
**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 27, 2002

OR

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

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 November 5, 2002 the Registrant had 41,060,152 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

(Unaudited)

ASSETS

	<u>September 27, 2002</u>	<u>December 31, 2001</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 97,318	\$ 48,865
Marketable securities	12,316	—
Accounts receivable	8,662	3,902
Accounts receivable pledged under securitization agreement	89,848	64,659
Allowance for doubtful accounts	(6,950)	(5,649)
Prepaid expenses, deposits and other	12,438	11,596
Income tax receivable	—	1,537
Deferred income taxes	12,813	9,031
Total current assets	<u>226,445</u>	<u>133,941</u>
PROPERTY AND EQUIPMENT:		
Buildings and land	15,235	15,119
Computers and software	26,805	31,792
Cash dispensing machines	14,235	13,443
Furniture and equipment	1,629	1,639
	<u>57,904</u>	<u>61,993</u>
Less accumulated depreciation and amortization	<u>25,106</u>	<u>25,099</u>
Property and equipment, net	<u>32,798</u>	<u>36,894</u>
OTHER ASSETS:		
Restricted cash and deposits	49,459	33,357
Deferred income taxes	14,700	9,189
Other assets	4,035	1,062
Total other assets	<u>68,194</u>	<u>43,608</u>
Total assets	<u>\$ 327,437</u>	<u>\$ 214,443</u>

See accompanying notes to consolidated financial statements.

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LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>September 27, 2002</u>	<u>December 31, 2001</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 19,474	\$ 14,160
Accrued wages and benefits	12,671	11,899
Income tax payable	8,745	—
Current portion of workers' compensation claims reserve	35,019	25,294

Current maturities of long-term debt	2,309	1,845
Total current liabilities	78,218	53,198
LONG-TERM LIABILITIES:		
Long-term debt, less current maturities	74,134	4,998
Workers' compensation claims reserve	44,770	36,554
Total long-term liabilities	118,904	41,552
Total liabilities	197,122	94,750
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; 41,050 and 40,602 shares issued and outstanding	52,495	50,665
Cumulative foreign currency translation adjustment	(10)	(467)
Retained earnings	77,830	69,495
Total shareholders' equity	130,315	119,693
Total liabilities and shareholders' equity	\$ 327,437	\$ 214,443

See accompanying notes to consolidated financial statements.

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LABOR READY, INC.
CONSOLIDATED STATEMENTS OF INCOME

In Thousands (Except Per Share Amounts)

(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2002	September 28, 2001	September 27, 2002	September 28, 2001
Revenues from services	\$ 250,899	\$ 259,928	\$ 640,107	\$ 702,668
Cost of services	177,829	180,328	455,316	491,245
Gross profit	73,070	79,600	184,791	211,423
Selling, general and administrative expenses	56,144	64,903	162,773	193,266
Depreciation and amortization	2,183	2,004	6,974	6,200
Income from operations	14,743	12,693	15,044	11,957
Interest and other income (expense), net	(1,101)	(64)	(1,642)	540
Income before income taxes	13,642	12,629	13,402	12,497
Income tax	5,161	4,750	5,067	4,750
Net income	<u>\$ 8,481</u>	<u>\$ 7,879</u>	<u>\$ 8,335</u>	<u>\$ 7,747</u>
Basic net income per common share	\$ 0.21	\$ 0.19	\$ 0.20	\$ 0.19
Diluted net income per common share	\$ 0.18	\$ 0.19	\$ 0.20	\$ 0.19
Weighted average shares outstanding:				
Basic	41,228	40,509	41,027	40,586
Diluted	51,474	40,786	41,773	40,676

See accompanying notes to consolidated financial statements.

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LABOR READY, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

In Thousands

(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2002	September 28, 2001	September 27, 2002	September 28, 2001
Net Income	\$ 8,481	\$ 7,879	\$ 8,335	\$ 7,747
Other Comprehensive Income				
Foreign currency translation	(151)	(10)	457	(103)
Total Comprehensive Income	\$ 8,330	\$ 7,869	\$ 8,792	\$ 7,644

See accompanying notes to consolidated financial statements.

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LABOR READY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In Thousands

(Unaudited)

	Thirty-Nine Weeks Ended	
	September 27, 2002	September 28, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 8,335	\$ 7,747
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,262	6,200
Provision for doubtful accounts	8,049	13,144
Deferred income taxes	(9,293)	(2,987)
Other operating activities	879	152
Changes in operating assets and liabilities:		
Accounts receivable	(36,697)	(19,546)
Workers' compensation claims reserve	17,941	10,231
Other current assets	(966)	(941)
Other current liabilities	16,645	9,085
Net cash provided by operating activities	12,155	23,085
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of marketable securities	(12,316)	—
Capital expenditures	(1,886)	(5,891)
Restricted cash and deposits and other	(16,352)	(84)
Net cash used in investing activities	(30,554)	(5,975)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of stock through options and employee benefit plans	2,606	941
Purchase and retirement of common stock	(1,717)	(2,973)
Proceeds from issuance of convertible Notes	70,000	—
Payments for offering costs	(2,866)	—
Payments on debt	(1,577)	(7,986)
Net cash provided by (used in) financing activities	66,446	(10,018)
Effect of exchange rates on cash	406	61
Net increase in cash and cash equivalents	48,453	7,153
CASH AND CASH EQUIVALENTS, beginning of period	48,865	36,048
CASH AND CASH EQUIVALENTS, end of period	\$ 97,318	\$ 43,201

See accompanying notes to consolidated financial statements.

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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 thirty-nine week period ended September 27, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

Revenue recognition. Revenue from the sale of services is recognized at the time the service is performed. A portion of our income is derived from cash dispensing machine fees, which are immaterial for all periods presented. Revenue attributable to sales involving coupons or other incentives are reversed in the period redeemed.

MARKETABLE SECURITIES

Management determines the appropriate classification, pursuant to Statement of Financial Accounting Standards 115, *Accounting for Certain Investments in Debt and Equity Securities*, of its investments in debt and equity securities ("Marketable Securities") at the time of purchase and re-evaluates such determination at each balance sheet date. Marketable Securities consist of revenue bonds and other municipal obligations. The aggregate cost and fair values of our Marketable Securities was \$12.3 million at September 27, 2002. At September 27, 2002, those securities were classified as available-for-sale and stated at fair value as reported by the Company's investment brokers, with the unrealized holding gains and losses, net of applicable deferred income taxes, reported as a separate component of shareholders' equity. There were no material unrealized holding gains or losses at September 27, 2002. The specific identification method is used for computing realized gains and losses on the sale of available-for-sale securities. For the quarter ended September 27, 2002, there were no sales of available-for-sale securities.

RESTRICTED CASH AND DEPOSITS

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 workers' compensation claims are paid or when the letters of credit are released.

At September 27, 2002 and December 31, 2001, we had \$22.5 million and \$18.4 million, respectively, of restricted cash and deposits securing our obligations in connection with workers' compensation programs and \$27.0 million and \$15.0 million, respectively, cross collateralizing our Accounts Receivable Facility.

LONG-TERM DEBT

During 2002, we issued 6.25% Convertible Subordinated Notes due 2007 (the "Notes") in the aggregate principal amount of \$70.0 million. Interest is payable on the Notes on June 15 and December 15 of each year, beginning December 15, 2002. Holders may convert the Notes into shares of our common stock at any time prior to the maturity date at a conversion price of \$7.26 per share (equivalent to an initial conversion rate of approximately 137.741 shares per \$1,000 principal amount of Notes), subject to certain adjustments. The Notes are unsecured subordinated obligations and rank junior in right of payment to all existing and future debt that would constitute senior debt under the indenture, including letters of credit and surety bonds. On or after June 20, 2005, we may redeem some or all of the Notes at 100% of their principal amount plus accrued interest if the market value of our common stock equals or exceeds 125% of the conversion price for at least 20 trading days in any consecutive 30 trading day period.

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WORKERS' COMPENSATION INSURANCE

	(Amounts in Thousands)		
	Workers' Compensation Claims Reserve		
	December 31, 2001	Self-Insurance Reserve Expenses (including discount)	September 27, 2002
Workers' Compensation Claims Reserve	\$ 61,848	\$ 44,983	\$ (27,042)

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 insurance policies from independent, third-party carriers, which cover any claims for a particular event above a \$2.0 million deductible, on a "per occurrence" basis. This results in our being substantially self-insured. However, should any single occurrence exceed the deductible amount per occurrence, all losses and expenses beyond the deductible amount would be paid by the insurance carrier.

We establish a reserve for the deductible portion of our 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 27, 2002 and December 31, 2001 are workers' compensation claims reserves in the amounts of \$79.8 million and \$61.8 million, respectively. The claims reserves were computed using a discount rate of 6.0%. The selection of this discount rate is based on returns on "A" grade bonds with maturities comparable to the average life of our workers' compensation claims.

Workers' compensation expense recorded as part of cost of services consists of four components: self-insurance reserves, the related amortization of discount, monopolistic states premium and excess insurance premium. Total workers' compensation expense of \$19.8 million and \$16.5 million was recorded in the thirteen weeks ended September 27, 2002 and September 28, 2001, respectively. Total workers' compensation expense of \$50.4 million and \$44.5 million was recorded in the thirty-nine weeks ended September 27, 2002 and September 28, 2001, respectively.

For workers' compensation claims originating in Washington, Ohio, West Virginia, North Dakota, Canada and Puerto Rico (the "monopolistic states") we pay workers' compensation insurance premiums and obtain "dollar one" coverage under 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 work related claims originating in the United Kingdom, which exceed amounts covered by governmental medical insurance programs, we have purchased an employers' liability insurance policy that carries an aggregate 25 million British Pound limit.

COMMITMENTS AND CONTINGENCIES

Accounts Receivable Facility

In March 2001, we entered into a line of credit facility and accounts receivable securitization facility (the "Accounts Receivable Facility") with certain unaffiliated financial institutions that expires in February of 2006. The Accounts Receivable Facility provides loan advances and letters of credit through the sale of substantially all of our eligible domestic accounts receivable to a wholly owned and consolidated subsidiary, Labor Ready Funding Corporation. The Accounts Receivable Facility is guaranteed by the Company and requires that we meet certain financial covenants. Among other things, these covenants require us to maintain certain net income and net worth levels and a certain ratio of net income to fixed expenses. Subject to certain availability requirements, the Accounts Receivable Facility allows us to borrow a maximum of \$100 million, up to \$80 million of which may be used to obtain letters of credit. The amounts we may borrow (borrowing capacity) under this agreement are largely a function of the levels of our accounts receivable from time to time, supplemented by pledged and restricted cash.

At September 27, 2002, we had a total available borrowing capacity of \$97.2 million under the Accounts Receivable Facility comprised of \$71.5 million of accounts receivable and \$25.7 of restricted cash. The \$71.5 million represents the eligible portion

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of our total \$89.8 million of securitized accounts receivable and the \$25.7 million represents the eligible portion of the \$27 million of restricted cash cross collateralizing the Accounts Receivable Facility. Of the \$97.2 million of borrowing capacity available, we had committed \$74.9 million for letters of credit to our insurance carriers, leaving \$22.3 million available for future borrowing or letters of credit.

We are required by our insurance carriers and certain state workers' compensation programs to collateralize a portion of our workers' compensation obligation with irrevocable letters of credit, restricted cash, or surety bonds. At September 27, 2002, we had provided our insurance carriers and certain states with surety bonds totaling \$35.2 million, of which \$29.2 million was unsecured, letters of credit totaling \$74.9 million and restricted cash and deposits totaling \$22.5 million. This compares to \$43.2 million of surety bonds, \$54.9 million in letters of credit and \$18.4 of restricted cash and deposits at December 31, 2001. We expect to provide an additional \$5.0 million in letters of credit by the end of 2002.

We have received notice from certain providers of our surety bonds who have indicated that, due to current conditions in insurance markets, they intend to cancel these bonds unless we provide them with additional collateral. For example, we have recently received notice from one such surety that it intends to cancel a \$10.0 million bond on November 12, 2002. We may be required to substitute an alternative form of collateral such as letters of credit or restricted cash. If deemed necessary or appropriate based on future events, we may use an additional \$19.2 million of the proceeds from the Notes to secure the remaining unsecured portion of our workers' compensation obligations.

The letters of credit bear annual fluctuating fees, which were approximately .79% of the principal amount of the letters of credit as of September 27, 2002. The surety bonds bear annual 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.

Legal Contingencies

From time to time we are the subject of routine compliance audits by federal, state and local authorities relating to a variety of regulations including wage and hour laws, taxes, workers' compensation, immigration and safety. We are also subject to legal proceedings in the ordinary course of our operations from time to time. In accordance with accounting principles generally accepted in the United States, we have 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. We intend to vigorously defend each of these proceedings, and we believe that none of these proceedings, individually or in the aggregate, will have a material adverse impact on our financial condition or results of operations beyond amounts that have been accrued in the financial statements, although we can make no assurances in this regard.

On July 19, 2000, Dale Kindle and Levoyd Williams filed an action in Georgia State Court, Fulton County. The suit was later amended, adding plaintiffs Quinton McGee and Jimmy T. Stringer (the "Kindle Litigation"). On August 17, 2000, Curtis Adkins filed an action in West Virginia State Court, Kanawha County, later removed to the United States District Court for the Southern District of West Virginia (the "Adkins Litigation"). On October 3, 2000, Willie Wilkerson, Marco Medina and Arthur Demarchis filed an action in California State Court, Santa Clara County (the "Wilkerson Litigation"), and Anthony Flynn, Robert Hampton and Eugene Tonissen filed an action in New York State Court, Kings County (the "Flynn Litigation"). On February 14, 2001, Allen Yarbrough, Armando Ramirez, Phyllis Stennis, Earl Levels and Maurice Johnson filed an action in California State Court, Alameda County (the "Ramirez Litigation").

The Kindle, Wilkerson and Flynn Litigation allege violations of state law in connection with the fees charged by us for voluntary use of the CDMs. The Kindle Litigation also alleged violations of state law in allegedly charging workers transportation and equipment rental fees and in purportedly failing to obtain consent of workers to exposure to hazardous chemicals. The Adkins Litigation and Yarbrough Litigation alleged violation of federal or state wage and hour laws for failing to pay workers for all hours worked. In each case, the plaintiffs are present or former workers for us and are seeking unspecified damages and certification of a class of workers. Except for the Adkins Litigation, the actions also request injunctive relief.

On September 28, 2001 the court in the Adkins Litigation dismissed the case on the grounds that the plaintiff had waived any right to seek judicial relief or a class action by agreeing to arbitrate all disputes with us. The plaintiff filed an appeal of that dismissal with the Fourth Circuit Court of Appeals. On August 30, 2002, the Fourth Circuit upheld the District Court's dismissal of the case, holding that the arbitration agreement between Labor Ready and its temporary workers is enforceable. The plaintiff did not appeal further and the case has been concluded.

On March 25, 2002, the plaintiffs in the Ramirez Litigation removed Allen Yarbrough as a plaintiff. On July 12, 2002, the court certified classes of plaintiffs in connection with claims relating to waiting time, travel time and equipment charges for the period of February 1998 to present. The court declined to certify classes of plaintiffs in connection with claims relating to transportation expenses and unfair competition.

On June 25, 2002, the court in the Wilkerson Litigation certified a class of plaintiffs consisting of all workers who used Labor Ready's optional cash dispensing machines (CDMs) from 1998 to present. The court declined to certify a class of plaintiffs in connection with claims relating to unfair competition.

On July 22, 2002, the plaintiffs in the Kindle Litigation amended their complaint by dropping all allegations concerning transportation charges, equipment rental fees and hazardous chemicals exposure; by removing Levoyd William, Quinton McGee and Jimmy Stringer as plaintiffs; and by adding Gary Weems as a plaintiff.

In February 2001, the Washington Department of Labor and Industries ("L&I") issued an assessment against us for \$498,000 claimed to be owing for workers' compensation premiums for 1998, as well as \$236,000 in interest and penalties. In April 2002, L&I issued a similar assessment for the first quarter of 1999 in the total amount of \$236,000. In July 2002, L&I issued a similar assessment for the second quarter of 1999 in the total amount of \$257,000. We disputed the assessments and appealed. The dispute was settled in September 2002. Under the terms of the settlement agreement, L&I will deduct \$139,000 from a refund owed to us under the state's retroactive rating program. L&I has withdrawn all remaining claims and agreed there will be no further audits or assessments for any periods through June 30, 2002.

On July 3, 2002, the Office of the Arizona Attorney General filed an action against us in Arizona State Court, Pima County. The suit alleges that we violated Arizona's "check cashers" statute in connection with fees we charge for the use of our optional cash dispensing machines. The suit seeks an injunction prohibiting such fees, as well as restitution of the fees and civil penalties for each use of the CDMs since July, 2000.

On July 29, 2002, Marisol Balandran and 55 other plaintiffs, on behalf of themselves and others similarly situated, filed an action against us and one of our customers in California State Court, Los Angeles County. The plaintiffs seek to recover

damages and attorneys fees based on allegations that they were subjected to discrimination in dispatch to jobs on the basis of their female gender, throughout a period from September 2001 through January 2002.

NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing adjusted net income by the weighted average number of common shares and common share equivalents outstanding during the period. Common share equivalents include the dilutive effects of outstanding options and the conversion features of the Notes, except where their inclusion would be anti-dilutive. For the thirteen weeks ended September 27, 2002 we had 2,008 anti-dilutive options. There were no anti-dilutive shares associated with the Notes for the thirteen weeks ended September 27, 2002. For the thirty-nine weeks ended September 27, 2002 we had 2,008 anti-dilutive options. There were 3,673 anti-dilutive shares associated with the Notes for the thirty-nine weeks ended September 27, 2002.

Thirteen Weeks Ended	
September 27, 2002	September 28, 2001

Net income	\$ 8,481	\$ 7,879
Adjustments:		
Interest on Notes	1,091	.00
Amortization of costs for Notes issuance	140	.00
Tax Impact	(431)	.00
Total Adjustments	800	.00
Adjusted net income	\$ 9,281	\$ 7,879
Common Shares and Common Share Equivalents		
Weighted average number of common shares used in basic EPS	41,228	40,509
Effect of dilutive securities:		
Stock options	719	277
Convertible notes	9,527	0
Weighted average number of common shares and common share equivalents used in diluted EPS	51,474	40,786

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	Thirty-Nine Weeks Ended	
	September 27, 2002	September 28, 2001
Net income and adjusted net income	\$ 8,335	\$ 7,747
Common Shares and Common Share Equivalents		
Weighted average number of common shares used in basic EPS	41,027	40,586
Effect of dilutive securities:		
Stock options	746	90
Convertible notes	0	0
Weighted average number of common shares and common share equivalents used in diluted EPS	41,773	40,676

SUPPLEMENTAL CASH FLOW INFORMATION

	Thirty-Nine Weeks Ended	
	September 27, 2002	September 28, 2001
(Amounts in Thousands)		
Cash paid during the period for:	\$ 835	\$ 1,255
Interest		
Income taxes	\$ 3,304	\$ 3,392
Non-cash investing and financing activities:		
Assets acquired with capital lease obligations	\$ 1,177	\$ —
Contribution of common stock to 401(k) plan	\$ 277	\$ 284

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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 our expectations for future events and future financial performance. Generally, the words, "anticipate," "expect," "intend" and similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements. These statements are only predictions. Actual events or results may differ materially. Factors which could affect our financial results are described in Item 3, Item 7 and Item 7A of Part 1 of our Form 10-K for the year ended December 31, 2001 and in the "Risk Factors" included in this Form 10-Q and in our Report on Form 8-K as filed with the Commission on June 6, 2002. 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 businesses in the freight handling, warehousing, hospitality, landscaping, construction, light manufacturing, retail, wholesale, sanitation and printing industries. We have dispatch offices in markets throughout the United States, Canada, United Kingdom and Puerto Rico. Our annual revenues were \$917.0 million in 2001, and were \$640.1 million and \$702.7 million for the thirty-nine weeks ended September 27, 2002 and September 28, 2001, respectively.

We had 749 operating branch offices as of September 27, 2002 after opening 3 branch offices and closing 7 during the quarter. During the balance of 2002, we do not expect any material change in the number of branches that we operate. We are focused on increasing the revenues and profitability of each dispatch office through the

implementation of measures designed to improve customer satisfaction, marketing effectiveness and retention and training of our dispatch office staff. We have also actively sought to reduce expenses at the branch level and actively monitor under-performing offices.

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.

Gross profit reflects the difference between our revenues from services and the cost of services. Cost of services includes the wages and related payroll taxes of temporary workers, workers' compensation expense, unemployment compensation insurance and transportation. Gross profit has historically been affected by numerous factors, including competitive pressures on billing rates, wage rate increases and increases in workers' compensation charges. Although we have implemented policies and procedures to monitor pay rates and other components of cost of services, as well as billing rates, we may experience fluctuations in our gross profit margin from time to time.

We have cash dispensing machines (CDMs) in most of our dispatch offices that enable us to provide our workers with the choice of being paid each day in cash. For those who choose to receive cash, the CDM dispenses their net pay less the change and a \$1 transaction fee for use of the CDM. Revenues from services, as stated on our statements of income, include revenues earned on services provided by our temporary workers as well as those fees generated by our CDMs. Revenues from the CDMs are not material and are substantially offset by the direct and indirect costs of the CDM program which include depreciation, taxes, cash delivery and servicing, maintenance, supplies, insurance, back office salaries and overhead. CDMs from closed branch offices are securely stored for subsequent use in newly opened offices or to replace damaged or worn-out machines. The acquisition cost of each CDM used in the United States was approximately \$15,000 while the acquisition cost of the CDMs used in the United Kingdom and Canada was approximately \$30,000 per machine.

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

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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%. The selection of this discount rate is based on returns on "A" grade bonds with maturities comparable to the average life of our workers' compensation claims. We evaluate the accrual rates for our reserves regularly throughout the year and make adjustments as needed. 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

Thirteen Weeks Ended September 27, 2002 Compared to Thirteen Weeks Ended September 28, 2001

The following table compares the operating results for the thirteen weeks ended September 27, 2002 and September 28, 2001 (in thousands):

	Thirteen Weeks Ended		
	September 27, 2002	September 28, 2001	Percent Change
Revenues from services	\$ 250,899	\$ 259,928	(3.5)
Cost of services	177,829	180,328	(1.4)
Selling, general and administrative expenses	56,144	64,903	(13.5)
Depreciation and amortization	2,183	2,004	8.9
Interest and other income (expense), net	(1,101)	(64)	1620.3
Income before income taxes	13,642	12,629	8.0
Income tax	5,161	4,750	8.7
Net income	\$ 8,481	\$ 7,879	7.6

Revenues from Services

The slowdown in the U.S. economy has impacted the light industrial labor markets, which in turn reduced our overall revenues significantly. We had approximately 8% fewer operating offices. However the average revenue generated by the remaining offices was approximately 4% more than in the quarter ended September 28, 2001. The number of offices declined to 749 at September 27, 2002 from 811 locations at September 28, 2001, a net decrease of 62 dispatch offices. Revenues from international operations for the thirteen weeks ended September 27, 2002 were approximately 6.3% of our total revenues compared to 4.7% for the same period last year.

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 1.6% of revenue. Cost of services was 70.9% of revenue for the thirteen weeks ended September 27, 2002 compared to 69.4% of revenue for the same period in 2001, an increase of 1.5% of revenue

Selling, General and Administrative Expenses

The decrease in selling, general and administrative ("SG&A") expenses is largely commensurate with the decrease in number of dispatch offices and it was positively impacted by the cost reductions discussed below.

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SG&A expenses were 22.4% of revenues for the third quarter of 2002 as compared to 25.0% of revenues in the third quarter of 2001. A significant portion of our savings has been in salaries and wages, along with reductions in bad debt expense and advertising costs. Salaries and wages were down approximately 14% or \$5 million for the quarter, as

compared to the same quarter a year ago. At the end of the third quarter we had 2,798 employees as compared to 3,183 a year earlier. As a percent of revenue, bad debt expense was 1.2% for the quarter, as compared to 1.6% a year ago, representing a \$1.1 million reduction. During the past year, we have refocused our advertising and marketing efforts into more direct sales. This shift in focus has reduced advertising costs by \$1.5 million, or 43%, as compared to the same quarter a year ago.

Depreciation and Amortization

The increase in depreciation and amortization expense for the thirteen week period ended September 27, 2002 is largely the result of current year additions to fixed assets, as well as the impact of a one-time adjustment for a change in the estimated useful lives of certain assets that was made in the second quarter of 2002.

Interest and Other Income (Expense), Net

The increase in net interest and other expense was the result of a \$1.2 million increase in interest expense related to the \$70.0 million of Convertible Subordinated Notes. Interest was incurred for the entire thirteen-week period ended September 27, 2002 while there was no interest expense related to the Notes for the thirteen-week period ended September 28, 2001.

Tax Provision

The increase in the tax provision for the quarter is commensurate with the increase in income from operations on a quarter over quarter basis. Our effective tax rate was 37.8% in the second quarter of 2002 as compared to 37.6% 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 income tax credits.

We had a net deferred tax asset of approximately \$27.5 million at September 27, 2002, resulting primarily from reserves for workers' compensation and allowance for doubtful accounts.

Thirty-Nine Weeks Ended September 27, 2002 Compared to Thirty-Nine Weeks Ended September 28, 2001

The following table compares the operating results for the thirty-nine weeks ended September 27, 2002 and September 28, 2001 (in thousands):

	Thirty-Nine Weeks Ended		Percent Change
	September 27, 2002	September 28, 2001	
Revenues from services	\$ 640,107	\$ 702,668	(8.9)
Cost of services	455,316	491,245	(7.3)
Selling, general and administrative expenses	162,773	193,266	(15.8)
Depreciation and amortization	6,974	6,200	12.5
Interest and other income (expense), net	(1,642)	540	(404.1)
Income before income taxes	13,402	12,497	7.2
Income Tax	5,067	4,750	6.7
Net income	\$ 8,335	\$ 7,747	7.6

Revenues from Services

The slowdown in the U.S. economy has impacted the light industrial labor markets, which in turn reduced our overall revenues significantly. We had approximately 8% fewer operating offices. The average revenue generated by the remaining offices was approximately 1% less than in the thirty-nine weeks ended September 28, 2001. The number of offices declined to 749 at September 27, 2002 from 811 locations at September 28, 2001, a net decrease of 62 dispatch offices. Revenues from international operations for the thirty-nine weeks ended September 27, 2002 were approximately 5.7% of our total revenues compared to 4.0% for the same period last year.

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 1.6% of revenue. Cost of services was 71.1% of revenue for the thirty-nine weeks ended September 27, 2002 compared to 69.9% of revenue for the same period in 2001, an increase of 1.2% of revenue.

Selling, General and Administrative Expenses

The decrease in selling, general and administrative ("SG&A") expenses is largely commensurate with the decrease in number of dispatch offices and it was positively impacted by the cost reductions discussed below.

SG&A expenses were 25.4% of revenues for the first three quarters of 2002 as compared to 27.5% of revenues in the first three quarters of 2001. A significant portion of our savings has been in salaries and wages, along with reductions in bad debt expense and advertising costs. Salaries and wages were down approximately 14%, or \$14 million year-to-date, as compared to the same period a year ago. At the end of the third quarter we had 2,798 employees as compared to 3,183 a year earlier. As a percent of revenue, bad debt expense was 1.3% for the first three quarters of the year, as compared to 1.9% a year ago, representing a \$5 million reduction. During the past year, we have refocused our advertising and marketing efforts into more direct sales. This shift in focus has reduced advertising expense by \$5 million, or 45%, as compared to the same period a year ago.

Depreciation and Amortization

The increase in depreciation and amortization expense for the thirty-nine week period ended September 27, 2002 is largely the result of current year additions to fixed assets, as well as the impact of a one-time adjustment for a change in the estimated useful lives of certain assets made in the second quarter of 2002.

Interest and Other Income (Expense), Net

The increase in net interest and other expense was the result of a \$1.4 million increase in interest expense related to the issuance of the \$70 million of Convertible Subordinated Notes. Interest was incurred for three and a half months during the thirty-nine week period ended September 27, 2002 while there was no interest expense related to the Notes for the thirty-nine week period ended September 28, 2001. Also, there were no significant gains or losses on sales of assets during the thirty-nine week period ended September 27, 2002 while we had a gain on the sale of a building of \$.8 million during the thirty-nine week period ended September 28, 2001.

Tax Provision

The increase in the tax provision for the current period is commensurate with the increase in income from operations on a year over year basis. Our effective tax rate was 37.8% for the thirty-nine weeks ended September 27, 2002 as compared to 38.0% 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 income tax credits.

We had a net deferred tax asset of approximately \$27.5 million at September 27, 2002, resulting primarily from reserves for workers' compensation and allowance for doubtful accounts.

Liquidity and Capital Resources

Net cash provided by operating activities was \$12.2 million for the thirty-nine week period ended September 27, 2002 compared to \$23.1 million for the same period ended September 28, 2001. Our accounts receivable typically peak in the third quarter and are paid down in the fourth quarter, in line with the seasonality of our sales. Improved collection efforts first implemented in the first quarter of 2001 resulted in increased cash inflows for the thirty-nine week period ended September 28, 2001, partially offsetting

the growth in accounts receivable our seasonal sales would normally dictate. Those improved collection efforts have remained in place since that time; therefore, a smaller offsetting benefit was realized for the thirty-nine week period ended September 27, 2002. In addition to the accounts receivable changes discussed above, the cash flow from operations in the thirty-nine weeks ended September 27, 2002 as compared to the thirty-nine weeks ended September 28, 2001 was impacted by the growth in our workers' compensation reserve and the increase in other current liabilities due to the timing of our income tax payments. We typically pay our temporary workers on a daily basis, and collect from our customers on a monthly basis. Consequently, from time to time we may experience negative cash flow from operations.

We used net cash in investing activities of \$30.5 million for the thirty-nine week period ended September 27, 2002 compared to \$6.0 million for the same period ended September 28, 2001. The increase in cash used in investing activities in 2002 as compared to 2001 is due primarily to the increase in marketable securities and restricted cash and deposits. We increased our marketable securities by \$12.3 million during the quarter. At September 27, 2002 and December 31, 2001, we had \$22.5 million and \$18.4 million, respectively, of restricted cash and deposits securing our obligations in connection with workers' compensation programs and \$27.0 million and \$15.0 million, respectively, 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 requirements will continue to increase.

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Net cash provided by (used in) financing activities was \$66.4 million for the period ended September 27, 2002 and (\$10) million for the period ended September 28, 2001. The increase in cash provided by financing activities in 2002 as compared to cash used in financing activities in 2001 is largely the result of proceeds received from the issuance of the Notes as well as the decrease in payments on long-term debt and a reduction of share repurchases in connection with our stock repurchase program.

In March 2001, we entered into a letter of credit facility and an accounts receivable securitization facility (the "Accounts Receivable Facility") with certain unaffiliated financial institutions that expires in February of 2006. The Accounts Receivable Facility provides loan advances through the sale of substantially all of our eligible domestic accounts receivable to a wholly owned and consolidated subsidiary, Labor Ready Funding Corporation. The Accounts Receivable Facility includes a corporate guarantee by us and requires that we meet certain financial covenants. Among other things, these covenants require us to maintain certain income and net worth levels and a certain ratio of income to fixed charges. Subject to certain availability requirements, the Accounts Receivable Facility allows us to borrow a maximum of \$100 million, up to \$80 million of which may be used to obtain letters of credit. The amounts we may borrow (borrowing capacity) under this agreement are largely a function of the levels of our accounts receivable from time to time, supplemented by pledged and restricted cash.

At September 27, 2002, we had a total available borrowing capacity of \$97.2 million under the Accounts Receivable Facility comprised of \$71.5 of accounts receivable and \$25.7 of restricted cash. The \$71.5 million represents the eligible portion of our total \$89.8 million of securitized accounts receivable and the \$25.7 million represents the eligible portion of the \$27 million of restricted cash cross collateralizing the Accounts Receivable Facility. Of the \$97.2 million of borrowing capacity available, we had committed \$74.9 million for letters of credit to our insurance carriers, leaving \$22.3 million available for future borrowing or letters of credit. We expect to provide an additional \$5.0 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 (the "Revolving Credit Facility"). As of September 27, 2002 the available borrowing amount was \$9.6 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 the Revolving Credit Facility will be reduced by \$125,000 each quarter through January of 2006 at which time the facility expires. The Revolving Credit Facility bears fees of 0.35% of the unused amount, and is secured by a first deed of trust on our corporate headquarters building. The Revolving Credit Facility contains a cross-default provision with respect to our Accounts Receivable Facility, which obligates us, among other things, to maintain certain net income and net worth levels and a certain ratio of net income to fixed expenses. We currently do not have any outstanding borrowings on the Revolving Credit Facility and are in compliance with all covenants.

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 insurance policies from independent, third-party carriers, which cover any claims for a particular event above a \$2.0 million deductible, on a "per occurrence" basis. This results in our being substantially self-insured. However, should any single occurrence exceed the deductible amount per occurrence, all losses and expenses beyond the deductible amount would be paid by the insurance carrier.

We are required by our insurance carriers and certain state workers' compensation programs to collateralize a portion of our workers' compensation obligation with irrevocable letters of credit, restricted cash, or surety bonds. Our insurance carriers annually assess the amount of collateralization they will require from us related to our workers' compensation liability for which they are responsible. Such amounts can increase or decrease independent of our assessments and reserves. At September 27, 2002, we had provided our insurance carriers and certain states with surety bonds of \$35.2 million, of which \$29.2 million was unsecured, letters of credit totaling \$74.9 million and restricted cash and deposits totaling \$22.5. This compares to \$43.2 million of surety bonds, \$54.9 million in letters of credit and \$18.4 of restricted cash and deposits provided as of December 31, 2001.

The letters of credit bear fluctuating annual fees, which were approximately .79% of the principal amount of the letters of credit as of September 27, 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. We have received notice from certain providers of our surety bonds who have indicated that, due to current conditions in insurance markets, they intend to cancel these bonds unless we provide them with additional collateral. For example, we have received notice from one such surety that it intends to cancel a \$10.0 million bond on November 12, 2002. As the availability of these bonds declines, we will likely 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. If deemed necessary or appropriate based on future events, we may use an additional \$19.2 million of the proceeds from the Notes to secure the remaining unsecured portion of our workers' compensation obligations.

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Our workers' compensation reserve for estimated claims increases as temporary labor services are provided and decreases as payments are made on these claims. Although the estimated claims are expensed as incurred, the claim payments are made over a period of several years. Collateral for our workers' compensation program is posted with various state workers' compensation programs and insurance carriers based upon our reserves. Due to the timing difference between the recognition of expense and claim payments as described above, both our reserves and our collateral obligations will continue to grow. Additionally, but to a lesser extent, our collateral is being impacted by the timing of the release of collateral which was posted in connection with claims which have subsequently been paid.

During 2002, we issued 6.25% Convertible Subordinated Notes due 2007 (the "Notes") in the aggregate principal amount of \$70.0 million. Interest is payable on the Notes on June 15 and December 15 of each year, beginning December 15, 2002. Holders may convert the Notes into shares of our common stock at any time prior to the maturity date at a conversion price of \$7.26 per share (equivalent to an initial conversion rate of approximately 137.741 shares per \$1,000 principal amount of Notes), subject to certain adjustments. The Notes are unsecured subordinated obligations and rank junior in right of payment to all existing and future debt that would constitute senior debt under the indenture, including letters of credit and surety bonds. On or after June 20, 2005, we may redeem some or all of the Notes at 100% of their principal amount plus accrued interest if the market value of our common stock equals or exceeds 125% of the conversion price for at least 20 trading days in any consecutive 30 trading day period.

Included in cash and cash equivalents at September 27, 2002 is cash held within dispatch office CDMs for payment of temporary payrolls in the amount of approximately \$17.2 million as compared to \$15.7 million at September 28, 2001.

Our capital expenditures for the years ended December 31, 2001, 2000 and 1999 were \$6.5 million, \$18.4 million and \$12.4 million, respectively. For the thirty-nine weeks ended September 27, 2002, our capital expenditures totaled \$1.9 million and, for the remainder of 2002, we anticipate that our capital expenditures will approximate \$1.1

million.

The following table represents a summary of outstanding debt related to our credit facilities, the Notes and our capital leases as of September 27, 2002 and December 31, 2002:

	Outstanding debt as of	
	September 27, 2002	December 31, 2001
(Amounts in Thousands)		
Accounts receivable line of credit	\$ —	\$ —
Revolving credit facility	—	—
Convertible Subordinated Notes	70,000	—
Capital leases	6,443	6,843
Total	\$ 76,443	\$ 6,843

We will be required to make interest-only payments on the Notes on June 15 and December 15 of each year, beginning December 15, 2002 at a rate of 6.25%. The entire principal amount of the Notes is due in June 2007.

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The following table provides an analysis of changes in our workers' compensation claims reserves. Changes in reserves are reflected in the income statement for the period when the changes are made.

	(Amounts in Thousands)			
	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2002	September 28, 2001	September 27, 2002	September 28, 2001
Beginning Balance	\$ 70,390	\$ 53,068	\$ 61,848	\$ 48,312
Self-Insurance Reserve Expenses				
Expenses related to current period (net of discount)	15,175	10,498	35,931	28,060
Expenses related to prior years	2,337	3,359	6,994	8,754
Total	17,512	13,857	42,925	36,814
Amortization of prior year discount	584	405	2,058	1,652
Payments				
Payments related to current period	(2,302)	(2,618)	(4,061)	(4,248)
Payments related to prior years	(6,395)	(6,169)	(22,981)	(23,987)
Total	(8,697)	(8,787)	(27,042)	(28,235)
Ending Balance	\$ 79,789	\$ 58,543	\$ 79,789	\$ 58,543

Our workers' compensation reserve is established using estimates of the future cost of claims and related expenses that have been reported but not settled, as well as those that have been incurred but not reported. Each quarter management reviews and evaluates the adequacy of reserves for prior periods, and establishes rates for future accruals. Adjustments to prior period reserves are charged or credited to expense in the periods in which the estimate changes.

Factors we consider in establishing and adjusting these reserves include, among other things, (a) the estimates provided by our independent actuaries, (b) our mix of business by state and by type of work performed, (c) industry and nationwide trends in benefit costs and (d) anticipated savings related to claims management and other cost containment measures. Factors that have caused our estimated losses for prior years to change include, among other things, (i) inflation of medical and indemnity costs at a rate higher than originally anticipated, (ii) regulatory and legislative developments that have increased benefits and settlement requirements in several states, (iii) a different mix of business than originally anticipated and (iv) a potential overestimation of the benefits of certain claims management and other cost containment measures we implemented in 1998.

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Item 3. Quantitative and Qualitative 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 27, 2002, our purchased investments included in cash and cash equivalents had maturities of less than 90 days. As such, an increase in interest rates immediately and uniformly by 10% from levels at September 27, 2002 would not have a material effect upon our cash and cash equivalent balances, operating results or cash flows.

At September 27, 2002, our purchased investments included in marketable securities had maturities greater than 90 days but less than a year. Since our marketable securities consist of revenue bonds and other municipal obligations, 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.

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

Investing in our securities involves a high degree of risk. The following risk factors, issues and uncertainties should be considered in evaluating our future prospects. In particular, keep these risk factors in mind when you read "forward-looking" statements elsewhere in this report. Forward-looking statements relate to our expectations for future events and time periods. Generally, the words "anticipate," "expect," "intend" and similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements. Any of the following risks could harm our business, operating results or financial condition and could result in a complete loss of your investment. Additional risks and uncertainties that are not yet identified or that we currently think are immaterial may also harm our business and financial condition in the future.

Competition for customers in our industry is intense, and if we are not able to effectively compete, our financial results could be harmed and the price of our securities

could decline.

The short-term, light industrial niche of the temporary services industry is 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 these competitive forces limit our ability to raise prices to our customers. For example, competitive forces have historically limited our ability to raise our prices to immediately fully offset increased costs of doing business, including increased labor costs and increased costs for workers' compensation insurance. As a result of these forces, we have in the past faced pressure on our operating margins. This margin pressure has been particularly severe during the past three quarters and we expect it to remain severe throughout the balance of 2002. We cannot assure you that we will not continue to face pressures on our margins. If we are not able to effectively compete in our targeted markets, our operating margins and other financial results will be harmed and the price of our securities could decline.

We have recently experienced a decline in revenues and profits, and this trend may continue, which could cause the price of our securities to decline.

Our revenues were \$917.0 million in 2001 compared to \$976.6 million in 2000. The decline in revenues in 2001 was primarily due to our consolidation of dispatch offices and a decrease in average revenues per dispatch office during the recent economic downturn. Our net income has also decreased in each of 2001 and 2000 compared to the levels realized in 1999 due to the recent economic downturn. We cannot assure you that these declining revenues and net income trends will not continue or that our revenues and profits will not continue to be adversely affected by unfavorable economic conditions. Any continuation of these trends could cause the price of our securities to decline.

If we are not able to obtain workers' compensation insurance on commercially reasonable terms, our financial condition or results of operations may suffer.

We are required to pay workers' compensation benefits for our temporary workers and regular employees. We have seen a tightening insurance market that has resulted in significantly increased insurance costs and higher deductibles, including workers' compensation insurance. Under our workers' compensation insurance program, we maintain "per occurrence" insurance, which covers any claims for a particular event above a \$2.0 million deductible, and we do not maintain an aggregate stop-loss limit other than on a per-occurrence basis. In addition, while we have renewed our workers' compensation insurance for 2002, we cannot be certain that this insurance will always be available or will be available with reasonable terms at a reasonable cost.

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We expect that the amount of collateral that we are required to post to support our workers' compensation obligations will increase, which will reduce the capital we have available to grow and support our operations.

We are required to maintain commitments such as standby letters of credit, restricted cash, or surety bonds to secure repayment to our insurance companies (or in some instances, the state) of the deductible portion of all open workers' compensation claims. Historically, we have been required to pledge cash or other assets in order to obtain standby letters of credit. However, we have also been able to obtain surety bonds while posting no or very little collateral. The amounts and costs of our surety bonds are subject to annual review and renewal, and they generally can be cancelled by the issuer with 60 days notice. We have received notice from certain providers of our surety bonds that they intend to cancel these bonds unless we provide them with additional collateral. As the availability of these bonds declines, we will likely be required to replace them with letters of credit or similar commitments, for which we also would likely be required to pledge cash or other collateral. We sometimes face difficulties in recovering our collateral from insurers, particularly where those insurers were themselves in financial distress, and we cannot guarantee that our collateral for past claims will be released in a timely manner as we pay down claims. As a result, we expect that the amount of collateral required to secure our commitments to our insurance carriers will increase. We believe that our current sources of liquidity will satisfy our immediate needs for these obligations; however, our currently available sources of collateral for these commitments are limited and we could be required to seek additional sources of capital in the future. These additional sources of financing may not be available on commercially reasonable terms. Even if they are available, these financings could result in dilution to our existing shareholders.

Our reserves for workers' compensation claims, allowance for doubtful accounts, and other expenses may be inadequate, and we may incur additional charges if the actual costs of these claims exceed the amounts estimated.

We maintain 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. This reserve, which reflects potential liabilities that span several years, is discounted for net present value using a discount rate of 6%. We evaluate the accrual rates for our reserves regularly throughout the year and make adjustments as needed. If the actual cost of such claims and related expenses exceed 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 these liabilities. We cannot assure you that our reserves for workers' compensation claims, allowance for doubtful accounts, and other expenses are adequate. If the actual outcome of these matters is less favorable than expected, an adjustment would be charged to income in the period in which the outcome occurs or the period in which our estimate changes.

Determinations that we have misclassified the jobs performed by our workers for workers' compensation insurance purposes, even if the misclassifications are inadvertent, could result in us owing penalties to government regulators or having to increase our workers' compensation reserves.

In four states, Canada and Puerto Rico, we pay workers' compensation insurance premiums directly to the government in amounts based in part on the classification of jobs performed by our workers. From time to time, we are subject to audits by various state regulators regarding our classifications of jobs performed by our workers. The classification of jobs performed by our workers is one of many factors taken into account by our actuaries in helping us determine the adequacy of our financial reserves for our workers' compensation exposure. If it is determined that we have materially misclassified a number of our workers, we could be required to increase our financial reserves for our workers' compensation liability, which could harm our results of operations and could cause the price of our securities to decline.

Some insurance companies with which we have previously done business are in financial distress. If our insurers do not fulfill their obligations, we could experience significant losses.

We have purchased annual insurance policies in connection with our workers' compensation obligations from three primary carriers. Kemper Insurance Company provides coverage for occurrences in 2001 and the current year and, prior to 2001, Legion Insurance Company and Reliance Insurance Company provided coverage to us. Many insurance carriers are experiencing unfavorable claims experience and loss of their own reinsurance coverage. As a result, many of these carriers are in substantially weakened financial condition, including Legion and Reliance. To the extent that we experience claims that exceed our deductible limits and our insurers do not satisfy their coverage obligations, we may be forced to satisfy a portion of those claims directly; this in turn could harm our financial condition or results of operations. In addition, our insurance policies must be reviewed annually, and we cannot guarantee that we will be able to successfully renew such policies for the coming year or any year thereafter.

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Our credit facilities require that we meet certain levels of financial performance. In the event we fail either to meet these requirements or have them waived, we may be subject to penalties and we could be forced to seek additional financing.

Our credit facilities contain strict financial covenants. Among other things, these covenants require us to maintain certain net income and net worth levels and a certain ratio of net income to fixed expenses. In the past we have negotiated amendments to these covenants to ensure our continued compliance with their restrictions. We cannot assure you that our lender would consent to such amendments on commercially reasonable terms in the future if we once again required such relief. 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. Moreover, the indenture governing our Notes and a number of our smaller loan arrangements contain cross-default provisions, which accelerate our indebtedness under these arrangements in the event we default under our credit facilities. Accordingly, in the event of a default under our credit facilities, we could be required to seek additional sources of capital to satisfy our liquidity needs. These additional sources of financing may not be available on commercially reasonable terms. Even if they are available, these financings could result in dilution to our existing shareholders.

A significant portion of our revenues is derived from operations in a limited number of markets. Recessions in these markets have harmed and could continue to harm our operations.

A significant portion of our revenues is derived from our operations in a limited number of states. Revenues generated from operations in California, Texas and Florida, in the aggregate, accounted for approximately 32.4% and 35.2% of our overall revenues in 2000 and 2001, respectively. The California economy has been particularly hard-hit by the most recent economic recession. California is our largest market and continued economic weakness in this region or our other key markets could harm our business.

Any significant economic downturn could result in our clients using fewer temporary employees, which could harm our business.

During 2001, the slowdown in the U.S. economy significantly impacted the light industrial labor markets and reduced our revenues significantly. Because demand for personnel services and recruitment services is sensitive to changes in the level of economic activity, our business may suffer during economic downturns. As economic activity slows down, companies tend to reduce their use of temporary employees and recruitment services before undertaking layoffs of their regular employees, resulting in decreased demand for our personnel. As a result, any significant economic downturn could harm our business, financial condition or results of operations.

Labor unions have attempted to harm our business.

A department of one of the largest labor unions in the country has been engaged in an ongoing campaign to disrupt our business. This union has backed legislation designed to adversely impact our business, coordinated legal actions directed at our activities and engaged in a public relations campaign to discredit members of our management team and influence our customers. This union has repeatedly issued press releases that contain false and misleading statements, including claims that we inappropriately account for our workers' compensation obligations and that our public reporting is not otherwise in compliance with SEC requirements. We cannot assure you that this union's activities will not harm our business or the price of our securities.

Our business would suffer if we could not attract enough temporary workers.

We compete with other temporary personnel companies to meet our customer needs and we must continually attract reliable temporary workers to fill positions. We have in the past experienced short-term worker shortages and we may continue to experience such shortages in the future. If we are unable to find other temporary workers to fulfill the needs of our customers over a long period of time, we could lose customers and our business could suffer.

We may be exposed to employment-related claims and costs that could harm our business, financial condition or results of operations.

We are in the business of employing people and placing them in the workplaces of other businesses. As a result, we are subject to a large number of federal and state regulations relating to employment. This creates a risk of potential claims of discrimination and harassment, violations of health and safety and wage and hour laws, criminal activity and other claims. From time to time we are subject to audit by various state and governmental authorities to determine our compliance with a variety of these regulations. We have in the past been found, and may in the future be found, to have violated regulations or other regulatory requirements applicable to our operations. We may, from time to time, incur fines and other losses or negative publicity with respect to any such violation. In addition, some or all of these claims may give rise to litigation, which could be time-consuming for our management team, costly and could harm our business. We cannot assure you that we will not experience these problems in the future or that our insurance will be sufficient in amount or scope to cover any of these types of liabilities.

Our dismissal of Arthur Andersen LLP together with Andersen's uncertain future could impair our ability to make timely SEC filings.

Arthur Andersen LLP served as our independent auditor from 1997 until May 3, 2002, when our board of directors dismissed Andersen due to events that had cast doubt on Andersen's future. As a result of our termination of Andersen, we have retained the accounting firm of PricewaterhouseCoopers LLP to serve as our new independent accountants. We have a limited history with PricewaterhouseCoopers and cannot guarantee that our new independent accountants can adequately fulfill our needs in connection with the preparation of our audit. Moreover, the SEC has said that it will only continue accepting financial statements audited by Andersen so long as Andersen is able to make certain representations to its clients. Our former engagement partner and the other members of our audit team are no longer employed by Andersen and can no longer provide us with representations relating to our historical financial statements for the year ending on December 31, 2001 and prior years. We cannot predict the impact of Andersen's failure to make the required representations and cannot assure you that our ability to make timely SEC filings will not be impaired. Furthermore, relief that may be available to investors under the federal securities laws against auditing firms may not be available as a practical matter against Andersen.

The cost of compliance with government regulations is significant and could harm our operating results.

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. We cannot assure you that we will be able to increase fees charged to our customers to offset increased costs relating to these laws and regulations. If we incur additional costs to comply with these regulations and we are not able to increase the rates we charge our customers to fully cover any such increase, our margins and operating results will be harmed.

We are continually subject to the risk of new regulation, which could harm 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 harm our business. This proposed legislation, much of which is backed by labor unions, has included 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 and incur expense in opposing proposed legislation adverse to our business and in informing policy makers as to the social and economic benefits of our business. However, we cannot guarantee that any of these bills will not be enacted, in which event demand for our service may suffer.

Organized labor has sought to enact legislation in the State of California, our largest market. For example, legislation has been enacted in California that modifies the current rules governing workers' compensation insurance in that state. Although the exact impact of this legislation on our business is unclear, this or other similar legislation in California or our other large markets could significantly increase our costs of doing business or decrease the value of our services to our customers. Either result could harm our results of operations.

Our business depends extensively on recruiting and retaining qualified dispatch office managers. If we are not able to attract a sufficient number of qualified dispatch office managers, our future growth and financial performance may suffer.

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 have historically experienced a high degree of turnover among our branch managers. As a result, we must continue to recruit a sufficient number of managers to staff new offices and to replace managers lost through attrition or termination. Our future growth and financial 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 recently experienced significant management turnover. The loss of any of our key personnel could harm our business.

In 2000 and 2001, we experienced significant turnover in our executive officers, 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. Our future financial performance will depend to a significant extent on our ability to motivate and retain key management personnel. Competition for qualified management personnel is intense and in the event we experience further turnover in our senior management positions, we cannot assure you that we will be able to recruit suitable replacements. Even if we are successful, turnover in key management positions will temporarily harm our financial performance and results of operations as new management becomes familiar with our business. We do not maintain key person life insurance on any of our executive officers.

We are subject to a number of challenges and uncertainties that could limit our ability to grow our business.

We intend to grow our business 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 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.

Our operations expose us to the risk of litigation, which we try to manage but could lead to significant potential liability.

From time to time we are party to litigation in the ordinary course of our business. Moreover, certain labor unions have coordinated legal actions directed at us designed to further their own interests. The claimants in two current proceedings have aggregated claims as class actions. The costs of defense and the risk of loss in connection with class action suits are greater than in standard commercial litigation. 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.

Establishment and expansion of our international operations will burden our resources and may fail to generate a substantial increase in sales.

As of September 27, 2002, we had 33 dispatch offices in the United Kingdom, 31 in Canada and four in Puerto Rico. We currently anticipate opening additional dispatch offices in the United Kingdom in 2003. Establishing, maintaining and expanding our international operations expose us to a number of risks and expenses, including:

- substantially increased costs of operations;
- temporary diversion of existing management resources;
- establishment of an efficient and self-reliant local infrastructure;
- ability to deal effectively with local labor organizations and trade unions;
- ability to attract, hire and train qualified local sales and administrative personnel;
- compliance with additional local regulatory requirements;
- fluctuations in the value of foreign currencies;
- longer payment cycles;
- expansion of our information and control systems to manage expanded global operations; and
- the additional expense and risks inherent in operations in geographically and culturally diverse locations.

We cannot assure you that we will effectively deal with the challenges of expanding our foreign operations and our attempts to do so could harm our financial performance or results of operations.

We have significant working capital requirements.

We require significant working capital in order to operate our business. 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 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 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.

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 and could require that we commit significant additional capital and management resources to

rectify the problem. We are currently undertaking a substantial upgrade to our software systems. If we experience unforeseen difficulties or delays in connection with this implementation our business and results of operations will be harmed.

Item 4. Controls and Procedures

Within 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer (CEO) and our Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our CEO and our CFO concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC reports. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

In addition, we reviewed our internal controls, and there have been no significant changes in our internal controls or in other factors that could significantly affect those controls subsequent to the date of their last evaluation.

Part II. Other Information

Item 1. Legal proceedings

See notes to the consolidated financial statements.

Item 2. Changes in Securities and Use of Proceeds

Recent Sales of Unregistered Securities

During the quarter ended September 27, 2002, we issued the following securities without registration under the Securities Act of 1933, as amended (the "Securities Act"):

On July 17, 2002, we issued \$5.0 million principal amount of convertible subordinated notes ("Notes") in a private placement to Lehman Brothers, Wells Fargo Securities, LLC and Gerard Klauer Mattison, as the Initial Purchasers. Prior to the quarter-end, on June 19, 2002, we had issued \$65.0 million principal amount of Notes to the Initial Purchasers. The Initial Purchasers resold the Notes to certain qualified institutional buyers pursuant to Rule 144A under the Securities Act. We received proceeds of approximately \$67 million from the sale of the Notes, net of the Initial Purchasers' discount and offering expenses of \$3 million. The Notes mature on June 19, 2007 and are redeemable at our option on or after June 20, 2005 if the price of our common stock exceeds specified levels. In addition, the holders of the Notes may require us to repurchase the Notes if we undergo a change in control.

The offer and sale of the Notes to the Initial Purchasers was exempt from registration with the Securities and Exchange Commission pursuant to Section 4(2) of the Securities Act because of the nature of the purchasers and the circumstances of the offering. The Notes were resold by the Initial Purchasers upon reliance on Rule 144A. Each Initial Purchaser made representations to us that it was an "accredited investor," as defined in Rule 501 under the Securities Act, and as to its compliance with Rule 144A. In addition, appropriate legends were affixed to the Notes issued in the transaction described above.

The Notes are convertible at any time through maturity into shares of our common stock at the rate of 137.741 shares per \$1,000 principal amount of the Notes, subject to adjustment, for an aggregate of 9,641,870 shares (the "Shares"). The Notes and the Shares are subject to transfer restrictions; provided, however, that we have filed a Registration Statement with the Securities and Exchange Commission to register the resale of the Notes and Shares. In connection with such registration, we have not received any proceeds from the resale by the holders of the Notes and Shares.

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 3.1	Amended and Restated Articles of Incorporation
Exhibit 3.2	Bylaws
Exhibit 99.1	Certification of Joseph P. Sambataro, Jr., Chief Executive Officer of Labor Ready, Inc., Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 99.2	Certification of Steven C. Cooper, Chief Financial Officer of Labor Ready, Inc., Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(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 12th day of November, 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

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CERTIFICATIONS

I, Joseph P. Sambataro, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Labor Ready, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Joseph P. Sambataro, Jr

Joseph P. Sambataro, Jr.
Chief Executive Officer

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CERTIFICATIONS

I, Steven C. Cooper, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Labor Ready, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Steven C. Cooper

Steven C. Cooper
Chief Financial Officer

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**AMENDED AND RESTATED ARTICLES OF INCORPORATION
OF
LABOR READY, INC.**

Pursuant to the provisions of the Washington Business Corporation Act, RCW 23B.10.070, the following Amended and Restated Articles of Incorporation of Labor Ready, Inc. (the "Corporation") are submitted for filing:

ARTICLE 1. NAME

The name of the Corporation is Labor Ready, Inc.

ARTICLE 2. DURATION

The period of duration of this Corporation is perpetual.

ARTICLE 3. PURPOSES

This Corporation is organized for the purpose of transacting any and all lawful business for which corporations may be incorporated under Title 23B of the Revised Code of Washington, as amended.

ARTICLE 4. AUTHORIZED CAPITAL STOCK

This Corporation shall have authority to issue 120,000,000 shares of capital stock, consisting of 100,000,000 shares of Common Stock, each share of which shall have no par value; and 20,000,000 shares of "Blank Check Preferred Stock" which can be issued in series upon such terms and for such consideration as the Board of Directors determine.

The designations and the powers, preferences and rights, and the qualifications, limitations, or restrictions in respect of the different classes of capital stock of the Corporation, and the authority granted to the Board of Directors to fix by resolution or resolutions any thereof which are not fixed in this Article 4, are as follows:

A. Definitions

1. Preferred Stock. The term "Preferred Stock" means all or any shares of any series of Preferred Stock described in Section (B) of this Article 4.
2. Parity Stock. The term "Parity Stock" means stock of any class, other than the Preferred Stock, with respect to which dividends or amounts payable upon any liquidation, dissolution, or winding up of the Corporation shall be payable on a parity with the respective amounts payable in respect of the Preferred Stock, notwithstanding that such Parity Stock may have other terms and provisions varying from those of the Preferred Stock.

3. Junior Stock. The term "Junior Stock" means the Common Stock and stock of any other class ranking junior to the Preferred Stock and Parity Stock in respect of dividends and amounts payable upon any liquidation, dissolution, or winding up of the Corporation.
4. Accrued Dividends. The term "accrued dividends" means, with respect to each share of Preferred Stock or Parity Stock, that amount which is equal to simple interest upon the par value at the annual dividend rate fixed for such share and no more, from and including the date upon which dividends on such share became cumulative and (a) up to but not including the date fixed for payment in liquidation, dissolution, or winding up for redemption, or (b) up to and including the last day of any period for which such accrued dividends are to be determined, less the aggregate amount of all dividends previously paid or declared and set apart for payment thereon. Accrued dividends with respect to any portion of a quarterly dividend period will be computed using the 360-day method of computing interest.
5. Gross Income Available for Payment of Interest Charges. The term "gross income available for payment of interest charges" means the total operating revenues and other net income of the Corporation, less all proper deductions for operating expenses, taxes (including income, excess profits, and other taxes based on or measured by income or undistributed earnings or income), and other appropriate items, including provision for maintenance, and provision for retirements, depreciation and obsolescence (but in no event less than the minimum provision required by the terms of any indenture or agreement securing any outstanding indebtedness of the Corporation), but excluding any charges on account of interest on indebtedness, outstanding and any credits of charges for amortization of debt premium, discount and expense, all to be determined in accordance with generally accepted accounting principles. In determining the "gross income available for payment of interest charges," no deduction, credit, or adjustment will be made on account of (a) profits or losses from sales of property carried in plant or investment accounts of the Corporation, or from the reacquisition of any securities of the Corporation, or (b) charges for the elimination or amortization of plant adjustment or acquisition accounts or other intangibles; and income, excess profits, and other taxes based on or measured by income or undistributed earnings or income will be appropriately adjusted to reflect the effect of the exclusion of such items.
6. Net Income of the Corporation Available for Dividends. The term "net income of the Corporation available for dividends" means the "gross income available for payment of interest charges," as defined in Paragraph 5, less the sum of charges for interest on indebtedness and less charges or plus credits for amortization of debt premium, discount and expense, and other appropriate items, determined in accordance with generally accepted accounting principles. In determining "net income of the Corporation available for dividends" no deduction, credit, or adjustment shall be made on account of (a) expenses in connection with the issuance (except charges or credits for amortization of debt premium, discount and expense), redemption or retirement of any securities issued by the Corporation, including any amount paid in excess of the principal amount or par or stated value of securities redeemed or retired, or, in the event such redemption or retirement is effected with the proceeds of the sale of other securities of the Corporation, interest or dividends on the securities redeemed or retired from the

date on which the funds required for such redemption or retirement are deposited in trust for such purpose to date of redemption or retirement, (b) profits or losses from the sales of property carried in plant or investment accounts of the Corporation, or from the re-acquisition of any securities of the Corporation, or (c) charges for the elimination or amortization of plant adjustment or acquisition accounts or other intangibles; and income, excess profits, and other taxes based on or measured by income or undistributed earnings or income shall be appropriately adjusted to reflect the effect of the exclusion of such items.

7. Net Income of the Corporation Available for Dividends on Junior Stock. The term "net income of the Corporation available for dividends on Junior Stock" means "net income of the Corporation available for dividends," as defined in Paragraph 6, less all accrued dividends and all dividends paid on outstanding Preferred Stock and Parity Stock and on any class of stock ranking as to dividends prior to such Preferred Stock or Parity Stock.

B. Preferred Stock

1. Issue in Series. The authorized but unissued shares of Preferred Stock may be divided into and issued in designated series from time to time by one or more resolutions adopted by the Board of Directors. Each share of any particular series will be identical to all other shares of the same series, except that the date or dates from which dividends will accumulate may vary as provided in Paragraph 2 of this Section (B). Except as prohibited by law or the provisions of this Article 4, the Board of Directors will have complete authority to define the powers, rights, and preferences of the shares of each series, as well as the qualifications, limitations, and restrictions thereof. Each resolution of the Board of Directors designating and defining a series of Preferred Stock must (a) designate the series to which such shares will belong, using the words "Preferred Stock, Series" followed by a distinguishing capital letter; (b) fix the number of shares of Preferred Stock that will be issued as part of the particular series, and the par value of each share within such series; (c) fix the voting rights of the particular series of Preferred Stock, if such series is to have voting rights which differ from those set forth in Paragraph 5 of this Section (B); (d) fix the dividend rate for the series and the date or dates from which dividends on the shares of such series will accumulate; (e) identify the times, if any, at which shares of such series will be redeemable and the redemption price and other terms that will apply in the event of a redemption. In addition, to the extent permitted by law and the provisions of this Article 4, the designating or defining resolution may; (f) provide for a sinking fund or a purchase fund to be used for the redemption or purchase of shares of the series and establish the terms governing the operation of any such fund; (g) impose conditions or restrictions on the creation of indebtedness by the Corporation or the issuance of additional Preferred Stock or Parity Stock; (h) impose conditions or restrictions on the making of distributions to or for the benefit of holders of Junior Stock (including, without being limited to, distributions in the form of a declaration or payment of a dividend, a purchase, redemption or other acquisition of shares or a distribution of indebtedness); (i) grant to the holders of shares of the series the right to convert such shares into shares of Junior Stock and identify the terms and conditions governing the exercise of that right; and (j) grant to the holders of shares of the series such other special rights, and impose on such holders such other special conditions and restrictions, as the Board of Directors thinks necessary or appropriate. The provisions with respect to the designation or definition of a series of Preferred Stock that are required or

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permitted to be set forth in a resolution of the Board of Directors may instead be set forth in these Articles of Incorporation or in any amendment to these Articles of Incorporation.

2. Dividends. If provided for in the authorizing resolution, the holders of shares of Preferred Stock will be entitled to receive, but only as and when declared by the Board of Directors, out of the assets of the Corporation legally available for the payment of dividends, cumulative preferential dividends at the rate per year fixed for the series to which such shares belong, and no more. Dividends declared shall be payable quarterly on April 1, July 1, October 1, and January 1, in each year or as otherwise set forth in the authorizing resolution, to holders of the Preferred Stock of record on the date, not more than forty (40) days prior to each such payment date, designated by the Board of Directors. The amount of any deficiency for a past dividend period may be paid or declared and set apart for payment at any time, without reference to any quarterly or other dividend payment date. Dividends on the initially issued shares of Preferred Stock of any series will begin to accrue on the date fixed for such series at the time the series is initially designated. Dividends on all subsequently issued shares of Preferred Stock of any series will begin to accrue on the day following the last day of the most recent period for which dividends already have been either declared or paid with respect to outstanding shares of Preferred Stock of that series. Such dividends will accrue from day to day, whether or not earned or declared, and will be cumulative.

Each share of dividend bearing Preferred Stock will rank on a parity with each other share of Preferred Stock, irrespective of series, with respect to the payment of dividends at the respective rates fixed for each series. In declaring or paying any dividends with respect to outstanding shares of any series of Preferred Stock or Parity Stock, the Corporation will distribute the payment ratably among the holders of all such shares, in accordance with the amount that would be payable with respect to all shares of Preferred Stock of any series and all shares of Parity Stock if all dividends on all such shares, including accumulations, were declared and paid in full. Accrued dividends on Preferred Stock, if any, will not bear interest.

3. Liquidation Rights

a. Involuntary Liquidation. If the Corporation is involuntarily liquidated, dissolved, or wound up, before any assets of the Corporation may be distributed in respect of the shares of any class of Junior Stock, each holder of shares of Preferred Stock of any series will be entitled to receive, as a preferential distribution, the par value of each share of Preferred Stock held by such holder and, in addition, an amount equal to the accumulated but unpaid dividends, if any, with respect to each such share.

b. Voluntary Liquidation. If the Corporation is voluntarily liquidated, dissolved, or wound up, before any assets of the Corporation may be distributed in respect of the shares of any class of Junior Stock, each holder of shares of Preferred Stock of any series will be entitled to receive, as a preferential distribution, an amount per share equal to the then applicable current redemption price fixed for such series, or the par value if no redemption right is included in such Series of Preferred Stock.

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c. Parity Distributions. If the Corporation is liquidated, dissolved, or wound up, whether voluntarily or involuntarily, and the assets of the Corporation are insufficient to permit the payment to the holders of the shares of Preferred Stock of each series and any other class of Parity Stock, the full preferential amounts described in this Paragraph 3, then all of the assets of the Corporation legally available for distribution to the shareholders of the Corporation will be distributed ratably among the holders of the shares of Preferred Stock and Parity Stock in proportion to the full preferential amount each such holder would otherwise be entitled to receive under this Paragraph 3.

d. Residue. A holder of Preferred Stock will not be entitled to receive, in respect of such shares, any distribution of assets of the Corporation following liquidation, dissolution, or winding up of the Corporation to any greater extent than is expressly provided in subparagraphs (a) through (c) above.

e. Nonliquidation Events. For purposes of this Paragraph 3, a merger or consolidation of this Corporation with or into any other corporation or corporations will not be considered a liquidation, dissolution, or winding up of the Corporation.

4. Redemption and Repurchase Provisions. At any time it may lawfully do so, if it is not then in arrears in the payment of any dividends with respect to the shares of Preferred Stock of any series then outstanding, and not then in default of any obligation it has to contribute sums to a sinking fund for the redemption or repurchase of any series of Preferred Stock or Parity Stock or any other class or series of stock ranking, as to dividends or assets, prior to the Preferred Stock, this Corporation may, at the option of its Board of Directors, redeem all, or from time to time any portion, of the outstanding shares of Preferred Stock of any series or of all series.

a. Exercise of Option. To exercise its redemption option, the Corporation must mail a notice of the redemption to be affected (the "Redemption Notice") to each holder of record of one or more shares of Preferred Stock of any series. For these purposes, the record holders will be determined as of the business day next preceding the day of mailing. The Redemption Notice must be transmitted by either mail, private carrier or personal delivery, at least 30 days but not more than 90 days prior to the date fixed by the Board of Directors as the date on which the redemption will take place (the "Redemption Date"). If mailed, the Redemption Notice will be effective when mailed, with first-class postage prepaid, correctly addressed to the address shown for the holder in the Corporation's current record of shareholders. The Redemption Notice must specify the Redemption Date, the price which the Corporation will pay for each share to be redeemed (the "Redemption Price") and the place at which payment may be obtained. The Redemption Price for shares of each series will be the price fixed for the redemption of shares of that series in the applicable provisions of these Articles of Incorporation, any amendment to these Articles of Incorporation, or the resolution of the Board of Directors which defines and designates the series.

b. Redemption of Less Than All of Series. If, at any time, the Corporation redeems fewer than all of the shares of Preferred Stock of any series then

outstanding, it will effect the redemption either ratably or by lot among the holders of the Preferred Stock or such series, as determined by the Board of Directors.

c. Surrender of Certificates. On or after the Redemption Date, each holder of shares to be redeemed must surrender to the Corporation the certificate or certificates representing such shares. Surrender must be in the manner and at the place designated in the Redemption Notice. Upon surrender of the appropriate certificate or certificates, the holder will be entitled to receive payment of the Redemption Price for the redeemed shares. If all of the shares of Preferred Stock represented by a surrendered certificate are to be redeemed, then following surrender the certificate will be canceled and no new certificate will be issued. If fewer than all of the shares of Preferred Stock represented by a surrendered certificate are to be redeemed, then following surrender the certificate will be canceled and a new certificate representing the unredeemed shares will be issued to the holder of record.

d. Retirement of Shares. If the Corporation has properly mailed the Redemption Notice as required in this Paragraph 4, and if on the Redemption Date the Corporation has available the funds necessary to pay the Redemption Price with respect to all shares to be redeemed, then notwithstanding the fact that certificates representing some or all of the shares to be redeemed shall not yet have been surrendered, the shares designated to be redeemed in the Redemption Notice will cease accruing dividends, and all other rights with respect to such shares (other than the right of the holders to receive the Redemption Price, without interest, upon surrender of the appropriate certificates) will cease and be determined as of the Redemption Date.

e. Early Retirement of Shares. On or before the Redemption Date, the Corporation may deposit with a bank or trust company which does business in Seattle, Washington, or in New York, New York, and which has capital and surplus of at least \$5,000,000, in trust for the benefit of the holders of shares designated to be redeemed in the Redemption Notice, an amount equal to the Redemption Price of all such shares. If the Corporation has properly mailed the Redemption Notice as required in this Paragraph 4, or executed and delivered to a transfer agent for the Preferred Stock an instrument irrevocably authorizing it to mail such notice at the Corporation's expense, and if the Corporation has deposited funds as permitted in this subparagraph 4(e), then the shares designated to be redeemed in the Redemption Notice will cease accruing dividends, and all other rights with respect to such shares (other than the right of the holders to receive the Redemption Price, without interest, upon surrender of the appropriate certificates) will cease and be determined as of the date of such deposit. Funds so deposited which remain unclaimed by the holders of the Preferred Stock called for redemption at the end of six years after the Redemption Date, together with any interest on such funds which has been allowed by the bank or trust company with which the deposit was made, will be paid by the bank or trust company to this Corporation, free of any trust, and thereby become part of the general funds of this Corporation, to be used by this Corporation for its general corporate purposes. After such payment, the holders of the shares of Preferred Stock called for redemption will have no claim against the bank or trust company nor against this Corporation with respect to such redemption.

f. Further Rights. After the Redemption Date, the shares designated for redemption in the Redemption Notice will no longer be transferable on the books of the Corporation, and will no longer be deemed to be outstanding for any purpose whatsoever. The shares redeemed will be canceled and will not be reissued. The shares of Preferred Stock not redeemed will remain outstanding and entitled to all of the rights and preferences provided for in the designation and definition of the series of shares to which they belong.

5. Voting Rights. Unless otherwise set forth in the resolution creating the particular series of Preferred Stock, the holders of shares of Preferred Stock will only be entitled to vote in matters affecting the rights, preferences, privileges, or powers of the holders of the Preferred Stock. Where voting rights of the various series of Preferred Stock are so limited, in all matters affecting the rights, preferences, privileges, or powers of the holders of such series of Preferred Stock, each share of Preferred Stock shall be entitled to one vote and class voting will be mandatory with all of the various series of outstanding Preferred Stock treated as separate classes of shareholders for this purpose. Where voting rights of the various series of Preferred Stock are so limited, in all other matters, shareholders of the Preferred Stock shall not be entitled to notice of, to vote at, or to otherwise participate at any meeting of the shareholders of the Corporation. If voting rights are otherwise set forth in the resolution creating the particular series of Preferred Stock, that Series shall vote in accordance with the creating resolution.

6. Restrictions on Dividends. As long as any shares of Preferred Stock remain outstanding, the Corporation will not make any distribution to or for the benefit of the holders of Junior Stock in respect of any such shares (other than dividends payable in shares of Junior Stock, or in exchange for other shares of Junior Stock or from the proceeds of any sale of such stock received not more than six months prior to such retirement), unless accrued dividends on all shares of all series of Preferred Stock outstanding for all past dividend periods shall have been paid, or declared and set aside for payment, and the full dividend for the then-current dividend period shall have been or concurrently shall be paid, or declared and set aside for payment, or if the Corporation is in default of the sinking or purchase fund obligation provided for any series of the Preferred Stock. If the Series of Preferred Stock in question is a non-dividend bearing series, no distribution to or for the benefit of the holders of the Junior Stock may be made unless a pro rata part of such distribution is then made to or for the benefit of the holders of such series of Preferred Stock. For this purpose, a share of Preferred Stock shall be equivalent to the number of shares of Common Stock set forth in the designating resolution. As used in this Paragraph 6, the term "distribution" shall include, but not be limited to, the declaration or payment of a dividend, a purchase, redemption, or other acquisition of shares, and a distribution of indebtedness.

C. Common Stock

1. Dividends. Subject to the limitation provided in Paragraph 6 of Section (B), above, the Corporation may pay dividends from time to time with respect to the outstanding shares of its Common Stock, as and when declared by the Board of Directors. Such dividends may be declared or paid only out of funds legally available for that purpose after the Corporation has (a) paid or declared and set aside for payment all cumulative dividends upon any shares of Preferred Stock and of any other class of stock ranking ahead of the Common Stock as to

dividends for all past dividend periods and for the current dividend period; and (b) set aside into appropriate sinking funds all funds the Corporation is required to set aside into such funds pursuant to any provision of these Articles of Incorporation, any amendments hereto, or any resolution of the Corporation's Board of Directors designating or defining the relative rights and preferences of any class or series of stock.

2. Distribution of Assets. If the Corporation is liquidated, dissolved, or wound up, whether voluntarily or involuntarily, after there shall have been paid to or set aside for the holders of all series of Preferred Stock, and of any other class of stock ranking as to assets ahead of the Common Stock, the full preferential amounts, including accrued dividends, to which they are respectively entitled, the holders of the Common Stock will be entitled to receive, pro rata, all of the remaining assets of the Corporation available for distribution to its shareholders. The Board of Directors, by majority vote, may distribute any remaining assets in kind to the holders of the Common Stock, or may sell or otherwise dispose of all or any of the remaining assets and receive payment for such assets in cash, stock or debt obligations, or any combination thereof, and may sell all or any part of that consideration or distribute the same, or the balance, in kind to the holders of the Common Stock.

D. Miscellaneous

1. Stock Fully Paid. All shares of capital stock, whether previously issued or to be issued in the future for a lawful consideration fixed by the Board of Directors, including, without limitation, issuance of stock dividends, shall, when the full lawful consideration fixed by the Board of Directors has been paid, or when so

issued as a stock dividend, be deemed fully paid stock and not liable to any further call or assessment thereon, and the holders of such shares will not be liable for any further payment thereon.

2. Unissued Shares. Any of the unissued shares of capital stock of the Corporation may be issued from time to time in such amount and manner, including, without limitation, in distribution as stock dividends, and for such lawful consideration, as the Board of Directors may determine.

E. Series A Junior Participating Preferred Stock

A series of preferred stock of the Corporation is created, and the designation and amount thereof and the relative rights and preferences of the shares of such series, are as follows:

1. Designation and Amount.

The shares of such series shall be designated as "Series A Junior Participating Preferred Stock" (the "**Preferred Shares**") and the number of shares constituting the Preferred Shares shall be 2,000,000. Such number of shares may be increased or decreased by resolution of the Board of Directors and any necessary shareholder approval; provided, however, that no decrease shall reduce the number of shares of Preferred Shares to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of

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outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible into Preferred Shares.

2. Dividends and Distributions.

a. Subject to the rights of the holders of any shares of any series of preferred stock (or any similar stock) ranking prior and superior to the Preferred Shares with respect to dividends, the holders of Preferred Shares, in preference to the holders of Common Stock, and of any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of March, June, September and December in each year (each such date being referred to herein as a "**Quarterly Dividend Payment Date**"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Preferred Shares, in an amount per share (rounded to the nearest cent) equal to the greater of (i) \$1.00 or (ii) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Preferred Shares. In the event the Corporation shall at any time after January 6, 1998, declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Preferred Shares were entitled immediately prior to such event under clause (ii) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

b. The Corporation shall declare a dividend or distribution on the Preferred Shares as provided in paragraph (a) of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock or a subdivision of the outstanding Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$1.00 per share on the Preferred Shares shall nevertheless be payable, out of funds legally available for such purpose, on such subsequent Quarterly Dividend Payment Date.

c. Dividends shall begin to accrue and be cumulative on outstanding shares of Preferred Shares from their date of issue. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Preferred Shares in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of

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Directors may fix a record date for the determination of holders of Preferred Shares entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

3. Voting Rights.

a. Subject to the provision for adjustment hereinafter set forth, each Preferred Share shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the shareholders of the Corporation. In the event the Corporation shall at any time after January 6, 1998, declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Preferred Shares were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

b. Except as otherwise provided herein or by law, the holders of Preferred Shares and the holders of Common Stock and any other capital stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of shareholders of the Corporation.

c. Except as set forth herein or required by law, holders of Preferred Shares shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

4. Certain Restrictions.

a. Whenever quarterly dividends or other dividends or distributions payable on the Preferred Shares as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Preferred Shares outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Preferred Shares;

(ii) declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Preferred Shares, except dividends paid ratably on the Preferred Shares and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Preferred Shares; provided, however, that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Preferred Shares; or

(iv) redeem or purchase or otherwise acquire for consideration any Preferred Shares, or any stock ranking on a parity with the Preferred Shares, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

b. The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (a) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

5. Reacquired Shares.

Any Preferred Shares purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of preferred stock and may be reissued as part of a new series of preferred stock subject to the conditions and restrictions on issuance set forth herein, in the Articles of Incorporation, or in any other certificate of designation creating a series of preferred stock or any similar stock or as otherwise required by law.

6. Liquidation, Dissolution or Winding Up.

Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (a) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Preferred Shares unless, prior thereto, the holders of Preferred Shares shall have received the greater of (i) \$100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, or (ii) an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of Common Stock, or (b) to the holders of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Preferred Shares, except distributions made ratably on the Preferred Shares and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Corporation shall at any time after January 6, 1998, declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares

of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Preferred Shares were entitled immediately prior to such event under clause (a)(ii) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

7. Consideration, Merger, etc.

In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Preferred Shares shall at the same time be similarly exchanged or changed into an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after January 6, 1998, declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Preferred Shares shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

8. No Redemption.

The shares of Preferred Shares shall not be redeemable.

9. Rank.

The Preferred Shares shall rank, with respect to the payment of dividends and the distribution of assets, junior to all series of any other class of the Corporation's preferred stock.

10. Fractional Shares.

Preferred Shares may be issued in fractions of a share which are integral multiples of one one-hundredth of a share which shall entitle the holder, in proportion to such holder's fractional shares, to receive dividends, participate in distributions and to have the benefit of all other rights of holders of Preferred Shares.

11. Amendment.

The Articles of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or rights of the Preferred Shares so as to affect them adversely without the affirmative vote of the holders of at least two-thirds of the outstanding shares of Preferred Shares, voting together as a single class.

ARTICLE 5. DIRECTORS

A. Number of Directors, Qualifications. The number of Directors of the Corporation shall be fixed as provided by the Bylaws and may be changed from time to time by amending the Bylaws, as then provided, but the number of Directors shall be not less than three (3). Without the unanimous consent of the Board of Directors, no

person who is affiliated as an owner, director, officer, or employee of a company or business deemed by the Board of Directors to be competitive with that of the Corporation shall be eligible to serve on the Board of Directors of the Corporation.

B. Vacancies. If the office of any Director becomes vacant by reason of death, resignation, removal, disqualification, or otherwise, the Directors may, by the affirmative vote of the majority of the remaining Directors, though less than a quorum, choose a successor or successors who shall hold office for the unexpired term. Vacancies in the Board of Directors may be filled for the unexpired term by the shareholders at a meeting called for that purpose, unless such vacancies shall have been filled by the Directors. Vacancies resulting from an increase in the number of Directors may be filled in the same manner.

The Board of Directors are authorized to increase the number of persons to comprise the Board of Directors in any period between annual shareholders' meetings by the affirmative vote of a majority of the Directors; provided, however, that without the unanimous consent of all Directors, the number of Directors who compromise the Board of Directors shall not be increased by more than two (2) persons within any twelve (12) month period.

If the Board of Directors is divided into classes, as described in Subpart C of this Article 5, and in the event of any increase or decrease in the authorized number of Directors:

1. Each Director then serving as such shall nevertheless continue as a Director of the class of which he is a member until the expiration of his term, or upon his earlier resignation, removal from office, or death;
2. The newly created or eliminated Directorships resulting from such increase shall be allocated by the Board of Directors among the three classes to the extent possible; and
3. In the event such decrease in the authorized number of Directors make the total number of Directors less than nine (9), then the Board of Directors shall become declassified and the Directors remaining in office shall continue their terms until the next annual

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meeting of shareholders, at which time all of said remaining Directors shall be reelected to one year terms or until their successors are duly elected and qualified.

C. Classification of Directors. When the Board of Directors shall consist of nine (9) or more members, in lieu of electing the entire number of Directors annually, the Board of Directors of the Corporation shall be divided into three classes. The method of classification shall be to assign the longest terms of those Directors with the most seniority as Directors. In the event there are more Directors with identical seniority than there are class positions to be filled, choices shall be made by drawing of lots. The classes shall be as follows: Class 1, Class 2, and Class 3, which classification shall be effective on the 1st day of the month following the shareholders' meeting during which the number of members of the Board of Directors is increased to nine (9) or more. In such an event, the term of office of Directors in Class 1 shall expire at the first annual meeting of shareholders after the election, that of Class 2 shall expire at the second annual meeting after their election, and that of Class 3 shall expire at the third annual meeting after their election. At each annual meeting of shareholders after such classification, the number of Directors equal to the number of the class whose term expires at the time of such meeting shall be elected to hold office until the third succeeding annual meeting. No classification of Directors shall be effective in the event the number of members of the Board is reduced to fewer than nine (9).

D. Amendment to Bylaws. In furtherance of and not in limitation of the powers conferred by the laws of the State of Washington, the Board of Directors is expressly authorized to make, alter, and repeal the Bylaws of the Corporation, subject to the power of the shareholders of the Corporation to change or repeal such Bylaws.

E. Conflicts of Interest. The Corporation may enter into, contract, and otherwise transact business as vendor, purchaser, or otherwise with its Directors, officers, and shareholders, and the Corporation may associate with firms and entities of which they are or may become interested as Directors, officers, shareholders, members, or otherwise, as freely as if those such adverse interests did not exist, even though the vote, action, or presence of such Directors, officers, or shareholders may be necessary to obligate the Corporation under such contracts or transactions; and in the absence of fraud, no such contracts or transactions shall be avoided and no such Director, officer, or shareholder shall be held liable to account to the Corporation, by reason of such adverse interests or by reason of any fiduciary relationship to the Corporation arising out of such office or stock ownership, for any profit or benefit realized by him through any such contract or transaction; provided that in the case of Directors and officers of the Corporation (but not in the case of shareholders who are not Directors or officers), the nature of the interest of such Directors or officers be disclosed or known to the Board of Directors of the Corporation at the meeting thereof at which such contract or transaction was authorized or confirmed. A general notice that a Director or officer of the Corporation is interested in any corporation, association, firm, or entity, shall be sufficient disclosure as to such Director or officer with respect to all contracts and transactions with the corporation, association, firm, or entity.

F. Ratification by Shareholders. Except as otherwise expressly set forth in these Articles, any contract, transaction, or act of the Corporation or of the Directors or of any officers

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of the Corporation which shall be ratified by a majority of a quorum of the shareholders of the Corporation at any annual meeting or at any special meeting called for such purpose, shall be as valid and binding as though ratified by every shareholder of the Corporation.

G. Indemnification. The Corporation shall indemnify to the broadest extent permitted by Washington law and under the procedures set forth herein, but without limitations permitted by statute as to the extent thereof, any and all persons for whom indemnification is permitted by RCW 23B.08.500 through RCW 23B.08.600, or as said statutes may be amended or superseded, and such person shall have the right to claim such indemnification.

H. Term of Office. Except as set forth above, the term of the Directors shall be until the next annual meeting of the shareholders of the Corporation and until their replacements are duly elected and qualified.

ARTICLE 6. BYLAWS

The Board of Directors shall have the power to adopt, amend or repeal the Bylaws for this Corporation, subject to the power of the shareholders to amend or repeal such Bylaws.

ARTICLE 7. REGISTERED OFFICE, AGENT

The address of the Registered Office of this Corporation is 520 Pike Street, Seattle, Washington 98101, and the name of its Registered Agent at such address is CT Corporation System.

ARTICLE 8. PRE-EMPTIVE RIGHTS

Pre-emptive rights shall not exist with respect to shares of stock or securities convertible into shares of stock of this Corporation. Shareholders of the Corporation shall not be entitled to cumulate their votes for Directors of the Corporation.

These Amended and Restated Articles of Incorporation contain an amendment to Article 4 of the Corporation's Articles of Incorporation, which reduces the authorized shares of capital stock of the Corporation. The Corporation had previously authorized 1,050,242 shares of Preferred Stock, Series A. These shares of Preferred Stock, Series A have been reacquired by the Corporation and cancelled and are no longer available for reissuance. After the effective date of this amendment, the total number of authorized shares of the Corporation are as set forth in Article 4 of these Amended and Restated Articles.

IN WITNESS WHEREOF, the undersigned, being duly authorized by this Corporation, executed these Amended and Restated Articles of Incorporation and certified to the truth of the facts herein stated this 29th day of August, 2002.

LABOR READY, INC.

By: /s/ Timothy J. Adams
Timothy J. Adams, Secretary

RESTATEMENT CERTIFICATE

The undersigned Secretary of Labor Ready, Inc. (the "Corporation") hereby certifies as follows:

1. The name of the Corporation is Labor Ready, Inc.
2. The Amended and Restated Articles of Incorporation filed with this certificate hereof amend and restate in their entirety the original Articles of Incorporation and all amendments thereto.
3. The Amended and Restated Articles of Incorporation contain an amendment that was approved and adopted by the Board of Directors on August 29, 2002 in accordance with RCW 23B.06.310.

DATED August 29, 2002

Labor Ready, Inc.

By: /s/ Timothy J. Adams
Timothy J. Adams, Secretary

RESTATED BYLAWS
OF
LABOR READY, INC.
AS ADOPTED AUGUST 29, 2002

ARTICLE I

Shareholders

Section 1. Annual Meeting. The annual meeting of the shareholders of this Corporation shall be held during the month of May of each year. The failure to hold an annual meeting at the time stated in these Bylaws does not affect the validity of any corporate action.

Section 2. Special Meetings. Except as otherwise provided by law, special meetings of shareholders of this Corporation shall be held whenever called by any officer or by the Board of Directors or one or more shareholders who hold at least ten percent (10%) of all shares entitled to vote on any issue proposed to be considered at the meeting.

Section 3. Place of Meetings. Meetings of shareholders shall be held in Tacoma, Washington, or at such place within or without the State of Washington as determined by the Board of Directors, pursuant to proper notice.

Section 4. Notice. Written notice of each shareholders' meeting stating the date, time, and place and, in case of a special meeting, the purpose(s) for which such meeting is called, shall be given by the corporation not less than ten (10) (unless a greater period of notice is required by law in a particular case) nor more than sixty (60) days prior to the date of the meeting, to each shareholder of record entitled to vote at such meeting unless required by law to send notice to all shareholders (regardless of whether or not such shareholders are entitled to vote), to the shareholder's address as it appears on the current record of shareholders of this Corporation.

Section 5. Waiver of Notice. A shareholder may waive any notice required to be given by these Bylaws, or the Articles of Incorporation of this Corporation, or any of the corporate laws of the State of Washington, before or after the meeting that is the subject of such notice. A valid waiver is created by any of the following three methods: (a) in writing, signed by the shareholder entitled to the notice and delivered to the Corporation for inclusion in its corporate records; (b) attendance at the meeting, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting; or (c) failure to object at the time of presentation of a matter not within the purpose or purposes described in the meeting notice.

Section 6. Quorum of Shareholders. At any meeting of the shareholders, a majority in interest of all the shares entitled to vote on a matter, represented by shareholders of record in person or by proxy, shall constitute a quorum of that voting group for action on that matter.

Once a share is represented at a meeting, other than to object to holding the meeting or transacting business, it is deemed to be present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for the adjourned meeting. At such reconvened meeting, any business may be transacted that might have been transacted at the meeting as originally notified.

If a quorum exists, action on a matter is approved by a voting group if the votes cast within the voting group favoring the action exceed the votes cast within the voting group opposing the action, unless the question is one upon which by express provision of law or of the Articles of Incorporation or of these Bylaws a different vote is required.

Section 7. Proxies. Shareholders of record may vote at any meeting either in person or by proxy executed in writing. A proxy is effective when received by the person authorized to tabulate votes for the Corporation. A proxy is valid for eleven (11) months unless a longer period is expressly provided in the proxy.

Section 8. Voting. Subject to the provisions of the laws of the State of Washington, and unless otherwise provided in the Articles of Incorporation, each outstanding share, regardless of class, is entitled to one (1) vote on each matter voted on at a shareholders' meeting.

Section 9. Adjournment. A majority of the shares represented at the meeting, even if less than a quorum, may adjourn the meeting from time to time. At such reconvened meeting at which a quorum is present any business may be transacted at the meeting as originally notified. If a meeting is adjourned to a different date, time, or place, notice need not be given of the new date, time, or place if a new date, time, or place is announced at the meeting before adjournment; however, if a new record date for the adjourned meeting is or must be fixed in accordance with the corporate laws of the State of Washington, notice of the adjourned meeting must be given to persons who are shareholders as of the new record date.

ARTICLE II

Board of Directors

Section 1. Powers of Directors. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed under the direction of, the Board of Directors, except as otherwise provided by its Articles of Incorporation.

Section 2. Number and Qualifications. The business affairs and property of this Corporation shall be managed by a Board of not less than three (3) directors. The number of directors may at any time be increased or decreased by the shareholders or by the Board of

Directors at any regular or special meeting. Directors need not be shareholders of this Corporation or residents of the State of Washington, but must have reached the age of majority.

Section 3. Election - Term of Office. The terms of the initial directors expire at the first shareholders' meeting at which directors are elected. The directors shall be elected by the shareholders at each annual shareholders' meeting to hold office until the next annual meeting of the shareholders and until their respective successors are elected and qualified. If, for any reason, the directors shall not have been elected at any annual meeting, they may be elected at a special meeting of shareholders called for that purpose in the manner provided by these Bylaws.

Section 4. Regular Meeting. Regular meetings of the Board of Directors shall be held at such places, and at such times as the Board by vote may determine, and, if so determined, no notice thereof need be given.

Section 5. Special Meetings. Special meetings of the Board of Directors may be held at any time or place whenever called by any officer or one (1) or more directors, notice thereof being given to each director by the officer calling or by the officer directed to call the meeting.

Section 6. Notice. No notice is required for regularly scheduled meetings of the Board of Directors. Notice of special meetings of the Board of Directors, stating the date, time, and place thereof, shall be given at least two (2) days prior to the date of the meeting. The purpose of the meeting need not be given in the notice. Notice for special meetings must be by facsimile, personal delivery, overnight delivery or oral.

Section 7. Waiver of Notice. A director may waive notice of a special meeting of the Board either before or after the meeting, and such waiver shall be deemed to be the equivalent of giving notice. The waiver must be in writing, signed by the director entitled to the notice and delivered to the Corporation for inclusion in its corporate records. Attendance of a director at a meeting shall constitute waiver of notice of that meeting unless said director attends for the express purpose of objecting to the transaction of business because the meeting has not been lawfully called or convened.

Section 8. Quorum of Directors. A majority of the members of the Board of Directors shall constitute a quorum for the transaction of business. When a quorum is present at any meeting, a majority of the members present thereat shall decide any question brought before such meeting, except as otherwise provided by the Articles of Incorporation or by these Bylaws.

Section 9. Adjournment. A majority of the directors present, even if less than a quorum, may adjourn a meeting and continue it to a later time. Notice of the adjourned meeting or of the business to be transacted thereat, other than by announcement, shall not be necessary. At any adjourned meeting at which a quorum is present, any business may be transacted which could have been transacted at the meeting as originally called.

Section 10. Resignation and Removal. Any director of this Corporation may resign at any time by giving written notice to the Board of Directors, its Chairman, the President, or Secretary of this Corporation. Any such resignation is effective when the notice is delivered,

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unless the notice specifies a later effective date. The shareholders, at a special meeting called expressly for that purpose, may remove from office with or without cause one or more directors and elect their successors. A director may be removed only if the number of votes cast for removal exceeds the number of votes cast against removal.

Section 11. Vacancies. Unless otherwise provided by law, in case of any vacancy in the Board of Directors, including a vacancy resulting from an increase in the number of directors, the remaining directors, whether constituting a quorum or not, or the shareholders, may fill the vacancy.

Section 12. Compensation. By resolution of the Board of Directors, each director may be paid expenses, if any, of attendance at each meeting of the Board of Directors, and may be paid a stated salary as director, or a fixed sum for attendance at each meeting of the Board of Directors, or both. No such payment shall preclude any director from serving this Corporation in any other capacity and receiving compensation therefor.

Section 13. Presumption of Assent. A director of this Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless:

- a. The director objects at the beginning of the meeting, or promptly upon the director's arrival, to holding it or transacting business at the meeting;
- b. The director's dissent or abstention from the action taken is entered in the minutes of the meeting; or
- c. The director shall file written dissent or abstention with the presiding officer of the meeting before its adjournment or to the Corporation within a reasonable time after adjournment of the meeting.

The right of dissent or abstention is not available to a director who votes in favor of the action taken.

Section 14. Committees. The Board of Directors, by resolution adopted by a majority of the full Board of Directors, may designate from among its members an Executive Committee and one or more other committees, each of which:

- a. Must have two (2) or more members;
- b. Must be governed by the same rules regarding meetings, action without meetings, notice, and waiver of notice, and quorum and voting requirements as applied to the Board of Directors; and
- c. To the extent provided in such resolution, shall have and may exercise all the authority of the Board of Directors, except no such committee shall have the authority to:

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- (1) Authorize or approve a distribution except according to a general formula or method prescribed by the Board of Directors;
- (2) Approve or propose to shareholders action which the Washington Business Corporation Act requires to be approved by shareholders;
- (3) Fill vacancies on the Board of Directors or on any of its committees;
- (4) Amend the Articles of Incorporation;
- (5) Adopt, amend, or repeal the Bylaws;
- (6) Approve a plan of merger not requiring shareholder approval; or
- (7) Authorize or approve the issuance or sale or contract for sale of shares, or determine the designation and relative rights, preferences, and limitations on a class or series of shares, except that the Board of Directors may authorize a committee, or a senior executive officer of the Corporation, to do so within limits specifically prescribed by the Board of Directors.

ARTICLE III

Special Measures Applying to Both Shareholders' Meetings and Directors' Meetings

Section 1. Action by Written Consent. Any action required or permitted to be taken at a meeting of the shareholders or the Board of Directors may be accomplished without a meeting if the action is taken by all the shareholders entitled to vote thereon, or all the members of the Board, as the case may be. The action must be evidenced by one or more written consents describing the action to be taken, signed by all the shareholders entitled to vote thereon, or by all directors, as the case may be, and delivered to the Corporation for inclusion in the minutes. Directors' consents may be signed either before or after the action taken.

Action taken by unanimous written consent is effective when the last director signs the consent, unless the consent specifies a later effective date. Action taken by unanimous written consent of the shareholders is effective when all consents are in the possession of the Corporation, unless the consent specifies a later effective date.

If the corporate laws of the state of Washington require that notice of a proposed action be given to nonvoting shareholders and the action is to be taken by unanimous consent of the voting shareholders, the Corporation must give its nonvoting shareholders written notice of the proposed action at least ten (10) days before the action is taken. The notice must contain or be accompanied by the same material that would have been required to be sent to the nonvoting shareholders in a notice of meeting at which the proposed action would have been submitted to a vote of the shareholders.

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Section 2. Conference Telephone. Meetings of the shareholders and Board of Directors may be effectuated by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other during the meeting. Participation by such means shall constitute presence in person at such meeting.

Section 3. Oral and Written Notice. Oral notice may be communicated in person or by telephone, wire or wireless equipment that does not transmit a facsimile of the notice. Oral notice is effective when communicated.

Written notice may be transmitted by mail, private carrier, or personal delivery; telegraph or teletype; or telephone, wire or wireless equipment that transmits a facsimile of the notice. Written notice is effective at the earliest of the following: (a) when received; (b) five (5) days after its deposit in the U.S. mail if mailed with first-class postage; (c) on the date shown on the return receipt, if sent by registered or certified mail, return receipt requested, and the receipt is signed by or on behalf of the addressee.

ARTICLE IV

Officers

Section 1. Positions. The officers of this Corporation may be a President, one or more Vice Presidents, a Secretary, a Treasurer, a Chief Financial Officer, a Chief Operating Officer, and a Chief Information Services Officer as appointed by the Board. Such other officers and assistant officers as may be necessary may be appointed by the Board of Directors or by a duly appointed officer to whom such authority has been delegated by Board resolution. No officer need be a shareholder or a director of this Corporation. Any two or more offices may be held by the same person.

The Board of Directors in its discretion may elect a Chairman from amongst its members to serve as Chairman of the Board of Directors, who, when present shall preside at all meetings of the Board of Directors, and who shall have such other powers as the Board may determine.

Section 2. Appointment and Term of Office. The officers of this Corporation shall be appointed annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of the shareholders. If officers are not appointed at such meeting, such appointment shall occur as soon as possible thereafter. Each officer shall hold office until a successor shall have been appointed and qualified or until said officer's earlier death, resignation, or removal.

Section 3. Powers and Duties. If the Board appoints persons to fill the following officer positions, such officer shall have the powers and duties set forth below:

a. President and Chief Executive Officer. The President and Chief Executive Officer shall be the chief executive officer of this Corporation and, subject to the direction and control of the Board of Directors, shall have general supervision of the business and officers of

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this Corporation. In addition, the President and Chief Executive Officer shall have responsibility for planning and directing the strategic direction of the Corporation, subject to approval of the Board of Directors. Unless a Chairman of the Board of Directors has been elected and is present, the President shall preside at meetings of the Board of Directors.

The President, or any Vice President or such other person(s) as are specifically authorized by vote of the Board of Directors, shall sign all bonds, deeds, mortgages, and any other agreements, and such signature(s) shall be sufficient to bind this Corporation. The President shall perform such other duties as the Board of Directors shall designate.

b. Vice President. During the absence or disability of the President, the Vice President (or in the event that there be more than one Vice President, the Vice Presidents in the order designated by the Board of Directors) shall exercise all functions of the President, except as limited by resolution of the Board of Directors. Each Vice President shall have such powers and discharge such duties as may be assigned from time to time to such Vice President by the President or by the Board of Directors.

c. Secretary. The Secretary shall:

- (1) Prepare minutes of the directors' and shareholders' meetings and keep them in one or more books provided for that purpose;
- (2) Authenticate records of the Corporation,
- (3) See that all notices are duly given in accordance with the provisions of these Bylaws or as required by law;
- (4) Be custodian of the corporate records and of the seal of the Corporation (if any), and affix the seal of the Corporation to all documents as may

be required;

- (5) Keep a register of the post office address of each shareholder which shall be furnished to the Secretary by such shareholder;
- (6) Sign with the President, or a Vice President, certificates for shares of the Corporation, the issuance of which shall have been authorized by resolution of the Board of Directors;
- (7) Have general charge of the stock transfer books of the Corporation; and

(8) In general, perform all the duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the President or by the Board of Directors. In the Secretary's absence, an Assistant Secretary shall perform the Secretary's duties.

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d. Treasurer. The Treasurer shall have the care and custody of the money, funds, and securities of the Corporation, shall account for the same, and shall have and exercise, under the supervision of the Board of Directors, all the powers and duties commonly incident to this office.

e. Chief Financial Officer. The Chief Financial Officer shall oversee the care and custody of the money, funds, and securities of the Corporation, shall account for the same, and shall have and exercise, under the supervision of the Board of Directors, all the powers and duties commonly incident to this office.

f. Chief Operating Officer. The Chief Operating Officer shall, under the supervision of the President and Chief Executive Officer, have responsibility to implement policy directives as adopted by the Board of Directors, as well as responsibility for day-to-day management of the activities of the Corporation.

g. Chief Information Services Officer. The Chief Information Services Officer shall have responsibility, under the supervision of the Chief Executive Officer and Chief Financial Officer, for developing, maintaining and implementing management information and accounting systems of the Corporation necessary for the efficient operation of the business, consistent with policy directives as adopted by the Board of Directors and as required to enable the Corporation to perform its legal obligations.

Section 4. Salaries and Contract Rights. The salaries, if any, of the President and Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Information Services Officer and Executive Vice Presidents, and other officers as designated by the Board of Directors, shall be fixed from time to time by the Board of Directors (or the Compensation Committee thereof, if delegated by resolution). Salaries of other officers shall be fixed from time to time by the President and Chief Executive officer. The appointment of an officer shall not of itself create contract rights.

Section 5. Resignation or Removal. Any officer of this Corporation may resign at any time by giving written notice to the Board of Directors. Any such resignation is effective when the notice is delivered, unless the notice specifies a later date, and shall be without prejudice to the contract rights, if any, of such officer.

The Board of Directors, by majority vote of the entire Board, may remove any officer or agent appointed by it, with or without cause. The removal shall be without prejudice to the contract rights, if any, of the person so removed.

Section 6. Vacancies. If any office becomes vacant by any reason, the directors may appoint a successor or successors who shall hold office for the unexpired term.

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ARTICLE V

Certificates of Shares and Their Transfer

Section 1. Issuance; Certificates of Shares. No shares of this Corporation shall be issued unless authorized by the Board. Such authorization shall include the maximum number of shares to be issued, the consideration to be received, and a statement that the Board considers the consideration to be adequate. Certificates for shares of the Corporation shall be in such form as is consistent with the provisions of the Washington Business Corporation Act and shall state:

- a. The name of the Corporation and that the Corporation is organized under the laws of the State of Washington;
- b. The name of the person to whom issued; and
- c. The number and class of shares and the designation of the series, if any, which such certificate represents.

The certificate shall be signed by original or facsimile signature of two officers of the Corporation, and the seal of the Corporation may be affixed thereto.

Section 2. Transfer of Stock. Shares of stock may be transferred by delivery of the certificate accompanied by either an assignment in writing on the back of the certificate or by a written power of attorney to assign and transfer the same on the books of this Corporation, signed by the record holder of the certificate. The shares shall be transferable on the books of this Corporation upon surrender thereof so assigned or endorsed.

Section 3. Loss or Destruction of Certificates. In case of the loss, mutilation, or destruction of a certificate of stock, a duplicate certificate may be issued upon such terms as the Board of Directors shall prescribe.

Section 4. Record Date and Transfer Books. For the purpose of determining shareholders who are entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors may fix in advance a record date for any such determination of shareholders, such date in any case to be not more than seventy (70) days and, in case of a meeting of shareholders, not less than ten (10) days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken.

If no record date is fixed for such purposes, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders.

When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof, unless the Board of Directors fixes a new record date, which it must do if the meeting is adjourned more than one hundred twenty (120) days after the date is fixed for the original meeting.

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Section 5. Voting Record. The officer or agent having charge of the stock transfer books for shares of this Corporation shall make at least ten (10) days before each meeting of shareholders a complete record of the shareholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each. Such record shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting for the purposes thereof.

ARTICLE VI

Books and Records

Section 1. Books of Accounts, Minutes, and Share Register. The corporation:

- a. Shall keep as permanent records minutes of all meetings of its shareholders and Board of Directors, a record of all actions taken by the shareholders or Board of Directors without a meeting, and a record of all actions taken by a committee of the Board of Directors exercising the authority of the Board of Directors on behalf of the Corporation;
- b. Shall maintain appropriate accounting records;
- c. Or its agent shall maintain a record of its shareholders, in a form that permits preparation of a list of the names and addresses of all shareholders, in alphabetical order by class of shares showing the number and class of shares held by each; and
- d. Shall keep a copy of the following records at its principal office:
 - (1) The Articles or Restated Articles of Incorporation and all amendments to them currently in effect;
 - (2) The Bylaws or Restated Bylaws and all amendments to them currently in effect;
 - (3) The minutes of all shareholders' meetings, and records of all actions taken by shareholders without a meeting, for the past three (3) years;
 - (4) Its financial statements for the past three (3) years, including balance sheets showing in reasonable detail the financial condition of the Corporation as of the close of each fiscal year, and an income statement showing the results of its operations during each fiscal year prepared on the basis of generally accepted accounting principles or, if not, prepared on a basis explained therein;
 - (5) All written communications to shareholders generally within the past three (3) years;

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- (6) A list of the names and business addresses of its current directors and officers; and
- (7) Its most recent annual report delivered to the Secretary of State of Washington.

Section 2. Copies of Resolutions. Any person dealing with the Corporation may rely upon a copy of any of the records of the proceedings, resolutions, or votes of the Board of Directors or shareholders, when certified by the President or Secretary.

ARTICLE VII

Indemnification of Officers, Directors, Employees and Agents

Section 1. Definitions. As used in this Article:

- a. "Act" means the Washington Business Corporation Act, now or hereafter in force.
- b. "Agent" means an individual who is or was an agent of the Corporation or an individual who, while an agent of the Corporation, is or was serving at the Corporation's request as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise. "Agent" includes, unless the context required otherwise, the estate or personal representative of an agent.
- c. "Corporation" means this Corporation, and any domestic or foreign predecessor entity which, in a merger or other transaction, ceased to exist.
- d. "Director" means an individual who is or was a director of the Corporation or an individual who, while a director of the Corporation, is or was serving Corporation's request as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise. "Director" includes, unless the context requires otherwise, the estate or personal representative of a director.
- e. "Employee" means an individual who is or was an employee of the Corporation or an individual, while an employee of the Corporation, is or was serving at the Corporation's request as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise. "Employee" includes, unless the context requires otherwise, the estate or personal representative of an employee.
- f. "Expenses" include counsel fees.
- g. "Indemnitee" means an individual made a party to a proceeding because the individual is or was a Director, Officer, Employee, or Agent of the Corporation, and who

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possesses indemnification rights pursuant to the Articles, these Bylaws, or other corporate action. "Indemnitee" shall also include the heirs, executors, and other successors in interest of such individuals.

- h. "Liability" means the obligation to pay a judgment, settlement, penalty, fine, including an excise tax assessed with respect to an employee benefit plan, or reasonable expenses incurred with respect to a proceeding.
- i. "Officer" means an individual who is or was an officer of the Corporation or an individual who, while an officer of the Corporation, is or was serving at the Corporation's request as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise. "Officer," includes, unless the context requires otherwise, the estate or personal representative of an officer.
- j. "Party" includes an individual who was, is, or is threatened to be named a defendant or respondent in a proceeding.
- k. "Proceeding" means any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative, and whether formal or informal.

Section 2. Indemnification Rights of Directors, Officers, Employees and Agents. The Corporation shall indemnify its Directors, Officers, Employees and

Agents to the full extent permitted by applicable law as then in effect against liability arising out of a proceeding to which such individual was made a party because the individual is or was a Director, Officer, Employee or Agent of the Corporation. The Corporation shall advance expenses incurred by such persons who are parties to a proceeding in advance of final disposition of the proceeding, as provided herein.

Section 3. Procedure for Seeking Indemnification and/or Advancement of Expenses.

a. Notification and Defense of Claim. Indemnitee shall promptly notify the Corporation in writing of any proceeding for which indemnification could be sought under this Article. In addition, Indemnitee shall give the Corporation such information and cooperation as it may reasonably require and as shall be within Indemnitee's power.

With respect to any such proceeding as to which Indemnitee has notified the Corporation:

- (1) The Corporation will be entitled to participate therein at its own expense;
- (2) Except as otherwise provided below, to the extent that it may wish, the Corporation, jointly with any other indemnifying party similarly notified, will be entitled to assume the defense thereof, with counsel satisfactory to indemnitee. Indemnitees consent to such counsel may not be unreasonably withheld.

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After notice from the Corporation to Indemnitee of its election to assume the defense, the Corporation will not be liable to Indemnitee under this Article for any legal or other expenses subsequently incurred by Indemnitee in connection with such defense. However, Indemnitee shall continue to have the right to employ its counsel in such proceeding, at Indemnitee's expense; and if:

- (a) The employment of counsel by Indemnitee has been authorized by the Corporation;
- (b) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Corporation and Indemnitee in the conduct of such defense; or
- (c) The Corporation shall not in fact have employed counsel to assume the defense of such proceeding,

the fees and expenses of Indemnitee's counsel shall be at the expense of the Corporation.

The Corporation shall not be entitled to assume the defense of any proceeding brought by or on behalf of the Corporation or as to which Indemnitee shall reasonably have made the conclusion that a conflict of interest may exist between the Corporation and the Indemnitee in the conduct of the defense.

b. Information to be Submitted and Method of Determination and Authorization of Indemnification. For the purpose of pursuing rights to indemnification under this Article, the Indemnitee shall submit to the Board a sworn statement requesting indemnification and reasonable evidence of all amounts for which such indemnification is requested (together, the sworn statement and the evidence constitutes an "Indemnification Statement").

Submission of an Indemnification Statement to the Board shall create a presumption that the Indemnitee is entitled to indemnification hereunder, and the Corporation shall, within sixty (60) calendar days thereafter, make the payments requested in the Indemnification Statement to or for the benefit of the Indemnitee, unless: (1) within such sixty (60) calendar day period it shall be determined by the Corporation that the Indemnitee is not entitled to indemnification under this Article; (2) such vote shall be based upon clear and convincing evidence (sufficient to rebut the foregoing presumption); and (3) the Indemnitee shall receive notice in writing of such determination, which notice shall disclose with particularity the evidence upon which the determination is based.

At the election of the President, the foregoing determination may be made by either: (1) the written consent of the shareholders owning a majority of the stock in the Corporation; (2) a committee chosen by written consent of a majority of the directors of the Corporation, and consisting solely of two (2) or more directors not at the time parties to the proceeding; or (3) as provided by RCW 23B.08.550, as amended.

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Any determination that the Indemnitee is not entitled to indemnification, and any failure to make the payments requested in the Indemnification Statement, shall be subject to judicial review by any court of competent jurisdiction.

c. Special Procedure Regarding Advance for Expenses. An Indemnitee seeking payment of expenses in advance of a final disposition of the proceeding must furnish the Corporation, as part of the Indemnification Statement:

- (1) A written affirmation of the Indemnitee's good faith belief that the Indemnitee has met the standard of conduct required to be eligible for indemnification; and
- (2) A written undertaking, constituting an unlimited general obligation of the Indemnitee, to repay the advance if it is ultimately determined that the Indemnitee did not meet the required standard of conduct.

If the Corporation determines that indemnification is authorized, the Indemnitee's request for advance of expenses shall be granted.

d. Settlement. The Corporation is not liable to indemnify Indemnitee for any amounts paid in settlement of any proceeding without Corporation's written consent. The Corporation shall not settle any proceeding in any manner which would impose any penalty or limitation on Indemnitee without Indemnitee's written consent. Neither the Corporation nor Indemnitee may unreasonably withhold its consent to a proposed settlement.

Section 4. Contract and Related Rights.

a. Contract Rights. The right of an Indemnitee to indemnification and advancement of expenses is a contract right upon which the Indemnitee shall be presumed to have relied in determining to serve or to continue to serve in his or her capacity with the Corporation. Such right shall continue as long as the Indemnitee shall be subject to any possible proceeding. Any amendment to or repeal of this Article shall not adversely affect any right or protection of an Indemnitee with respect to any acts or omissions of such Indemnitee occurring prior to such amendment or repeal.

b. Optional Insurance, Contracts, and Funding. The Corporation may:

- (1) Maintain insurance, at its expense, to protect itself and any Indemnitee against any liability, whether or not the Corporation would have power to indemnify the individual against the same liability under RCW 23B.08.510 or .520, or a successor statute;

- (2) Enter into contracts with any Indemnitee in furtherance of this Article and consistent with the Act; and

(3) Create a trust fund, grant a security interest, or use other means (including without limitation a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Article.

c. Severability. If any provision or application of this Article shall be invalid or unenforceable, the remainder of this Article and its remaining applications shall not be affected thereby, and shall continue in full force and effect.

d. Right of Indemnitee to Bring Suit. If (1) a claim under this Article for indemnification is not paid in full by the Corporation within sixty (60) days after a written claim has been received by the Corporation; or (2) a claim under this Article for advancement of expenses is not paid in full by the Corporation within twenty (20) days after a written claim has been received by the Corporation, then the Indemnitee may, but need not, at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. To the extent successful in whole or in part, the Indemnitee shall be entitled to also be paid the expense (to be proportionately prorated if the Indemnitee is only partially successful) of prosecuting such claim.

Neither: (1) the failure of the Corporation (including its Board of Directors, its shareholders, or independent legal counsel) to have made a determination prior to the commencement of such proceeding that indemnification or reimbursement or advancement of expenses to the Indemnitee is proper in the circumstances; nor (2) an actual determination by the Corporation (including its Board of Directors, its shareholders, or independent legal counsel) that the Indemnitee is not entitled to indemnification or to the reimbursement or advancement of expenses, shall be a defense to the proceeding or create a presumption that the Indemnitee is not so entitled.

Section 5. Exceptions. Any other provision herein to the contrary notwithstanding, the Corporation shall not be obligated pursuant to the terms of these Bylaws to indemnify or advance expenses to Indemnitee with respect to any proceeding:

a. Claims Initiated by Indemnitee. Initiated or brought voluntarily by Indemnitee and not by way of defense, except with respect to proceedings brought to establish or enforce right to indemnification under these Bylaws or any other statute or law or as otherwise required under the statute; but such indemnification or advancement of expenses may be provided by the Corporation in specific cases if the Board of Directors finds it to be appropriate.

b. Lack of Good Faith. Instituted by Indemnitee to enforce or interpret this Agreement, if a court of competent jurisdiction determines that each of the material assertions made by Indemnitee in such proceeding was not made in good faith or was frivolous.

c. Insured Claims. For which any of the expenses or liabilities for indemnification is being sought have been paid directly to Indemnitee by an insurance carrier under a policy of officers' and directors' liability insurance maintained by the Corporation.

d. Prohibited by Law. If the Corporation is prohibited by the Washington Business Corporation Act or other applicable law as then in effect from paying such

indemnification and/or advancement of expenses. For example, the Corporation and Indemnitee acknowledge that the Securities and Exchange Commission ("SEC") has taken the position that indemnification is not possible for liabilities arising under certain federal securities laws, and federal legislation prohibits indemnification for certain ERISA violations. Indemnitee understands and acknowledges that the Corporation has undertaken or may be required in the future to undertake with the SEC to submit the question of indemnification to a court in certain circumstances for a determination of the Corporation's right to indemnify Indemnitee.

ARTICLE VIII

Limitation of Director Liability

A director of the corporation shall not be personally liable to the corporation or its shareholders for monetary damages for conduct as a director, except for:

- (a) Acts or omissions involving intentional misconduct by the director or a knowing violation of law by the director;
- (b) Conduct violating RCW 23B.08.310 (which involves certain distributions by the corporation);
- (c) Any transaction from which the director will personally receive a benefit in money, property, or services to which the director is not legally entitled.

If the Washington Business Corporation Act is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the Washington Business Corporation Act, as so amended. Any repeal or modification of the foregoing paragraph by the shareholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation with respect to any acts or omissions of such director occurring prior to such repeal or modification.

ARTICLE IX

Amendment of Bylaws

Section 1. By the Shareholders. These Bylaws may be amended or repealed at any regular or special meeting of the shareholders if notice of the proposed amendment is contained in the notice of the meeting.

Section 2. By the Board of Directors. These Bylaws may be amended or repealed by the affirmative vote of a majority of the whole Board of Directors of any meeting of the Board, if notice of the proposed amendment is contained in the notice of the meeting. However, the directors may not modify the Bylaws fixing their qualifications, classifications, or term of office.

ARTICLE X

Rules of Order

- (a) At each meeting of shareholders, a chair shall preside. The Board of Directors shall select the chair or, in the absence of any such selection, the Chief

Executive Officer shall serve as the chair.

(b) The chair shall determine the order of business and shall have the authority to establish rules for the conduct of the meeting.

(c) Any rules adopted for, and the conduct of, the meeting shall be fair to shareholders.

(d) Any rules adopted for the conduct of the meeting shall be communicated to shareholders prior to or at the beginning of the meeting.

(e) The rules of conduct for the meeting may cover such subjects as the proper means for obtaining the floor, who shall have the right to address the meeting, the manner in which shareholders will be recognized to speak, time limits per speaker, the number of times a shareholder may address the meeting, and the person to whom questions should be addressed.

(f) In addition to any other rules adopted for a meeting the chair of the meeting shall announce at the meeting when the polls close for each matter voted upon. After the polls close, no ballots, proxies or votes nor any revocations or changes thereto may be accepted.

The undersigned, as Secretary, of Labor Ready, Inc. executes these Bylaws on August 29, 2002.

/s/ Timothy J. Adams

Timothy J. Adams

Secretary

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Labor Ready, Inc. (the "Company") on Form 10-Q for the period ending September 27, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph P. Sambataro, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Joseph P. Sambataro, Jr.

Joseph P. Sambataro, Jr.
Chief Executive Officer
November 12, 2002

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Labor Ready, Inc. (the "Company") on Form 10-Q for the period ending September 27, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven C. Cooper, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Steven C. Cooper

Steven C. Cooper
Chief Financial Officer
November 12, 2002
