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: July 1, 2005

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 (Address of principal executive offices)	**98402** (Zip Code)

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

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 last ninety days. Yes ☒ No ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes☒ No ☐

As of July 29, 2005, there were 53,240,486 shares of the Registrant's common stock outstanding.

Documents incorporated by reference: None.

LABOR READY, INC.

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PART I. Financial Information

Item 1. Financial Statements

LABOR READY, INC.

CONSOLIDATED BALANCE SHEETS

In Thousands

ASSETS

	July 1, 2005 (Unaudited)	December 31, 2004
CURRENT ASSETS:		
Cash and cash equivalents	$ 104,048	$ 128,817
Marketable securities	14,922	11,947
Accounts receivable	31,162	17,082
Accounts receivable pledged under securitization agreement	95,260	81,428
Allowance for doubtful accounts	(4,620)	(4,197)
Prepaid expenses, deposits and other	11,163	10,342
Income tax receivable	9,800	15,639
Deferred income taxes	9,932	—
Total current assets	271,667	261,058
PROPERTY AND EQUIPMENT:		
Buildings and land	17,650	16,721
Computers and software	33,239	31,201
Cash dispensing machines	15,235	15,140
Furniture and equipment	3,880	2,877
	70,004	65,939
Less accumulated depreciation and amortization	43,736	40,765
Property and equipment, net	26,268	25,174
OTHER ASSETS:		
Restricted cash and other assets	139,312	128,607
Deferred income taxes	1,404	6,890
Other assets	70,508	22,378
Total other assets	211,224	157,875
Total assets	$ 509,159	$ 444,107

See accompanying notes to consolidated financial statements.

LABOR READY, INC.

CONSOLIDATED BALANCE SHEETS

In Thousands (Except Par Values)

LIABILITIES AND SHAREHOLDERS' EQUITY

July 1,	December 31,

	2005	2004
	(Unaudited)	
CURRENT LIABILITIES:		
Accounts payable	$ 19,036	$ 14,743
Accrued wages and benefits	25,240	18,182
Current portion of workers' compensation claims reserve	45,074	41,683
Other current liabilities	851	1,554
Deferred income taxes	—	346
Total current liabilities	90,201	76,508
LONG-TERM LIABILITIES:		
Long term debt	—	70,000
Workers' compensation claims reserve, less current portion	111,686	93,929
Other non-current liabilities	1,650	1,276
Total long-term liabilities	113,336	165,205
Total liabilities	203,537	241,713
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; 53,194 and 42,338 shares issued and outstanding	143,199	63,914
Cumulative foreign currency translation adjustment	2,709	3,577
Cumulative unrealized loss on marketable securities	(11)	(22)
Retained earnings	159,725	134,925
Total shareholders' equity	305,622	202,394
Total liabilities and shareholders' equity	$ 509,159	$ 444,107

See accompanying notes to consolidated financial statements.

LABOR READY, INC.

CONSOLIDATED STATEMENTS OF INCOME

In Thousands (Except Per Share Data)

(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2005	July 2, 2004	July 1, 2005	July 2, 2004
Revenue from services	$ 295,208	$ 267,056	$ 538,424	$ 475,968
Cost of services	202,535	187,297	369,613	335,482
Gross profit	92,673	79,759	168,811	140,486
Selling, general and administrative expenses	66,253	60,310	125,667	116,756
Depreciation and amortization	2,189	2,280	4,395	4,339
Income from operations	24,231	17,169	38,749	19,391
Interest expense	(1,503)	(1,620)	(2,878)	(3,311)
Interest and other income	2,214	1,360	4,064	2,046
Interest and other income (expense), net	711	(260)	1,186	(1,265)
Income before tax expense	24,942	16,909	39,935	18,126
Income tax	9,498	6,781	15,135	7,268
Net income	$ 15,444	$ 10,128	$ 24,800	$ 10,858
Net income per common share:				
Basic	$ 0.35	$ 0.24	$ 0.57	$ 0.26
Diluted	$ 0.30	$ 0.21	$ 0.49	$ 0.24
Weighted average shares outstanding:				
Basic	44,611	41,503	43,557	41,356
Diluted	53,535	52,187	53,254	52,023

See accompanying notes to consolidated financial statements.

LABOR READY, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

In Thousands

(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2005	July 2, 2004	July 1, 2005	July 2, 2004
Net income	$ 15,444	$ 10,128	$ 24,800	$ 10,858
Other comprehensive income (loss):				
Foreign currency translation adjustment	(576)	(104)	(868)	161
Unrealized gain (loss) on marketable securities	14	(34)	11	(52)
Other comprehensive income (loss)	(562)	(138)	(857)	109
Comprehensive income	$ 14,882	$ 9,990	$ 23,943	$ 10,967

See accompanying notes to consolidated financial statements.

LABOR READY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In Thousands

(Unaudited)

	Twenty-Six Weeks Ended	
	July 1, 2005	July 2, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 24,800	$ 10,858
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,749	4,725
Provision for doubtful accounts	3,180	3,508
Deferred income taxes	(5,604)	(4,259)
Other operating activities	3,290	1,639
Changes in operating assets and liabilities, exclusive of business acquired:		
Accounts receivable	(17,627)	(23,175)
Workers' compensation claims reserve	7,154	14,800
Income tax	5,839	8,735
Other assets	173	(4,012)
Other current liabilities	6,844	5,392
Net cash provided by operating activities	32,798	18,211
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(2,744)	(2,876)
Purchases of marketable securities	(29,154)	(13,660)
Maturities of marketable securities	26,190	17,303
Purchase of CLP Holdings Corp., net of cash acquired	(45,892)	—
Purchase of Spartan Staffing, Inc.	—	(9,890)
Increase in restricted cash and other assets	(10,705)	(1,441)
Other	36	(20)
Net cash used in investing activities	(62,269)	(10,584)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of stock through options and employee benefit plans	6,608	4,722
Payments on debt	(1,141)	(1,304)
Checks issued against future deposits	—	(4,197)
Net cash provided by (used in) financing activities	5,467	(779)
Effect of exchange rates on cash	(765)	156
Net change in cash and cash equivalents	(24,769)	7,004
CASH AND CASH EQUIVALENTS, beginning of period	128,817	83,112
CASH AND CASH EQUIVALENTS, end of period	$ 104,048	$ 90,116

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NOTE 1: 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, 2004. Operating results for the twenty-six week period ended July 1, 2005 are not necessarily indicative of the results that may be expected for the year ending December 30, 2005.

The consolidated financial statements are presented on a 52/53-week fiscal year end basis, with the last day of the fiscal year ending on the Friday closest to December 31. Fiscal years 2004 and 2005 are 52-week years.

Revenue recognition
Revenue from services is generally recognized at the time the service is performed. A portion of our revenue is derived from cash dispensing machine ("CDM") fees, which are immaterial for all periods presented. Sales coupons or other incentives are recognized as a reduction of revenues in the period the related revenue is earned.

Cost of services
Cost of services includes the wages of temporary employees, related payroll taxes, workers' compensation expenses and transportation.

Stock-based compensation
We follow Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations to account for stock options and employee stock purchase plans. Since the exercise price of our employee stock options is not less than the market price of the underlying stock at the date of grant, under APB Opinion No. 25, no compensation cost is recognized. Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, issued in December 2002, requires us to provide pro forma information regarding net income and net income per share as if compensation cost for our stock option plans had been determined in accordance with the fair value based method prescribed in SFAS No. 123, as amended by SFAS 148.

Under the provisions of SFAS No. 123, as amended by SFAS 148, our net income and net income per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share amount):

	Thirteen Weeks Ended July 1, 2005	Thirteen Weeks Ended July 2, 2004
Net Income As Reported	$ 15,444	$ 10,128
Add: Stock based compensation as reported, net of tax	196	50
	15,640	10,178
Deduct: Total stock-based compensation expense determined under fair value method of all awards, net of tax	(460)	(447)
Pro Forma	$ 15,180	$ 9,731
Diluted Net Income Per Share		
As Reported	$ 0.30	$ 0.21
Pro Forma	$ 0.30	$ 0.20
Basic Net Income Per Share		
As Reported	$ 0.35	$ 0.24
Pro Forma	$ 0.34	$ 0.23

	Twenty-Six Weeks Ended July 1, 2005	Twenty-Six Weeks Ended July 2, 2004
Net Income As Reported	$ 24,800	$ 10,858
Add: Stock based compensation as reported, net of tax	335	50
	25,135	10,908
Deduct: Total stock-based compensation expense determined under fair value method of all awards, net of tax	(997)	(755)
Pro Forma	$ 24,138	$ 10,153
Diluted Net Income Per Share		
As Reported	$ 0.49	$ 0.24
Pro Forma	$ 0.48	$ 0.23
Basic Net Income Per Share		
As Reported	$ 0.57	$ 0.26
Pro Forma	$ 0.55	$ 0.25

New accounting pronouncements
In December 2004, the Financial Accounting Standards Board issued SFAS 123 (Revised), *Share-Based Payment*, which amended SFAS No. 123 and SFAS No. 95, *Statement of Cash Flows*. The new accounting standard requires the expensing of new stock options, as well as outstanding unvested stock options, issued by us using a fair-value-based method and is effective for fiscal years beginning after June 15, 2005 and will become effective for us beginning in the first quarter of fiscal year 2006. In March 2005 the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 107, which provides guidance regarding the application of SFAS No. 123 (Revised). See *Stock-based compensation* section above for pro forma disclosures regarding the effect on net income and net income per share had we applied the fair value recognition provisions of SFAS No. 123. We are currently evaluating the transition methods prescribed by SFAS No. 123 (Revised). Depending on the method we adopt to calculate stock-based compensation expense, the pro forma disclosure above may or may not be indicative of the stock-based compensation expense to be recognized.

In October 2004, President Bush signed the American Jobs Creation Act of 2004 ("Act"). The Act provides for a special one-time deduction of 85 percent of certain foreign earnings that are repatriated in either an enterprise's last tax year that began before the enactment date, or the first tax year that begins during the one-year period beginning on the date of enactment. In December 2004, the FASB issued FASB Staff Position No. 109-2, "Accounting and Disclosure Guidance for the Foreign Repatriation Provision

within the American Jobs Creation Act of 2004," in response to the Act, which provides guidance for the implementation of the provisions of the Act. Under the Act, we may choose to repatriate earnings from any or all of our foreign investments and may apply the special one-time deduction to any repatriated amounts, provided certain criteria are met. We are currently evaluating the effects of the repatriation provision for each of our several foreign investments and expect to complete the evaluation prior to the end of the fourth quarter of 2005.

NOTE 2: BUSINESS COMBINATION

The purchase of substantially all of the assets of Spartan Staffing Inc. on April 5, 2004 is fully disclosed in the related notes included in our annual report on Form 10-K for the year ended December 31, 2004.

On May 27, 2005, pursuant to an Agreement and Plan of Merger (the "Merger Agreement"), we completed our acquisition of 100% of the common stock of CLP Holdings Corp. ("CLP"), a privately held Nevada corporation for $46.3 million, including acquisition costs of $0.7 million. Seven million dollars of the purchase price is being held in an indemnity escrow for two years from the closing date (except to the extent any amounts are withdrawn earlier to pay claims) to indemnify us for certain matters that are specified in the Merger Agreement. There are no other contingent payments.

Given that CLP provides skilled and semi-skilled temporary employees to licensed contractors and large facilities on an as needed basis, we believe our acquisition of CLP supports our long-term strategic direction and strengthens our competitive position in the temporary labor industry.

Assets acquired and liabilities assumed in the CLP acquisition were recorded at their estimated fair values as of May 27, 2005. We obtained independent valuations of the trade names, trademarks, non-compete agreements and customer relationships purchased and the workers' compensation liability assumed and internally determined the fair value of the other assets and liabilities. The purchase price allocation is preliminary.

The preliminary allocation of the purchase price is summarized as follows (in thousands):

Cash and cash equivalents	$	414
Accounts receivable, net		13,042
Other current assets		1,603
Receivable from insurance company, net		1,883
Deferred tax asset, current		3,551
Property and equipment		1,431
Amortizable intangible assets		11,000
Indefinite-lived intangible assets		6,000
Goodwill		30,999
Accounts payable and accrued expenses		(5,040)
Workers' compensation claims reserve, net of discount		(13,994)
Deferred tax liabilities, non-current		(4,363)
Other non-current liabilities		(220)
	$	46,306

Identifiable intangible assets purchased in the CLP acquisition, consist of the following (in thousands):

		Fair Value	Useful Life
Amortizable intangible assets:			
Customer relationships		10,300	6.5 years
Non-compete agreements		700	1.0 to 2.0 years
Total amortizable intangible assets	$	11,000	
Indefinite-lived intangible assets:			
Trade name/trademarks		6,000	
Total indefinite-lived intangible assets	$	6,000	

The results of operations of CLP are included in the accompanying consolidated financial statements since the date of purchase. The unaudited financial information in the table below summarizes the combined historical results of operations of Labor Ready, Inc., and CLP, on a pro forma basis, as though the companies had been combined as of the beginning of each period presented. This pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved had the acquisition taken place at the beginning of each period presented. The pro forma amounts are as follows (in thousands, except per share amounts):

	Thirteen Weeks Ended				Twenty-Six Weeks Ended			
		July 1, 2005		July 2, 2004		July 1, 2005		July 2, 2004
Revenue from services	$	313,974	$	292,922	$	582,625	$	523,055
Net income		13,617		10,548		22,467		10,826
Net income per common share:								
Basic	$	0.31	$	0.25	$	0.52	$	0.26
Diluted	$	0.27	$	0.22	$	0.45	$	0.24

NOTE 3: MARKETABLE SECURITIES

Management determines the appropriate classification, pursuant to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, of our 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, which usually have maturities of one year or less. The aggregate carrying value of our Marketable Securities was $14.9 million at July 1, 2005 and $11.9 million at December 31, 2004. At July 1, 2005 and December 31, 2004, those securities were classified as available-for-sale and stated at fair value as reported by our investment brokers, with the unrealized holding gains and losses reported as a separate component of shareholders' equity. There were no

material unrealized holding gains or losses at July 1, 2005 or December 31, 2004. The specific identification method is used for computing realized gains and losses on the sale of available-for-sale securities. For the thirteen and twenty-six weeks ended July 1, 2005 and July 2, 2004, there were no sales of available-for-sale securities. These marketable securities are available to fund current operations, if necessary.

NOTE 4: RESTRICTED CASH AND OTHER ASSETS

We have cash deposits and other restricted assets with independent financial institutions predominantly for the purpose of securing our workers' compensation obligations. These assets may be released as workers' compensation claims are paid or when letters of credit are released or can be supported by eligible accounts receivable.

The following is a summary of restricted cash and other assets as of July 1, 2005 and December 31, 2004 (in millions):

	July 1, 2005	December 31, 2004
Workers' Assurance Program – committed cash*	$ 128.9	$ 117.2
Cash-backed instruments	9.5	9.5
Workers' Assurance Program – uncommitted cash*	0.8	1.9
Other	0.1	—
Total Restricted Cash and Other Assets	$ 139.3	$ 128.6

* We have agreements with certain financial institutions through our wholly-owned and consolidated subsidiary, Workers' Assurance of Hawaii, Inc. (our "Workers' Assurance Program"), that allow us to restrict cash for the purpose of providing cash-backed instruments for our workers' compensation collateral. These instruments include cash-backed letters of credit, cash held in trusts that we control as well as cash deposits held by our insurance carriers. Committed cash represents instruments that have been provided or pledged to an insurance company to cover the cost of claims in the event we are unable to make payment. Uncommitted cash represents cash available for funding future commitments.

Our restricted cash and other assets increased $10.7 million since December 31, 2004. The increase is primarily attributable to the growth in our workers' compensation reserve for the current policy year as we continue to collateralize most of our obligations with restricted cash through our Workers' Assurance Program.

As a result of our recent workers' compensation insurance policy renewal, we expect to restrict $33.7 million of cash into our Workers' Assurance Program for use as collateral during the 2005/2006 policy year which expires on July 1, 2006. Of that total, $6.7 million was restricted and then deposited with our insurance carrier subsequent to the quarter ended July 1, 2005. An additional $13.5 million will be restricted and deposited with our insurance carrier by the end of the year and the balance of $13.5 million will be restricted and deposited with our insurance carrier during 2006 as required by our insurance agreement.

NOTE 5: RECEIVABLES FROM INSURANCE COMPANIES

For workers' compensation claims originating in the majority of states (which we refer to as self-insured states), we have purchased insurance policies from independent, third-party carriers, which cover any claims for a particular event above a deductible amount, on a "per occurrence" basis. Our current deductible is $2.0 million for the majority of our workers' compensation claims.

Our workers' compensation reserves include not only estimated expenses for claims within our deductible layer but also estimated expenses related to claims above our deductible limits ("excess claims"). We record a receivable for the insurance coverage on excess claims based on the contractual policy agreements we have with insurance companies. We discount this receivable to its estimated net

present value using a discount rate based on the methodology used to discount the related loss liability as described in Note 8 When appropriate, based on our best estimate, we record a valuation allowance against the insurance receivable to reflect amounts that may not be realized. Included in other assets in the accompanying Consolidated Balance Sheets at July 1, 2005 and December 31, 2004 are discounted receivables from insurance companies, net of related valuation allowance, of $13.5 million and $11.0 million, respectively.

Two of the workers' compensation insurance companies with which we formerly did business are currently in liquidation or financial distress and have failed to pay a number of excess claims. We have presented these excess claims to the guarantee funds of the states in which the claims originated. Certain of these excess claims have been rejected by the state guarantee funds due to statutory eligibility limitations. Although we believe it is probable that we will receive payments on the majority of our excess claims, we have concluded that recovery is unlikely on a portion of these claims. As a result, we have recorded a valuation allowance against the insurance receivables from these two insurance companies at both July 1, 2005 and December 31, 2004 in the amount of $1.2 million.

We also record a receivable for other matters where we expect reimbursement from an insurance company. Included in prepaid expenses, deposits and other in the accompanying Consolidated Balance Sheets at July 1, 2005 is an undiscounted receivable from our insurance company of $1.8 million in connection with certain employment related litigation. The receivable is not discounted due to the short-term nature of the expected reimbursement.

NOTE 6: INTANGIBLE ASSETS

The following table presents our purchased intangible assets, which are included in other assets in the Consolidated Balance Sheets (in thousands):

	July 1, 2005	December 31, 2004
Amortizable intangible assets:		
Trade name/trademarks	$ 400	$ 400
Customer relationships	11,600	1,300
Non-compete agreements	1,600	900
	13,600	2,600
Less accumulated amortization	1,586	847
Total amortized intangible assets, net	$ 12,014	$ 1,753
Indefinite-lived intangible assets:		
Trade name/trademarks	6,500	500
Goodwill	37,357	6,358
Total indefinite-lived intangible assets	$ 43,857	$ 6,858

We obtained all of our intangible assets as a result of acquisitions. Intangible assets are amortized using the straight line method over the assigned amortization periods, which

range from 2.5 to 6.5 years for customer relationships, 1 to 2 years for non-compete agreements and 2.5 years for amortizable trade name/trademarks. A majority of our trade name/trademarks do not have a definite life and, accordingly, are not amortized. Amortization expense of our amortizable intangible assets was $0.5 million for the thirteen weeks and $0.7 million for the twenty-six weeks ended July 1, 2005 and $0.3 million for the thirteen weeks and twenty-six weeks ended July 2, 2004.

NOTE 7: LONG-TERM DEBT

Convertible Subordinated Notes - During 2002, we issued 6.25% Convertible Subordinated Notes due June 2007 (the "Notes") in the aggregate principal amount of $70.0 million. Interest was payable on the Notes on June 15 and December 15 of each year. Holders could 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 were unsecured subordinated obligations and ranked 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. Pursuant to the terms of the Notes, on or after June 20, 2005, we could redeem some or all of the Notes for cash at 100% of their principal amount plus accrued interest if the market value of our common stock equaled or exceeded 125% of the conversion price ($9.08) for at least 20 trading days in any consecutive 30 trading day period ending on the trading day prior to the date we mail notice of our intent to redeem the Notes.

On April 20, 2005, we announced that we would be calling the Notes for redemption on June 20, 2005 for cash at 100 percent of the principal amount plus accrued interest. Holders of all of the outstanding Notes converted their Notes into shares of our common stock prior to the June 20, 2005 redemption date and none of the outstanding principal amount of the Notes was redeemed for cash. As a result of these conversions, approximately 9.6 million additional shares of common stock were issued to the holders of the Notes and we reduced our long-term debt by $70.0 million. The Notes had been accounted for on an "as if converted" basis since their issuance in 2002. Consequently, issuance of the shares was not further dilutive to our diluted net income per share (See Note 9).

NOTE 8: WORKERS' COMPENSATION INSURANCE AND RESERVES

We provide workers' compensation insurance to our temporary and regular employees. Our workers' compensation insurance policies must be renewed annually. We recently renewed our coverage with American International Group, Inc. ("AIG"), which is the insurance company for the majority of our workers' compensation policies, for occurences in the period from July 2005 through June 2006. While we have primary responsibility for all claims, our insurance coverage provides reimbursement for certain losses and expenses beyond the deductible limits ("excess claims"). For workers' compensation claims originating in the majority of states (which we refer to as self-insured states), our current workers' compensation insurance policy covers 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. Furthermore, we now have full liability for all further payments on claims which originated between January 2001 and June 2003, without recourse to any third party insurer as the result of a Novation agreement we entered into with Kemper Insurance Company in December 2004.

Our workers' compensation reserve is discounted to its estimated net present value using a discount rate based on average returns on "risk-free" Treasury instruments, which is evaluated on a quarterly basis. At July 1, 2005, our reserves are discounted at rates ranging from 3.85% to 5.27%. Included in the accompanying Consolidated Balance Sheets as of July 1, 2005 and December 31, 2004 are discounted workers' compensation claims reserves in the amounts of $156.8 million and $135.6 million, respectively.

For workers' compensation claims originating in Washington, Ohio, West Virginia, North Dakota, Wyoming, Canada and Puerto Rico (the "monopolistic jurisdictions") we pay workers' compensation insurance premiums and obtain full coverage under government-administered programs. Accordingly, because we are not the primary obligor, our financial statements do not reflect the liability for workers' compensation claims in these monopolistic jurisdictions. 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 a 25 million British Pound limit in total.

Workers' compensation expense is recorded as part of our cost of services and consists of the following components: self-insurance reserves net of changes in discount, monopolistic jurisdictions premium, insurance premium and any changes in the valuation allowance related to receivables from insurance companies as described in Note 5. Workers' compensation expense totaling $19.2 million and $20.4 million was recorded for the thirteen weeks ended July 1, 2005 and July 2, 2004, respectively. Workers' compensation expense totaling $34.7 million and $37.0 million was recorded for the twenty-six weeks ended July 1, 2005 and July 2, 2004, respectively.

NOTE 9: NET INCOME PER SHARE

Basic net income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted net income per share is calculated by dividing adjusted net income by the weighted average number of common shares and potential common shares outstanding during the year. Potential common shares include the dilutive effects of outstanding options and the conversion features of the Notes, except where their inclusion would be anti-dilutive. The anti-dilutive shares not considered as part of our calculation are as follows:

	(Amounts in Thousands)			
	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2005	July 2, 2004	July 1, 2005	July 2, 2004
Stock Options	130	222	130	316

Anti-dilutive shares associated with our stock options relate to those stock options with a grant price higher than the average market value of our stock during the periods presented.

Adjusted net income and diluted common shares were calculated as follows:

	Thirteen Weeks Ended	
	July 1, 2005	July 2, 2004
Net income	$ 15,444	$ 10,128
Adjustments:		
Interest on Notes	881	1,106
Amortization of costs for Notes issuance	124	149
Tax effect	(383)	(503)
Total adjustments	622	752

Adjusted net income	$ 16,066	$ 10,880

	Common Shares and Potential Common Shares (In Thousands)	
Weighted average number of common shares used in basic net income per common share	44,611	41,503
Effect of dilutive securities:		
Stock options	889	1,042
Convertible Notes	8,035	9,642
Weighted average number of common shares and potential common shares used in diluted net income per common share	53,535	52,187

	Twenty-Six Weeks Ended	
	July 1, 2005	July 2, 2004
Net income	$ 24,800	$ 10,858
Adjustments:		
Interest on Notes	1,859	2,212
Amortization of costs for Notes issuance	274	298
Tax impact	(808)	(1,006)
Total adjustments	1,325	1,504
Adjusted net income	$ 26,125	$ 12,362

	Common Shares and Potential Common Shares (In Thousands)	
Weighted average number of common shares used in basic net income per common share	43,557	41,356
Effect of dilutive securities:		
Stock options	859	1,025
Convertible Notes	8,838	9,642
Weighted average number of common shares and potential common shares used in diluted net income per common share	53,254	52,023

NOTE 10: COMMITMENTS AND CONTINGENCIES

Accounts Receivable Facility

In March 2001, we entered into a letter of credit facility and accounts receivable securitization facility (collectively the “Accounts Receivable Facility”) with certain unaffiliated financial institutions that expires in February 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 includes a corporate guarantee by us and requires that we comply with certain financial covenants. Among other things, these covenants require us to maintain certain liquidity, 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 $80 million, all of which may be used to obtain letters of credit. The amounts we may borrow (our 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. We currently use this facility to issue letters of credit but if we were to take a loan against this borrowing capacity, interest would be charged at 2.5% above the Prime Rate. We are currently in compliance with the covenants related to the Accounts Receivable Facility.

At July 1, 2005, we had a total available borrowing capacity of $70.8 million under the Accounts Receivable Facility comprised entirely of the eligible portion of our $95.3 million of securitized accounts receivable. Of that borrowing capacity available at July 1, 2005, we had $51.1 million of letters of credit issued against it leaving us with $19.7 million available for future borrowings.

We are required by our insurance carriers and certain state workers’ compensation programs to collateralize a portion of our workers’ compensation obligation with cash and cash-backed instruments, irrevocable letters of credit, or surety bonds. The letters of credit bear fluctuating annual fees, which were approximately 1.0% of the principal amount of the letters of credit outstanding as of July 1, 2005. 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.

At July 1, 2005 and December 31, 2004 we had provided our insurance carriers and certain states with commitments in the form and amounts outlined below (in millions):

	Workers’ Compensation Commitments as of:	
	July 1, 2005	December 31, 2004
Workers’ Assurance Program - committed cash	$ 128.4	$ 116.7
Accounts Receivable Facility letters of credit	51.0	40.1
Cash-backed instruments	9.5	9.5
Unsecured surety bonds	5.8	5.8
Total Collateral Commitments	$ 194.7	$ 172.1

Our workers' compensation commitments increased $22.6 million since December 31, 2004. The increase is primarily attributable to $10.5 million of additional letters of credit as a result of our acquisition of CLP and the remaining portion of the increase is related to the growth in our workers' compensation reserve for the current policy year as we continue to collateralize most of our obligations with restricted cash through our Workers' Assurance Program.

Revolving Credit Facility
In January 2002, we entered into a revolving credit facility with Wells Fargo Bank (the "Revolving Credit Facility"). As of July 1, 2005 the available borrowing amount was $8.4 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, at our option. The available borrowing amount under this facility will be reduced by $125,000 each quarter through February 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 liquidity, net income and net worth levels and a certain ratio of net income to fixed expenses. We currently do not have any borrowings on the Revolving Credit Facility and are in compliance with the related covenants.

Capital Leases – The following is a summary of property and equipment held under non-cancelable capital leases:

	(Amounts in Thousands) July 1, 2005	December 31, 2004
Cash dispensing machines	$ 3,667	$ 8,119
Computers and software	1,844	1,616
Furniture and equipment	201	292
	5,712	10,027
Less accumulated depreciation and amortization	2,996	6,404
	$ 2,716	$ 3,623

Financing terms for many of our cash dispensing machines were completed during the second quarter of 2005, resulting in a reduction in the total capital lease balance.

Future minimum lease payments under these non-cancelable capital leases as of July 1, 2005 are as follows for each of the next five years (in thousands):

2005	$ 558
2006	802
2007	435
2008	195
2009	3
Thereafter	—
Total minimum lease payments	1,993
Less amounts representing interest and taxes	136
Present value of net minimum lease payments	1,857
Less current maturities	851
Long-term portion	$ 1,006

Our capital lease obligations are reported in other liabilities in the Consolidated Balance Sheets. The weighted average interest rate on capitalized leases is approximately 5.0% and the lease terms range from 11 to 84 months.

Operating Leases – We have contractual commitments in the form of operating leases related to branch office leases, vehicles and equipment. While most of our branch office leases have longer contractual terms and a small minority have stepped rents to approximate inflation, we have the right to cancel the majority of our leases with 90 days notice. Accordingly, we have not included the leases with 90 day provisions in our disclosure of future minimum lease payments.

Future non-cancelable minimum lease payments under our operating lease commitments as of July 1, 2005 are as follows for each of the next five years (in thousands):

2005	$ 2,663
2006	3,405
2007	1,614
2008	788
2009	521
Thereafter	389
Total	$ 9,380

The majority of operating leases pertaining to branch offices provide for renewal options ranging from three to five years. Operating leases are generally renewed in the normal course of business, and most of the options are negotiated at that time. Total branch office rent expense for the thirteen weeks ended July 1, 2005 and July 2, 2004 was approximately $5.4 million and $5.0 million, respectively. Total branch office rent expense for the twenty-six weeks ended July 1, 2005 and July 2, 2004 was approximately $10.6 million and $9.8 million, respectively.

Legal Contingencies and Developments
From time to time we are the subject of 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. From time to time we are also subject to legal proceedings in the ordinary course of our operations. A summary of our most significant pending litigation and regulatory proceedings is set forth below. It is not possible at this time for us to determine fully the effect of all legal proceedings on our consolidated financial position, results of operations or liquidity; however, to the extent possible, where legal liabilities can be estimated and are considered probable, we have recorded a liability. To the extent that an insurance company is contractually obligated to reimburse us for a liability, we record a receivable for the amount of the anticipated reimbursement. In accordance with accounting principles generally accepted in the United States of America, we have established reserves for our contingent legal and regulatory liabilities in the amount of $7.1 million at July 1, 2005 and $5.2 million at December 31, 2004. We believe that none of the currently pending legal proceedings, individually or in the aggregate, will have a significant adverse impact on our financial position, results of operations or cash flows beyond amounts that have been accrued in

the financial statements, although we can make no assurances in this regard.

On July 29, 2002, Marisol Balanderan and 55 other plaintiffs filed an action against us and one of our customers in California State Court, Los Angeles County. The plaintiffs are temporary employees and job applicants who seek unquantified compensatory and punitive damages 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. They also seek certification of a class of similarly situated temporary employees. This matter is currently in the discovery phase.

On February 6, 2003, Scott Romer and Shawna Clark, both former Labor Ready employees, filed an action against us in California State Court, Los Angeles County. The plaintiffs allege that they were wrongfully exempted from overtime pay during their employment. They seek unquantified compensatory damages and certification of a class of similarly situated employees. On January 6, 2004, Patricia Huntley and Brandon McCall filed a complaint in intervention and have been included as plaintiffs in this lawsuit. This matter is currently in the discovery phase.

On July 16, 2003, Alecia Recio, Elizabeth Esquivel, Debbie Owen and Barry Selbts, each a current or former Labor Ready employee, jointly filed an action in United States District Court for the Central District of California, alleging failure to pay overtime under state and federal law and seeking unspecified damages and certification of a class of similarly situated employees. On September 23, 2003, the court dismissed the case for improper venue. On October 1, 2003, Recio re-filed her case in California State Court, Los Angeles County, seeking similar relief on behalf of Labor Ready employees employed in the State of California. On October 21, 2003, Owen re-filed her case in the United States District Court for the Western District of Washington, seeking similar relief on behalf of Labor Ready employees employed in all states except California. The Owen case has been stayed pending resolution of the Huntley/McCall case described above. On December 30, 2003, Patricia Huntley filed an action in the United States District Court for the Western District of Washington seeking similar relief on behalf of Labor Ready employees employed in all states except California, and consolidated her claims with those of Owen. These matters are currently in the discovery phase.

On May 10, 2004, Lester Mason filed an action in the United States District Court for the Southern District of Florida, alleging that we violated state law in connection with fees charged for our cash dispensing machines and transportation of our temporary employees. The plaintiff sought damages of $1,000 per transaction and certification of a class of similarly situated Florida employees. The court dismissed the action without prejudice in July 2004. On August 5, 2004, Alexander Wright and Walter McLamore filed a similar action, seeking similar damages, in the Florida Circuit Court for Broward County. The plaintiffs voluntarily dismissed their case on December 8, 2004. On March 31, 2005, Dave Lewis and Michael Lombardo filed a similar action, seeking similar damages in the United States District Court Southern District of Florida. These matters are currently in the discovery phase.

On January 12, 2005, the New Jersey Division of Taxation (the "Division") filed a Notice of Assessment Related to Final Audit Determination asserting that we owe $7.0 million for delinquent sales taxes, penalties and interest for the period October 1, 2000 through September 30, 2004. The amount of the assessment is based on the Division's assertion that 100% of our revenue from New Jersey operations is subject to sales tax. We dispute the Division's position that we provide taxable services under New Jersey law and we have filed an administrative protest.

NOTE 11: SUPPLEMENTAL CASH FLOW INFORMATION

	Twenty-Six Weeks Ended	
	July 1, 2005	July 2, 2004
	(Amounts in Thousands)	
Cash paid during the period for:		
Interest	$ 2,458	$ 2,753
Income taxes	$ 11,638	$ 1,147
Non-cash investing and financing activities:		
Redemption of Convertible Subordinated Notes, net of fees	$ 68,807	$ —
Contribution of common stock to 401(k) plan	$ 381	$ 219
Assets acquired with capital lease obligations	$ 241	$ 348
Common stock bonus of 7,000 and 12,000 shares	$ 116	$ 146
Asset retirement obligation	$ 475	$ —
Restricted stock	$ 125	$ —
Capital leases assumed with the purchase of Spartan Staffing, Inc.	$ —	$ 287
Unrealized gain (loss) on marketable securities	$ 11	$ (52)

NOTE 12: EMPLOYEE STOCK PURCHASE PLAN

We have an Employee Stock Purchase Plan (the "ESPP") to provide substantially all regular employees who have completed six months of service and meet certain limited qualifications, an opportunity to purchase shares of our common stock through payroll deductions. The ESPP permits payroll deductions up to 10% of eligible after-tax compensation. Participant account balances are used to purchase shares of common stock at the lesser of 85% of the fair market value of shares on either the first day or the last day of each month. The ESPP expires on June 30, 2006 and 1.9 million shares of common stock have been reserved for purchase under the ESPP, of which 1.3 million shares have been issued and 0.6 million shares remain available for future issuance at July 1, 2005. During the twenty-six weeks ended July 1, 2005, participants purchased 32,000 shares in the ESPP for cash proceeds of $0.5 million. During the twenty-six weeks ended July 2, 2004, participants purchased 33,000 shares in the ESPP for cash proceeds of $0.4 million.

NOTE 13: STOCK OPTION AND INCENTIVE PLANS

We have stock option and incentive plans for directors, officers, and employees, which provide for non-qualified and incentive stock options as well as other stock based awards. The majority of our options vest evenly over a four-year period from the date of grant and expire if not exercised within five years from the date of grant.

On May 18, 2005, our shareholders approved the Labor Ready, Inc. 2005 Long-Term Equity Incentive Plan (the "2005 Plan"). The

2005 Plan permits the granting of nonqualified stock options, incentive stock options, restricted stock, restricted stock units and stock appreciation rights. The total number of shares authorized for this plan is 5,500,000 shares. All future stock compensation awards will be awarded from the 2005 Plan.

The fair value of option grants is estimated on the date of grant utilizing the Black-Scholes option pricing model with the following weighted average assumptions for grants in 2005: risk-free interest rates of 3.75% based on an expected life of options of 5.8 years, a volatility expectation of 53% and a 0% dividend yield. The following tables summarize stock option activity for the thirteen week and twenty-six week periods indicated below (in thousands, except exercise price):

	Thirteen Weeks Ended July 1, 2005		Thirteen Weeks Ended July 2, 2004	
	Shares	(1) Price	Shares	(1) Price
Outstanding at beginning of period	2,856	$ 8.37	4,200	$ 6.93
Granted	43	$ 20.39	172	$ 13.63
Exercised	(728)	$ 5.08	(488)	$ 6.58
Canceled	(80)	$ 12.97	(111)	$ 11.83
Outstanding at the end of the period	2,091	$ 9.59	3,773	$ 6.67
Exercisable at the end of the period	606	$ 6.31	1,325	$ 5.80
Weighted average fair value of options granted during the period		$ 12.02		$ 7.69

	Twenty-Six Weeks Ended July 1, 2005		Twenty-Six Weeks Ended July 2, 2004	
	Shares	(1) Price	Shares	(1) Price
Outstanding at beginning of period	3,145	$ 7.35	4,529	$ 7.16
Granted	264	$ 17.53	431	$ 12.67
Exercised	(1,158)	$ 5.31	(713)	$ 6.09
Canceled	(160)	$ 9.64	(474)	$ 13.70
Outstanding at the end of the period	2,091	$ 9.59	3,773	$ 6.67
Exercisable at the end of the period	606	$ 6.31	1,325	$ 5.80
Weighted average fair value of options granted during the period		$ 9.31		$ 7.69

(1) Weighted average exercise price.

Information relating to stock options outstanding and exercisable at July 1, 2005 is as follows (in thousands, except per share amounts):

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Shares	Weighted Remaining Life	Weighted Average Price	Shares	Weighted Average Price
$ 3.25 - $ 3.80	199	0.77	$ 3.51	194	$ 3.51
$ 3.81 - $ 6.00	427	1.75	$ 5.44	204	$ 5.32
$ 6.01 - $ 14.00	1,187	3.38	$ 10.30	208	$ 9.88
$ 14.01 - $ 20.39	278	6.73	$ 17.26	—	$ —
$ 3.25 - $ 20.39	2,091	3.25	$ 9.59	606	$ 6.31

During the thirteen week periods ended July 1, 2005 and July 2, 2004, we granted 127,000 and 91,000 shares of restricted stock, and recorded compensation expense of $317,000 and $84,000, respectively. During the twenty-six week periods ended July 1, 2005 and July 2, 2004, we granted 341,000 and 91,000 shares of restricted stock, and recorded compensation expense of $540,000 and $84,000, respectively.

For the twenty-six weeks ended July 1, 2005, a total of 58,000 restricted shares were awarded to five executives and vest in three equal installments over three years, with a four year retention period thereafter. For the twenty-six weeks ended July 2, 2004, a total of 91,000 restricted shares were awarded to seven executives and cliff vest in three years, with a two year retention period thereafter. Compensation expense related to all these shares is recorded over the vesting period and the shares are forfeited if employment terminates prior to vesting.

Subsequent to the merger with CLP and during the second quarter of 2005, we granted stock options and restricted stock to certain CLP employees. One key CLP employee received stock options and shares of restricted stock that each vest in three equal installments over three years, with a four year retention period thereafter. Certain other CLP employees received shares of restricted stock that vest in four equal installments over four years. All grants to CLP employees were awarded from the 2005 Plan.

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, 2004 and in the "Risk Factors" included in this Form 10-Q. 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 undertake 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.

Executive Overview

Labor Ready is an international provider of temporary employees for manual labor, light industrial, and skilled trades jobs operating under the names of Labor Ready,

Workforce, Spartan Staffing, and CLP Holdings Corp. ("CLP"). Our customers are primarily businesses in the transportation, warehousing, hospitality, landscaping, construction, light manufacturing, retail, wholesale and sanitation industries. During 2004, we served more than 318,000 customers and we put approximately 600,000 people to work through our branch offices in all 50 of the United States, in Puerto Rico, in six provinces of Canada and in the United Kingdom. We believe our ability to provide a large number of temporary employees on short notice, usually the same day as requested, provides us with a competitive advantage in the manual and light industrial portion of our business. Likewise, our ability to provide high-quality, skilled workers in our skilled trades business also provides significant value to our customers.

Our quarter was highlighted by a 10.5% increase in revenue to $295.2 million compared to revenue of $267.1 million for the second quarter of 2004. This revenue growth resulted in net income for the quarter of $15.4 million or $0.30 per share, compared to net income of $10.1 million or $0.21 per share for the second quarter of 2004. Revenue from branches open one year or longer grew approximately 6.2% over the same quarter a year ago. CLP branches provided approximately 5.0% of our revenue growth for the quarter. Along with the increase in revenue, we had gross margins of 31.4 percent compared to 29.9 percent in the second quarter of 2004. The quarterly gross margin improvement reflected increased pricing and lower costs of services such as bill rate inflation exceeding pay rate inflation and benefits from lower overall workers' compensation expense as a result of our safety and risk management programs. Selling, general and administrative ("SG&A") expenses as a percentage of revenue were 22.4% compared to 22.6% for the quarter ended July 2, 2004. This decrease is attributable to strong cost controls and increased leverage of fixed costs due to the increase in sales. At the end of the second quarter of 2005, we were operating 893 branch offices. We opened a total of 10 new branches and closed one branch during the quarter. We also acquired 50 branches through the purchase of CLP Holdings Corp., as described below. We plan to open five additional branches in the remaining half of 2005.

The first half of our year was highlighted by a 13.1% increase in revenue to $538.4 million compared to revenue of $476.0 million for the first half of 2004. This revenue growth resulted in net income for the twenty-six weeks ended July 1, 2005 of $24.8 million or $0.49 per share, compared to net income of $10.9 million or $0.24 per share for the same period last year. Revenue from branches open one year or longer grew approximately 8.0% over the same period a year ago. Acquired branches provided approximately 5.6% of our revenue growth for the first half of 2005. Along with the increase in revenue, we had gross margins of 31.4 percent compared to 29.5 percent in the first half of 2004. The twenty-six week gross margin improvement reflected increased pricing and lower costs of services such as bill rate inflation exceeding pay rate inflation and benefits from lower overall workers' compensation expense as a result of our safety and risk management programs. Selling, general and administrative ("SG&A") expenses as a percentage of revenue were 23.3% compared to 24.5% for the twenty-six weeks ended July 2, 2004. This decrease is attributable to strong cost controls and increased leverage of fixed costs due to the increase in sales. At the end of the second quarter of 2005, we were operating 893 branch offices. We opened a total of 35 new branches and closed seven branches during the first half of 2005. We also added 50 branches through the purchase of CLP Holdings Corp.

On April 20, 2005, we announced that we would be calling our Convertible Subordinated Notes (the "Notes") for redemption on June 20, 2005 for cash at 100 percent of the $70.0 million principal amount plus accrued interest. Holders of all of the outstanding Notes converted their Notes into shares of our common stock prior to the June 20, 2005 redemption date and none of the outstanding principal amount of the Notes was redeemed for cash. As a result of these conversions, approximately 9.6 million additional shares of common stock were issued to the holders of the Notes and we reduced our long-term debt by $70.0 million. Historically, the Notes had been accounted for on an "as if converted" basis since their issuance in 2002. Consequently, issuance of the shares was not further dilutive to our diluted net income per share.

On May 27, 2005 we completed the acquisition of CLP, which added an additional 50 branch locations to the 834 we had at the end of the first quarterCLP provides skilled and semi-skilled temporary employees to licensed contractors and large facilities on an as needed basis. We believe our acquisition of CLP supports our long-term strategic direction and strengthens our competitive position in the temporary labor industry by providing cross-selling opportunities between the two companies and leveraging the existing Labor Ready branches to facilitate a swift ramp up of new CLP locations. The impact of this acquisition on the thirteen weeks ended July 1, 2005 was accretive to our earnings per share and is expected to be accretive for the rest of 2005. Additionally, we anticipate the long-term performance of CLP's operations will yield margins similar to Labor Ready's existing business.

Results of Operations

Thirteen Weeks Ended July 1, 2005 Compared to Thirteen Weeks Ended July 2, 2004

The following table compares the operating results for the thirteen weeks ended July 1, 2005 and July 2, 2004 (in thousands):

	July 1, 2005	July 2, 2004	Percent Change
Revenue from services	$ 295,208	$ 267,056	10.5 %
Cost of services	202,535	187,297	8.1 %
Gross profit	92,673	79,759	16.2 %
Selling, general and administrative expenses	66,253	60,310	9.9 %
Depreciation and amortization	2,189	2,280	(4.0)%
Interest expense	(1,503)	(1,620)	(7.2)%
Interest and other income	2,214	1,360	62.8 %
Income before tax expense	24,942	16,909	47.5 %
Net income	$ 15,444	$ 10,128	52.5 %

Branch Offices and Revenue from Services. The number of offices increased to 893 at July 1, 2005 from 831 locations at July 2, 2004, a net increase of 62 branch offices or 7.5%. Revenue for the quarter increased 10.5% compared to the same quarter a year ago. The change in revenue was made up of the following five components: (a) a 6.2% increase in same store branch revenue, defined as those branch offices opened one year or longer, due to an increase in the demand for our services and to a lesser extent our average bill rate (b) a 5.0% increase due to branches acquired (c) a (1.6%) decline in revenue related to branch offices closed over the past twelve months, (d) a 0.8% increase in revenue from new branch offices opened less than one year, excluding the acquired branches and (e) a net 0.1% increase from foreign currency translation and other miscellaneous factors.

Cost of Services and Gross Profit. Cost of services decreased to 68.6% of revenue for the quarter ended July 1, 2005 compared to 70.1% for the quarter ended July 2, 2004. A large part of that improvement has come from the fact that our bill rate growth has exceeded our pay rate growth. Average pay rate growth was 2.8% quarter over quarter while our average bill rate growth increased by 3.4% over the same period. Workers' compensation costs for the second quarter of 2005 were approximately 6.5% of revenue compared to 7.7% in the second quarter of 2004. The decrease is the result of a lower accrual rate for the current year as well as a favorable adjustment to prior period reserves of approximately 60 basis points from our actuaries. The on-going reduction to our workers' compensation costs is the product of our safety and risk management programs that continue to reduce the frequency of accidents. As a result, our gross profit increased to 31.4% for the quarter ended July 1, 2005 compared to 29.9% for the quarter ended July 2, 2004.

Selling, General, and Administrative Expenses. Selling, general and administrative ("SG&A") expenses as a percentage of revenue have decreased to 22.4% for the thirteen weeks ended July 1, 2005 compared to 22.6% for the thirteen weeks ended July 2, 2004. The driving force behind the reduction of SG&A expenses as a percentage of revenue is the fact that we are increasing average branch revenue while at the same time continuing to control operating costs.

Depreciation and Amortization Expense. Depreciation and amortization expenses decreased slightly to $2.2 million for the thirteen weeks ended July 1, 2005 from $2.3 million for the thirteen weeks ended July 2, 2004.

Interest Expense. We recorded interest expense of $1.5 million for the thirteen weeks ended July 1, 2005 compared to $1.6 million for the thirteen weeks ended July 2, 2004. The decrease is due to the redemption of our Convertible Subordinated Notes.

Interest and Other Income. We recorded interest and other income of $2.2 million for the thirteen weeks ended July 1, 2005 compared to $1.4 million for the thirteen weeks ended July 2, 2004. The change in interest and other income quarter over quarter is attributable to the rise in short-term interest rates, increased rates of return on our restricted cash, and increasing balances of cash and restricted cash earning interest.

Income Tax. Our effective tax rate was 38.1% for the thirteen weeks ended July 1, 2005 compared to 40.1% for the thirteen weeks ended July 2, 2004. The principal difference between the statutory federal income tax rate and our effective income tax rate results from state income taxes, federal tax credits, certain non-deductible expenses and the valuation allowance discussed below. The decrease in our effective tax rate reflects the benefit from certain federal employment tax credits. These credits expired at the end of 2003. Legislation signed by President Bush in October 2004 retroactively extended these credits from 2003 to December 31, 2005.

We have a net deferred tax asset of approximately $11.3 million at July 1, 2005 resulting primarily from workers' compensation reserves, allowance for doubtful accounts, reserves for contingent legal liabilities and domestic and foreign net operating loss carryforwards. We assessed our past earnings history and trends, projected sales, expiration dates of loss carry forwards, and our ability to implement tax planning strategies which are designed to accelerate or increase taxable income. Based upon the results of this analysis and the uncertainty of the realization of certain tax planning measures, we established a valuation allowance against certain domestic and foreign net operating loss carry forward benefits in the amount of $7.3 million at July 1, 2005 and $6.0 million at July 2, 2004.

In October 2004, President Bush signed the American Jobs Creation Act of 2004 ("Act"). The Act provides for a special one-time deduction of 85 percent of certain foreign earnings that are repatriated in either an enterprise's last tax year that began before the enactment date, or the first tax year that begins during the one-year period beginning on the date of enactment. In December 2004, the FASB issued FASB Staff Position No. 109-2, "Accounting and Disclosure Guidance for the Foreign Repatriation Provision within the American Jobs Creation Act of 2004," in response to the Act, which provides guidance for the implementation of the provisions of the Act. Under the Act, we may choose to repatriate earnings from any or all of our foreign investments and may apply the special one-time deduction to any repatriated amounts, provided certain criteria are met. We are currently evaluating the effects of the repatriation provision for each of our several foreign investments and expect to complete the evaluation prior to the end of the fourth quarter of 2005.

Twenty-Six Weeks Ended July 1, 2005 Compared to Twenty-Six Weeks Ended July 2, 2004

The following table compares the operating results for the Twenty-Six weeks ended July 1, 2005 and July 2, 2004 (in thousands):

	July 1, 2005	July 2, 2004	Percent Change
Revenue from services	$ 538,424	$ 475,968	13.1 %
Cost of services	369,613	335,482	10.2 %
Gross profit	168,811	140,486	20.2 %
Selling, general and administrative expenses	125,667	116,756	7.6 %
Depreciation and amortization	4,395	4,339	1.3 %
Interest expense	(2,878)	(3,311)	(13.1)%
Interest and other income	4,064	2,046	98.6 %
Income before tax expense	39,935	18,126	120.3 %
Net income	$ 24,800	$ 10,858	128.4 %

Branch Offices and Revenue from Services. The number of offices increased to 893 at July 1, 2005 from 831 locations at July 2, 2004, a net increase of 62 branch offices or 7.5%. Revenue for the first half of 2005 increased 13.1% compared to the same period a year ago. The change in revenue was made up of the following five components: (a) a 8.0% increase in same store branch revenue, defined as those branch offices opened one year or longer, due to an increase in the demand for our services and to a lesser extent our average bill rate (b) a 5.6% increase due to branches acquired (c) a (1.5%) decline in revenue related to branch offices closed over the past twelve months, (d) a 0.8% increase in revenue from new branch offices opened less than one year, excluding the acquired branches and (e) a net 0.2% increase from foreign currency translation and other miscellaneous factors.

Cost of Services and Gross Profit. Cost of services decreased to 68.7% of revenue for the twenty-six weeks ended July 1, 2005 compared to 70.5% for the twenty-six weeks ended July 2, 2004. A large part of that improvement has come from the fact that our bill rate growth has exceeded our pay rate growth. Average pay rate growth was 3.0% year over year while our average bill rate growth increased by 3.5% over the same period. Workers' compensation costs for the twenty-six weeks ended July 1, 2005 were approximately 6.5% of revenue compared to 7.8% for the twenty-six weeks ended July 2, 2004. The decrease is the result of a lower accrual rate for the current year as well as favorable adjustments to prior period reserves from our actuaries. The on-going reduction to our workers' compensation costs is the product of our safety and risk management programs that continue to reduce the frequency of accidents. As a result, our gross profit increased to 31.4% for the twenty-six weeks ended July 1, 2005 compared to 29.5% for the twenty-six weeks ended July 2, 2004.

Selling, General, and Administrative Expenses. Selling, general and administrative ("SG&A") expenses as a percentage of revenue have decreased to 23.3% for the twenty-six weeks ended July 1, 2005 compared to 24.5% for the twenty-six weeks ended July 2, 2004. The driving force behind the reduction of SG&A expenses as a percentage of revenue is the fact that we are increasing average branch revenue while at the same time continuing to control operating costs.

Depreciation and Amortization Expense. Depreciation and amortization expenses increased slightly to $4.4 million for the twenty-six weeks ended July 1, 2005 from $4.3 million for the twenty-six weeks ended July 2, 2004.

Interest Expense. We recorded interest expense of $2.9 million for the twenty-six weeks ended July 1, 2005 compared to $3.3 million for the twenty-six weeks ended July 2, 2004. The decrease is due to the redemption of our Convertible Subordinated Notes.

Interest and Other Income. We recorded interest and other income of $4.1 million for the twenty-six weeks ended July 1, 2005 compared to $2.0 million for the twenty-six weeks ended July 2, 2004. The change in interest and other income year over year is attributable to the rise in short-term interest rates, increased rates of return on our restricted cash, and increasing balances of cash and restricted cash earning interest.

Income Tax. Our effective tax rate was 37.9% for the twenty-six weeks ended July 1, 2005 compared to 40.1% for the twenty-six weeks ended July 2, 2004. The principal difference between the statutory federal income tax rate and our effective income tax rate results from state income taxes, federal tax credits, certain non-deductible expenses and the valuation allowance discussed below. The decrease in our effective tax rate reflects the benefit from certain federal employment tax credits. These credits expired at the end of 2003. Legislation signed by President Bush in October 2004 retroactively extended these credits from 2003 to December 31, 2005.

We have a net deferred tax asset of approximately $11.3 million at July 1, 2005 resulting primarily from workers' compensation reserves, allowance for doubtful accounts,

reserves for contingent legal liabilities and domestic and foreign net operating loss carryforwards. We assessed our past earnings history and trends, projected sales, expiration dates of loss carry forwards, and our ability to implement tax planning strategies which are designed to accelerate or increase taxable income. Based upon the results of this analysis and the uncertainty of the realization of certain tax planning measures, we established a valuation allowance against certain domestic and foreign net operating loss carry forward benefits in the amount of $7.3 million at July 1, 2005 and $6.0 million at July 2, 2004.

In October 2004, President Bush signed the American Jobs Creation Act of 2004 ("Act"). The Act provides for a special one-time deduction of 85 percent of certain foreign earnings that are repatriated in either an enterprise's last tax year that began before the enactment date, or the first tax year that begins during the one-year period beginning on the date of enactment. In December 2004, the FASB issued FASB Staff Position No. 109-2, "Accounting and Disclosure Guidance for the Foreign Repatriation Provision within the American Jobs Creation Act of 2004," in response to the Act, which provides guidance for the implementation of the provisions of the Act. Under the Act, we may choose to repatriate earnings from any or all of our foreign investments and may

apply the special one-time deduction to any repatriated amounts, provided certain criteria are met. We are currentlyevaluating the effects of the repatriation provision for each of our several foreign investments and expect to complete the evaluation prior to the end of the fourth quarter of 2005.

Summary of Critical Accounting Estimates and 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 of America. 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 revenue 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, contingencies and litigation and income taxes. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies, among others, reflect the more significant judgments and estimates used in the preparation of our consolidated financial statements. Also see Note 1 of the Notes to Consolidated Financial Statements found in Item 8 of Part II of our Form 10-K for the year ended December 31, 2004.

Workers' Compensation Reserves. We maintain reserves for workers' compensation claims, including the excess claims portion above our deductible, 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, as well as management's judgment and expectations. This reserve, which reflects potential liabilities to be paid in future periods based on estimated payment patterns, is discounted to its estimated net present value using a discount rate based on average returns on "risk-free" Treasury instruments with maturities comparable to the average life of our workers' compensation claims. At July 1, 2005, our reserves are set at the estimate provided by our independent actuary and are discounted at rates ranging from 3.85% to 5.27%. We evaluate the reserve regularly throughout the year and make adjustments as needed. If the actual cost of such claims and related expenses exceeds the amounts estimated, additional reserves may be required**.**

Allowance for Doubtful Accounts. We establish an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We evaluate this allowance regularly throughout the year and make adjustments as needed. 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.

Goodwill and Intangible Assets. As a result of our recent acquisitions, we have recorded various intangible assets at their estimated fair values. The estimated fair values of the acquired amortizable and indefinite-lived intangible assets as determined by certain asset valuation experts, is based on our expectations regarding future operating results and cash flows. The amortization period of the amortizable intangible assets is based on our expectation of the number of future periods that we will receive benefit. Any purchase price in excess of the fair value of the acquired tangible and intangible assets is classified as goodwill and is tested for impairment annually and whenever events or circumstances indicate that impairment may have occurred.

Reserves for Contingent Legal and Regulatory Liabilities. We have established reserves for contingent legal and regulatory liabilities. We record a liability when our management judges that it is probable that a legal claim will result in an adverse outcome and the amount of liability can be estimated. We evaluate this reserve regularly throughout the year and make adjustments as needed. If the actual outcome of these matters is different than expected, an adjustment would be charged or credited to expense in the period the outcome occurs or the period in which the estimate changes.

Income Taxes and Related Valuation Allowance. We account for income taxes by recording taxes payable or refundable for the current year operating results and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in our financial statements or tax returns. As required under Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes*, we measure these expected future tax consequences based upon provisions of tax law as currently enacted. The effects of future changes in tax laws are not anticipated. Variations in the actual outcome of these future tax consequences could materially impact our financial position or our results of operations. When appropriate, we record a valuation allowance against deferred tax assets to offset future tax benefits that may not be realized when we believe it is more likely than not that all or some portion of our deferred tax assets will not be realized, based upon our judgments regarding future

events and past operating results. We also provide a reserve for tax contingencies when we believe a probable and estimable exposure exists.

Liquidity and Capital Resources

Cash Flow Summary (This summary should be read in conjunction with the Consolidated Statements of Cash Flows in Item 1 of Part 1 of this Form 10-Q)

Cash Flows from Operating Activities
Net cash provided by operating activities was $32.8 million for the twenty-six week period ended July 1, 2005 compared to $18.2 million for the twenty-six week period ended July 2, 2004. The largest increases to cash flows from operations during the first half of 2005 were mostly related to the significant growth in our net income and our workers' compensation claims reserve.

Our net income for the twenty-six weeks ended July 1, 2005 was $24.8 million compared to $10.9 million for the twenty-six weeks ended July 2, 2004. The workers' compensation claims reserve increased $7.2 million during the first half of 2005 (prior to the workers' compensation claims liabilities assumed from CLP) compared to a $14.8 million increase during the same period a year ago. Overall, the growth in our workers' compensation claims reserve is the result of an increased exposure base which is related to increased revenue. The reserve is increased in relation to temporary payroll hours billed and reduced as we pay claims over a weighted average period of approximately five years. The increase in the workers' compensation reserve for the first half of 2005 is less than the growth for the same period a year ago primarily due to the fact that our current period loss rate from our actuary is running lower than it was a year ago and we continue to experience positive adjustments from our actuary as a result of improvements in our safety and risk management programs.

The positive impacts discussed above were partially offset by the large change in our accounts receivable balances, which have increased $17.6 million for the first half of 2005 (prior to the addition of receivables acquired from CLP) compared to a $23.2 million increase for the same period a year ago. This change is mostly attributable to the increase in sales for the period compared to the same period a year ago.

We typically pay our temporary workers on a daily basis, bill our customers weekly and, on average, collect monthly. Consequently, from time to time we may experience negative cash flow from operations.

Cash Flows from Investing Activities
Net cash used in investing activities was $62.3 million for the twenty-six week period ended July 1, 2005 compared to cash used of $10.6 million for the twenty-six week period ended July 2, 2004. This change in cash used in investing activities is due mostly to the purchase of CLP Holdings Corp. ("CLP"), changes in our restricted cash and other assets and our net marketable securities activity. Net cash used to purchase CLP totaled $45.9 million. Our restricted cash and other assets are used primarily to collateralize our workers' compensation program. We increased our restricted cash and other assets by $10.7 million during the first half of 2005 compared to an increase of $1.4 million in these accounts during the first half of 2004. This increase is primarily attributable to a timing difference in the posting of workers' compensation collateral to our insurance carrier and a larger exposure base, which is related to the increase in sales for the period as compared to the same period a year ago. At July 1, 2005, we had $194.7 million of total collateral commitments compared to $171.4 million at July 2, 2004. Our net change in our marketable securities during the first half of 2005 was an increase of $3.0 million compared to a decrease of $3.6 million for the same period a year ago. This change is due to our additional investments in short-term securities to capitalize on increasing yields in the marketplace.

Cash Flows from Financing Activities
Net cash provided by financing activities was $5.5 million for the twenty-six week period ended July 1, 2005 compared to cash used of $0.8 million for the twenty-six week period ended July 2, 2004. At year-end 2003 we had $4.2 million in checks issued against future deposits that were paid in full during the first half of 2004. There were no checks issued against future deposits at July 1, 2005 or at the end of 2004. We also had $6.6 million of cash provided by financing activities at July 1, 2005 compared to $4.7 million at July 2, 2004 due mostly to the increased activity in the exercise of stock options by our employees.

Capital Resources
In March 2001, we entered into a letter of credit facility and an accounts receivable securitization facility (collectively the "Accounts Receivable Facility") with certain unaffiliated financial institutions that expires in February 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 our 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 liquidity, 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 $80 million, all of which may be used to obtain letters of credit. The amounts we may borrow (our 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. We currently use this facility to issue letters of credit but if we were to take a loan against this borrowing capacity, interest would be charged at 2.5% above the Prime Rate. We believe we are currently in compliance with covenants related to the Accounts Receivable Facility.

We have agreements with certain financial institutions through our wholly-owned and consolidated subsidiary, Workers' Assurance of Hawaii, Inc. (our "Workers' Assurance Program"), that allow us to restrict cash for the purpose of providing cash-backed instruments for our workers' compensation collateral. These instruments include cash-backed letters of credit, cash held in trusts that we control as well as cash deposits held by our insurance carriers. At July 1, 2005 we had restricted cash in our Workers' Assurance Program totaling $129.7 million. Of this cash, $128.9 million was committed to insurance carriers leaving $0.8 million available for future needs. We currently have the ability to restrict up to an additional $30.0 million during 2005 through the use of this program. We anticipate depositing an additional $20.2 million of our restricted cash with our insurance carrier in 2005.

In January 2002, we entered into a revolving credit facility with Wells Fargo Bank (the "Revolving Credit Facility"). As of July 1, 2005, the available borrowing amount was $8.4 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, at our option. The available borrowing amount under this facility will be reduced by $125,000 each quarter through February 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 liquidity, net income and net worth levels and a certain ratio of net income to fixed expenses. We currently do not have any borrowings on the Revolving Credit Facility and are in compliance with the related covenants.

During 2002, we issued 6.25% Convertible Subordinated Notes due June 2007 (the "Notes") in the aggregate principal amount of $70.0 million. Interest was payable on the Notes on June 15 and December 15 of each year. Holders could 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 were unsecured subordinated obligations and ranked 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 could redeem some or all of the Notes for cash at 100% of their principal amount plus accrued interest if the market value of our common stock equaled or exceeded 125% of the conversion price ($9.08) for at least 20 trading days in any consecutive 30 trading day period ending on the trading day prior to the date we mail notice of our intent to redeem the Notes.

On April 20, 2005, we announced that we would be calling the Notes for redemption on June 20, 2005 for cash at 100 percent of the principal amount plus accrued interest. Holders of all of the outstanding Notes converted their Notes into shares of our common stock prior to the June 20, 2005 redemption date and none of the outstanding principal amount of the Notes was redeemed for cash. As a result of these conversions, approximately 9.6 million additional shares of common stock were issued to the holders of the Notes and we reduced our long-term debt by $70.0 million. The Notes had been accounted for on an "as if converted" basis since their issuance in 2002. Consequently, issuance of the shares was not further dilutive to our diluted net income per share.

We believe that cash provided from operations and our capital resources will be adequate to meet our cash requirements over the next twelve months.

Workers' Compensation Collateral and Claims Reserves
As described in Notes 5 and 8 of Notes to Consolidated Financial Statements found in Item 1 of Part I of this Form 10-Q, we provide workers' compensation insurance to our temporary and regular employees. Our workers' compensation insurance policies must be renewed annually. We recently renewed our coverage with American International Group, Inc. ("AIG"), which is the insurance company for the majority of our workers' compensation policies, for occurences in the period from July 2005 through June 2006. While we have primary responsibility for all claims, our insurance coverage provides reimbursement for certain losses and expenses beyond the deductible limits. For workers' compensation claims originating in the majority of states (which we refer to as self-insured states), our current workers' compensation insurance policy covers 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.

We are required by our insurance carriers and certain state workers' compensation programs to collateralize a portion of our workers' compensation obligation with cash and cash-backed instruments, irrevocable letters of credit, or surety bonds. Our insurance carriers annually assess the amount of collateral they will require from us relative to our

workers' compensation obligation for which they are responsible. Such amounts can increase or decrease independent of our assessments and reserves.

At July 1, 2005 and December 31, 2004 we had provided our insurance carriers and certain states with commitments in the form and amounts outlined below (in millions):

	Workers' Compensation Commitments as of:	
	July 1, 2005	December 31, 2004
Workers' Assurance Program -committed cash	$ 128.4	$ 116.7
Accounts Receivable Facility letters of credit	51.0	40.1
Cash-backed instruments	9.5	9.5
Unsecured surety bonds	5.8	5.8
Total Collateral Commitments	$ 194.7	$ 172.1

Our total collateral commitments exceed our workers' compensation reserve due to several factors including the following which are quantified below: (a) our claims reserves are discounted to their estimated net present value while our collateral commitments are based on the gross, undiscounted reserve, (b) a delay in the release of collateral related to claims that have been previously paid and, therefore, are no longer reflected in the reserve, (c) collateral posted with the current insurance carrier ahead of the obligation being incurred, (d) the obligation to post excess collateral for claims not yet paid based on requirements specific to the insurance carrier and (e) discounted reserves for certain losses and expenses beyond the deductible limits.

The following table provides a reconciliation of our collateral commitments to our workers' compensation reserve as of the period end dates presented (in millions):

	July 1, 2005	December 31, 2004
Ending workers' compensation reserve:	$ 156.8	$ 135.6
a) Discount on reserves	30.4	26.9
b) Unreleased collateral posted on claims that have been paid	18.9	7.0
c) Collateral posted with current provider prior to obligation incurred	(3.4)*	8.8
d) Excess collateral on claims not yet paid	9.9	6.1
e) Reserves for claims above our deductible ("excess claims"), net of discount	(17.9)	(12.3)
Total Collateral Commitments	$ 194.7	$ 172.1

* Due to the timing of our collateral postings in conjunction with our policy renewal, our collateral postings lagged our obligations incurred at quarter-end.

As a result of our recent workers' compensation insurance policy renewal, we expect to restrict $33.7 million of cash into our Workers' Assurance Program for use as collateral during the 2005/2006 policy year which expires on July 1, 2006. Of that total, $6.7 million was restricted and then deposited with our insurance carrier subsequent to the quarter ended July 1, 2005. An additional $13.5 million will be restricted and deposited with our insurance carrier by the end of the year and the balance of $13.5 million will be restricted and deposited with our insurance carrier during 2006 as required by our insurance agreement.

The Accounts Receivable Facility letters of credit bear fluctuating annual fees, which were approximately 1.0% of the principal amount of the letters of credit outstanding as of July 1, 2005. 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 independent surety carrier, but does not exceed 2.0% 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.

Our Worker's Assurance Program cash and cash-backed instruments include cash-backed letters of credit, cash held in trusts that we control, and cash deposits held by our insurance carriers. The letters of credit bear fluctuating annual fees, which were approximately 0.47% of the principal amount of the letters of credit as of July 1, 2005.

Generally, 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 weighted average period of approximately five years. Collateral for our workers' compensation program is posted with various state workers' compensation programs and insurance carriers based upon their assessments of our potential liabilities. Due to the timing difference between the recognition of expense and claim payments as described above, we generally anticipate that both our reserves and our collateral obligations will continue to grow.

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

	(Amounts in Thousands)			
	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 1, 2005	July 2, 2004	July 1, 2005	July 2, 2004
Beginning balance	$ 139,801	$ 118,318	$ 135,612	$ 112,158
Self-insurance reserve expense				
Expenses related to current year (net of discount)	16,753	17,018	30,705	29,530
Income related to prior years	(2,127)	(1,135)	(3,754)	(239)
Total	14,626	15,883	26,951	29,291
Amortization of prior years discount	583	870	997	1,643
Payments				
Payments related to current year claims	(2,366)	(1,705)	(2,931)	(1,823)
Payments related to claims from prior years	(9,314)	(6,565)	(17,508)	(15,224)
Total	(11,680)	(8,270)	(20,439)	(17,047)
Net change in excess claims reserve	326	157	535	913

CLP liability assumed, net of discount	13,104	—	13,104	—
Ending balance	156,760	126,958	156,760	126,958
Less current portion	45,074	40,527	45,074	40,527
Long-term portion	$ 111,686	$ 86,431	$ 111,686	$ 86,431

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. Throughout the year, management regularly reviews and evaluates the adequacy of reserves for prior periods, and establishes rates for future accruals. Our policy is to set our reserve at the estimate provided by our independent actuary unless significant trends or fact patterns warrant otherwise. Adjustments to prior period reserves are charged or credited to expense in the periods in which the estimate changes. Our claims reserves are discounted to their estimated net present value using a discount rate based on average returns on "risk-free" Treasury instruments with maturities comparable to the average life of our workers' compensation claims. At July 1, 2005 our reserves are discounted at rates ranging from 3.85% to 5.27%.

Factors we consider in establishing and adjusting these reserves include the estimates provided by our independent actuaries and appropriate discount rates and estimated payment patterns. 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 previously anticipated, (iv) the impact of safety initiatives implemented, and/or (v) positive or adverse development of claim reserves.

Other

Included in cash and cash equivalents as of July 1, 2005 is cash held within branch office CDMs for payment of temporary payrolls in the amount of approximately $14.3 million compared to $14.8 million at December 31, 2004.

Our capital expenditures were $3.0 million and $3.2 million for the twenty-six weeks ended July 1, 2005 and July 2, 2004, respectively. We anticipate that our capital expenditures will be approximately $3.4 million for the balance of 2005.

Contractual Obligations and Commitments

We have various contractual obligations that are recorded as liabilities in our consolidated financial statements. Certain contractual obligations, such as operating lease obligations, are not recognized as liabilities in our consolidated financial statements, but are required to be disclosed. There were no material changes outside the ordinary course of business in our contractual obligations during the thirteen week period ended July 1, 2005.

The following table provides a summary of our contractual obligations as of July 1, 2005:

	Payments Due By Period (in thousands)				
Contractual Obligations	**Total**	**2005**	**2006 through 2007**	**2008 through 2009**	**2010 and later**
Capital lease obligations (a)	1,993	558	1,237	198	—
Operating leases (b)	9,380	2,663	5,019	1,309	389
Purchase obligations (c)	2,520	2,455	65	—	—
Other long-term obligations (d)	10,877	3,855	7,022	—	—
Other cash obligations (e)	33,745	20,247	13,498	—	—
Total Contractual Cash Obligations	$ 58,515	$ 29,778	$ 26,841	$ 1,507	$ 389

(a) Primarily payments on leases of the Cash Dispensing Machines, which include interest and tax amounts.
(b) Excludes all payments related to branch office leases cancelable within 90 days. See Note 10 of Notes to Consolidated Financial Statements found in Item 1 of Part I of this Form 10-Q.
(c) Binding purchase orders for goods or services outstanding at July 1, 2005.
(d) Voice and data service contracts and licensing agreements.
(e) Collateral obligations related to workers' compensation for the policy year ending July 1, 2006.

The following table provides a summary, by period of expiration, of commercial commitments and other commitment capacity available to us as of July 1, 2005:

	Amount of Commitment Expiration Per Period (in thousands)				
	Total	**2005**	**2006 through 2007**	**2008 through 2009**	**2010 and later**
Other Commercial Commitments					
Accounts Receivable Facility (f)	$ 80,000	—	$ 80,000	—	—
Line of credit (g)	8,375	250	8,125	—	—
Cash-backed instruments (f)	9,546	9,546	—	—	—
Unsecured surety bonds	7,500	7,500	—	—	—
Total Commercial Commitments	$ 105,421	$ 17,296	$ 88,125	—	—
Other Commitment Capacity					
Workers' Assurance Program - currently restricted cash (h)	129,702				
Workers' Assurance Program - cash authorized for future restriction (h)	30,000				
	159,702				
Total Commercial Commitments and other Collateral Capacity	265,123				
Total Collateral Commitments Outstanding as of July 1, 2005	(194,725)				

Available Commitment Capacity	$	70,398

(f) See Note 10 of Notes to Consolidated Financial Statements found in Item 1 of Part I of this Form 10-Q.
(g) No balance outstanding. See description of Revolving Credit Facility in Note 10 of Notes to Consolidated Financial Statements found in Item 1 of Part I of this Form 10-Q.
(h) See description in Capital Resources in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of Part I of this Form 10-Q.

As a result of our recent workers' compensation insurance policy renewal, we expect to restrict $33.7 million of cash into our Workers' Assurance Program for use as collateral during the 2005/2006 policy year which expires on July 1, 2006. Of that total, $6.7 million was restricted and then deposited with our insurance carrier subsequent to the quarter ended July 1, 2005. An additional $13.5 million will be restricted and deposited with our insurance carrier by the end of the year and the balance of $13.5 million will be restricted and deposited with our insurance carrier during 2006 as required by our insurance agreement.

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 and fully offset increased costs of doing business, including increased labor costs, costs for workers' compensation and state unemployment insurance. As a result of these forces, we have in the past faced pressure on our operating margins. Pressure on our margins remains intense, and we cannot assure you that it will not continue. 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.

If we are not able to obtain insurance on commercially reasonable terms, our financial condition or results of operations could suffer.
We are required to pay workers' compensation benefits for our temporary and regular employees. The insurance markets have undergone dramatic changes in recent periods and several insurers are experiencing financial difficulties. These changes have resulted in significantly increased insurance costs and higher deductibles, including those applicable to our workers' compensation insurance coverages. 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. While we have secured coverage with American International Group, Inc. (AIG), which is the insurance company for the majority of our workers' compensation policies, for occurrences in the period from July 2005 through June 2006, our insurance policies must be renewed annually, and we cannot guarantee that we will be able to successfully renew such policies for any period after June 2006. In the event we are not able to obtain workers' compensation insurance on commercially reasonable terms, our ability to operate our business would be significantly impacted and our financial condition and results of operations could suffer.

We maintain employment practice liability insurance (EPLI) for certain types of claims that may arise out of the course of employment. We currently maintain a policy with a $1.0 million deductible for single-party claims and a $2.5 million deductible for multiple-party claims with a maximum aggregate coverage of $10.0 million per claim and per policy year which is applicable to the coverage period of July 2005 through June 2006. The EPLI market has experienced increasing losses in recent periods creating increases in insurance premiums, increases in deductible limits, and decreases in overall coverage. In the event we are unable to retain EPLI coverage on commercially reasonable terms, our financial condition and results of operations could suffer.

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 ascash and cash-backed instruments, irrevocable letters of credit, 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. We pledge cash or other assets in order to secure these commitments. We sometimes face difficulties in recovering our collateral from insurers, particularly when those insurers are 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 continue to 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 of earnings to our existing shareholders.

Our reserves for workers' compensation claims and other liabilities and our allowance for doubtful accounts may be inadequate, and we may incur additional charges if the actual amounts exceed the estimated amounts.
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 to its net present value using a discount rate selected by management pursuant to our accounting policy. 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 estimates and judgments of the scope and likelihood of these liabilities. We cannot assure you that our reserves are adequate. If the actual outcome of these matters is less favorable than expected, an adjustment would be charged to expense in the period in which the outcome occurs or the period in which our estimate changes.

Some insurance companies with which we have previously done business are in financial distress, and one has been relieved of its insurance obligations to us. If our insurers do not fulfill their obligations, we could experience significant losses.
Prior to our current policies with AIG, we purchased annual insurance policies in connection with our workers' compensation obligations from three primary carriers. Kemper Insurance Company (Kemper) provided coverage for occurrences commencing in 2001 through June 30, 2003. Prior to 2001, Legion Insurance Company (Legion) and Reliance Insurance Company (Reliance) provided coverage to us. In December 2004, we executed a Novation agreement pursuant to which we relinquished insurance coverage and assumed all further liability for all claims originating in the Kemper policy years. We cannot assure you that claims originating in the Kemper policy years will not experience unexpected adverse developments or that the amounts we have reserved to pay for those claims are adequate.

Legion and Reliance are in liquidation and have failed to pay a number of covered claims that exceed our deductible limits ("excess claims"). We have presented these excess claims to the guarantee funds of the states in which the claims originated. Certain of these excess claims have been rejected by the state guarantee funds due to statutory eligibility limitations. As a result, we have concluded it is likely that we will be unable to obtain reimbursement for at least a portion of these excess claims. To the extent we experience additional claims that exceed our deductible limits and our insurers do not satisfy their coverage obligations, we may continue to be forced to satisfy some or all of those claims directly; this in turn could harm our financial condition or results of operations.

Our workers' compensation reserves include not only estimated expenses for claims within our deductible layer but also estimated expenses related to excess claims. We record a receivable for the insurance coverage on excess claims. We have also recorded a valuation allowance against the insurance receivables from Legion and Reliance to reflect our best estimates of amounts we may not realize as a result of the liquidations of those insurers. The outcome of those liquidations is inherently uncertain; we may

realize significantly less than currently estimated, in which casean adjustment would be charged to expense in the period in which the outcome occurs or the period in which our estimate changes.

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 harmful to our business. We currently maintain a policy with a $1.0 million deductible for single-party claims and a $2.5 million deductible for multiple-party claims with a maximum aggregate coverage of $10.0 million per claim and per policy year which is applicable to the coverage period of July 2005 through June 2006. 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 or that we will be able to continue to secure insurance coverage for such events on terms that we find commercially reasonable.

A significant portion of our revenue 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 revenue is derived from our operations in a limited number of states. Total revenue generated from operations in California, Texas and Florida, accounted for approximately 35.0% of our overall revenue in each of 2004, 2003 and 2002. In addition, as a result of our acquisition of CLP, we expect that the percentage of our overall revenue generated from operations in California will increase even further. The California economy was particularly hard-hit by the most recent economic recession. California is our largest market and economic weakness in this region or our other key markets could harm our business.

Any significant economic downturn or increase in interest rates could result in our clients using fewer temporary employees, which could harm our business or cause the price of our securities to decline.

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. In addition, as a result of our acquisition of CLP, a significant portion of our revenue is generated from work in the construction industry. As interest rates rise, the amount of construction could decline, which will cause a reduction in the demand for the use of temporary employees in the construction industry. As a result, any significant economic downturn or increase in interest rates could harm our business, financial condition or results of operations, or cause the price of our securities to decline.

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

As of July 1, 2005, we had 50 branch offices in the United Kingdom and 36 in Canada. 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 international operations and our attempts to do so could harm our financial position or results of operations.

We are continually subject to the risk of new regulation, which could harm our business.

In recent years, a number of bills have been 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 employees 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 employees. 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 this legislation will not be enacted, in which event demand for our service may suffer.

Organized labor has been particularly active in sponsoring legislation in the State of California, our largest market. Adverse 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.

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 may be harmed.

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. The claimants in several current proceedings are seeking to aggregate claims as a class action. 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.

Our business depends extensively on recruiting and retaining qualified branch managers. If we are not able to attract a sufficient number of qualified branch managers, our future growth and financial performance may suffer.
We rely heavily on the performance and productivity of our branch managers, who manage the operation of the branch offices, including recruitment and daily dispatch of temporary employees, 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 depends 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.

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 waive such non-compliance, we will be in default of our credit agreement, which could subject us to penalty rates of interest and accelerate the maturity of the outstanding balances. Moreover, our insurance policies and 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.

Our acquisitions of CLP and Spartan Staffing and/or other future acquisitions or acquisition efforts may not be successful, which may limit our growth or adversely affect our results of operations and financial condition.
As part of our business strategy, we have made acquisitions of other temporary staffing businesses (e.g., CLP and Spartan Staffing) and we may continue to pursue such acquisitions in the future. Unsuccessful acquisition efforts may result in significant additional expenses that would not otherwise be incurred. Following an acquisition, including the acquisitions of CLP and Spartan Staffing, we cannot assure you that we will be able to integrate the operations of the acquired business without significant difficulties, including unanticipated costs, difficulty in retaining customers, failure to retain key employees and the diversion of management attention. In addition, we may not realize the revenues and cost savings that we expect to achieve or that would

justify the acquisition investment, and we may incur costs in excess of what we anticipate. These circumstances could adversely affect our results of operations or financial condition.

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 branch 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 certain short-term assets to secure letters of credit and to pledge other assets to collateralize certain of our workers' compensation obligations. These collateral requirements may increase in future periods, which 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 could be required to 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 information technology systems, located at our headquarters, are essential for data exchange and operational communications with branch 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.

The loss of any of our key personnel could harm our business.
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. We must also successfully integrate all new management and other key positions within our organization in order to achieve our operating objectives. 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.

Our business would suffer if we could not attract enough temporary employees or skilled trade workers.
We compete with other temporary personnel companies to meet our customer needs and we must continually attract reliable temporary employees to fill positions. We have in the past experienced short-term worker shortages and we may continue to experience such shortages in the future. In addition, CLP's business relies on the ability to attract skilled trade workers. If we are unable to find temporary employees or skilled trade workers to fulfill the needs of our customers over a long period of time, we could lose customers and our business could suffer.

Determinations that we have misclassified the jobs performed by our temporary employees for workers' compensation insurance purposes in our monopolistic states, even if the misclassifications are inadvertent, could result in us owing penalties to government regulators and/or having to record additional expense.
In five states, Canada and Puerto Rico, (our monopolistic states) we pay workers' compensation insurance premiums directly to the government in amounts based in part on the classification of jobs performed by our employees. From time to time, we are subject to audits by various state regulators regarding our classifications of jobs performed by our employees. If it is determined that we have materially misclassified a significant number of our employees, we could be required to pay significant amounts of additional premium as well as penalites and interest.

Labor unions have attempted to harm our business.
Various labor unions and activist groups have attempted to disrupt our business. For example, these groups have 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. We cannot assure you that these activities will not harm our business or the price of our securities.

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 July 1, 2005, our purchased investments included in cash and cash equivalents had maturities of less than 90 days. Therefore, an increase in interest rates immediately and uniformly by 10% from our July 1, 2005 levels would not have a material effect upon our cash and cash equivalent balances, operating results or cash flows.

As of July 1, 2005, our marketable securities consist of revenue bonds and other municipal obligations, the vast majority of which have maturity dates of less than one year. Therefore, an increase in interest rates immediately and uniformly by 10% from our July 1, 2005 levels would not have a material effect upon our marketable securities balances, operating results or cash flows.

We have a certain amount of assets and liabilities denominated in certain foreign currencies related to our international operations. We have not hedged our foreign currency translation risk 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 operating results or cash flows.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. 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 (as defined in Securities Exchange Act Rule 13a -15(e)). Based on this evaluation, our CEO and our CFO concluded that, as of July 1, 2005, our disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting. During the twenty-six weeks ended July 1, 2005, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

See Note 10 of Notes to Consolidated Financial Statements found in Item 1 of Part I of this Form 10-Q.

Item 2. Changes in Securities; Use of Proceeds and Issuer Purchases of Equity Securities

On December 11, 2002, our Board of Directors approved a resolution granting management the authority to repurchase up to 2.0 million shares of our common stock. As of July 1, 2005, approximately 600,000 shares of common stock have been repurchased pursuant to this resolution, leaving 1.4 million shares available for future repurchase. There were no repurchases of our common stock during the twenty-six weeks ended July 1, 2005.

Item 3. Defaults Upon Senior Securities

None.

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

At our Annual Meeting of Shareholders held on May 18, 2005, the following proposals were adopted by the margins indicated:

PROPOSAL 1: Annual Election of Directors. The nominees for election as directors were Robert J. Sullivan, Joseph P. Sambataro, Jr., Thomas E. McChesney, Carl W. Schafer, Gates McKibbin, William W. Steele and Keith Grinstein. Each of these nominees was reelected to serve for a one year term, by the following margins of votes:

Nominees	For	Withheld
Robert J. Sullivan	40,015,858	1,782,274
Joseph P. Sambataro, Jr.	40,571,132	1,227,000
Thomas E. McChesney	40,515,968	1,282,164
Carl W. Schafer	40,035,326	1,762,806
Gates McKibbin	40,586,440	1,211,692
William W. Steele	40,578,443	1,219,689
Keith Grinstein	39,444,443	2,353,689

PROPOSAL 2: Ratification of the selection of PricewaterhouseCoopers LLP to serve as our independent registered public accounting firm for the fiscal year ending December 30, 2005.

For	Against	Abstain
41,278,328	497,912	21,891

PROPOSAL 3: Approval of Labor Ready, Inc. 2005 Long-Term Equity Incentive Plan.

For	Against	Abstain	Broker Non-Votes
26,671,097	8,167,411	57,383	6,902,241

Item 5. Other Information

On May 27, 2005, our subsidiary entered into an executive employment agreement with Noel Wheeler (the “Employment Agreement”) pursuant to which Mr. Wheeler will serve as President and Chief Executive Officer of CLP Resources. Under the terms of the Employment Agreement, Mr. Wheeler’s initial base annual salary is $250,000 and Mr. Wheeler received an option to purchase 42,574 shares of our common stock and 17,668 shares of restricted stock. The foregoing option grant and grant of restricted stock were made in accordance with and subject to the terms and conditions of the Labor Ready, Inc. 2005 Long-Term Equity Incentive Plan. Mr. Wheeler is also entitled to receive an Executive Bonus and a Transition Bonus subject to certain eligibility requirements and other terms and conditions. Mr. Wheeler will be entitled to receive an Executive Bonus of up to 25% of his then current salary if certain financial performance targets are met or exceeded. Furthermore, he will be entitled to receive a Transition Bonus for each of fiscal years 2005 and 2006 of up to a maximum of $125,000 for each such year based on a financial performance target for CLP Resources.

If we terminate the employment of Mr. Wheeler without Cause (as defined in the Employment Agreement) or if Mr. Wheeler terminates his employment with Good Reason (as defined in the Employment Agreement), then Mr. Wheeler will be entitled to receive (i) separation payments for twelve months from the employment termination date at the base monthly salary then currently in effect (or if such termination occurs during the first two years of Mr. Wheeler's employment, then the separation payments will be for the time period reflected by the difference between the number of full months of employment under the Employment Agreement and 24 months, if such difference is longer than 12 months); (ii) continued vesting for twelve months past the employment termination date of any previously awarded stock options or other equity awards, provided that all vested awards shall be exercised prior to the end of such twelve-month period and (iii) a pro rated amount of the Executive and Transition Bonus adjusted to reflect the number of days that Mr. Wheeler was actually employed by us during such fiscal year. The foregoing separation benefits described in clauses (i) and (ii) are conditioned upon the execution by Mr. Wheeler of a release of claims against us and his compliance with certain obligations owed to us under the Employment Agreement. The Employment Agreement also contains confidentiality, non-competition, non-solicitation, indemnification and assignment of invention provisions.

The foregoing summary is qualified in its entirety by reference to the text of the Employment Agreement, a copy of which is attached as Exhibit 10.29 to this quarterly report on Form 10-Q and which is incorporated by reference herein.

Item 6. Exhibits

Exhibits

10.29	Executive Employment Agreement with Noel Wheeler dated May 27, 2005.
31.1	Certification of Joseph P. Sambataro, Jr., Chief Executive Officer of Labor Ready, Inc., Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Steven C. Cooper, Chief Financial Officer of Labor Ready, Inc., Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Joseph P. Sambataro, Jr., Chief Executive Officer of Labor Ready, Inc. and 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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LABOR READY, INC.

/s/ Joseph P. Sambataro, Jr.	8/4/05
Signature	Date

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

/s/ Steven C. Cooper	8/4/05
Signature	Date

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

Exhibit 10.29

EXECUTIVE EMPLOYMENT AGREEMENT

This Executive Employment Agreement (this "Agreement") is between Noel Wheeler ("Executive") and Labor Ready Acquisition Sub II, Inc.(the "Company"), and is effective as of May 27, 2005.

RECITALS

A. Executive has served in a management or executive capacity with CLP Resources, Inc. ("Resources"), CLP Holdings Corp. ("Holdings"), and Contractors Labor Pool, Inc. (jointly referred to herein as "CLP") since September 1, 1999. In this capacity, Executive has served a key role on the executive team and has had company-wide management responsibility. Executive and CLP have entered into a contract dated September 1, 1999 ("CLP Employment Agreement").

B. The Company, Labor Ready, Inc. ("Labor Ready"), Holdings and others are negotiating an agreement (the "Merger Agreement") involving the merger of the Company with Holdings (the "Merger"). The entry into this Agreement by the Company and Executive is a condition of the closing of the Merger.

C. As a result of the Merger, the surviving corporation after the Merger will become a wholly-owned subsidiary of Labor Ready (Labor Ready and all of its subsidiaries, including the surviving corporation after the Merger, are collectively referred to herein as the "Labor Ready Group").

D. In Executive's employment with the Company, Executive is expected to have access to confidential and propriety information of the Labor Ready Group which is vital to the ability of the Labor Ready Group to compete in all of its locations.

E. Executive wishes to be employed by the Company and the Company wishes to employ Executive under the terms and conditions stated in this Agreement subject to the closing of the Merger, with the understanding that the employment of Executive is likely to be transferred to another member of the Labor Ready Group in accordance with the terms of this Agreement.

I. COMPENSATION AND POSITION.

A. Employment. In consideration of the covenants and promises contained herein and the promise of payment to Executive set forth in section I.C, below, and other good and valuable consideration, the Company hereby agrees to employ Executive and Executive hereby agrees to be employed by the Company, upon the terms and conditions hereinafter set forth.

B. Effective Date. Executive's employment pursuant to this Agreement shall become effective (the "Effective Date") immediately upon closing of the Merger without further actions. If the Merger is not completed, this Agreement will be automatically terminated.

C. Position and Compensation.

1. Executive's initial base salary under this Agreement shall be at the annual rate of $250,000.

2. Subject to the approval of the Labor Ready Board of Directors, following the closing of the Merger and approval of the Labor Ready, Inc. 2005 Long-Term Equity Incentive Plan (the "Plan") by Labor Ready's shareholders, Executive will receive an option grant for 42,574 shares of the common stock of Labor Ready in accordance with and subject to the terms and conditions of the Plan.

3. Subject to the approval of the Labor Ready Board of Directors, following the closing of the Merger and approval of the Plan by Labor Ready's shareholders, Executive will receive a grant of 17,668 shares of restricted stock of Labor Ready in accordance with and subject to the terms and conditions of the Plan.

4. Bonuses.

(a) *Executive Bonus.* Executive shall be eligible to receive an Executive Bonus of up to 25% of Executive's then current salary, subject to eligibility requirements and terms described below. The amount of this Executive Bonus if any, will be determined by the President of Labor Ready within two weeks after the press release of the prior year's results ("Reconciliation Date"), and shall be paid (subject to taxes and withholdings) within seven days after the Reconciliation Date. The Executive Bonus shall be determined as follows:

(i) 12.5% of Executive's Adjusted Salary if the business units under Executive's management (CLP) reach the EBITDA target assigned by the President of Labor Ready. "Adjusted Salary" means Executive's base salary adjusted by a multiplier determined by the President of Labor Ready. For 2005, the multiplier will range from 0.5 to 1.2. The full 12.5% can be earned for reaching the full EBITDA target. A prorated amount of the bonus will be earned for EBITDA levels between 90% and 125% of the EBIDTA target, based on the following metrics:

Achievement	Bonus Award
125% of the EBITDA target	125% of the target bonus
100% of the EBITDA target	100% of the target bonus amount
90% of the EBITDA target	50% of the target bonus amount
Less than 90% of the EBITDA target	No bonus.

(ii) 12.5% of Executive's Adjusted Salary if the audited net after-tax profit of Labor Ready meets or exceed annual targets established by Labor Ready according to the Short-Term Incentive Plan set forth in the Proxy Statement for the Annual Meeting of Shareholders, dated Wednesday, May 18, 2005. "Adjusted Salary" means Executive's base salary adjusted by a multiplier determined by the President of Labor Ready. For 2005, the multiplier will range from 0.5 to 1.2. At least 25% of the payment must be made in restricted

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stock. The full 12.5% can be earned for reaching the full growth target. A prorated amount of the bonus will be earned for growth levels between 50% and 125% of the growth target, based on the following metrics:

Achievement	Bonus Award
125% of the growth target	125% of the target bonus
100% of the growth target	100% of the target bonus amount
50% of the growth target	50% of the target bonus amount
Less than 50% of the growth target	No bonus.

(b) *Transition Bonus.* For only the fiscal years for 2005 and 2006, Executive shall also be eligible for a Transition Bonus; as such plan may be amended from time to time, subject to requirements set forth below. Executive will have a 2005 and 2006 EBITDA target amount for the business units under Executive's management (CLP) as assigned by the President of Labor Ready.

The Transition Bonus shall be in the gross amount of $100,000 if the EBITDA of the business units under Executive's management equals or exceeds such targets. A prorated amount of the bonus will be earned for reaching EBITDA levels between 90% and 125% of the EBIDTA target, based on the following metrics:

Achievement	Bonus Award
125% of the EBITDA target	125% of the target bonus
100% of the EBITDA target	100% of the target bonus amount
90% of the EBITDA target	50% of the target bonus amount
Less than 90% of the EBITDA target	No bonus.

The amount of this Transition Bonus if any, will be determined by the President of Labor Ready upon the Reconciliation Date, as defined above, and shall be paid (subject to taxes and withholdings) within seven days after the Reconciliation Date.

(c) *Bonus Eligibility.* To be eligible for the Executive or the Transition Bonus, Employee must be employed by Company or Labor Ready on the Reconciliation Date for such bonus and must be in compliance with Employee's obligations under this Agreement. Notwithstanding the foregoing, if Company or Labor Ready terminates Employee's employment prior to such date for either year, if such termination is without Cause, as defined below, or if Executive terminates employment with Labor Ready or the Company for Good Reason and no Cause for termination exists, and if the targets and objectives are achieved, Executive will be paid a prorated amount of the Executive and Transition Bonus adjusted to reflect the number of days of Executive's actual employment in such fiscal year as compared to the number of days that Employee would have worked in such fiscal year had Employee been employed through the end of the year. Such payment would be made at the same times as if Executive had remained employed through the year end.

5. Executive's position will be President and CEO of the surviving corporation after the Merger. In this position, he will be required to (a) devote the necessary time, attention, skill and efforts to performance of his duties as President and CEO, including (i) oversight of the business units under Executive's management; (ii) formulating a succession plan; (iii) identifying and recruiting his successor; (iv) formulating a transition plan; and (b) perform such other duties as may be assigned by the Board of Directors in its discretion. Executive's performance of his obligations under subsections (a) (ii), (iii) and (iv) shall be in accordance with a process approved by the Board of Directors with the input of Executive.

D. Benefits.

1. Executive shall be entitled to all benefits offered generally to employees of the Company or such other entity that takes over the operations of Resources from the Company

2. Executive shall be entitled each year during the term of this Agreement to a vacation accrual of twenty-five (25) business days, no two of which need be consecutive, during which time his compensation shall be paid in full. Vacation benefits shall be subject to the standard policy of the Company regarding vacation or such other entity that takes over the operations of Resources from the Company.

II. TERMS AND CONDITIONS.

A. Employment At Will.

1. The Company and Executive agree that Executive's employment is not for any specific or minimum term, and that subject to Section II.A.2 of this Agreement, the continuation of Executive's employment is subject to the mutual consent of the Company and Executive, and that it is terminable at will, meaning that either the Company or Executive may terminate the employment at any time, for any reason or no reason, with or without cause, notice, pre-termination warning or discipline, or other pre- or post-termination procedures of any kind. Executive acknowledges and agrees that any prior representations to the contrary are void and superseded by this Agreement. Except as noted in Section VI.A, this Agreement expressly supersedes the CLP Employment Agreement and Executive agrees that Executive shall be entitled to no payments or other benefits under such Agreement, including payments or benefits related to a sale of Holdings or any of its subsidiaries as provided in the CLP Employment Agreement. Executive and the Company agree that Executive's employment may be transferred upon the unilateral decision of the Company to another entity within the Labor Ready Group at any time without advance notice and that such transfer of employment shall not constitute "termination" of employment for any purpose under this Agreement, including this Section II.A. Executive may not rely on any future representations to the contrary of this section II.A.1, whether written or verbal, express or implied, by any statement, conduct, policy, handbook, guideline or practice of Labor Ready or its employees or agents. Nothing in this Agreement should be construed as creating any right, contract or guarantee of employment.

2. (a) In the event of termination of Executive's employment for any reason, Executive shall be paid unpaid wages and unused vacation earned through the termination date.

(b) If the Company terminates Executive's employment without Cause or Executive terminates employment with Good Reason as defined in this Agreement, in addition to the amounts described in Section II.A.2.a Executive shall be provided with the following as the sole remedy for such termination, subject to withholding:

(i) separation payments for twelve (12) months from the termination date at the base monthly salary in effect for Executive on the termination date, or if such termination occurs during the first two (2) years of Executive's employment under this Agreement, the difference between the number of full months of employment under this Agreement and 24 months, if such difference is longer than twelve (12) months, with the actual period of receipt of such payments being referred to as the "Severance Period"; and

(ii) continued vesting for a period of twelve (12) months past the Executive's employment termination date of any previously awarded Labor Ready stock options, restricted stock and other equity awards in compliance with the terms of the relevant plan or plans, and any applicable sub-plan or option agreement, provided that all vested awards shall be exercised prior to the end of such twelve-month period.

(c) To be entitled to the benefits set forth in Section II.A.2(b), Executive must (i) sign and deliver and not revoke a release in the form of Exhibit A to this Agreement in accordance with its terms; and (ii) be in full compliance with all provisions of Section III and IV of this Agreement.

3. (a) For the purpose of this Agreement, "Cause," as used herein, means any of the following: (i) any material breach of this Agreement by Executive

which, if curable, has not been cured within twenty (20) days after Executive has been given written notice of the need to cure such breach, or which breach, if previously cured, recurs; (ii) unauthorized use or disclosure of Confidential Information, as defined in this Agreement; (iii) Executive's substantial and repeated failure to perform duties as reasonably directed by the Board of Directors of the Company; (iv) material failure of Executive to comply with rules, policies or procedures of the Company as they may be amended from time to time; (v) dishonesty, fraud or gross negligence related to the business; (vi) personal conduct that is materially detrimental to the business or that violates the letter or spirit of the Company's Code of Business Conduct and Ethics, in the good faith discretion of the Board; or (vii) conviction of or plea of *nolo contendere* to a felony.

(b) "Good Reason," as used herein, means (i) any material breach of this Agreement by the Company which, if curable, has not been cured within 20 days after the Company has been given written notice of the need to cure the breach, or which breach, if previously cured, recurs; (ii) assignment of Executive, without Executive's consent, to a position that is not President and CEO of the entity controlling the operations (as distinguished from administrative functions) formerly conducted by Holdings; (iii) if there is a change in location of Executive's primary place of work of more than 35 miles; or (iv) the material reduction of

Executive's responsibilities and authority below the level of responsibility and authority held by Labor Ready's Regional Vice President of Operations.

B. Arbitration. The Company and Executive agree that any claim arising out of or relating to this Agreement, or the breach of this Agreement, or Executive's application, employment, or termination of employment, shall be submitted to and resolved by binding arbitration under the Federal Arbitration Act. The Company and Executive agree that all claims shall be submitted to arbitration including, but not limited to, claims based on any alleged violation of Title VII or any other federal or state laws; claims of discrimination, harassment, retaliation, wrongful termination, compensation due or violation of civil rights; or any claim based in tort, contract, or equity. Any arbitration between the Company and Executive will be administered by the American Arbitration Association under its Employment Arbitration Rules then in effect. The award entered by the arbitrator will be based solely upon the law governing the claims and defenses pleaded, and will be final and binding in all respects. Judgment on the award may be entered in any court having jurisdiction. In any such arbitration, neither Executive nor Company shall be entitled to join or consolidate claims in arbitration or arbitrate any claim as a representative or member of a class. The Company agrees to pay for the arbiter's fees where required by law. In any claim or jurisdiction where this agreement to arbitrate is not enforced, the Company and Executive waive any right either may have to bring or join a class action or representative action, and further waive any right either may have under statute or common law to a jury trial. The prevailing party in any arbitration shall be entitled to its reasonable attorneys' fees and costs.

C. Duty of Loyalty. Executive agrees during working hours to devote his full and undivided time, energy, knowledge, skill and ability to the Company's business, to the exclusions of all other business and sideline interests. Executive also agrees not to be employed elsewhere unless first authorized by the Company in writing, and the Company hereby approves Executive's current status as a member of the Board of Directors of American Civil Constructors, provided that no conflict of interest exists at any time during such membership. In no event will Executive allow other activities to interfere with Executive's duties to the Company. Executive agrees to faithfully and diligently perform all duties to the best of Executive's ability. Executive recognizes that the services to be rendered under this Agreement require certain training, skills and experience, and that this Agreement is entered into for the purpose of obtaining such service for the Company. Executive agrees to perform his duties in a careful, safe, loyal and prudent manner. Executive agrees to conduct himself in a way which will be a credit to Labor Ready's reputation and interests.

D. Reimbursement. If Executive ever possesses any Company funds (including without limitation cash and travel advances, overpayments made to Executive by the Company, amounts received by Executive due to the Company's error, unpaid credit or phone charges, excess sick or vacation pay, or any debt owed the Company for any reason, including misuse or misappropriation of Company assets), Executive will remit them to Labor Ready corporate headquarters in Tacoma, Washington promptly unless directed otherwise in writing. If Executive's employment ends, Executive will fully and accurately account to the Company for any Company funds and other property in Executive's possession. If Executive fails to do so, Executive hereby authorizes the Company (subject to any limitations under applicable law) to

make appropriate deductions for amounts agreed to be due and owing from any payment otherwise due Executive (including without limitation, Executive's paycheck, salary, bonus, commissions, expense reimbursements and benefits), in addition to all other remedies available to the Company.

E. Background Investigation. Executive agrees that at any time during employment the Company may, subject to any applicable legal requirements and reasonable grounds, investigate Executive's background for any relevant information on any subject which might have a bearing on job performance including, but not limited to, employment history, education, financial integrity and credit worthiness, and confirm that Executive has no criminal record during the last ten years. Executive shall sign any and all documents necessary for the Company to conduct such investigation. For this purpose, Executive specifically authorizes the Company to obtain any credit reports, background checks and other information which may be useful. Executive acknowledges and, except as may be limited by applicable law, agrees to abide at all times by the terms of Labor Ready's drug and alcohol policy. Executive understands that failure to comply with Labor Ready's policies, including its drug and alcohol policies may result in termination of employment. Labor Ready and Executive acknowledge that in his role as CEO, Executive's job duties may involve entertainment of customers and potential customers in the course of his regular responsibilities. Such entertainment may include drinking of alcohol during meals or other entertainment events, providing customers with alcohol as seasonal gifts, or otherwise possessing and consuming alcohol in moderation. So long as Executive does not drink to the point of inebriation, violate any motor vehicle laws relating to alcohol, or drink to the point of otherwise causing embarrassment to Labor Ready, Labor Ready agrees that such activities identified in this paragraph will not constitute a violation of the Labor Ready policies on alcohol consumption.

III. NON-COMPETITION AND NON-SOLICITATION.

A. Non-Disclosure of Confidential Information.

1. In connection with Executive's duties, Executive may have access to some or all of the Labor Ready Group's "Confidential Information," (including information which was formerly the confidential information of CLP prior to the closing of the Merger) which includes the following, whether recorded or mentally memorized: (i) the ideas, methods, techniques, formats, specifications, procedures, designs, strategies, systems, processes, data and software products which are unique to the Labor Ready Group; (ii) all of the Labor Ready Group's customers, marketing, pricing and financial information, including the names, addresses and any other information concerning any customer; (iii) the content of all of the Labor Ready Group's operations, sales and training manuals; (iv) all other information now in existence or later developed which is similar to the foregoing; and (v) all information which is marked as confidential or explained to be confidential or which, by its nature, is confidential.

2. Executive recognizes the importance of protecting the confidentiality and secrecy of Confidential Information. Executive agrees to use his best efforts to protect Confidential Information from unauthorized disclosure to others. Executive understands that protecting Confidential Information from unauthorized disclosure is critically important to the Labor Ready

Group's success and competitive advantage, and that the unauthorized disclosure of Confidential Information would greatly damage the Labor Ready Group. Executive recognizes and agrees that taking and using a trade secret or Confidential Information by memory is no different from taking it on paper or in some other tangible form. Executive agrees that Executive will request clarification from Labor Ready's legal department if Executive is at all uncertain as to whether any information or materials are

"Confidential Information."

3. Executive agrees not to disclose any Confidential Information to others outside the Company or others inside the Company without a need to know such information, use any Confidential Information for Executive's own benefit or make copies of any Confidential Information without Labor Ready's written consent, whether during or after Executive's employment with the Company. Executive recognizes and agrees that he has the duty of care of a fiduciary in protecting the Labor Ready Group's Confidential Information. Executive also agrees to return all Confidential Information in his possession to Labor Ready at Labor Ready's headquarters in Tacoma, Washington, immediately upon Labor Ready's request.

4. If Executive's employment with any member of the Labor Ready Group is terminated, Executive agrees to immediately return to Labor Ready, at its headquarters in Tacoma Washington, all manuals, mailing lists, customer lists, supplies, equipment, checks, petty cash, and all other material and records of any kind concerning the Labor Ready Group's business, that Executive may possess, unless otherwise approved by Labor Ready.

B. Non-Competition.

1. During the term of this Agreement and for a period of two (2) years immediately following the termination of employment with any member of the Labor Ready Group with or without Cause or Good Reason, so long as Labor Ready continues to carry on substantially the same business, defined in this Agreement as Skilled Construction and Industrial Trades Staffing, Day Labor and Light Industrial Staffing, Executive will not, for any reason whatsoever, directly or indirectly, for Executive or on behalf of, or in conjunction with, any other person(s), company, partnership, corporation or business entity, engage in any of the following activities within the "Restricted Area" (as hereinafter defined): own, manage, operate, control, be employed by, participate in, invest in, engage in or be connected in any manner with the ownership, management, operation or control of the same, similar, or related line of business as that carried on at the time of termination by any member of the Labor Ready Group (including the surviving corporation after the Merger), including, without limitation, the solicitation of business or customers located within the Restricted Area. For this purpose, the term "Restricted Area" means a twenty-five (25) mile radius around each branch of any member of the Labor Ready Group at the time of termination and any location where any member of the Labor Ready Group has placed workers during Executive's employment. This non-competition agreement is enforceable whether Executive's employment is terminated by any member of the Labor Ready Group or Executive. This non-competition agreement does not prevent Executive from involvement in any industries in which the Labor Ready Group is not involved, such as health care, IT, legal, accounting or executive placement, unless any member of the Labor Ready Group has entered into those fields prior to Executive's termination.

2. Executive agrees that this covenant is necessary to protect the intellectual property and trade secrets of the Labor Ready Group in view of Executive's key role with the Labor Ready Group and the extent of confidential and proprietary information about the Labor Ready Group to which Executive has information. The Company and Executive agree that the provisions of this Section III.B do not impose an undue hardship on Executive and are not injurious to the public; that this provision is necessary to protect the business of the Labor Ready Group; that the nature of Executive's responsibilities with the Company under this Agreement and Executive's former responsibilities with CLP provide and/or have provided Executive with access to Confidential Information that is valuable and confidential to the Labor Ready Group; that the Company would not continue to employ Executive if Executive did not agree to the provisions of this Section III.B; that this Section III.B is reasonable in terms of length of time and geographic scope; and that sufficient consideration supports this Section III.B. In the event that a court or arbitrator determines that any provision of this Section III.B is unreasonably broad or extensive, including length of time or geographic scope, Executive agrees that such court or arbitrator should narrow such provision to the extent necessary to make it reasonable and enforce the provision as narrowed.

C. No Employee Solicitation. During the term of this Agreement and for a period of two (2) years immediately following the termination of employment, with or without Cause or Good Reason, so long as Labor Ready continues to carry on substantially the same business, Executive will not, for any reason whatsoever, directly or indirectly, for Executive or on behalf of, or in conjunction with, any other person(s), company, partnership, corporation or business entity, solicit, induce or otherwise influence, or attempt to solicit, induce or otherwise influence, in any manner any of the Labor Ready Group's employees to leave their employment with the Labor Ready Group for any reason, including for the purpose of becoming employed by Executive's new employer.

D. No Customer Solicitation. Executive understands and agrees that the methods employed in the Labor Ready Group's business will place Executive in a close business and personal relationship with Labor Ready Group customers. Thus, during the term of this Agreement and for a period of two (2) years immediately following the termination of employment with or without Cause or Good Reason, so long as the Labor Ready Group continues to carry on substantially the same business, Executive will not, for any reason whatsoever, directly or indirectly, for Executive or on behalf of, or in conjunction with, any other person(s), company, partnership, corporation or business entity, contact, call upon, solicit, service, influence or attempt to contact, call upon, solicit, service or influence any customers or potential customers (prospects) of any branch where Executive was stationed within one (1) year before termination of employment with any member of the Labor Ready Group, or with whom Executive had direct or indirect contact or for whom Executive had responsibility during Executive's tenure with any member of the Labor Ready Group or otherwise assisted the Labor Ready Group in providing services to.

E. General Provisions.

1. If Executive violates any of the covenants in this Section III, the time period covered by the covenants will automatically be extended by a length of time equal to the time period during which such violation occurred.

2. The covenants set forth above are independent of any other provision of this Agreement. Executive agrees that they will be enforceable whether or not Executive has any claim against the Company.

3. Executive acknowledges that if Executive violates any of the foregoing covenants, the damage to the Company will be such that the Company is not likely to be made whole with a monetary award. Therefore, Executive agrees that if Executive violates any such covenant, the Company will be entitled to a temporary restraining order, a preliminary injunction and/or a permanent injunction, in addition to any and all other legal or equitable remedies available under law and equity.

4. Executive represents and warrants that Executive has been in full compliance with the provisions protecting Company's Confidential Information as set forth in the CLP Employment Agreement.

5. For the purposes of this Section III, all references to Confidential Information or Confidential Information of the Labor Ready Group also apply to Confidential Information belonging to any affiliate of the Labor Ready Group. Executive's covenants in subsections (B), (C) and (D) of this Section III shall protect affiliates of the Labor Ready Group to the same extent that they protect any member of the Labor Ready Group, to the extent that he has Confidential Information belonging to such affiliates.

F. Other Employers and Obligations.

1. Executive represents to the Company that Executive is not subject to any restriction or duties under any agreement with any third party or otherwise which will be breached by employment with the Company or any member of the Labor Ready Group, or which will conflict with the best interests of any member of the Labor

Ready Group or Executive's obligations under this Agreement.

2. Executive warrants that his employment with the Company will not violate any contractual obligations with other parties. Executive will not use during his employment with the Company nor disclose to any member of the Labor Ready Group any confidential or proprietary information or trade secrets from any former or current employers, principals, partners, co-venturers, customers or suppliers, and will not bring onto the premises of any member of the Labor Ready Group any unpublished document or any property belonging to any such person or entities without their consent. If employment with any member of the Labor Ready Group is terminated, Executive agrees to tell his new employer about this Agreement and its terms at the time of re-employment.

IV. ASSIGNMENT OF INVENTIONS.

A. Assignment. Executive will make prompt and full disclosure to the Company, will hold in trust for the sole benefit of the Company, and will assign exclusively to the Company all right, title and interest in and to any and all inventions, discoveries, designs, developments, improvements, copyrightable material and trade secrets (collectively herein "Inventions") that Executive solely or jointly may conceive, develop, author, reduce to practice or otherwise produce during his employment with any member of the Labor Ready Group.

B. Outside Inventions. Executive's obligation to assign shall not apply to any Invention about which Executive can prove all the following: (a) it was developed entirely on Executive's own time; (b) no equipment, supplies, facility, services or trade secret information of any member of the Labor Ready Group was used in its development; (c) it does not relate (i) directly to the business of any member of the Labor Ready Group or (ii) to the actual or demonstrably anticipated business, research or development of any member of the Labor Ready Group; and (d) it does not result from any work performed by Executive for the Labor Ready Group. Executive shall attach a list of all existing Inventions meeting these requirements to this Agreement.

V. COMPLIANCE WITH LAWS AND CODE OF CONDUCT.

A. Commitment to Compliance. The Company is committed to providing equal employment opportunity for all persons regardless of race, color, gender, creed, religion, age, marital or family status, national origin, citizenship, mental or physical disabilities, veteran status, ancestry, citizenship, HIV or AIDS, sexual orientation, on-the-job-injuries, or the assertion of any other legally enforceable rights. Equal opportunity extends to all aspects of the employment relationship, including hiring, transfers, promotions, training, termination, working conditions, compensation, benefits, and other terms and conditions of employment. The Company is likewise committed to ensuring that employees are accurately paid for all hours worked.

B. Duty to Comply with the Law. Executive agrees to comply with all federal, state and local laws and regulations, including equal employment opportunity laws and wage and hour laws. Executive agrees to immediately notify the Chairman of the Board of the Company or his or her designee if Executive becomes aware of a violation of the law, or suspects a violation of the law has or will occur. Executive acknowledges that Executive may be held personally liable for intentional violations.

C. Duty to Comply with Labor Ready's Code of Business Conduct and Ethics. Executive acknowledges and agrees that it is his duty to be familiar with Labor Ready's Code of Business Conduct and Ethics, and to comply with all of its provisions.

VI. MISCELLANEOUS.

A. Integration. No promises or other communications made by either the Company or Executive are intended to be binding unless they are set forth in this Agreement. This

Agreement contains the entire agreement between the parties and replaces and supersedes any prior agreements, including the CLP Employment Agreement, except that all of Executive's obligations pertaining to the protection of CLP confidential information and intellectual property as addressed in the CLP Employment Agreement remain in full force and effect in addition to whatever obligations Executive has under this Agreement. Executive represents and agrees that other than as set forth under the Merger Agreement, he is not entitled to any CLP stock options or equity based grants of any type and no other agreements or arrangements exist to the contrary. Upon closing of the Merger, this Agreement will supersede any employment agreement between Executive and CLP. This Agreement may not be modified except by an instrument signed by the Chairman of the Board of the Company or of such other entity that takes over the operations of Resources from the Company. This Agreement will be binding upon Executive's heirs, executors, administrators and other legal representatives.

B. Choice of Law. The Company and Executive agree that this Agreement and all interpretations of the provisions of this Agreement will be governed by the laws of the State of Washington, without regard to choice of law principles.

C. No Waiver. If either party waives any condition or term of this Agreement, it is not waiving any other condition or term, nor is it waiving any rights with respect to any future violation of the same condition or term. If either party chooses to refrain from enforcing any condition or term, the Company does not intend to waive the right to do so. Sections II(B), II(E), III and IV of this Agreement are to remain in effect after termination of the remainder of this Agreement.

D. Severability. The provisions of this Agreement are intended to be severable from each other. No provision will be invalid because another provision is ruled invalid or unenforceable. If any provision in this Agreement is held to be unenforceable in any respect, such unenforceability shall not affect any other provision of this Agreement and shall be re-written to provide the maximum effect consistent with the intent of the provision.

E. Assignment. The Company reserves the right to assign this Agreement at any time to any member of the Labor Ready Group or to any successor in interest to the Company's business without notifying Executive in advance, and Executive hereby expressly consents to such assignment. Immediately upon completion of the Merger, this Agreement shall be an Agreement between Executive and the surviving corporation after the Merger. All terms and conditions of this Agreement will remain in effect with regard to the employing entity to which Executive has been transferred and/or to which this Agreement has been assigned. The parties expressly understand and agree that the Restrictive Covenants set forth at Sections III and IV shall remain in effect and shall expressly apply in favor of the Labor Ready Group regardless of any such transfer and/or assignment.

F. Venue. Where the parties have mutually waived their right to arbitration in writing or have not yet sought to enforce their right to compel arbitration, venue for any legal action in connection with this Agreement will be limited exclusively to the Washington State Superior Court for Pierce County, or the United States District Court for the Western District of Washington at Tacoma. The prevailing party shall be entitled to its reasonable attorneys' fees

and costs. Executive agrees to submit to the personal jurisdiction of the courts identified herein, and agrees to waive any objection to personal jurisdiction in these courts.

LABOR READY ACQUISITION SUB II, INC.	EXECUTIVE
	/s/ Noel Wheeler
By: /s/ Steven Cooper	Noel Wheeler
Name: Steven C. Cooper	Date: 5/26/05
Title: President	
Date: 5/27/05	

EXHIBIT A

RELEASE OF CLAIMS

This Release of Claims ("Release") is hereby executed by Noel Wheeler ("Executive") in accordance with the Employment Agreement between Executive and Labor Ready Acquisition Sub II, Inc. ("Employer"), dated   ("Employment Agreement").

RECITALS

A. Employer and Executive are parties to the Employment Agreement.

B. The Employment Agreement provides for certain payments and benefits to Executive upon termination of Executive's employment under certain circumstances, provided that Executive signs and delivers to Employer upon such termination a Release in substantially the form of this Release.

C. Executive desires for Employer to make payments in accordance with the Employment Agreement and therefore executes this Release.

TERMS

1. Waiver, Release and Covenant. On behalf of Executive and Executive's marital community, heirs, executors, administrators and assigns, Executive expressly waives, releases, discharges and acquits any and all claims against Employer and its present, former and future affiliates, related entities, predecessors, successors and assigns, and all of their present, former and future officers, directors, stockholders, employees, agents, partners, and members, in their individual and representative capacities (collectively "Released Parties") that arise from or relate to Executive's employment with Employer and/or the termination of such employment ("Released Claims"). This waiver and release includes any and all Released Claims (including claims to attorneys' fees), damages, causes of action or disputes, whether known or unknown, based upon acts or omissions occurring or that could be alleged to have occurred before the execution of this Release. Released Claims include, without limitation, claims for wages, employee benefits, and damages of any kind whatsoever arising out of any: contract, express or implied; tort; discrimination; wrongful termination; any federal, state, local or other governmental statute or ordinance, including, without limitation, Title VII of the Civil Rights Act of 1964, as amended; the Age Discrimination in Employment Act, as amended ("ADEA"); the Employee Retirement Income Security Act of 1974; and any other legal limitation on the employment relationship. Executive also covenants and promises never to file, press or join in any complaint or lawsuit for personal relief or any amounts of any nature based on any Released Claim and agrees that any such claim, if filed by Executive, shall be dismissed, except that this covenant and promise does not apply to any claim of Executive challenging the validity of this Release in connection with claims arising under the ADEA and/or the Older Workers' Benefit Protection Act of 1990 ("OWBPA"). Executive represents and warrants that he is the sole owner of all Released Claims and has not assigned, transferred, or otherwise disposed of Executive's

right or interest in those matters. Notwithstanding the foregoing, this waiver and release does not apply to claims that arise after the date that the release is executed, claims to vested benefits under ERISA, workers' compensation claims or any other claims that may not be released under this Release in accordance with applicable law.

2. Acknowledgment of Sufficiency of Consideration. Executive acknowledges and agrees that in the absence of Executive's execution of this Release, Employer is not obligated to provide Executive with the payment and benefits described in Section II(A)(2)(b) of the Employment Agreement, and that the payment and benefits set forth in Section II(A)(2)(b) of the Employment Agreement are adequate consideration for the covenants and release herein.

3. Covenants and Obligations under Employment Agreement. Nothing in this Release supersedes or restricts any obligations that Executive owes to Employer, including, without limitation, the obligation to protect Employer's interests in confidential information and trade secrets and inventions under the Employment Agreement and/or under applicable law.

4. Review and Revocation Period. Executive has a period of seven (7) calendar days after delivering the executed Release to Employer to revoke the Release. To revoke, Executive must deliver a notice revoking his agreement to this Release to the CEO of Employer. This Release shall become effective on the eighth day after delivery of this executed Release by Executive to Employer ("Effective Date"), provided that Executive has not revoked the Release. Employer shall have no obligation to provide Executive with any payment or benefits as described in Section 6 of the Employment Agreement if Executive revokes this Release.

5. Governing Law. This Release shall be interpreted in accordance with the law of the State of Washington, without regard to the conflicts of law provisions of such laws.

6. Severability. If any provision of this Release constitutes a violation of any law or is or becomes unenforceable or void, then such provision, to the extent only that it is in violation of law, unenforceable or void, shall be deemed modified to the extent necessary so that it is no longer in violation of law, unenforceable or void, and such provision will be enforced to the fullest extent permitted by law. If such modification is not possible, such provision, to the extent that it is in violation of law, unenforceable or void, shall be deemed severable from the remaining provisions of this Release, which shall remain binding.

7. Knowing and Voluntary Agreement. Executive hereby warrants and represents that (a) Executive has carefully read this Release and finds that it is written in a manner that he understands; (b) Executive knows the contents hereof; (c) Executive has been advised to consult with his personal attorney regarding the Release and its effects and has done so; (d) Executive understands that he is giving up all Released Claims and all damages and disputes that have arisen before the date of this Release, except as provided herein; (e) Executive has had ample time to review and analyze this entire Release; (f) Executive did not rely upon any representation or statement concerning the subject matter of this Release, except as expressly stated in the Release; (g) Executive has been given at least twenty-one (21) days to consider this Release and seven (7) days to revoke this Release; (h) Executive understands the Release's final and binding effect; (i) Executive has signed this Release as his free and voluntary act.

8. Arbitration and Venue. Employer and Executive agree that any claim arising out of or relating to this Agreement, or the breach of this Agreement shall be submitted to and resolved by binding arbitration under the Federal Arbitration Act. Employer and Executive agree that all claims shall be submitted to arbitration including, but not limited to, claims based on any alleged violation of Title VII or any other federal or state laws; claims of discrimination, harassment, retaliation, wrongful termination, compensation due or violation of civil rights; or any claim based in tort, contract, or equity. Any arbitration between Employer and Executive will be administered by the American Arbitration Association under its Employment Arbitration Rules then in effect. The award entered by the arbitrator will be based solely upon the law governing the claims and defenses pleaded, and will be final and binding in all respects. Judgment on the award may be entered in any court having jurisdiction. In any such arbitration, neither nor Employer shall be entitled to join or consolidate claims in arbitration or arbitrate any claim as a representative or member of a class. Employer agrees to pay for the arbiter's fees where required by law. In any claim or jurisdiction where this agreement to arbitrate is not enforced, Employer and Executive waive any right either may have to bring or join a class action or representative action, and further waive any right either may have under statute or common law to a jury trial. Where the parties have mutually waived their right to arbitration in writing or have not yet sought to enforce their right to compel arbitration, venue for any legal action in connection with this Agreement will be limited exclusively to the Washington State Superior Court for Pierce County, or the United States District Court for the Western District of Washington at Tacoma. Executive agrees to submit to the personal jurisdiction of the courts identified herein, and agrees to waive any objection to personal jurisdiction in these courts. The prevailing party in arbitration shall be entitled to its reasonable attorneys' fees and costs.

EXECUTED this day of , 20 .

Noel Wheeler

Exhibit 31.1

CERTIFICATION

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2005

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

Exhibit 31.2

CERTIFICATION

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2005

/s/ Steven C. Cooper
Steven C. Cooper
Chief Financial Officer

Exhibit 32.1

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

We, Joseph P. Sambataro, Jr., the chief executive officer of Labor Ready, Inc. (the "Company"), and Steven C. Cooper, the 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 Quarterly Report of the Company on Form 10-Q, for the fiscal period ended July 1, 2005 (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.	/s/ Steven C. Cooper
Joseph P. Sambataro, Jr. Chief Executive Officer	Steven C. Cooper Chief Financial Officer

August 4, 2005

A signed original of this written statement required by Section 906 has been provided to Labor Ready, Inc. and will be retained by Labor Ready, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.