expenditures	(692)	(3,368)
Restricted cash	(18,007)	(1,201)
Intangible assets and other	(156)	(628)
Net cash used in investing activities	(18,855)	(5,197)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from options exercised	778	—
Proceeds from sale of stock through employee benefit plans	162	572
Purchase and retirement of common stock	—	(1,996)
Payments on long-term debt	(456)	(6,619)
Net cash provided by (used in) financing activities	484	(8,043)
Effect of exchange rates on cash	(298)	(266)
Net decrease in cash and cash equivalents	(15,433)	(5,000)
CASH AND CASH EQUIVALENTS, beginning of period	48,865	36,048
CASH AND CASH EQUIVALENTS, end of period	$ 33,432	$ 31,048

See accompanying notes to consolidated financial statements.

Item 1. Notes to Consolidated Financial Statements

ACCOUNTING PRINCIPLES AND PRACTICES

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. The unaudited consolidated financial statements reflect all adjustments, including normal recurring adjustments, which in the opinion of management, are necessary to fairly state the financial position, results of operations and cash flows for the interim periods presented. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in our annual report on Form 10-K for the year ended December 31, 2001. Certain amounts in the consolidated balance sheet at December 31, 2001 have been reclassified to conform to the 2002 presentation. Operating results for the thirteen week period ended March 29, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

WORKERS’ COMPENSATION

We provide workers’ compensation insurance to our temporary workers and regular employees. For workers’ compensation claims originating in the majority of states (which we refer to as non-monopolistic states), we have purchased high deductible insurance policies from independent, third-party carriers which results in our being substantially self insured. However, under terms of the policies, our workers’ compensation exposure is limited to a deductible amount per occurrence. Should any single occurrence exceed the deductible amount per occurrence, all losses and expenses beyond the deductible amount are paid by the insurance carrier.

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 March 29, 2002 and December 31, 2001 are workers’ compensation claims reserves in the non-monopolistic states of $64.8 million and $61.6 million and in the monopolistic states of $1.8 million and $2.4 million, respectively. The claims reserves were computed using a discount rate of 6.0%.

Workers’ compensation expense totaling $13.1 million and $12.7 million was recorded as a component of cost of services in the thirteen weeks ended March 29, 2002 and March 30, 2001, respectively.

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.

ACCOUNTS RECEIVABLE FACILITY

As further described in our 2001 Form 10-K, we have a line of credit facility and an accounts receivable facility (collectively the “Accounts Receivable Facility”) with certain unaffiliated financial institutions. At March 29, 2002, we had a total available borrowing capacity of $79.6 million under the Accounts Receivable Facility comprised of $49.1 million of eligible accounts receivable available in our calculated borrowing base and $30.5 million of eligible pledged cash. Of this $79.6 million available, we had committed $68.8 million for letters of credit to our insurance carriers, leaving $10.8 million available for future borrowing or issuing letters of credit.

We are required by our insurance carriers and certain state workers’ compensation programs to collateralize a portion of our workers’ compensation liability with irrevocable letters of credit and surety bonds. At March 29, 2002, we had provided our insurance carriers with letters of credit totaling $68.8 million and $43.2 million of surety bonds in support of these obligations. We expect to provide an additional $7.5 million in letters of credit by the end of 2002. The letters of credit bear fees of approximately 0.75% per year and are supported by an equal amount of available borrowings on the Accounts Receivable Facility. The surety bonds bear fees based on a percentage of the bond, which is determined by each independent surety carrier but does not exceed 2% of the bond amount.

SUPPLEMENTAL CASH FLOW INFORMATION

(Amounts in Thousands)
Thirteen Weeks Ended

	March 29, 2002		March 30, 2001	
Cash paid during the period for:				
Interest	$	336	$	326
Income taxes (refunds)	$	(222)	$	1,380
Non-cash investing and financing activities:				
Assets acquired with capital lease obligations	$	685	$	—
Contribution of common stock to 401(k) plan	$	277	$	284

NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss), 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.

COMMITMENTS

In March 2002, we entered into an agreement to lease 26 automated Cash Dispensing Machines ("CDMs") for installation in our United Kingdom dispatch offices. The fair market value of the CDMs at inception of the lease is approximately $0.7 million. The lease is payable over 60 months with an imputed interest rate of 9.1% and is secured by the CDMs. We recorded assets under capital lease and capital lease obligations totaling $0.7 million with future minimum lease payments over the next 5 years of approximately $0.1 million per year.

RESTRICTED CASH

We have cash deposits with independent financial institutions for the purpose of securing our obligations in connection with our workers' compensation program and for cross collateralization of our Accounts Receivable Facility. These deposits may be released as compensation claims are paid or when our accounts receivable borrowing base is sufficient to cover our outstanding letters of credit.

At March 29, 2002 and December 31, 2001, we had $19.4 million and $18.4 million, respectively, of restricted cash securing our obligations in connection with workers' compensation programs and $32.0 million and $15.0 million cross collateralizing our Accounts Receivable Facility.

Item 2. Management's Discussion And Analysis Of Financial Condition And Results of Operations

This Form 10-Q contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, plan, intend, anticipate, believe, estimate, predict, potential or continue, the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. Factors which could affect our financial results are described in Item 3 below and in Item 7 and Item 7A of our Form 10-K for the year ended December 31, 2001. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We are under no duty to update any of the forward-looking statements after the date of this report to conform such statements to actual results or to changes in our expectations.

Overview

Labor Ready is a 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 dispatch offices in markets throughout the United States, Canada, United Kingdom and Puerto Rico. Our annual revenues grew from approximately $6 million in 1991 to $976.6 million in 2000, were $917.0 million in 2001, and were $170.1 million for the thirteen weeks ended March 29, 2002. Revenues from international operations this quarter were approximately 5% of our total revenues. Revenue from services includes revenues earned on services provided by our temporary workers and fees generated by our CDMs.

We had 752 operating branch offices as of March 29, 2002 after opening 6 branch offices and closing 10 during the quarter. The average cost of opening each new dispatch office in 2002 did not materially change from 2001.

We typically 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 grow.

Our business includes an element of seasonal fluctuation. Construction and landscaping businesses and, to a lesser degree, other customer businesses typically increase activity in spring, summer and early fall months and decrease activity in late fall and winter months. Inclement weather can slow construction and landscaping activities in such periods. As a result, 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.

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, the use of higher pay rates to attract more skilled workers, changes in the workers' compensation reserve rates and geographic shifts in our mix of business. Although we have implemented policies and procedures to monitor billing rates, pay rates and other components of cost of services, significant fluctuations may be experienced.

In 2002 we do not expect any material change in the number of branches that we operate. However, we will continue to analyze the performance and financial viability of each of our offices. In 2001, we had one franchisee, which operated five dispatch offices. Our franchise agreement with this franchisee terminated March 31, 2002, and we do not currently intend to grant additional franchises. Royalty revenues from the franchised dispatch offices were not material during any period presented herein.

We are focused on increasing the revenue of each dispatch office. We believe this can occur through the implementation of a number of measures designed to improve customer satisfaction, marketing effectiveness and retention and training of our dispatch office staff.

Summary of Critical Accounting Policies. Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to workers compensation claims, bad debts, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of our consolidated financial statements. We maintain reserves 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. This reserve, which reflects potential liabilities that span several years, is discounted for net present value using a discount rate of 6%. If the actual cost of such claims and related expenses exceeds the amounts estimated, or if the discount rate represents an inflated estimate of our return on capital over time, actual losses for these claims may exceed reserves and/or additional reserves may be required. We also establish an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. We have also established reserves for contingent legal and regulatory liabilities, based on management's current best estimates and judgments of the scope and likelihood of such liabilities. If the actual outcome of these matters is less favorable than expected, an adjustment would be charged to income in the period the estimate changes.

Results of Operations

The following table compares the operating results for the thirteen weeks ended March 29, 2002 and March 30, 2001 (in thousands):

	Thirteen Weeks Ended		
	March 29, 2002	**Percent Change**	**March 30, 2001**
Revenues from services	$ 170,108	(16.1)	$ 202,736
Cost of services	121,346	(14.8)	142,362
Selling, general and administrative expenses	52,282	(17.2)	63,165
Depreciation and amortization	2,119	2.5	2,068
Interest and other income (expense), net	(211)	(351.2)	84
Loss before taxes	(5,850)	22.5	(4,775)
Net loss	$ (3,596)	19.8	$ (3,002)

Thirteen Weeks Ended March 29, 2002 Compared to Thirteen Weeks Ended March 30, 2001

Revenues from Services
The decline in revenues from services is due to the fact that we had approximately 8.7% fewer operating offices and the average revenue generated by those offices was 8% less than in the quarter ended March 30, 2001. The number of offices declined to 752 at March 29, 2002 from 824 locations at March 30, 2001, a net decrease of 72 dispatch offices.

Cost of Services
The decrease in cost of services is largely due to the decline in revenue, partially offset by an increase in workers compensation costs of 1.5% of revenue. Cost of services was 71.3% of revenue for the thirteen weeks ended March 29, 2002 compared to 70.2% of revenue for the same period in 2001, an increase of 1.1% of revenue.

Selling, General and Administrative Expenses
The decrease in selling, general and administrative ("SG&A") expenses is commensurate with the decrease in revenue and number of dispatch offices. SG&A expenses were 30.7% of revenues for the first quarter of 2002 as compared to 31.2% of revenues in the first quarter of 2001. We expect that SG&A 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
The slight increase in quarterly depreciation and amortization expense is primarily the result of a higher concentration of short lived assets as a result of branch closures and the disposition of two company owned buildings.

Interest and Other Income (expense), Net
The increase in net interest and other expense was the result of the increase in the amount of interest and fees paid for our credit facilities, partially offset by a decrease in other income. We may incur interest expense during the balance of 2002 as our cash demands will increase during our busiest time of the year, which historically have resulted in increased borrowing on our credit facilities. Additionally, cash balances held in the CDMs for payment of temporary worker payrolls will continue to reduce cash available for investing.

Tax Benefit on Loss
The increase in the tax benefit for the quarter is commensurate with the increase in loss from operations on a quarter over quarter basis. Our effective tax rate was 38.5% in the first quarter of 2002 as compared to 37.1% for the same period in 2001. 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 $21.6 million at March 29, 2002, 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 $2.0 million.

Liquidity and Capital Resources

Net cash provided by operating activities was $3.2 million for the period ended March 29, 2002 compared to $8.5 million for the period ended March 30, 2001. Due to improved collection activities we had a lower accounts receivable balance throughout the first quarter of 2002 than in the first quarter of 2001, and as a result we realized significantly less cash in the first quarter of 2002. This decrease was partially offset by the increase in our workers' compensation reserve.

We used net cash in investing activities of $18.9 million in the first quarter of 2002, compared to $5.2 million in the first quarter of 2001. The increase in cash used in investing activities in 2002 as compared to 2001 is due primarily to the increase in restricted cash (which was partially offset by a decrease in capital expenditures during the period), which was necessitated by the unavailability of eligible accounts receivable. At March 29, 2002 and December 31, 2001, we had $19.4 million and $18.4 million, respectively, of restricted cash securing our obligations in connection with workers' compensation programs and $32.0 million and $15.0 million cross collateralizing our Accounts Receivable Facility. As discussed below, this increase is due to higher collateralization requirements imposed by our insurance carriers and certain state workers' compensation programs. We expect that these amounts will continue to increase in 2002.

Net cash provided by (used in) financing activities was $0.5 million for the period ended March 29, 2002 and ($8.0) million for the period ended March 30, 2001. The increase in cash provided by financing activities in 2002 as compared to cash used in financing activities in 2001 is due mainly to the decrease in payments on long-term debt and smaller share repurchases in connection with our stock buy-back program.

We are required by our insurance carriers and certain state workers' compensation programs to collateralize a portion of our workers' compensation liability with irrevocable letters of credit and surety bonds. At March 31, 2002, we had provided our insurance carriers and certain states with letters of credit totaling $68.8 million and $43.2 million of surety bonds, compared to $54.9 million and $43.2 million respectively, at December 31, 2001. The letters of credit bear fees of 0.75% per year and are supported by an equal amount of available borrowings on the Accounts Receivable Facility. Our insurance carriers annually assess our workers compensation liability for which they are responsible along with the amount of collateralization they will require from us. Such amounts can increase or decrease independent of our assessments and reserves. We expect that the amount of collateral required to secure our workers compensation obligations will continue to increase and we expect to post up to an additional $7.5 million in letters of credit by the end of 2002.

Our surety bonds are issued by independent insurance companies on our behalf and bear annual fees based on a percentage of the bond, which is determined by each surety carrier but does not exceed 2% of the bond amount. The terms of these bonds are subject to annual review and renewal, and the bonds can be canceled by the sureties with as little as 60 days notice. The number of parties willing to provide surety bonds for these purposes is contracting and capacity in this market is likely to decline. If any such bonds are canceled or are not renewed, we would be required to replace them with letters of credit or similar obligations for which we would likely be required to pledge cash or other collateral.

In addition to the bonds we have outstanding related to our workers' compensation program, we have $0.6 million of bonds outstanding relating to miscellaneous licensing and permits.

At March 29, 2002, we had a total available borrowing capacity of $79.6 million under the Accounts Receivable Facility comprised of $49.1 million of eligible accounts receivable available in our calculated borrowing base and $30.5 million of eligible pledged cash. Of this $79.6 million available, we had committed $68.8 million for letters of credit to our insurance carriers, leaving $10.8 million available for future borrowing or issuing letters of credit. We expect to provide an additional $7.5 million in letters of credit by the end of 2002. We are currently in compliance with all covenants related to the Accounts Receivable Facility.

In January 2002, we entered into a revolving credit facility with Wells Fargo Bank. This agreement allows us to borrow up to $10.0 million with interest at the fluctuating rate per annum of 0.75% below the Prime Rate or 1.85% above the London Inter-Bank Rate. The available borrowing amount under this facility will be reduced by $125,000 each quarter through 2006 at which time the facility expires. The facility bears fees of 0.35% of the unused amount, and is secured by a first deed of trust on our corporate headquarters building. We currently do not have any outstanding borrowings on this facility and are in compliance with all covenants.

Included in cash and cash equivalents at March 29, 2002 is cash held within dispatch office CDMs for payment of temporary payrolls in the amount of approximately $13.7 million as compared to $13.8 million at March 30, 2001.

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 March 29, 2002, our purchased investments had maturities of less than 90 days. As such, an increase in interest rates immediately and uniformly by 10% from levels at March 29, 2002 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.

Risk Factors: Issues and Uncertainties

The following issues and uncertainties, among others, should be considered in evaluating our future prospects.

We experience intense competition in our industry, which could harm our results. The short-term, light industrial niche of the temporary services industry is highly fragmented and highly competitive, with limited barriers to entry. Several very large full-service and specialized temporary labor companies, as well as small local operations, compete with us in the staffing industry. Competition in some markets is intense, particularly for provision of light industrial personnel, and price pressure from both competitors and customers is increasing.

The cost of compliance with government regulations is significant. We incur significant costs to comply with all applicable federal and state laws and regulations relating to employment, including occupational safety and health provisions, wage and hour requirements (including minimum wages), workers' compensation and unemployment insurance. In general, we attempt to increase fees charged to our customers to offset increased costs relating to these laws and regulations, but may be unable to do so.

We are continually subject to the risk of new regulation which could materially impact our business. In 2001 and 2002, a number of bills were introduced in Congress and various state legislatures which, if enacted, would impose conditions which could materially and adversely affect our business. This proposed legislation, much of which is backed by certain special interest groups adverse to us, includes provisions such as a requirement that our temporary workers receive the same pay and benefits as our customers' regular employees, prohibition on fees charged in connection with our CDMs, and a requirement that our customers provide workers compensation insurance for our temporary workers. We take a very active role in opposing such legislation and in informing policy makers as to the social and economic benefits of our business. None of these proposed bills has yet been enacted into law. However, we cannot guarantee that any such bills will not be enacted, in which event demand for our service may be adversely affected.

Our business depends on the availability of workers compensation insurance and our continued ability to collateralize our obligations. The events of September 11, 2001, added to an already-hardening insurance market, have resulted in significantly increased insurance costs and higher deductibles. While we have renewed our workers compensation insurance for the current year, we cannot be certain that such insurance will always be available or will be available at a reasonable cost. In addition, workers' compensation expenses are based on our actual claims experiences in each state and the actual aggregate workers' compensation costs may exceed estimates. Moreover, we expect that the amount of collateral required to secure our workers compensation obligations (principally letters of credit and surety bonds) will continue to increase. The amounts and costs of our surety bonds are subject to annual review and renewal and they generally can be cancelled with 60 days notice. The number of parties willing to provide surety bonds for these purposes is contracting and future capacity in this market is expected to decline. If availability of these bonds declines, we will likely be required to replace them with letters of credit or similar obligations, for

which we also would likely be required to pledge cash or other collateral. There can be no assurance that our currently available sources of collateral for these obligations will continue to be available or that they will grow commensurate with increases in our collateralization requirements. If such sources of collateral are not available at a level and on terms acceptable to us, we would explore alternative sources to satisfy our collateralization requirements, which could include the issuance of additional equity or debt securities. Any such issuances could result in dilution to existing shareholders.

Our credit facilities require that we meet certain levels of financial performance. Our credit facilities contain significant financial covenants. Among other things, these covenants require us to maintain certain earnings levels and a certain ratio of earnings to fixed expenses. In the event that we do not comply with the covenants and the lender does not consent to such non-compliance, we will be in default of our agreement which could subject us to penalty rates of interest and accelerate the maturity of the outstanding balances. In such an event, we could also be required to seek additional sources of capital to satisfy our liquidity needs. There can be no assurance that such additional sources will be available to us or, if available, at commercially reasonably terms. In addition, we may issue additional equity or debt securities to finance any such liquidity requirements, which could result in dilution to existing shareholders.

Our business depends extensively on recruiting and retaining qualified dispatch office managers. We rely heavily on the performance and productivity of our dispatch office managers, who manage the operation of the dispatch offices, including recruitment and daily dispatch of temporary workers, marketing and providing quality customer service. We must recruit a sufficient number of managers to staff each new office and to replace managers lost through attrition or termination. Our future growth and performance depend on our ability to hire, train and retain qualified managers from a limited pool of qualified candidates who frequently have no prior experience in the temporary employment industry.

We have significant working capital requirements. We require significant working capital in order to operate our business. While our cash flow was positive in 2001, we have historically experienced periods of negative cash flow from operations and investment activities, especially during seasonal peaks in revenue experienced in the third and fourth quarter of the year. We invest significant cash into the opening and operations of new dispatch offices until they begin to generate revenue sufficient to cover their operating costs. We also pay our temporary personnel on a daily basis and bill our customers on a weekly basis. As a result, we must maintain cash reserves to pay our temporary personnel prior to receiving payment from our customers. In addition, we are required to pledge amounts available under our existing credit facilities to secure letters of credit that collateralize certain of our workers' compensation obligations and these amounts may increase in future periods. Any such increase in pledged amounts would decrease amounts available under our credit facilities for working capital purposes. As a result of these factors, if our available cash balances and borrowing base under our existing credit facilities do not grow commensurate with the growth in our working capital requirements, we would explore alternative sources of financing to satisfy our liquidity needs, including the issuance of additional equity or debt securities. Any such issuances could result in dilution to existing shareholders.

Risks associated with Arthur Andersen. Arthur Andersen served as our independent auditor from 1997 until May 3, 2002, when the Board of Directors dismissed Andersen due to recent events which cast doubt on Andersen's future. Our access to the capital markets could be impaired if Andersen becomes unable to make representations on our behalf with respect to audits completed by Andersen prior to its dismissal.

Our industry incurs all the risk associated with employing manual labor, including the risk of litigation, which we try to manage but can lead to significant potential liability. From time to time we are party to litigation in the ordinary course of our business. In the past two years, certain special interest groups have coordinated legal actions directed at us designed to further their own interests. We cannot assure you that such litigation will not disrupt our business or impact our financial results, due to the costs of defending against such litigation, any judgments that may be awarded against us, and the loss of significant management time devoted to such litigation. Temporary staffing companies, such as ours, employ people in the workplace of their customers. This creates a risk of potential litigation based on claims of discrimination and harassment, violations of health and safety and wage and hour laws, criminal activity, and other claims. While we try to limit our liability by contract, we may be held responsible for the actions at a job site of workers not under our direct control. Like other temporary staffing companies, we are also affected by fluctuations and interruptions in the business of our customers.

Our ability to grow is subject to uncertainties. Future growth must be accomplished through improvement of our average sales per dispatch office, expansion of our share of the market niche in which we compete, development of new service lines, and/or expansion of our operations abroad, all of which are subject to uncertainties. Our ability to grow is dependent upon such factors as our ability to attract and retain sufficient qualified management personnel to manage multiple and individual dispatch offices, the availability of sufficient temporary workers to meet customer needs, our ability to deal with increasing workers' compensation costs, effective collection of accounts receivable and availability of working capital.

The loss of any of our key personnel could adversely affect us. In 2000 and 2001, we experienced significant turnover in key members of our management team, including a Chief Executive Officer in each of those two years. We must successfully integrate all new management and other key positions within our organization in order to achieve our operating objectives. As a result, our future financial performance depends on our ability to recruit, motivate and retain key management personnel.

Our business will likely be affected by economic fluctuations affecting the U.S. economy. The general level of economic activity, interest rates and unemployment in the U.S. and specifically within the construction, landscaping and light industrial trades may significantly affect demand for our services. The U.S. economic downturn in 2001 resulted in a decline in our revenues.

Our business tends to be busier during warmer seasonal periods. Many of our customers are in the construction and landscaping industries, which are significantly affected by seasonal factors such as the weather. We generally experience increased demand in the spring, summer and early fall, while inclement weather is generally coupled with lower demand for our services.

Our business would suffer if we could not attract temporary workers to fill the jobs we offer. We compete with other temporary personnel companies to meet our customer needs. We must continually attract reliable temporary workers to fill positions and may from time to time experience shortages of available temporary workers.

Our information and computer processing systems are critical to the operations of our business and any failure could cause significant problems. Our management information systems, located at our headquarters, are essential for data exchange and operational communications with dispatch offices throughout the country. Any interruption, impairment or loss of data integrity or malfunction of these systems could severely hamper our business.

Part II. Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

10.55	Form of equipment lease and related schedules at March 28, 2002 between Labour Ready Temporary Services UK Limited as lessee and GE Capital Equipment Finance LTD as lessee.

(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 10th day of May, 2002.

LABOR READY, INC.

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

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

DATED 28th March, 2002

MASTER LEASE AGREEMENT

- between -

GE CAPITAL EQUIPMENT FINANCE LTD

- and -

LABOUR READY TEMPORARY SERVICES UK LIMITED

(as Lessee)

MASTER LEASE AGREEMENT

THIS AGREEMENT is made on 28th March, 2002

BETWEEN:-

(1) **GE CAPITAL EQUIPMENT FINANCE LTD** of Capital House, Bond Street, Bristol BS1 3LA (registered no.1102466) (the "Lessor", which expression shall include its successors and assigns); and

(2) **LABOUR READY TEMPORARY SERVICES UK LIMITED** whose registered office is at 1 Springfield Street, Warrington, Cheshire WA1 1BB (registered no. 3596711) ("the Lessee", which expression shall include its successors).

WHEREAS

(A) From time to time the Lessee shall hire from the Lessor products ("Products" which expression includes each and any part thereof) to be described in schedules (each a "Schedule") to be entered into on the occasion of each such transaction.

(B) The terms and conditions herein contained and those contained in the relevant Schedule shall apply to each transaction undertaken in accordance with a Schedule. Each Schedule incorporporating the terms herein shall have effect as a separate contract. References herein to an "Agreement" shall be construed in relation to Products as referenceds to this Agreement and to the relevant Schedule.

IT IS AGREED as follows:-

1. ACQUISITION, DELIVERY AND ACCEPTANCE OF THE PRODUCTS

1.1 This Agreement shall be effective from the date on which it is executed by the parties hereto **SAVE THAT** the obligation of the Lessor to hire any Products acquired by it to the Lessee hereunder shall be subject to receipt by the Lessor of the following each in form and substance satisfactory to the Lessor i) a Schedule and a certificate of acceptance ("Certificate of Acceptance") relating to such Products; ii) a certified copy of the resolution of the Lessee's Board of Directors authorising this Agreement and all documents relating thereto; iii) evidence of insurance pursuant to Clause 5; and (iv) such other documents as the Lessor may require.

1.2 The Lessee shall be responsible for the delivery and installation (if applicable) of the Products at the site (if any) specified in the Schedule (the "Products Location") and shall indemnify the Lessor on demand against any transportation, delivery and or installation costs. Upon the date of execution of the Certificate of Acceptance ("Acceptance Date") the Products referred to therein shall be deemed delivered to, and unconditionally accepted by, the Lessee from the Lessor for hire hereunder and such acceptance shall be conclusive evidence that the Lessee has examined such Products and found them to be complete, in good order and condition, of satisfactory quality, fit for any purpose for which they may be intended or required and in every other way satisfactory.

1.3 If, at the request of the Lessee, the Lessor becomes liable to any supplier or manufacturer of any Products or the lessor acquires or becomes obliged to acquire any Products the Lessee shall thereupon become irrevocably bound to take such Products, if and when acquired by the Lessor, upon leasefrom the Lessor on the terms hereunder.

2. HIRING AND PERIOD OF HIRING

As and from the Acceptance Date, the Lessor agrees to hire and the Lessee agrees to take on hire the Products, upon the terms and conditions contained herein for the period specified in the Schedule ("Hire Period").

3. RENTALS AND PAYMENTS

3.1 The Lessee shall throughout the Hire Period pay to the Lessor, without demand, the rentals in the amounts and at the times as set out in the Schedule ("Rental

Payments"). Rental Payments payable in advance shall not be returnable in the event of termination of the leasing of the Products for whatever reason.

3.2 All payments to be made by the Lessee to the Lessor under the Lease shall be made in immediately available funds on the due date (**PROVIDED THAT** if payment falls due on a day which is not a Working Day, payment shall be made on the preceding Working Day) and paid to the Lessor as specified in the Schedule or as the Lessor may from time to time direct.

3.3 All Rental Payments and other payments to be made under this Agreement are calculated without regard to Value Added Tax (or any similar Tax replacing or introduced in addition to the same) ("VAT") and the Lessee shall, in addition to such Rental Payments and other payments, pay to the Lessor, on demand, such VAT as is required from time to time by law to be paid.

3.4 If any payment due from the Lessee to the Lessor under this Agreement is not paid on the due date or if any Lessor shall make any payment under the powers herein conferred on the Lessor, the Lessee shall, without prejudice to the Lessor's other rights and remedies, pay on demand interest thereon at the Overdue Rate (after as well as before judgment may be obtained) from and including such due date or the date of payment by the Lessor, as the case may be, to the date of actual payment or reimbursement to the Lessor. "Overdue Rate" means the rate of 2% per month calculated on a daily basis and compounded monthly.

3.5 All payments due under this Agreement from the Lessee shall be made without any deduction, set-off, counterclaim or withholding whatsoever. If under applicable law the Lessee is required to make any deduction or withholding, the Lessee shall increase the payments to the Lessor so that the net amount received by the Lessor after any deduction or withholding shall be equal to the full amount which the Lessor would have been paid had payment not been made subject to any deduction or withholding.

4. EXCLUSION OF LESSOR'S LIABILITY AND BENEFIT OF WARRANTIES

4.1 The Lessee and the Lessor recognise that there is a risk that any Products, in particular computer hardware and software may not perform as expected and may not be satisfactory. The Lessee and the Lessor both also acknowledge that salesmen acting on behalf of suppliers may make representations about Products including computer hardware and software that are difficult to evaluate until delivery and commissioning. When Products are financed, the risk of them not working satisfactorily or according to any representations may be assumed by the Lessee, by the

Lessor, by the Supplier, by an intermediary or by an insurer. The Lessee and the Lessor both appreciate that the allocation of risk is a matter of agreement and have decided that it shall be borne by the Lessee, save to the extent that the Lessor has been able to obtain a right of recourse against the Supplier or any intermediary and has been able to pass that right to the Lessee under the Contracts (Rights of Third Parties) Act 1999.

4.2 For that reason, the Lessee and the Lessor agree that there is no term in this Agreement by which the Lessor is responsible for the performance of the Products, whether generally or in relation to any particular purpose. The Lessor does not know if any representation was made to the Lessee about the Products, but if it was, the Lessee acknowledges that it was not made on the Lessor's behalf and that the Lessee has not entered into this Agreement in reliance on it. The Lessee and the Lessor also agree that the Lessor has not assumed any duty of care towards the Lessee.

4.3 For the avoidance of doubt, the Lessee and the Lessor agree that no terms are to be implied into this Agreement.

4.4 If, contrary to sub-paragraph 3 above, the law requires terms to be implied into this Agreement, the Lessee and the Lessor agree that the Lessor is not liable for any breach of them, because if the risk of breach of any such terms had been allocated differently the Lessor would have charged a higher rental; because the Lessor is not in a position to evaluate and therefore insure against the risk of a breach, whilst the Lessee is in a better position to do so; and because the Lessee has chosen the Products and the Supplier.

4.5 In no event will the Lessor's liability under this Agreement exceed the aggregate of the Rental Payments (less any Maintenance Charges included) paid by the Lessee at the time the liability arises.

4.6 In no event will the Lessor be liable to the Lessee in contract, tort or otherwise including any liability for negligence:-
(a) for any loss of revenue, business, anticipated savings or profits or any loss of use or value; or
(b) for any indirect or consequential loss, however arising.
"Anticipated savings" means any expense which the Lessee expects to avoid incurring or to incur in a lesser amount than would otherwise have been the case.

5. INSURANCE

5.1 Subject to Clause 5.2 the following shall apply:

5.1.1 The Lessee shall, at its own expense, from the date of delivery of the Products to the Lessee until the Products are returned to the Lessor or otherwise sold or disposed of, maintain insurance: (i) of the Products, in respect of loss or damage howsoever occurring, in an amount at least equal to their full market replacement value from time to time (on an agreed value basis), against all risks, naming the Lessor as an additional insured and, in respect of any Casualty (as hereinafter defined) and any other loss or damage in excess of £10,000 per occurrence as loss payee; (ii) in favour of the Lessor and each member of the group of companies of which the Lessor is a member ("the Lessor's Group"), against all third party liability risks arising out of or in connection with the Products, in an amount as the Lessor shall approve and naming the Lessor and each member of the Lessor 's Group as an additional insured; and (iii) against such other or further risks as may be required by statute, regulation or order.

5.1.2 All insurance shall be in a form and with insurers approved by the Lessor and shall: (i) provide that the Lessor shall be given 30 days' prior notice of any cancellation, amendment and/or non-renewal; (ii) provide that the Lessor 's and such members' interests shall not be invalidated by any act or omission or breach of warranty of the Lessee or its servants or agents; and (iii) provide a waiver by insurers of any right of subrogation against the Lessor and of any right of contribution from any other insurance carried by the Lessor.

5.1.3 The Lessee shall on the Acceptance Date and at such other times as the Lessor may request produce to the Lessor each policy of insurance together with written evidence of payment of premiums.

5.1.4 The Lessee shall not do or omit to do anything which is contrary to the terms of any such policy of insurance or which might entitle the insurers to cancel such policy or reduce or avoid any liability or claim thereunder.

5.1.5 The Lessee shall notify the Lessor in writing forthwith of any occurrence which shall or may give rise to a claim under any policy of insurance and shall not agree to any settlement of any such claim without the prior consent of the Lessor. Any costs incurred by the Lessor in connection with the adjustment or collection of insurance proceeds shall be borne by the Lessee.

5.2 Where it is indicated in the Schedule that the parties have agreed that the Lessee may self-insure the Products the Lessee shall indemnify the Lessor and keep it fully indemnified against:

5.2.1 any damage to the Products of any nature whatsoever;

5.2.2 any claim for loss, damage or expense or death or personal injury caused by the Products or their use. The Lessee shall, at its own expense, arrange for any damage to the Products to be repaired immediately and shall pay to the Lessor on demand a sum to compensate the Lessor for any loss, damage, cost or expense suffered or incurred by the Lessor as a result of damage in connection with the Products or their use.

6. DESTRUCTION AND DAMAGE

6.1 If any unit of Products shall become lost, stolen, confiscated, requisitioned, destroyed or damaged beyond repair (each a "Casualty"), then the Lessee shall promptly and fully notify the Lessor in writing thereof and pay forthwith the amounts referred to in Clause 11.2 less any insurance proceeds received and retained by the Lessor in respect of such Products which shall have been applied in accordance with the last two sentences of Clause 11.3 but with the reference therein to Clause 11.3 being construed as a references to Clause 5.1.5.

6.2 As and from the Acceptance Date, the Products shall be at the sole risk of the Lessee. The Lessee shall be liable promptly to reinstate or repair, at its own cost, any loss of or damage to (not amounting to a Casualty) any of the Products from whatsoever cause. The Lessor shall apply any insurance proceeds received in respect of such loss or damage in reimbursement to the Lessee of the cost of reinstatement or repairs on completion of the same **PROVIDED THAT** such proceeds may be applied first towards payment of any sums then owing by the Lessee under this Agreement

7. USE AND MAINTENANCE

7.1 The Products shall be used by the Lessee solely in the conduct of its business, in compliance with all applicable laws and regulations, and in a skilful and proper manner by qualified and competent persons in accordance with all operating instructions of the manufacturer and supplier thereof.

7.2 Subject (where relevant) to clause 14 below the Products shall at all times remain in the Lessee's physical possession and control and be kept at the Products Location (save for temporary removal for repairs and maintenance). In no event shall the Products be removed from the United Kingdom without the Lessor's prior written consent.

7.3 The Lessor and its agents shall be entitled (but not obliged) at any reasonable time to inspect the Products. Upon request, the Lessee will promptly provide written confirmation of the current location of the Products.

7.4 The Lessee shall, at its own expense, maintain the Products in good condition (fair wear and tear excepted) and in good and safe working order in accordance with all instructions and recommendations of the manufacturer and supplier. The Lessee shall also, at its own expense, make all alterations, additions or modifications required by applicable law or regulation, but shall not otherwise make alterations, additions or modifications without the Lessor's prior consent. All replacement parts and additions shall become the property of the Lessor free of all claims and encumbrances and a part of the Products.

7.5 The Lessee shall keep in effect any permits, licenses or other authorisations which are from time to time necessary for the carrying out of its obligations under the Lease.

7.6 The Lessee shall be solely responsible for all loss, theft or damage to the Products and promptly repair or reinstate any part that is lost, stolen or damaged (otherwise than by reason of Casualty) and apply any insurance proceeds received to this end.

8. TITLE, OWNERSHIP AND PROTECTION OF LESSOR'S INTERESTS

8.1 The Products shall at all times remain the property of the Lessor and the Lessee's sole rights in relation thereto shall (save to the extent the same are disturbed by any third party) be the use and possession thereof throughout the Hire Period subject to and in accordance with the terms hereunder. The Lessee shall not claim capital allowances on the Products.

8.2 The parties hereto agree that notwithstanding that the Products may at any time be or become affixed to any land or buildings, they shall remain the personal property of the Lessor. The Lessee shall ensure that all persons having any interest at any time in any such land or buildings in which the Products may from time to time be located shall prior to the installation of the Products, or if later upon acquisition of such interest, receive written notice of the Lessor's ownership thereof and obtain from such persons written waivers (in such form as the Lessor may reasonably require) of any rights which they may have or acquire in the Products.

8.3 The Lessee shall, at its own expense, take all steps as may be necessary to safeguard the rights of the Lessor in the Products and in particular shall:

8.3.1 if so requested by the Lessor, affix and maintain nameplates on the Products indicating the Lessor's ownership thereof and not remove or cover up the same or allow any other nameplates or insignia dealing with the rights of any other person to be placed on the Products;

8.3.2 subject (where relevant) to clause 14 below not sell, charge, assign, pledge, sub-let, lend, bail or otherwise dispose of the Products or any interest therein or in the insurances thereon or its rights under the Lease nor hold itself out as owner of the Products nor pledge the credit of the Lessor for the repair of the Products or otherwise nor allow to arise any lien, encumbrance or security interest over the Products;

8.3.3 keep the Products free of all claims by other persons (including by way of confiscation, seizure, execution, distress, impounding or forfeiture) and in the event of any such claim shall procure the immediate rehire therefrom of the same; and

8.3.4 keep the Lessor immediately informed of the happening of any event which might affect the rights of the Lessor or involve the Lessor in any proceedings, loss or liability.

9. PAYMENT OF OUTGOINGS AND INDEMNITY

The Lessee agrees to pay and discharge forthwith, and indemnify fully on demand the Lessor and each member of the Lessor's Group at all times against:

9.1 all Taxes (other than Corporation Tax on the Lessor's overall net profits), insurance premiums, rents, registration fees, licence duties and other similar outgoings payable in connection with the Lease or the Products or any premises in which the Products may from time to time be located and

9.2 all claims, liabilities, losses, damages, costs and expenses incurred or suffered directly or indirectly by the Lessor or any member of the Lessor's Group in connection with the Lease or the Products or the design, manufacture, purchase, ownership, delivery, use, return, sale or other disposition of the Products including without limitation in relation to any product or strict liability relating to the Products or any contravention of any intellectual property rights

10. END OF TERM

10.1 If (a) upon expiry of the Hire Period the Lessee elects not to exercise any option to renew its rental of the Products contained in the relevant Schedule and (b) if the Lessor elects not to appoint the Lessee its agent for the sale of the Products in accordance with any terms to that effect in the relevant Schedule and (c) in any event upon earlier termination under clause 11 **then** the Lessee shall promptly at its own expense return the Products to such location within the United Kingdom as the Lessor shall direct. If the Lessee fails to return the Products in accordance with this requirement the Lessee shall continue to pay Rental Payments on a pro rata basis until the Products are received and accepted by the Lessor. In addition:

10.1.1 The Products shall be properly packed for shipment in accordance with the manufacturer's recommendations and specifications, freight pre-paid and insured.

10.1.2 Upon the expiration or termination of the leasing of the Products the Lessee shall no longer be in possession of the Products with the consent of the Lessor and the Lessor may retake possession of the Products for which purpose the Lessor or its agents may enter any premises where the Products are believed to be located.

10.2 On return the Products shall comply with all return conditions specified in the schedule hereto (the "Return Conditions") or, if no Return Conditions have been specified, shall comply with clause 10.1 above and be in Average Saleable Condition. "Average Saleable Condition" means that all of the Products are free of markings and immediately available for use by a third party user or lessee, other than the Lessee, without the need for repair or refurbishment. Upon return of the Products they may be inspected by or on behalf of the Lessor and any and all discrepancies from the Return Conditions or (if there are no Return Conditions) any failure to meet Average Saleable Condition may be corrected by the Lessor at the Lessee's expense. In remedying the condition of the Products the Lessor may carry out such work as it reasonably considers necessary and the Lessee will in any event on demand pay for any and all costs, charges and fees which may be incurred, in connection with any restoration of the Products to the required condition or which would be incurred if the Lessor carried out such restoration. Such costs shall be calculated on the assumption that the restoration shall use only spare parts and services recommended by the manufacturer.

11. DEFAULT

11.1 If: (i) the Lessee fails to pay any Rental Payment or other sum due to the Lessor under this Hire Agreement within 10 days of its due date; (ii) the Lessee fails to perform and observe any of its obligations under Clause 5; (iii) the Lessee allows the Products to be used for any illegal purpose, or does or allows to be done any act or thing which might jeopardise or prejudice the value of, or the Lessor's interest in, the Products or the Products shall for any reason become hazardous to health or safety; (iv) the Lessee breaches any of the other terms of this Hire Agreement and fails to remedy such breach within 30 days after receipt of notice thereof; (v) any representation or warranty made by the Lessee in connection with this Hire Agreement proves to have been incorrect and/or misleading when made; (vi) the Lessee or any guarantor of the Lessee's obligations or any member of the group of companies of which the Lessee is a member (any such guarantor or member, "a Relevant Party") convenes any meeting of, or makes any arrangement or composition with, its creditors; (vii) the Lessee or any Relevant Party takes any steps, or has steps taken against it for its winding up or dissolution or for the making of an administration order against it; (viii) the Lessee or any Relevant Party has a receiver (including an administrative receiver), administrator or similar officer appointed over any of its business or assets; (ix) the Lessee or any Relevant Party is unable, or admits its inability, to pay its debts as they fall due; (x) any indebtedness of the Lessee becomes due prior to its stated maturity by reason of default or is not paid at maturity or when validly demanded; (xi) any distress, execution, sequestration, or other legal process is levied or enforced upon any of the assets of the Lessee or upon the Products; (xii) the Lessee or any Relevant Party is in default under any other agreement with any member of the Lessor 's Group; or (xiii) the Lessee shall transfer or dispose of all or a material part of its assets or shall cease, or threaten to cease all or a substantial part of its business, or make a material change to its business or 51% of the ownership of the shares in the Lessee as at the date of this Agreement changes **THEN** this will be considered a "Repudiation". Repudiation is when a party indicates it no longer intends to keep to this Agreement and in any of the above cases the Lessor may give the Lessee notice that the Lessee's right to p[ossession of the Products is termminated and the Lessor shall require recovery of the Products.

11.2 Forthwith on the termination of the hiring of any of the Products pursuant to Clause 11.1 the Lessee shall (without prejudice to any other right or remedy or to the Lessee's obligations to pay any other sums which may be or may after such termination become due,) pay to the Lessor the sum of (i) all Rental Payments and all other sums due or in arrears on the date of such termination; and (ii) as compensation for the Lessor's financial loss, by way of additional Rental Payments, a sum equal to the aggregate of all Rental Payments which (but for termination) would have become due in respect of the Products on or after the date of such termination and during the balance of the Hire Period (if any) less a discount of 3% per annum (altogether the "Termination Sum") and (iii) if the Lessor is prevented from recovering the Products for any reason, a sum equal to the estimated average fair market value of similar products of like age

11.3 Provided that the Lessor shall be in undisputed possession of the Products following a termination pursuant to Clause 11.1, the Lessor shall at its sole option, either endeavour to sell such Products upon such terms as theLessor shall in its absolute discretion determine or have such Products valued by a reputable valuer (acting as expert and not arbitrator) appointed by the Lessor on the basis of a trade sale without warranty or recourse, whose valuation shall (save for manifest error) be conclusive for all purposes. The Lessee shall upon demand pay to the Lessor any costs incurred by the Lessor in holding, repairing, selling or valuing such Products. The proceeds (if any) of such sale (net of VAT and any sales commissions) received by the Lessor or, as the case may be, an amount equal to the value stated in such valuation, shall be applied in the following order or priorities: (i) to the extent not previously paid by the Lessee, to reimburse the Lessor for any costs incurred by the Lessor in holding, repairing, selling or valuing the Products; then (ii) to the extent not previously paid by the Lessee, to pay to the Lessor the Termination Sum; then (iii) any surplus to be for the account of the Lessee. Notwithstanding such application, the Lessee shall remain liable for any shortfall in the amounts referred to under (i) and (ii) above.

12. RENTAL ADJUSTMENT ETC.

The Lessor has assumed that the basic rate of corporation tax throughout the Hire Period will be that applying at the date of the Schedule and that Tax law and practice in force at the date of the Schedule will not be changed in any material respect insofar as it relates to the availability of writing down allowances or to any other matter which would affect the net after Tax rate of return to the Lessor, its principal or assignee from hiring the Products for the Hire Period. If any such assumption proves to be incorrect the Rental Payments shall be increased by such amount as the Lessor shall certify to be necessary to maintain the net after Tax return to it, its principal or assignee. If no Rental Payments remain to be paid undeder this Agreement such adjustments shall be expressed as a single payment of additional rent by the Lessee to the Lessor.

13. DEDUCTIBILITY AND INDEMNITY PAYMENTS

13.1 Notwithstanding any other provision of this Agreement, the Lessor shall be entitled to withhold from any payment due to the Lessee under this Agreement such amount as the Lessor determines to be required to protect the Lessor against such payment not being deductible by the Lessor for the purpose of computing its liability to Corporation Tax for any accounting period of the Lessor.

13.2 If at any time any payment received or receivable by the Lessor under this Agreement by way of indemnity or reimbursement is, or is determined to be, subject to Tax in the hands of the Lessor then the amount of such payment shall be increased by or, as the case may be, the Lessee shall reimburse to the Lessor, an amount which will restore the after-Tax position of the Lessor to that which it would have been had the payment by way of indemnity or reimbursement not been so subject to Tax.

14. SUB-HIRE

For the avoidance of doubt the Lessee shall not be entitled to sub-hire the Equipment.

15. SOFTWARE

15.1 When a part of the Products consists of one or more computer disks, tapes, or other media which are recorded computer programs in machine readable form ("Software"), either:

15.1.1 The Lessor will obtain from the supplier a licence in relation to the Software and grant the Lessee a sub-licence to use it (in place of any pre-existing licence); or

15.1.2 the supplier (or a third party) will grant the Lessee a licence to use the Software.

15.2 The Lessee undertakes to comply with all the terms of the licence which will incorporate the supplier's standard terms and conditions of use of the software, whether the Lessor or the supplier grants it.

15.3 The Lessee acknowledges that software maintenance is not a condition of this Agreement and Rental Payments will continue to be payable even if the supplier (or any third party) does not provide maintenance for the Software.

15.4 The Lessee must obtain any warranties or guarantees in respect of the Software and its suitability for its purpose directly from the supplier. The Lessor excludes all express or implied warranties, conditions and guarantees relating to any Software.

16. DATA PROTECTION

The Data Protection Act gives individuals certain rights about how their personal data will be used. By signing this Agreement (whether as an individual or on behalf of a corporate body) the Lessee agrees that the Lessor may:

- obtain from the Lessee and others (which may include searching with licensed credit reference agencies) information about the Lessee, its business and directors;
- record with licensed credit reference agencies the existence of this Agreement and how the Lessee conduct its account. Credit reference agencies will retain a record of searches the Lessor carries out about the Lessee and the other information the Lessor records with them. These records may be used by other lenders in assessing applications for credit by the Lessee and members of the Lessee's household, and for occasional debt tracing and fraud prevention purposes;
- transfer information to any country. If no satisfactory data protection laws exist in the country to which the Lessor is transferring the Lessee's personal data, the Lessor will put in place equivalent contractual safeguards to those contained in the Act;
- disclose information to third parties, including manufacturers, resellers, brokers, suppliers, funders, insurers, members of the GE group, agents, sub-contractors or guarantors and carefully selected organisations so that they can use it to market their products and services;

- use this information for making credit decisions, crime prevention, tracing defaulters and property, administration, accounts, compliance, statistical analysis, market research, internal reporting and marketing our products and services or those of the GE group;
- contact the Lessee by post, telephone or other means.

If the Lessee does not want to receive any marketing information the Lessee may write to the Lessor at any time to tell the Lessor not to send any more.

17. GENERAL

17.1 The Lessee shall pay on demand, on a full indemnity basis, all costs, legal fees and expenses of the Lessor in connection with the enforcement or preservation of any of their rights under this Agreement or any other documents entered into in connection therewith or in connection with any waiver, variation, consent or approval relating to any of the same or in connection with the tracing or recovery of possession of the Products.

17.2 This Agreement shall not be varied except by agreement in writing between the parties hereto. No waiver or consent by the Lessor shall be effective unless in writing signed by or on behalf of the Lessor. No failure or delay on the part of the Lessor in exercising any right or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power preclude any other or further exercise of any such right or power. The rights and remedies herein provided are cumulative with and not exclusive of any rights or remedies provided by law. The indemnities by the Lessee contained in this Agreement shall continue in full force and effect notwithstanding the termination of the hiring of any Products through effluxion of time or otherwise or the disposal of the Products.

17.3 If any provision hereof is void or unenforceable in any jurisdiction, such voiding or unenforceability shall not affect the validity or enforceability of (i) such provision in any other jurisdiction or (ii) the remainder of the provision which is void or unenforceable and/or the remainder of the Agreement and/or the Agreement.

17.4 All notices or other communications under this Agreement shall be in writing and sent by first class post or hand delivered to the addressee at its address set forth in the Schedule (or to such other address as that party may notify to the other) and shall be deemed to have been received by the addressee 2 Working Days after posting if sent by first class post or on delivery if hand delivered. The contents of any demand, notice or certificate issued by the Lessor as to the amount of any payment due from the Lessee hereunder shall (save for manifest error) be conclusive and binding on the Lessee.

17.5 Subject to the express periods of grace referred to in Clause 11.1, punctual payment of amounts payable by the Lessee and timely performance by the Lessee of each of its obligations under this Agreement shall be of the essence and shall be conditions of this Agreement. Notwithstanding any other provisions hereof, the Lessor shall be entitled to set-off or withhold from any sum or sums expressed in this Agreement to be payable to the Lessee by the Lessor any amount due and payable to any member of the Lessor 's Group from the Lessee on any account whatsoever. In the case of failure of the Lessee to comply with any provision of the Agreement, the Lessor shall have the right (but not the obligation) to effect such compliance and the Lessee shall reimburse the Lessor upon demand for expenses related thereto.

17.6 Clause headings are for ease of reference only and references to Clauses are, unless otherwise stated, references to Clauses of this Agreement. References to a statute or statutory provision shall include reference to any statutory modification or re-enactment of the same. "Working Day" means any day other than a Saturday or a Sunday on which banks generally are open for business in London, "Taxes" includes all taxes, levies, imposts, duties, rates and charges of any nature whatsoever together with any penalties, additions to tax, fines and interest thereon and "Taxation" shall be construed accordingly.

17.7 If more than one person or legal entity is named as the Lessee in this Agreement, the liability hereunder of each such person or entity shall be joint and several.

17.8 Neither the supplier nor any person (other than an employee of the Lessor) has authority to bind or commit the Lessor to any obligation.

17.9 The Lessor enters into this Agreement and each Schedule as either (a) owner of the Products or (b) as agent of a third party who has acquired title in the Products. The Lessor may assign the benefit of this Agreement to another party and may pass title in the Products to another. If this happens, the Lessee shall owe to the principal or assignee all obligations to be performed by it under this Agreement as if the principal or assignee was named in this Agreement instead of the Lessor. Regardless of any assignment or agency, the Lessor shall perform its obligations directly to the Lessee and will remain responsible for the management of this Agreement and the

Schedule. By signing this Agreement the Lessee consents to such assignment or agency.

17.10 The Lessee may not assign or transfer any of its rights or benefits under this Agreement without the Lessor's prior written consent.

17.11 The Lessee on executing this Agreement warrants to the Lessor that it is making this Agreement in the course of its business.

17.12 The Lessee shall send to the Lessor as soon as the same are published a copy of every published, audited financial statement of the Lessee.

17.13 Subject to Clause 17.9 above a person who is not a party to this Agreement has no right to enforce any term of this Agreement under the Contracts (Rights of Third Parties) Act 1999.

17.14 This Agreement shall be governed by English law. For the benefit of the Lessor, the Lessee agrees that the English Courts shall have exclusive jurisdiction to settle any disputes which arise in connection with this Agreement.

AS WITNESS whereof the parties hereto have hereunto set their hands the day and year first above written.

SIGNED for and on behalf of the Lessor:
GE CAPITAL EQUIPMENT FINANCE LTD

BY: ______________________________

TITLE: ______________________________

SIGNED for and on behalf of the Lessee:
LABOUR READY TEMPORARY SERVICES UK LIMITED

BY: ______________________________

TITLE: ______________________________

SCHEDULE No. 001

To a Master Lease Agreement dated 28th March, 2002 (the "Agreement") between

GE CAPITAL EQUIPMENT FINANCE LTD whose registered office is at Capital House, Bond Street, Bristol BS1 (registered no. 1102466) (the "Lessor", which expression shall include its successors and assigns); and

LABOUR READY TEMPORARY SERVICES UK LIMITED whose registered office is at ________________ 1 Springfield Street, Warrington, Cheshire WA1 1BB (registered no. 3596711) ("the Lessee", which expression shall include its successors).

THE PARTIES HERETO agree that the Lessor shall lease and the Lessee shall take on lease the Products described herein on the terms contained in this schedule and in the Agreement.

Terms defined in the Agreement shall, unless defined by reference to this Schedule, bear the same meanings in this Schedule. In the event of a conflict between the provisions of this Schedule and those of the Agreement the provisions of this Schedule shall prevail.

1. Definitions

"Hire Period" means the period commencing on 28th March, 2002 and ending on 28th February, 2007 inclusive.

"Products" means the products specified in the Annex A to this schedule 'Description of Equipment'.

"Products Location" means location as indicated in Annex A.

"Rental Payments" means the payments payable under paragraph 2 below.

"Supplier" means Diebold EMEA Business Centre, St Pauls House, 3rd Floor, 23 Park Square South, Leeds LS1 2ND

2. Rental Payments

The Lessee shall on or before the date of this Agreement pay to the Lessor an initial Rental Payment of £11,705.03 inclusive of VAT. Such Rental Payment shall be made in cleared funds to the Lessor's bank which is Barclays Bank PLC, 54 Lombard Street, London, EC4V 9EX Account No: 10021679, Sort Code 20-00-00, quoting reference 'Labour Ready Schedule 001'. The Lessee shall thereafter pay further monthly Rental Payments of £9,961.73 plus VAT payable on 28th April, 2002. All Rental Payments shall, unless and until the Lessor otherwise directs, be paid in cleared funds to the Lessor's bank as specified above.

3. Insurance Details

Insurer: Willis North America Inc
11201 N Tabum Boulevard
Suite 300
Pheonix, Az 85028
USA

Policy No. 877-559-6769

4. Return Conditions — Not Applicable

5. Authority to complete and amend

The Lessee hereby irrevocably authorises the Lessor to (i) insert in this Schedule the Start Date and the first monthly Rental payment date and in Annex B to this Schedule the Acceptance Date(s) and (ii) amend Annex A to this Schedule if necessary to correct the cost per unit of any of the Products (and make any consequential amendments to the initial and monthly Rental - Payments) and to include any additional details in relation to the description of the Products.

Extension Option

The Lessee may by serving notice in writing not less than one month prior to the expiry of the Hire Period elect to extend the term of this Agreement for a further period of ten years at an annual rental of 0.5% of the original cost of the Products to be paid annually in advance. In the event that the Lessee exercises this option the remaining terms and conditions of the Agreement shall continue to apply

Sales Agency

7.1 If the Hire Period shall terminate by effluxion of time then subject to the Lessee having paid to the Lessor all sums then due from the Lessee and provided the Lessee has not elected to exercise any option to extend the term of the Hire Period, the Lessor may appoint the Lessee, for a period of sixty (60) days as and from the date of termination ("Final Date"), as the agent of the Lessor (and if appointed the Lessee agrees to act) to endeavour to sell the Products on behalf of the Lessor upon terms that the Products shall not be sold:

7.1.1 to the Lessee or any person acting in trust for, as nominee or agent of, or (within the meaning contained in Section 839 of the Income and Corporation Taxes Act 1988) connected with, the Lessee;

7.1.2 on terms that involve any warranty by, or recourse to, any of the Lessors or to any third party whatsoever;

7.1.3 otherwise than for cash payable immediately to the Lessor; and

7.1.4 otherwise than for fair open market value or in compliance with any official trade code of practice relevant to the offering of products of the same type as the Products for sale in the Lessee's name.

7.2 Where the Lessee has been appointed agent for sale of the Products as aforesaid, pending any such sale the Lessee shall, at the Lessee's expense, store (but not use), insure, maintain and keep safe the Products.

7.3 If at the end of the period of sixty (60) days as and from the Final Date the Products shall remain unsold the Lessee shall, unless the Lessor otherwise requests pursuant to Clause 10.01 of the Agreement, return the Products to the Lessor in accordance with Clause 10 of the Agreement.

7.4 The proceeds (if any) of any sale of the Products by the Lessee as agent for sale pursuant to paragraph 7.1 above (net of VAT and any sales commission payable to any third party) shall, following receipt thereof by the Lessor, be applied in the following order of priorities: (i) to pay to the Lessor a sum equal to two and one half per cent (2.5%) of such proceeds; then (ii) to the extent not previously paid by the Lessee, to pay to the Lessor any sums which may be or become due to the Lessor under this Agreement; then (iii) to pay to the Lessee the balance by way of a rebate of rentals **PROVIDED THAT** any shortfall in the amounts due to the Lessor referred to in (ii) above shall notwithstanding such application continue to be payable by the Lessee.

8. Data Protection

The Data Protection Act gives individuals certain rights about how their personal data will be used. By signing this Agreement (whether as an individual or on behalf of a corporate body) the Lessee agrees that the Lessor may:

- obtain from the Lessee and others (which may include searching with licensed credit reference agencies) information about the Lessee, its business and directors;
- record with licensed credit reference agencies the existence of this Agreement and how the Lessee conduct its account. Credit reference agencies will retain a record of searches the Lessor carries out about the Lessee and the other information the Lessor records with them. These records may be used by other lenders in assessing applications for credit by the Lessee and members of the Lessee's household, and for occasional debt tracing and fraud prevention purposes;
- transfer information to any country. If no satisfactory data protection laws exist in the country to which the Lessor is transferring the Lessee's personal data, the Lessor

will put in place equivalent contractual safeguards to those contained in the Act;

- disclose information to third parties, including manufacturers, resellers, brokers, suppliers, funders, insurers, members of the GE group, agents, sub-contractors or guarantors and carefully selected organisations so that they can use it to market their products and services;
- use this information for making credit decisions, crime prevention, tracing defaulters and property, administration, accounts, compliance, statistical analysis, market research, internal reporting and marketing our products and services or those of the GE group;

contact the Lessee by post, telephone or other means.

If the Lessee does not want to receive any marketing information the Lessee may write to the Lessor at any time to tell the Lessor not to send any more.

AS WITNESS whereof the parties hereto have hereunto set their hands the day and year first above written.

SIGNED for and on behalf of the Lessor:
GE CAPITAL EQUIPMENT FINANCE LTD

BY: ________________________________

TITLE: ________________________________

SIGNED for and on behalf of the Lessee: **LABOUR READY TEMPORARY SERVICES UK LIMITED**

BY: ________________________________

TITLE: ________________________________