

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]
For the year ended December 31, 1995.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the transition period from _____ to _____.

Commission File Number 0-23828

LABOR READY, INC.

(Exact name of registrant as specified in its Charter)

Washington 91-1287341
(State of Incorporation or Organization) (I.R.S. I.D. Number)

2156 Pacific Avenue, Tacoma, Washington 98402
(Address of Principal Executive Offices) (Zip Code)
(206)383-9101
(Registrant's Telephone Number)

Securities Registered Under Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities Registered Under Section 12(g) of the Act:

Common Stock, No Par Value
(Title of class)

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of Registrant's knowledge, in any definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value (based on the average between the bid and ask prices) of the voting stock held by non-affiliates (4,076,306 shares) of the Registrant at March 20, 1996 was approximately \$79,487,967. As of March 20, 1994, there were 6,029,133 shares of Registrant's common stock outstanding.

No Documents are incorporated herein by reference.

LABOR READY, INC.
FORM 10-K

PART I.

Item 1. Business.

Organizational History. The Company was incorporated under the laws of the State of Washington on March 18, 1985. Since 1989, the Company has been engaged in the temporary help business. Operations prior to 1989 are reported in the Company's Form 10 Registration Statement, SEC File Number 0-23828.

P.N.L.F., Inc. ("PNLF") was organized on January 17, 1989. Labor Ready of So. Calif., Inc. ("LRSC") was organized on March 12, 1990, as a wholly owned subsidiary of PNLF. In April, 1992, PNLF spun the stock ownership of LRSC out to PNLF's shareholders. Labor Ready Franchise Development Corporation ("LRFDC") was organized on November 21, 1991. Labour Ready Temporary Services Limited was formed as a wholly owned subsidiary of the Company on February 10, 1994, to conduct business in Canada.

During 1994, the Company reached a settlement in a legal dispute involving two of the Series A Preferred Stockholders. As a result of the settlement, 149,006 Series A Preferred Shares were canceled. Effective January 1, 1995, PNLF and LRSC were merged into Labor Ready, Inc.

Current Business Operations. The Company is engaged in the business of providing temporary help primarily to construction, warehousing, landscaping and manufacturing businesses. The temporary help industry addresses the fact that businesses frequently experience times when the work load temporarily exceeds the workforce available.

In these circumstances, the business must either hire additional people, work existing employees overtime and pay the overtime rate, refuse to accept the work, or develop a backlog and deliver the product or service late. Each of these alternatives may have undesirable results to the long-term profitability of the business. In this environment, the temporary help business offers an acceptable temporary solution while avoiding some of the draw backs of the traditional alternatives. By engaging a temporary service, businesses are not exposed to workers compensation claim risks, or to the litigation risks of hiring and terminating employees.

The Company focuses primarily on temporary help for construction, warehousing, landscaping and manufacturing businesses. This market niche is attractive to the Company for a number of reasons. First, the users' requirements are typically for low to medium skilled workers, and the Company has been able to develop a large pool of laborers in this category. In addition, there are a large number of users of this type of temporary help. The customers involved in construction, warehousing, landscaping and manufacturing operations tend to be seasonal or subject to regular cyclic fluctuations in work flow. The cost of temporary labor to the company is significantly less than the cost of adding permanent positions to meet fluctuating needs.

The Company operates its locations as dispatch halls. Interested laborers report to the dispatch hall prior to being assigned to jobs. Space in the dispatch hall is available for the workers to wait for job assignments. When a customer requests temporary help, the dispatch hall manager assigns the available workers to the position openings, and the workers are dispatched to the job site. The workers are provided with a labor ticket which they must return to the dispatch hall for payment. Temporary laborers are paid daily, and the customers are billed weekly. The worker is employed by the Company which must pay all related payroll taxes and maintain all payroll records, including W-2's which are prepared at year end. The Company also provides workers compensation insurance to each temporary laborer. The Company maintains a computer based software package to maintain the various types of information needed to process all required payroll information and related payroll tax returns. The Company processed 1.1 million payroll checks written to 100,000 temporary laborers in 1995.

The Company is responsible for workers' compensation insurance. Therefore, it is critical for the Company to monitor and control workers' compensation claims arising from injuries suffered by the Company's employees in the course of performing the temporary jobs. The Company controls workers' compensation costs through training of its management employees and office staff, safety sessions with employees, issuance of safety equipment, monitoring of job sites, and communication with customers to assure that the job request order is one that can be safely accomplished.

The Company maintains workers' compensation benefit coverage. To maintain the coverage, the Company has established a separate workers' compensation department at its corporate headquarters in Tacoma Washington, to oversee Company policy. The Company has recently hired two individuals, one with 18 years of claim closing experience, and one with 20 years of experience dealing with a captive and self insurance program for a company with requirements similar to those of Labor Ready. On August 1, 1994, the Company went to a captive insurance program in all non-monopolistic states. Monopolistic states are those states that require coverage to be administered by a state plan. At that time, the Company engaged a national insurance company to act as administrator of the plan. The Company incurs a large number of claims, the majority of which are closed within ninety days. The average claim paid is between \$1,000 and \$2,000. The Company provides light duty work so that lost time claims are minimized.

The Company employs in-house specialists in its insurance, workers' compensation, marketing, accounting, collection, computer hardware, education, and computer software departments to monitor company wide performance and address performance issues as they arise. The Company holds an area director training seminar on a quarterly basis and one of the focuses of area director training is to monitor and control workers' compensation claims. In addition, the Company holds a planning session each year to prepare a one year and six year plan and to establish budgets and projections. The Company's Regional Directors are in regular communication with the Area Directors and the Regional Directors provide a further source of monitoring and control for workers' compensation costs.

Labor Ready University, the Company's training division, operates out of a training center in Tacoma, Washington, which is also the dispatch location for Tacoma. Labor Ready University was formed in February, 1995, to train managers. The Company hired an experienced trainer from a national company to write the necessary training manuals, organize the facility, and coordinate the hiring and training of its managers. By operating the training center as part of an ongoing dispatch location, the

managers receive training under actual and simulated dispatch conditions.

In 1992, the Washington State division of the Company entered into a State retro program and has received rebates of its workers' compensation costs because the Company's State loss experience rating is less than premium rates charged for coverage.

The business of temporary labor is one that is easily entered by small operators. Certain economies of scale can be achieved, however, by the expansion of the operations beyond small local sites. Additionally, larger temporary help companies also have the financial ability to hire in house insurance and other specialists. This helps to assure that various claims, such as workers' compensation, unemployment, and garnishment claims, are controlled and processed in a timely fashion. The Company has already expended the time and effort necessary to develop computer software and hardware systems for monitoring company performance, and is capable of producing reports to single location detail as needed. The Company's systems for monitoring and controlling workers' compensation claims also affords the company a competitive advantage over smaller operators with less sophisticated systems.

The Company has grown, in part, through acquisition of existing operations and/or hiring employees of businesses which have ceased operations. Of the 119 dispatch halls open at March 20, 1996, 113 dispatch halls have been operated from inception as company owned dispatch halls. Additional dispatch halls will be acquired or opened when attractive market opportunities are identified. The Company has standardized the basic dispatch hall concept and can now open new dispatch halls in four to six weeks while maintaining control over start-up costs.

When penetrating new markets, the Company allows for an initial advertising budget to generate an awareness of the new business. The Company also attempts to follow initial penetration with additional dispatch halls as warranted by the area demographics. This expansion allows a rapid build up of the temporary labor base needed to operate successfully in a given area.

Economic Conditions. Historically, the general level of economic activity in the Company's markets has significantly affected the demand for temporary labor in the construction and manufacturing trades. As economic activity increases, temporary employees are often added to the work force before permanent employees are hired. As economic activity slows, the use of temporary personnel is generally curtailed before permanent employees are laid off. The Company has been expanding rapidly as general economic conditions have improved. No assurances can be given, however, that general economic activity will continue to improve, that the Company will benefit from such improvement, or that the Company's rapid expansion will continue. A slow down in general economic activity would have a material adverse effect on the Company's business and results of operations, and could create material cash flow shortages.

Competition. The Company markets its temporary labor to customers primarily in the construction and manufacturing trades. Marketing is accomplished through yellow pages advertising and direct mail campaigns. Word of mouth also provides a significant source of new business for the Company. The temporary services industry is highly competitive with limited barriers to entry. The Company competes in national and local markets with other suppliers of temporary help. Many of these competitors have substantially greater financial and marketing resources than those of the Company. The availability to the Company's customers of multiple temporary service providers creates significant pricing pressure as competitors compete for the available demand, and this pricing pressure adversely impacts operating margins. Increasing competition in the future will limit the Company's ability to maintain or increase its market share or maintain its operating margins, and could have a material adverse effect on the Company's business, financial condition and operating results.

At the present time, the Company is a growing international temporary help business in a market dominated by large international companies. To minimize direct competition with the large national temporary service companies, the Company has focused on a market niche available for dispatch halls to provide temporary help on very short notice. This niche has been largely ignored by the large national companies, who choose instead to rely on telephone marketing for customer orders in advance of the need. The Company's use of the dispatch hall concept allows the Company to provide temporary help on the day of the order. The Company opens its dispatch halls at 5:30 a.m. for this purpose and laborers available for work wait on location for an assignment.

Other Operational Considerations. The Company is not dependent on any individually large customers for a majority of its revenues. While a single dispatch hall may derive a majority of its revenues from a single customer, the loss of that customer on the overall organization

would not have a significant impact on revenues. At present, the Company has in excess of 40,000 customers.

The Company currently employs a total of 80 administrative and executive staff in the corporate office, and 370 personnel in the dispatch halls as managers and support staff. The Company operates with a pool of temporary laborers numbering between 4,000 and 8,000 depending on seasonal fluctuations and demand.

The Company's business is not presently dependent on any patents, licenses, franchises, or concessions. The Company's name, "Labor Ready, Inc." and associated trademarks are protected within its region of operation, and the Company is licensed to offer franchises. To date the Company has only one franchisee with three locations, and is not currently pursuing other franchising operations. The Company's name and trademarks will continue to be protected so long as the Company utilizes the name and trademarks in its operations.

The Company's business operations focus on providing temporary help to the construction and manufacturing trades. The construction trade in particular, and other customer businesses to a lesser degree, are significantly affected by the weather. The construction trade activity increases in the spring and summer, and then tapers off as late fall and winter weather hinders outdoor activities. Inclement weather during the normally mild spring and summer months can also slow construction activities. Conversely, mild fall and winter periods can result in greater than usual construction business. The Company anticipates a significant increase in temporary labor demand in the spring and summer, and a slow down of the demand in the winter months. An adverse weather cycle could have a material adverse impact on the Company's revenues in any given period, and could materially adversely affect future operations.

Additionally, general economic conditions impact revenues over time. In periods of improving economic conditions, the demand for temporary labor rises as companies staff to meet their own rising revenues activities. When a general economic slowdown occurs, the temporary labor is generally the first group of workers terminated, and the Company experiences the termination as a slow down in revenues. The current economic climate in the Company's region of operation is generally trending up, and the Company has been experiencing increased revenues at existing dispatch halls. Should economic conditions change, this trend could reverse and adversely affect the Company's revenues and results of operations.

The Company is responsible for and pays workers' compensation costs and unemployment insurance premiums for its temporary employees. As part of the presently contemplated health care reform, recent federal and state legislative proposals have included provisions that would mandate health care coverage for the Company's temporary personnel who are not presently covered under another health care plan. There can be no assurance that the Company will be able to increase fees charged to its customers to offset the increased costs if workers' compensation rates or unemployment insurance premiums increase, or if the Company is required to provide health care coverage for its temporary employees. Currently, the Company does not provide health care coverage to its temporary workers. A material increase in these costs could, therefore, have a material effect on the Company's financial condition and results of operations. It is likely that any impact from health care legislation which affects the Company, would also affect other temporary service providers, and the Company's competitive position in the industry would not necessarily be adversely affected.

The Company has experienced significant growth in revenues during 1993, 1994, and 1995, and expects this growth to continue. This growth requires substantial working capital to fund operating activities, capital expenditures, and establishing new dispatch halls. Moreover, the ability of the Company to continue to increase revenues will depend on a number of factors, including general economic conditions, existing and emerging competition, availability of workforce, and the availability of working capital to support the growth. The Company may face pricing pressures that will make it more difficult to maintain operating margins. There can be no assurances that the Company will be able to obtain the necessary working capital or to recruit and train qualified personnel to staff continued growth, or that it will be able to hold costs in line with historical levels as, and if the growth continues.

The Company is currently expanding its operations through the addition of new dispatch hall locations. The Company is also operating with limited capital and the costs of expansion create a continuing drain on existing cash flows. The Company is a growing international provider of temporary help services competing against larger regional and international companies, and is faced with all of the usual business risks associated with a growth oriented business in a competitive market. There can be no assurances that the Company's efforts at

expansion can be successfully accomplished, or that the expansion will be profitable.

Planned Operational Growth. The Company intends to continue expansion through the year 2000 through the opening of new start-up dispatch halls. As the business grows, the Company is continuing to upgrade its proprietary computer software used to control Company operations and maintain employee records. From January 1, 1995, through December 31, 1995, the Company opened 55 additional dispatch halls, and 13 new dispatch halls were opened by March 20, 1996.

Item 2. Properties.

In February, 1995, the Company purchased a labor dispatch building which doubles as a training center and supplies inventory warehouse facility in Tacoma, Washington. In March, 1995, the Company also purchased a 24,000 square foot facility in Tacoma, Washington which serves as its headquarters and administrative office building. The headquarters location is currently being remodeled to accommodate the Company's continuing expansion. The new headquarters building replaces the facility located at 2342 Tacoma Avenue South, in Tacoma, Washington. The 2342 Tacoma Avenue location is owned by the Company, but is listed for lease, at this time, and is not being used in operations. The Company owns dispatch buildings in Kent, Washington, and Kansas City, Missouri. Prior to March, 1996, the Company also owned its dispatch building in Spokane, Washington. In March, 1996, the Company sold the building, and now leases facilities in Spokane. All other dispatch offices are leased, and the leases generally include ninety day buyout clauses. The Company presently operates dispatch halls in 32 states and Canada. All of the Company's facilities are currently believed by management to be suitable for their intended use. At present growth rates, management anticipates that the Company will outgrow its existing corporate facilities in 1998.

Item 3. Legal Proceedings.

The Company is involved in various lawsuits arising in the ordinary course of business which will not, in the opinion of management, either individually or in the aggregate have a material effect on the Company's results of operations.

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

No matters were submitted to a vote of the security holders during the fourth quarter of the year ended December 31, 1995.

PART II

Item 5. Market Price of, and Dividends on the Registrant's Common Equity and Related Stockholder Matters.

The Company's common stock is traded over-the-counter and has limited liquidity. The high and low bids for the last two years were as follows:

Quarter Ended	High*	Low*
March 31, 1994	\$2.67	\$1.34
June 30, 1994	3.67	2.67
September 30, 1994	5.17	3.67
December 31, 1994	6.50	5.17
March 31, 1995	7.50	6.00
June 30, 1995	15.33	6.67
September 30, 1995	14.33	11.58
December 31, 1995	19.00	12.50

*Dollar amounts are adjusted to reflect a three for two forward stock split which was effective on November 22, 1995.

The Company had 655 shareholders of record as of December 31, 1995. The quotation information has been derived from the Electronic Bulletin Board Quotation System operated by the National Association of Securities Dealers, Inc. The bid price is the price between broker/dealers and does not include retail markups or markdowns or commissions. The bid price does not reflect prices in actual transactions. No cash dividends have been declared on the Company's Common Stock to date and the Company does not intend to pay a cash dividend on common stock in the foreseeable future. Future earnings will be used to finance the growth and development of the Company.

Item 6. Selected Financial Information.

The following selected consolidated financial data of the Company has been derived from its Consolidated Financial Statements. The Consolidated Financial Statements for the years ended December 31, 1995 and December 31, 1994 were audited by BDO Seidman, LLP, whose report thereon appears elsewhere herein. The Consolidated Statements of Operations, Changes in Stockholders' Equity,

and Cash Flows for the year ended December 31, 1993, have been examined by Terrence J. Dunne, CPA, independent certified public accountant, whose report thereon appears elsewhere herein. The data should be read in conjunction with the Company's Consolidated Financial Statements and the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

Dollars in Thousands Except Per Share Amounts

INCOME STATEMENT DATA					
Year Ended December 31	1995	1994	1993	1992	1991
REVENUE					
Revenues from services	\$94,361	\$38,951	\$15,659	\$ 8,424	\$ 6,020
Cost of services	76,643	30,713	12,401	6,485	4,831
Gross profit	17,718	8,238	3,258	1,939	1,189
EXPENSES					
Selling, general, & administrative expenses	13,639	6,593	2,652	1,482	1,717
Income from operations	4,079	1,645	607	457	(528)
Interest and other, net	(866)	(457)	(354)	(278)	(187)
INCOME (LOSS) BEFORE INCOME TAX AND EXTRAORDINARY ITEM					
TAX AND EXTRAORDINARY ITEM	3,213	1,188	253	180	(715)
INCOME TAX	1,152	336	32	21	--
EXTRAORDINARY ITEM, NET OF TAX	--	--	48	--	--
NET INCOME (LOSS)	2,062	852	269	159	(715)
EARNINGS (LOSS) PER COMMON SHARE					
Income before extraordinary item	\$0.34	\$0.18	\$0.04	\$0.06	\$(0.26)
Extraordinary item	--	--	0.02	--	--
Net income	\$0.34	\$0.18	\$0.06	\$0.06	\$(0.26)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (Primary)					
	5,862	4,455	3,669	2,702	2,721
BALANCE SHEET DATA					
At December 31	1995	1994	1993	1992	1991
Total current assets	20,216	7,572	2,313	1,454	812
Total assets	26,182	8,912	3,153	1,880	1,149
Total current liabilities	7,956	5,631	1,706	1,086	436
Total long term liabilities	9,695	319	777	577	733
Total Liabilities	17,650	5,950	2,483	1,664	1,168
Stockholder's Equity	8,531	2,962	670	216	(19)
Working capital	12,260	1,941	607	368	377

Item 7. Management's Discussion And Analysis Of Financial Condition And Results Of Operations

Results of Operations.

1995 Compared to 1994. The Company's revenues increased to \$94,361,629 from the \$38,950,683 for the year ended December 31, 1995, as compared to the year ended December 31, 1994. This represents an increase of \$55,410,946 or 142%. The sales increase came from an increase in same store sales, and from the opening of new locations, as indicated below:

Same store sales	\$13,741,807
New locations	\$41,669,139
Total increase	\$55,410,946

The increase in revenues also resulted in an increase in net profit for the year ended December 31, 1995 of \$2,061,807 compared to a net profit of \$851,805 for the same period a year earlier. This represents an increase of \$1,210,002 or 142%. The increase in net profits is primarily the result of a high level of growth in revenues. The high levels of growth have required that the Company continue to incur corresponding levels of operating expenses. Consequently, as a percentage of revenues, net profit has stayed relatively constant as a percentage of revenues at 2.2% in 1995 and 1994. Management anticipates high levels of growth through 1996, and expects that net profits as a percentage of revenues will remain relatively constant during this period.

The Company grew from fifty-one operating dispatch locations at December 31, 1994 to 106 operating locations at December 31, 1995, an increase of fifty-five operating dispatch locations for the year.

Opening costs for new dispatch locations, which are expensed, are estimated to have averaged \$35,000 per location in 1995 and \$25,000 in 1994. In the aggregate, a total of \$1,925,000 was expended on new location openings for the year ended December 31, 1995, compared to

\$850,000 for the year ended December 31, 1994. The costs of opening new dispatch locations continues to increase. The increases are primarily the result of a longer manager training period at Labor Ready University and the added opening costs related to the upgraded computer software.

In order to maintain pace with the Company's growth, during 1995, the Company underwent a significant upgrade of its computer systems. The upgraded system is now designed to accommodate continuing growth, and provides management with all of the informational tools needed to manage the increasing number of locations. The costs of the computer system upgrades have been capitalized and are reflected as fixed assets on the balance sheet.

Cost of revenues increased to \$76,642,962 for the year ended December 31, 1995 from \$30,712,945 for the same period in 1994, an increase of \$45,930,017 or 150%. Cost of revenues as a percentage of revenues increased to 81.2% for the year ended December 31, 1995, from 78.8% for the year ended December 31, 1994, an increase of 2.4%. This increase in costs as a percentage of revenues is primarily the result of the Company's use of

lower introductory rates to attract new customers at new stores.

Operating expenses increased to \$13,639,034 from \$6,592,555 in 1995 compared to 1994, an increase of \$7,046,479 or 107%. As a percentage of revenues, operating expenses decreased to 14.5% for the year ended December 31, 1995, from 16.9% for the same period a year earlier. This percentage decrease in operating expenses partially offset the percentage increase on cost of revenues, and resulted primarily from more efficient administrative operations, and economies of scale which have accompanied the high levels of growth.

The Company has a net deferred tax asset of \$715,407 at December 31, 1995, resulting primarily from temporary timing differences. The Company has not established a valuation allowance against this net deferred tax asset as management believes that it is more likely than not that the benefit from the asset will be realized in the current period based on the historical levels of pre-tax income.

1994 Compared to 1993. The Company earned a net income for the year ended December 31, 1994 of \$851,805 vs. a net income of \$ 269,008 for the same period a year earlier; a difference of \$582,797.

The primary factor creating the net increase in profits was the fact that management made the decision to rapidly expand its operations in 1994. This expansion resulted in an increase in revenues. The Company grew from seventeen operating dispatch halls at December 31, 1993 to fifty-one operating and reporting dispatch halls at December 31, 1994 .

The Company had a negative cash flow from operating activities for 1994 in the amount of \$2,250,551, and a net cash outlay for capital expenditures in the amount of \$593,460. The total of \$2,844,111 was financed by borrowings in the amount of \$2,062,188 and net proceeds from the issuance of equity securities in the amount of \$1,130,223, leaving a net cash surplus for the year.

For the year ended December 31, 1994 revenues increased to \$38,950,683 from \$15,658,832 for the year earlier period, an increase of \$23,291,851 or 149%. Costs of revenues and related selling, general, and administrative expenses increased proportionately. Thirty-four new dispatch halls were opened in the year ended December 31, 1994 which generated revenues of \$13,255,922.

A summary of the revenues for the years ended 1994 and 1993 follow:

	1994		1993	
	Revenues	Per Hall	Revenues	Per Hall
17 existing dispatch halls	\$ 25,694,761	\$1,511,457	\$ 15,658,832	\$ 921,108
34 new dispatch halls	\$ 13,255,922	\$ 389,880		

Selling, general, and administrative expenses increased from \$2,651,702 to \$6,592,555, an increase of \$3,940,853 or 149%, reflecting additional salaries and expenses needed for the Company's continued growth and expansion.

In the aggregate, as a percentage of revenues, selling, general, and

administrative expenses did not change. Salaries increased to \$1,130,168 from \$517,588. The increase represents normal salary adjustments which occur on an annual basis. Administrative expenses increased in 1994 compared to 1993 as a result of the Company's continuing growth. Increases within line item categories are either proportional to the increase in revenues or are not material.

Repairs and maintenance increased as a percentage of revenues, from .5% to 1.2 %. The increase was due to the updating of existing dispatch halls and new dispatch location expansion. Contract and professional fees increased as a percentage of revenues to 2.0% from 1.2%. The increase was primarily related to the increased need for professional services in connection with expansion activities, workers' compensation

advisory services, employee testing, general corporate governance activities, and legal and auditing costs. Uncollectible accounts decreased as a percentage of revenues to .9% from 1.7%. The decrease was due in part to the Company's development of computer software for control management of customer credit. Management continues to monitor uncollectible accounts and the Company continues with a policy of aggressively pursuing delinquent accounts in order to control future uncollectibles.

In 1994, the Company incurred interest charges on borrowings of \$510,772, an increase of \$155,753 over 1993. The impact of the increase in interest charges was lessened somewhat by a reduction in the effective rate charged the Company for its operating line of credit. The reduction resulted in a decrease in interest charges to 1.3% from 2.3%, as a percentage of revenues.

The Company adopted the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," (SFAS No. 109), effective December 31, 1993. SFAS No. 109 requires a company to recognize deferred tax assets and liabilities for the expected future income tax consequences of events that have been recognized in a company's financial statements. Under this method, deferred tax liabilities and assets are determined based on the temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the temporary differences are expected to reverse.

Liquidity and Capital Resources.

During 1995 and 1994, the Company used net cash in operating activities of \$3.7 million and \$2.25 million, respectively, an increase of 64.4%, reflecting the significant growth in the Company's revenues and accounts receivable, and opening of 54 new offices. Management anticipates continuing cash flow deficits from operations while the Company's growth in the number of offices continues at a rapid rate. Management expects such cash flow deficits will be financed by short term lines of credit, long term debt and sale of additional equity securities.

The Company financed its operations and growth in 1995 primarily through debt

financing. In early 1995, holders of outstanding warrants to purchase the Company's common stock agreed to exercise 474,960 warrants for 474,960 shares of common stock with an aggregate exercise price of \$1.78 million. In August 1995, the Company and its lender agreed to expand the size of its operating line of credit (secured by accounts receivable) from \$6 million to \$9 million.

In October 1995, the Company completed a private placement financing of \$10 million in 13.0% Senior Subordinated Notes (the "Notes") which netted the Company \$9.2 million. Under the terms of the Notes, which require principal payments beginning in 1998 and mature in 2002, the Company pledged its remaining assets as collateral and agreed to issue warrants to the purchasers of the Notes to purchase 10% of the outstanding common stock of the Company at an exercise price of \$11.67 per shares (as adjusted for the Company's recent 3 for 2 stock split). The warrants are exercisable at any time prior to the seventh anniversary of the Notes and six years from the date the Notes are paid in full.

In connection with the issuance of the Notes, the amount of the Company's operating line of credit was reduced to \$5 million and the terms extended through June 1996. Subsequent to year end, the Company refinanced its existing line of credit. The Company obtained from U.S. Bank of Washington a new revolving credit facility which provides for borrowing of up to \$10 million secured by accounts receivable. As of March 28, 1996, the Company borrowed \$4.4 million against this line. The U.S. Bank line of credit bears interest at a rate of prime plus 1/4%

There is some uncertainty in connection with government regulation and health care proposals, and the effects such proposals would have on the temporary help industry if new laws were enacted. It is generally believed that health care reform would have the effect of increasing costs of temporary employees to the Company and no assurances can be given that such increased costs could be passed on to the Company's customers. The Company is also aware that workers' compensation costs and unemployment insurance premiums are generally increasing. The Company has not, however, experienced a significant variance in its rates due to its efforts to hold such costs down through internal monitoring and control, as well as its participation in a cooperative workers' compensation rebate association. At present, the Company is not aware of any material trends or uncertainties that will have a material impact on short or long-term liquidity, other than those discussed above.

During 1996, the Company expects to continue opening new dispatch halls. The capital requirement of such openings costs \$30,000 to \$50,000, and new location start-up costs will be a continuing drain on liquidity. The Company intends to finance new dispatch halls with available cash from lines of credit and internally generated cash flows. To the extent

that the Company's resources are not sufficient to finance new location start-ups, or are not sufficient to open all currently targeted dispatch halls, the Company would scale back its expansion plans. In such event, the Company's growth rate would slow or cease, and operating results could be adversely affected. At present, the Company has adequate capital to open all dispatch halls for which it has made commitments.

Inflation is not expected to have a material impact on the Company's operations in the near future. As inflation continues to affect pricing in the general economy, the cost of labor will likely increase. As labor costs generally increase, Management believes that the Company will be in a position to increase its pricing to its customers at a corresponding rate. As a result, inflation may impact the Company's total revenues, but should not impact to any significant degree, the bottom line.

Recent Accounting Pronouncements

In October, 1995, the Financial Accounting Standards Board (FASB), issued Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," which requires that companies recognize the cost of stock-based employee compensation on the fair value of the stock options. SFAS No. 123 is effective for financial statements issued for fiscal years beginning after December 15, 1995, and is not expected to have a significant impact on the Company's financial statements.

In March, 1995, the FASB issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." This statement requires that long-lived assets and certain intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The measurement of an impairment loss for long-lived assets and identifiable intangibles that an entity expects to hold and use should be based on the fair value of the asset. SFAS No. 121 is effective for financial statements for fiscal years beginning after December 15, 1995, and is not expected to have a significant impact on the Company's financial statements.

Item 8. Financial Statements and Supplementary Data.

The financial statements are located on pages 15 through 35 of this Form 10-K. The financial statements Table of Contents is located on page 15.

LABOR READY, INC.

CONSOLIDATED FINANCIAL STATEMENTS

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All financial statement schedules are omitted because they are not applicable, not required, or the information required to be set forth therein is included in the financial statements or the notes thereto.

The Board of Directors and Stockholders of
Labor Ready, Inc.

We have audited the accompanying consolidated balance sheets of Labor Ready, Inc. and subsidiaries as of December 31, 1995 and 1994 and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Labor Ready, Inc. and subsidiaries at December 31, 1995 and 1994 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

Spokane, Washington
March 6, 1996

/s/BDO Seidman, LLP

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders of
Labor Ready, Inc.

I have audited the accompanying consolidated statements of income, stockholders' equity and cash flows of Labor Ready, Inc. for the year ended December 31, 1993. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted an audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows for the year ended December 31, 1993 of Labor Ready, Inc. in conformity with generally accepted accounting principles.

Terrence J. Dunne
Certified Public Accountant
February 7, 1994
As restated June 22, 1994

LABOR READY, INC.

Consolidated Balance Sheets

ASSETS	1995	1994
December 31,		

Current assets:		
Cash and cash equivalents	\$ 5,359,113	\$ 603,977
Accounts receivable, less allowance for doubtful accounts of \$868,607 and \$365,927 (Notes 2 and 12)	12,182,806	5,162,830
Workers' compensation deposits and credits (Note 1)	1,886,644	1,337,369
Prepaid expenses and other	602,052	348,814

Deferred income taxes (Note 9)	185,011	118,590
	-----	-----
Total current assets	20,215,626	7,571,580
Property and equipment (Note 3):		
Buildings and land	1,536,086	366,920
Computers and software	2,005,985	704,150
	-----	-----
	3,542,071	1,071,070
Less accumulated depreciation	690,648	244,497
Property and equipment, net	2,851,423	826,573
	-----	-----
Other assets:		
Intangible assets, less amortization of \$114,588 and \$69,020	962,632	191,431
Workers' compensation deposits and credits, less current portion (Note 1)	1,427,905	105,832
Deferred income taxes (Note 9)	530,396	94,366
Other	193,653	122,194
	-----	-----
Total other assets	3,114,586	513,823
	-----	-----
Total assets (Notes 2 and 4)	\$26,181,635	\$ 8,911,976

See accompanying summary of accounting policies and notes to consolidated financial statements

LABOR READY, INC. Consolidated Balance Sheets

LIABILITIES AND STOCKHOLDERS' EQUITY

December 31,	1995	1994
	-----	-----
Current liabilities:		
Checks issued against future deposits	\$ 514,842	\$ -
Accounts payable	1,118,081	364,639
Accrued wages and related expenses	1,588,147	821,487
Workers' compensation claims (Note 1)	1,943,338	708,869
Income taxes payable (Note 9)	1,161,000	497,000
Note payable (Note 2)	1,591,206	3,160,580
Current maturities of long-term debt (Note 3)	39,117	78,291
	-----	-----
Total current liabilities	7,955,731	5,630,866
	-----	-----
Long-term liabilities:		
Long-term debt, less current maturities (Note 3)	953,937	244,250
Subordinated debt, less unamortized discount of \$1,259,377 (Note 4)	8,740,623	-
Convertible debentures (Note 6)	-	75,000
	-----	-----
Total long-term liabilities	9,694,560	319,250
	-----	-----
Total liabilities:	17,650,291	5,950,116
	-----	-----
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$0.667 par value (Note 7):		
5,000,000 shares authorized; issued and outstanding 1,281,123 shares	854,082	854,082
Common stock, no par value (Note 8)		
25,000,000 shares authorized; issued and outstanding, 5,879,133 and 4,971,594 shares	7,116,422	3,540,187
Cumulative foreign currency translation adjustment	(28,707)	(2,853)
Retained earnings (accumulated deficit)	589,547	(1,429,556)
Total stockholders' equity	8,531,344	2,961,860
Total liabilities and stockholders' equity	\$26,181,635	\$ 8,911,976

See accompanying summary of accounting policies and notes to consolidated financial statements.

LABOR READY, INC.		Consolidated Statements of Income		
Year Ended December 31,	1995	1994	1993	
Revenues from services	\$94,361,62	\$38,950,683	\$15,658,832	
Costs and expenses:				
Cost of services	76,642,962	30,712,945	12,400,599	
Selling, general and administrative	13,639,034	6,592,555	2,651,702	
Interest and other, net	866,113	457,378	353,569	
	-----	-----	-----	
Income before taxes on income and extraordinary item	3,213,520	1,187,805	252,962	
Taxes on income (Note 9)	1,151,713	336,000	31,775	
	-----	-----	-----	
Income before extraordinary item	2,061,807	851,805	221,187	
Extraordinary item - forgiveness of debt (net of income tax effect of \$24,635)	-	-	47,821	
	-----	-----	-----	
Net income	\$2,061,807	\$ 851,805	\$ 269,008	
	-----	-----	-----	
Earnings per common share:				
Income before extraordinary item	\$ 0.34	\$ 0.18	\$0.04	
Extraordinary item	-	-	\$0.02	
	-----	-----	-----	
Net income	\$ 0.34	\$ 0.18	\$0.06	
	-----	-----	-----	
Weighted average shares outstanding	5,861,500	4,454,883	,668,585	

See accompanying summary of accounting policies and notes to consolidated financial statements.

<TABLE>
<CAPTION>
LABOR READY, INC. Consolidated Statements of Stockholders' Equity for
the Years Ended December 31, 1995, 1994 and 1993.

Cumulative	Common Stock		Preferred Stock		Retained Earnings	Foreign Currency	
	Shares	Amount	Shares	Amount	(Accumulated Deficit)		
Translation Adjustment							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, Jan. 1, 1993	2,524,902	\$1,819,756	1,504,632	\$1,003,088	(\$2,606,516)	\$	-
	-----	-----	-----	-----	-----	-----	-----
Net income for the year	-	-	-	-	269,008		-
Common stock exchanged for:							
Equipment from related party	60,000	8,000	-	-	-		
Notes	142,500	95,000	-	-	-		
Services	8,100	2,850	-	-	-		
Real estate	49,341	37,500	-	-	-		
Software	4,500	7,500	-	-	-		
Common stock sold for cash	22,500	11,250	-	-	-		
Common stock options exercised	1,079,310	143,908	-	-	-		
Debentures converted	13,158	10,000	-	-	-		
Preferred stock dividend	-	-	-	-	(50,154)		
	-----	-----	-----	-----	-----	-----	-----
Balance, Dec. 31, 1993	3,904,311	2,135,764	1,504,632	1,003,088	(2,387,662)		-

Net income for the year	-	-	-	-	851,805	-
Debtentures converted	356,843	271,200	-	-	-	-
Common stock issued						
from private placement	712,440	1,130,223	-	-	-	-
Preferred stock canceled	-	-	(223,509)	(149,006)	149,006	-
Common stock canceled						
on lapsing subscriptions	(3,500)	(2,000)	-	-	-	-
Common stock issued						
for services	1,500	5,000	-	-	-	-
Foreign currency translation	-	-	-	-	-	-
2,853)						
Preferred stock dividend	-	-	-	-	(42,705)	-
Balance, Dec. 31, 1994	4,971,594	3,540,187	1,281,123	854,082	(1,429,556)	(2,853)
Net income for the year	-	-	-	-	2,061,807	-
Common stock issued on conversion of debt	119,972	382,364	-	-	-	-
Common stock issued for 401(k) Plan	1,197	7,679	-	-	-	-
Common stock issued from private placement	14,000	69,998	-	-	-	-
Common stock issued on warrants exercised	742,370	1,781,100	-	-	-	-
Common stock issued on the exercise of options	30,000	45,000	-	-	-	-
Detachable stock warrants	-	1,290,094	-	-	-	-
Preferred stock dividend	-	-	-	-	(42,704)	-
Foreign currency translation (25,854)	-	-	-	-	-	-
Balance, Dec. 31, 1995	5,879,133	\$7,116,422	1,281,123	\$854,082	\$589,547	\$(28,707)

See accompanying summary of accounting policies and notes to consolidated financial statements.

</TABLE>

LABOR READY, INC. Consolidated Statements of Cash Flows for the Years Ended December 31, 1995, 1994 and 1993.

Increase (Decrease) in Cash and Cash Equivalents

Year Ended December 31	1995	1994	1993
Cash flows from operating activities:			
Net income:	\$2,061,807	\$ 851,805	\$ 269,008
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	522,436	178,416	65,135
Common stock issued for services	-	5,000	2,850
Provision for doubtful accounts	1,084,526	341,799	119,049
Forgiveness of debt, extraordinary	-	-	(72,456)
Deferred income taxes	(502,451)	(260,000)	47,044
Changes in assets and liabilities:			
Accounts receivable	(8,104,502)	(3,597,793)	(1,045,788)
Workers' compensation deposits and credits	(1,871,348)	(1,265,962)	(177,239)
Prepaid expenses and other	(324,697)	(234,221)	(44,224)
Accounts payable	753,442	239,186	46,353
Accrued wages and benefits	774,339	535,281	188,021
Accrued workers' compensation claims	1,234,469	458,938	173,038
Income taxes payable	664,000	497,000	(20,717)
Net cash used in operating activities	(3,707,979)	2,250,551)	449,926)
Cash flows from investing activities:			
Capital expenditures	(2,471,001)	(549,959)	(176,383)
Intangible assets acquired	-	(43,501)	-
Net cash used in investing activities	(2,471,001)	(593,460)	(176,383)

See accompanying summary of accounting policies and notes to consolidated financial statements.

LABOR READY, INC. Consolidated Statements of Cash Flows for the Years
 Ended December 31, 1995, 1994 and 1993.

Year Ended December 31	Increase (Decrease) in Cash and Cash Equivalents		
	1995	1994	1993
Cash flows from financing activities:			
Net borrowings on note payable	(1,569,374)	2,177,409	163,771
Checks issued against future deposits	514,842	-	-
Proceeds from issuance of common stock	69,998	1,130,223	11,250
Proceeds from warrants exercised	1,781,100	-	-
Proceeds from options exercised	45,000	-	-
Debt issue costs	(816,769)	-	-
Proceeds from stock subscriptions	-	79,325	13,675
Proceeds from issuance of convertible debentures	-	-	356,200
Borrowings on long-term debt	11,529,951	74,000	10,000
Payments on long-term debt	(552,074)	(189,221)	(103,075)
Dividends paid	(42,704)	(50,154)	-
Net cash provided by financing activities	10,959,970	3,221,582	451,821
Effect of exchange rates	(25,854)	(2,853)	-
Net increase (decrease) in cash and cash equivalents	4,755,136	374,718	(174,488)
Cash and cash equivalents:			
Beginning of year	603,977	229,259	403,747
End of year	\$5,359,113	\$ 603,977	\$ 229,259
Supplemental cash flow information:			
Interest paid	\$1,302,929	\$ 513,497	\$ 344,302
Income taxes paid	\$ 990,164	\$ 99,000	\$ 46,552
Non-cash investing and financing activities:			
Issuance of common stock for subscriptions, assets and debt	-	-	\$ 278,233
Issuance of common stock for conversion of promissory notes	\$ 307,364	-	-
Contribution of common stock to employer 401(k) plan	\$ 7,679	-	-
Assets acquired in exchange for note	-	-	\$ 35,000
Debt forgiven	-	-	\$ 2,456
Cancellation of preferred stock	-	\$ 149,006	-
Issuance of common stock for conversion of convertible debentures	\$ 75,000	\$ 271,200	\$ 10,000
Refinance of note payable, net	-	\$ 2,000	-

See accompanying summary of accounting policies and notes to consolidated financial statements.

LABOR READY, INC.
 Notes to Consolidated Financial Statements

Organization

The consolidated financial statements include the accounts of Labor Ready, Inc. and its wholly-owned subsidiary Labour Ready Temporary Services Limited (collectively referred to as "the Company"). The Company's principal business activity involves providing temporary help services to construction and small manufacturing companies in the United States and Canada. The Company was incorporated under the laws of the State of Washington on March 19, 1985.

All intercompany balances and transactions have been eliminated in consolidation.

Revenue recognition

Revenues from services and the related cost of services are recorded in the period in which the services are performed. Franchise activity and fees are minimal.

Cash and cash equivalents

The Company considers all highly liquid instruments purchased with a remaining maturity of three months or less to be cash equivalents.

Property and equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

Intangible assets

The intangible assets primarily consist of deferred financing costs, customer lists, and non-compete agreements. The deferred financing costs resulted from the issuance of subordinated debt. The deferred financing costs are being amortized over the life of the subordinated debt. Amortization of the other intangible assets is computed using the straight line method over periods not exceeding ten years. Management evaluates, on an ongoing basis, the carrying value of the intangible assets and makes a specific provision against the asset when an impairment is identified.

Income taxes

The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes". Deferred income taxes are provided for temporary differences between the financial reporting and tax basis of assets and liabilities. Deferred taxes are measured using enacted tax rates in effect in the years in which the temporary differences are expected to reverse. Tax credits are accounted for as a reduction of income taxes in the year in which the credit originates.

LABOR READY, INC.

Notes to Consolidated Financial Statements

Earnings per share

The primary earnings per common share was computed by dividing the net income less preferred stock dividends by the weighted average number of shares of common stock and common stock equivalents outstanding for all periods presented. Fully diluted earnings per share does not differ materially from primary earnings per share. In 1995, the Company declared a stock split which has been retroactively applied for 1994 and 1993, in the determination of the weighted average number of shares of common stock and common stock equivalents outstanding.

Foreign currency translation

Assets and liabilities of Labour Ready Temporary Services Limited are translated at the rate of exchange in effect on the balance sheet date; income and expenses are translated at the weighted average rates of exchange prevailing during the year. The related translation adjustments are reflected in the accumulated translation adjustment section of the stockholders' equity.

Workers' Compensation

The Company is generally self-insured for losses and liabilities related to workers' compensation claims. The Company establishes for provisions for future claim liabilities based on the estimates of the ultimate cost of claims and claim losses (including future claim adjustment expenses) that have been reported but not settled, and of losses that have been incurred but not reported. Adjustments to the claims reserve are charged or credited to expense in the periods in which they are made.

Management's Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs

The company adopted Statement of Position 93-7, "Reporting on Advertising Costs." This statement was issued by the American Institute of Certified Public Accountants and requires the Company to expense the costs of advertising as incurred or the first time that the advertising takes place. The adoption of this standard did not have a significant effect on the financial statements of the Company.

LABOR READY, INC.

Notes to Consolidated Financial Statements

Stock-Based Compensation

In October, 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation," which requires that companies recognize the cost of stock-based employee compensation plans based on the fair value of the stock options. SFAS No. 123 is effective for financial statements issued for fiscal years beginning after December 15, 1995, and is not expected to have a significant impact on the Company's financial statements.

Accounting for Long-Lived Assets

In March, 1995, the FASB issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." This statement requires that long-lived assets and certain intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The measurement of an impairment loss for long-lived assets and identifiable intangibles that an entity expects to hold and use should be based on the fair value of the asset. SFAS No. 121 is effective for financial statements for fiscal years beginning after December 15, 1995, and is not expected to have a significant impact on the Company's financial statements.

Reclassification

Certain items in the 1994 and 1993 consolidated financial statements have been reclassified to conform to the classifications used in 1995.

LABOR READY, INC.

Notes to Consolidated Financial Statements

NOTE 1 - WORKERS' COMPENSATION CREDITS RECEIVABLE

As required by the laws in the various states in which Labor Ready, Inc. does business, the Company provides workers' compensation insurance to its temporary labor force and office staff. Each state has specific workers compensation programs and requirements regarding the deposit of funds for the payment of workers compensation claims and related claim settlement and administrative expenses. In Washington, Nevada and Ohio (the "monopolistic" states), the Company is required to make payments at a pre-established rate directly with the state employed workers' compensation administrator who in turn disburses funds for the settlement of claims and related expenses. Amounts paid with these state administered programs which are not expected to be disbursed for claims and claim related expenses are returned to the Company over a one-year period beginning one year from the end of the period covered. At December 31, 1995 and 1994, the Company had recorded workers' compensation deposits and credits receivables from the monopolistic states of \$967,644 and \$312,626.

Workers' compensation claims in the remaining states (the "non-monopolistic" states) are administered by a third party administrator engaged by the Company. These non-monopolistic states allow a fronting insurance company to guarantee Labor Ready's ability to pay these claims and related expenses as they occur, and allow the use of Company managed or selected claims administrators.

In 1995, the Company deposited \$4.6 million with a foreign off-shore company for the payment of workers' compensation claims and related expenses on claims originating in the non-monopolistic states. At December 31, 1995, \$2.3 million remains on deposit for the payment of future claims and is recorded as workers' compensation deposits and credits. Estimated incurred losses and related settlement and administrative expenses to be paid from those deposits of \$1,380,000 are recorded as current workers' compensation claims payable at December 31, 1995.

In 1994, the workers' compensation for non-monopolistic states was administered by a domestic third party administrator and insured by the various states in which the Company employed workers. Workers compensation expense of \$5,907,771 and \$3,126,601 was recorded in 1995 and 1994 as a component of cost of services.

NOTE 2 - NOTE PAYABLE

The Company pledged its accounts receivable to a private financing company for an accounts receivable revolving credit line. On October 31, 1995, the Company renegotiated its loan agreement which changed the nature of the borrowings to an asset based loan limited to the lesser of 80% of eligible receivables (as defined in the credit agreement) or \$5,000,000. Borrowings under the line, which expires on April 30, 1996, are secured by the Company's accounts receivable. Interest on borrowings is charged at prime plus two percent plus a facility fee of one percent per annum and an administrative fee equal to one-fifth of one percent per month. The

LABOR READY, INC.
Notes to Consolidated Financial Statements

agreement requires compliance with certain financial covenants principally relating to working capital, debt to equity, and dividend payment restrictions. As of December 31, 1995, the Company was in compliance with the covenants except for the dividend payment restrictions, for which a waiver was obtained.

Short-term borrowing activity was as follows:

	1995	1994
Balance outstanding at year-end	\$1,591,206	\$3,160,580
Stated interest rate at year-end, including applicable fees	11.95%	11.25%
Maximum amount outstanding at any month end	\$7,731,789	\$4,483,762
Average amount outstanding	\$5,907,364	\$2,898,549
Weighted average interest rate during the year, including applicable fees	16.49%	15.27%

The average amount outstanding and the weighted average interest rate during the year were computed based upon the average daily balances and rates.

On February 15, 1996, the Company entered into an agreement with US Bank to provide Labor Ready, Inc. with a \$10,000,000 revolving line of credit with an interest rate of prime plus one quarter of one percent maturing on September 30, 1996. At the option of the Company, the interest rate can be locked at the rate in effect as of the date this option is exercised. This agreement replaces the Company's former line of credit. The line of credit will be collateralized by all the Company's accounts, chattel paper, contract rights and general intangibles.

LABOR READY, INC.
Notes to Consolidated Financial Statements

NOTE 3 - LONG-TERM DEBT

The Company's long-term debt at December 31 consists of the following:

	1995	1994
Mortgage note payable - secured by a building in Tacoma, Washington, payable at \$4,721 per month through May, 2005, including interest at 9.71%	\$523,124	\$ -
Mortgage note payable - secured by a building in Tacoma, Washington, payable at \$1,736 per month through January, 2015, including interest at 8.5%	196,707	-
Mortgage note payable - secured by a building in Tacoma, Washington, payable at \$1,637 per month through February, 2004, including interest at 8%	112,366	122,589
Mortgage note payable - secured by a building in Kansas City, Missouri, payable at \$988 per month through June, 2005, including interest at 10.5%	70,757	-
Mortgage note payable - secured by a building in Kent, Washington, payable at \$1,142 per month through January, 2000, including interest at 9%	46,671	55,000
Mortgage note payable - secured by a building in Kansas City, Missouri, payable at \$601 per month through March, 2004, including interest at 8%	43,429	46,999
Unsecured note payable to Washington State Department of Labor & Industries, payable at \$4,342 per month through October, 1996, including interest at 12%. Paid in full in 1995.	-	85,953
Other notes payable	-	12,000

Long-term debt	993,054	322,541
Less current maturities	39,117	78,291

Total long-term debt \$953,937 \$244,250

LABOR READY, INC.
Notes to Consolidated Financial Statements

Scheduled long-term debt maturities at December 31, 1995 are as follows:

Year ending December 31,	Amount
1996	\$ 39,117
1997	45,360
1998	47,690
1999	52,097
2000	43,881
Thereafter	764,909
Total	\$ 993,054

NOTE 4 - SUBORDINATED DEBT

In November, 1995, the Company issued subordinated debt with detachable stock warrants in exchange for \$10,000,000. The debt, which is secured by substantially all assets of the Company, bears interest at 13% and is to be repaid in 17 quarterly installments of \$588,235 commencing in October 1998. The Company recorded a debt discount and allocated \$1,259,377 of the proceeds to the value of the detachable stock warrants. (See note 8.) In connection with arranging the debt agreement, the Company incurred costs of approximately \$800,000, which have been included in other assets and will be amortized over the life of the debt. The debt agreement contains various financial covenants, primarily related to minimum net worth, capital additions and cash flow requirements, with which the Company was in compliance at December 31, 1995.

Scheduled maturities of the subordinated debentures at December 31, 1995 are as follows:

Year ending December 31,	Amount
1996	\$ 0
1997	0
1998	588,235
1999	2,352,940
2000	2,352,940
Thereafter	4,705,885
Total	10,000,000
Less unamortized discount	(1,259,377)

Subordinated debt, net of discount \$ 8,740,623

LABOR READY, INC.
Notes to Consolidated Financial Statements

NOTE 5 - RELATED PARTY DEBT

In 1995, officers of the Company provided cash in exchange for short term notes payable. These notes payable were at an interest rate of 12% with aggregated loans of \$424,687. These notes payable were paid in full during 1995.

In January 1993, the officers used \$143,908 of the related long-term debt due related parties outstanding at December 31, 1992 to exercise common stock options. The officers forgave \$72,456 of this debt which is reflected as an extraordinary item in 1993.

NOTE 6 - CONVERTIBLE DEBENTURES

In 1993, the Company sold \$356,200 of convertible debentures. The debentures were convertible into common stock at prices which increase at \$.09 per year from \$.76 per share through June 30, 1994 to \$1.13 per share through June 30, 1998. In 1994, \$271,200 of the debentures was converted into 356,843 shares at \$.76 per share. In 1995, the remaining \$75,000 of convertible debentures were converted to 87,893 shares of common stock at

the established conversion rate of \$.85.

NOTE 7 - PREFERRED STOCK

The Company has authorized 5,000,000 shares of blank check preferred stock.

The preferred stock is issuable in one or more series, each with such designations, preferences, rights, qualifications, limitations and restrictions as the Board of Directors of the Company may determine and set forth in supplemental resolutions at the time of issuance, without further shareholder action.

The initial series of preferred stock of the corporation authorized by the Board of Directors in accordance with the Articles of Incorporation, was designated as Preferred Stock, Series A. At December 31, 1995 and 1994, the Company had 1,281,123 outstanding shares of the "Series A" preferred stock with the following terms:

Par value \$.662/3, each share of Series A Preferred stock shall be entitled to one vote in all matters submitted to a vote of the shareholders of the Company. The Series A Preferred stock will vote on par with the common shares as a single class unless the action being considered involves a change in the rights of the Series A Preferred stock. The Series A Preferred stock bears a cumulative annual dividend rate of five percent accrued on December 31 of each year, is redeemable at par value plus accumulated dividends at the option of the Company at any time after December 31, 1994 and contains an involuntary preferential liquidation distribution equivalent to the par value plus all accumulated dividends remaining unpaid.

LABOR READY, INC.

Notes to Consolidated Financial Statements

In February, 1996, the Board of Directors authorized a three-for-two preferred stock split. This preferred stock split was effected in the form of three shares of preferred stock issued for every two shares of preferred stock outstanding as of the date of declaration. All applicable share and per share data have been adjusted for the stock split.

During 1994, 223,509 shares of preferred stock outstanding were canceled as a result of settlement of litigation. There is no established market for the Company's preferred stock and management estimated the value of these canceled shares to be insignificant.

A preferred stock dividend in the amount of \$42,704 was accrued December 31, 1995 and 1994, and paid in January, 1996 and 1995.

NOTE 8 - COMMON STOCK

In 1995, the Board of Directors granted options to purchase 54,900 shares of the Company's common stock at a price equal to 85% of the common stock's bid price at the date of grant (\$5.45 to \$13.60), based on a rate of one option for one share of common stock. These options will vest evenly over a four year period from the date of grant and generally expire five years from the date of grant.

In November, 1995, the Board of Directors declared a three-for-two common stock split. This common stock split was effected in the form of three shares of common stock issued for every two shares of common stock outstanding, as of the date of declaration. All applicable share and per share data have been adjusted for the stock split.

In 1994, the Board of Directors granted options to purchase 226,500 shares of the Company's common stock. Of these options, 46,500 are exercisable at 85% of the common stock's bid price at the date of grant (\$2.27 to \$4.82), based on a rate of one option for one share of common stock. The options will vest at a rate of 25% annually, beginning one year from the date of grant and generally expire five years from the date of grant. The remaining 180,000 of stock options outstanding at December 31, 1994 are exercisable at prices at or above the common stock's market price at the date of grant (\$1.83 to \$5.00), based on a rate of one option for one share of common stock. These options were fully vested upon grant and expire two years from the date of grant.

On September 30, and October 31, 1994, respectively, the Company issued 287,700 and 424,740 shares of common stock for \$1.67 per share in a private placement. Included with each share of common stock issued, were detachable warrants for one share of common stock each. Warrants are exercisable for three years at a price of \$2.50 per share and the warrants are callable at a price of \$2.50 per share.

In connection with the issuance of \$10,000,000 of subordinated debt in 1995 (see note 4), the Company issued warrants to purchase 742,370 shares

LABOR READY, INC.

Notes to Consolidated Financial Statements

of common stock at an exercise price of \$11.67 per share. The warrants expire in October, 2002.

NOTE 9 - INCOME TAXES

Temporary differences which gave rise to the deferred tax assets (liabilities) at December 31 are:

	1995	1994
Allowance for doubtful accounts	\$ 323,990	\$143,635
Prepaid expenses	(161,385)	(114,277)
Workers' compensation credits receivable	(360,931)	(125,050)
Workers' compensation reserves	207,976	153,475
Net operating loss carryforwards	126,985	146,653
Workers' compensation deposits and credits	513,919	-
Vacation accrual	20,515	-
Foreign net operating loss carryforwards	75,166	-
Other, net	(30,828)	8,520
Total deferred tax assets, net	715,407	212,956
Less non-current deferred tax assets, net	530,396	94,366
Current deferred tax assets, net	\$185,011	\$ 118,590

The Company has assessed its past earnings history and trends, budgeted sales, expiration dates of loss carryforwards, and its ability to implement tax planning strategies which are designed to accelerate or increase taxable income. Based on the results of this analysis, no valuation allowance has been established as management believes that it is more likely than not that the deferred tax asset of \$715,407 will be realized.

As of December 31, 1995, the Company has operating loss carryforwards totaling \$340,444, limited to use of \$26,188 per year, the majority of which expire in 2006.

LABOR READY, INC.
Notes to Consolidated Financial Statements

The provision (benefit) for income taxes consists of:

	1995	1994	1993
Current:			
Federal	\$1,419,728	\$ 506,919	\$ -
State	234,436	89,081	9,366
Total current	1,654,164	596,000	9,366
Deferred:			
Federal	(482,051)	(221,074)	47,044
State	(20,400)	(38,926)	-
Total deferred	(502,451)	(260,000)	47,044
Total taxes on income	\$1,151,713	\$ 336,000	\$56,410

A reconciliation between taxes computed at the United States federal statutory tax rate, and the consolidated effective tax rate is as follows:

	1995		1994		1993	
	Amount	%	Amount	%	Amount	%
Income tax expense based on statutory rate	\$1,092,597	34	\$ 403,853	34	\$ 110,642	34
Increase (decrease) resulting from:						
State income taxes, net of federal benefit	106,046	3	71,268	6	-	-
Change in valuation allowance	-	-	(157,128)	(13)	-	-
Utilization of net operating losses not previously benefited	(46,930)	(1)	-	-	(58,794)	(18)
Other, net	-	-	18,007	1	4,562	1
Total taxes on income	\$1,151,713	36	\$ 336,000	28	\$ 56,410	17

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Company rents certain properties for temporary labor dispatching operations. The leases are all short term with ninety day buy-out provisions and expire at various dates. Certain of these leases require additional payments for taxes, insurance, maintenance and renewal options. Lease commitments for 1996 at December 31, 1995 total \$358,000. Lease expenses for 1995, 1994, and 1993 totaled \$1,113,000, \$380,000, and \$162,000 respectively.

LABOR READY, INC.
Notes to Consolidated Financial Statements

The Company is involved in various lawsuits arising in the ordinary course of business which will not, in the opinion of management, have a material effect on the Company's results of operations.

The Board of Directors entered into an executive employment agreement with a key officer of the Company. The agreement is for a period of time commencing on October 31, 1995, and ending December 31, 1998, and which contains certain restrictions on the covered employee. Officer compensation under this agreement has been set by the Board at \$375,000 per year and shall be increased annually on the first of each calendar year to 110% of the preceding years' salary.

NOTE 11 - RETIREMENT PLAN

Effective October 1, 1994, the Company established a 401(k) savings plan for qualifying employees. Employee contributions to the 401(k) plan are matched by the Company \$0.25 for every \$1 up to the legal maximum eligible employee's gross earnings. Employees are eligible the calendar quarter following the completion of one year of service and are fully vested in the 401(k) plan after five years of service. The amount charged to expense under the 401(k) plan totaled \$48,150 and \$7,800 in 1995 and 1994 respectively.

NOTE 12 - VALUATION AND QUALIFYING ACCOUNTS

Allowance for doubtful accounts activity was as follows:

	1995	1994

Balance at beginning of year	\$ 365,927	\$ 149,361
Charged to expense	1,084,526	341,799
Write-offs, net of recoveries	(581,846)	(125,233)

Balance at end of year	\$ 868,607	\$ 365,927
=====		

LABOR READY, INC.
Notes to Consolidated Financial Statements

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Company's financial instruments at December 31, were as follows:

	1995		1994	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value

Cash and cash equivalents	5,359,113	5,359,113	603,977	603,977
Short-term borrowings	1,591,206	1,591,206	3,160,580	3,160,580
Long-term debt	993,054	1,012,248	322,541	304,248
Subordinated debt	8,740,623	8,709,000	-	-
Warrants	-	1,290,000	-	-

The following methods and assumptions were used by the Company in estimating fair values for financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheets for cash and cash equivalents approximates fair value.

Short-term borrowings: The carrying amounts of the short-term borrowings approximates fair value due to the short-term maturity of the debt.

Long-term debt: The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same maturities.

Subordinated debt: The fair value of the subordinated debt, representing the amount at which the debt could be exchanged on the open market, are determined based on the Company's current incremental borrowing rate for similar types of borrowing arrangements.

Warrants: The fair value of the warrants is based on the difference between the face value of the related debt and the present value of the future stream of debt payments.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures.

There have been no disagreements with the Company's outside auditor on accounting and financial disclosures during the periods covered by this Form 10-K.

As previously reported on Form 8-K, on June 22, 1994, the Company engaged BDO Seidman, LLP, as independent accountants to audit the Company's financial statements as of and for the years ended December 31, 1995 and 1994. BDO Seidman, LLP, replaced Terrence J. Dunne, CPA, as the Company's independent auditor. Mr. Dunne audited the Company's financial statements for the year ended December 31, 1993.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Tenure of Directors and Officers

All members of the Board of Directors hold office until the annual meeting of shareholders or until their successors are duly elected and qualified. The Executive Officers serve at the pleasure of the Board of Directors.

Identification of Directors, Officers and Key Employees

Name	Age	Position
Glenn A. Welstad	52	Director & President
Ronald Junck	48	Director & Secretary
Robert J. Sullivan	65	Director & Treasurer
Thomas McChesney	49	Director
Ralph Peterson	60	Director, Chief Financial Officer, and Assistant Secretary

Business Experience

The business experience and brief resumes on each of the Directors, Executive Officers, and significant employees are as follows:

Glenn Welstad: Mr. Welstad is the Chief Executive Officer, Chairman of the Board of Directors and President of the Company. Mr. Welstad has held that position since February, 1988. From September, 1969 through March 1984, Mr. Welstad was active in the restaurant business. Starting with one restaurant in 1969, Mr. Welstad expanded operations and incorporated Northwest Management Corporation. Doing business in five states and twenty-two locations, operations included eight Hardees Hamburger Restaurants, as well as pizza and Mexican restaurants. In March 1984, Mr. Welstad sold all of his outstanding shares of Northwest Management Corporation to North Central Foods, Inc. From February, 1987 to March 1989, Mr. Welstad was an officer of Body Toning, Inc., W.I.T. Enterprises, and Money Mailer.

Robert J. Sullivan: Mr. Sullivan was elected as a director at the calendar 1994 annual meeting held on July 20, 1995. From November, 1994, until his election in July, 1995, Mr. Sullivan served as an appointed member of the Board, serving out the remainder of the term of a former director. Prior to joining the Board, Mr. Sullivan served for two years in a consulting capacity for the Company and is familiar with the Company's operations. Mr. Sullivan has had an extensive career in financial management, as both a CPA-audit manager, and as a member of the executive office. Most recently, Mr. Sullivan has served as a business and financial consultant to a number of emerging growth companies. A listing of Mr. Sullivan's employment history includes: 1957 - 1966, Price Waterhouse & Co. - CPA, audit manager; 1966 - 1968, American Express Company - Senior Financial Manager; 1968 - 1972, Bush Universal, Inc. - CFO, New York Stock Exchange Listed Company; 1972 - 1982, American Express Company - Senior Financial Manager; 1982 - 1985, Cablevision Systems, Inc. - General Manager and CFO; 1986 - 1987, Financial Consultant to three companies; 1987 - 1989, Micron Products, Inc. - CFO and later President of American Stock Exchange listed company - medical products manufacturing and distribution; 1990 - 1991, Unifast Industries, Inc. - CFO of manufacturing business; 1992 - 1993, Reserve Supply Company of Long Island - General Manager of building supplies business; and 1993 -1994, Labor Ready, Inc. - financial consultant.

Thomas E. McChesney: Mr. McChesney was elected as a Director of the Company on July 20, 1995. Until July 1995, Mr. McChesney was employed by Paulson Investment Co. and in this capacity, over the last 19 years managed in

CEO, Director	1994	216,653	0	0	0	0	0	0
	1993	120,000	0	0	0	459,970	0	0
John Coghlan	1995	\$110,558	0	\$27,800	0	0	0	0
Former CFO,	1994	59,192	0	\$21,400	0	0	0	0
Director Note 1<F1>	1993	30,000	0	\$26,400	0	128,446	0	0

<FN>

<F1>

Notes to Summary Compensation Table:

Note (1) The "Other Compensation" listed for John Coghlan includes \$27,800 in 1995, \$21,400 in 1994 and \$26,400 in 1993, respectively, of compensation paid for consulting services as the Company's accountant. Management has represented that the amount paid is comparable to the cost of such services if rendered by an unrelated party, and the amount paid is the fair market value of the services received. Effective on October 31, 1995, Mr. Coghlan converted from an employee of the Company to a consultant, and resigned as an officer and director of the Corporation.

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</TABLE>

The Company's Chief Executive Officer and the Chief Financial Officer received the compensation set forth below during 1995. None of the other executive officers of the Company received direct compensation in excess of \$100,000 in 1995.

The stock options granted to the named executives in 1993 were exercised on the date of the grant and the shares have been issued. Consequently, the executives will realize the value of appreciation in the shares, if any.

The Company's executives also received \$40,080 in 1995, 1994 and 1993 in preferred stock dividends declared payable to the preferred shareholders in December, 1995, 1994, and 1993, and paid in January, 1995, 1994, and 1993, respectively.

The Compensation Committee.

The Company's executive compensation is determined by a compensation committee comprised of the three members of the Board of Directors. Compensation is determined by the Directors using comparative statistics from other temporary help businesses. On January 1, 1994, the Company entered into employment agreements with its Chief Executive Officer and its Chief Financial Officer. The terms of the employment agreements were intended to provide an objective basis on which future compensation can be determined. The compensation committee determined that the employment agreements were reasonable at the time executed and that the compensation formula set out meets the criteria for fair compensation in future periods.

Employment Agreements.

During 1995, the Company negotiated a new employment agreement with Glenn Welstad, the Company's president, which provides for annual compensation of \$31,250 per month, subject to annual increases on the anniversary date of the agreement of 10% of the prior periods base salary. In addition, the employment agreement provides for a bonus, as determined by the compensation committee, based on Mr. Welstad's performance, and the overall performance of the Company. This employment agreement replaces the previous employment agreement between the Company and Mr. Welstad which was effective on January 1, 1994. The term of Mr. Welstad's employment agreement runs from October 31, 1995 through December 31, 1998.

Mr. John Coghlan was previously employed by the Company under an employment agreement dated January 1, 1994. At the time the Company negotiated a private debt financing in the amount of \$10,000,000 in October, 1995, and pursuant to negotiations with the lender, Mr. Coghlan's employment agreement was voluntarily terminated by the parties and Mr. Coghlan entered into a consulting agreement with the Company. The consulting agreement provides for monthly consulting fees not in excess of \$12,500 per month subject to an annual increase of 10% on January 1, 1997 and January 1, 1998. The agreement also provides for reimbursement of expenses. The term of the agreement is through December 31, 1998.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Common stock ownership of all directors and officers of the Company and all persons known by management to be owners of five percent or more of the Company's outstanding equity securities, as of March 20, 1996, is set forth below. There are no other individuals known to management to be owners of five percent or more of the outstanding shares of any class of the Company's securities. Percentages reflected below are based on 6,029,133 common shares and 1,281,123 preferred shares outstanding on March 20, 1996. Both share amounts outstanding reflect a three shares for two forward stock split which occurred prior to March 20, 1996.

Amount of

Name & Address of Beneficial Owner	Title of Class	Beneficial Ownership	Percent of Class
Glenn Welstad 2156 Pacific Avenue Tacoma, Washington 98402	Common Stock	1,263,671	20.9%
	Preferred Stock	872,325	68.1%
Robert Sullivan 323 Woodbury Road Huntington, New York 11743	Common Stock	9,000	*
	Preferred Stock	-0-	0.0%
Thomas McChesney 1118 S.W. Myrtle Drive Portland, Oregon 97201	Common Stock	31,158	*
	Preferred Stock	-0-	0.0%
Ronald Junck 1202 E. Missouri, #100 Phoenix, Arizona 85014	Common Stock	46,158	*
	Preferred Stock	-0-	0.0%
Ralph E. Peterson 2156 Pacific Avenue Tacoma, Washington 98402	Common Stock	10,000	*
	Preferred Stock	-0-	0.0%
John R. Coghlan 5102 S. Morrill Lane Spokane, Washington 99223	Common Stock	585,394	9.7%
	Preferred Stock	-0-	0.0%
Pauline Ferrell 6736 N. 58th. Scottsdale, Arizona 85253	Common Stock	118,302	2.0%
	Preferred Stock	165,032	12.9%
Sandra F. Jacques, Trustee M. Jack Ferrell Trust c/o David Hega 2800 North Central, # 1100 Phoenix, Arizona 85004	Common Stock	-0-	0.0%
	Preferred Stock	165,032	12.9%
Dwight Enget 3400 S. Mill Ave., Ste. 128 Tempe, Arizona 85286	Common Stock	23,900	*
	Preferred Stock	78,734	6.1%
All Officers and Directors as a group	Common Stock	1,359,987	22.6%
	Preferred Stock	872,325	68.1%

* Less than 1%.

Item 13. Certain Relationships and Related Transactions.

During 1995, certain executives of the Company loaned an aggregate of \$424,687 to the Company in exchange for short term notes bearing interest at the rate of 12% per annum. The loans provided short term cash used to cover cash flow deficits during periods when the Company was experiencing substantial growth. The loans were paid in full prior to the end of the year, and the Company is not currently indebted to any of its officers or directors. Management represented that the loans were on terms at least as favorable as those available from unrelated third parties.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

The Financial Statements are found on pages 17 through 37 of this Form 10-K. The Financial Statement Table of Contents is on Page 17. The Exhibit Index is found on Page 45 of this Form 10-K. Cross references to Financial Statement Schedules are found on Page 47.

No reports on Form 8-K were filed during the quarter ended December 31, 1995.

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/Glenn Welstad 3/29/96
Signature Date
By: Glenn Welstad, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/Glenn Welstad

3/29/96

Signature Date
Glenn Welstad, President and Director

/s/Ralph E. Peterson 3/29/96
Signature Date
Ralph E. Peterson, Chief Financial Officer and Director

/s/Robert Sullivan 3/29/96
Signature Date
Robert Sullivan, Director

/s/Ronald Junck 3/29/96
Signature Date
Ronald Junck, Secretary and Director

/s/Thomas McChesney 3/29/96
Signature Date
Thomas McChesney, Director

FORM 10-K
Labor Ready, Inc.

EXHIBIT INDEX

Exhibit Number	Description	Sequential Page
3	Articles of Incorporation & Bylaws	*
4	Instruments Defining Rights of Security Holders	*
10	Material Contracts	
10.1	Note Purchase Agreement	**
10.2	Warrant Purchase Agreement	**
10.3	Form of Warrant	**
10.4	Shareholder Agreement	**
10.5	Security Agreement (LR,LRN,LRFD)	**
10.6	Intercreditor and Subordination Agreement	**
10.7	Executive Employment Agreement between LR and Glenn A. Welstad	**
10.8	Independent Contractor Agreement between LR and John R. Coghlan	**
10.9	Employment Agreement between LR and Scott Sabo	**
11	Computation of Earnings Per Shares	**
*	As previously filed in the Company's Form 10 Registration Statement, SEC File No. 0-23828.	
**	Exhibits filed with the Securities & Exchange Commission in electronic format under the EDGAR Reporting System. Page numbers are omitted in accordance with EDGAR Regulations. Copies of Exhibits may be obtained upon request directed to Mr. Ralph E. Peterson, Labor Ready, Inc., 2156 Pacific Avenue, Tacoma, Washington 98402.	

NOTE PURCHASE AGREEMENT

This Note Purchase Agreement (this "Agreement"), dated as of October 31, 1995, is by and among LABOR READY, INC., a Washington corporation, LABOR READY OF NEVADA, INC., a Washington corporation, and LABOR READY FRANCHISE DEVELOPMENT CORP. INC., a Washington corporation (individually and collectively, the "Company" or the "Companies"), SEACOAST CAPITAL PARTNERS LIMITED PARTNERSHIP, a Delaware limited partnership ("Seacoast"), and ALLIED INVESTMENT CORPORATION, a Maryland corporation, ALLIED INVESTMENT CORPORATION II, a Maryland corporation, and ALLIED CAPITAL CORPORATION II, a Maryland corporation (collectively, the "Allied Investors") (Seacoast and the Allied Investors are collectively referred to herein as the "Purchaser"). Capitalized terms used in this Agreement are defined in Section 11.1.

To induce Purchaser to purchase the Senior Subordinated Notes from the Company, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows.

I. DESCRIPTION OF SENIOR SUBORDINATED NOTES AND COMMITMENT

1.1 Description of Senior Subordinated Notes. The Company will authorize the issuance and sale of the Senior Subordinated Notes which shall be dated as of the Closing Date, shall be in the aggregate original principal amount of \$10,000,000, and shall bear interest at the fixed rate of thirteen percent (13%) per annum; provided, however, that upon the occurrence of any Event of Default, and during the continuation thereof, the unpaid principal amount of the Senior Subordinated Notes shall bear interest at a rate equal to eighteen percent (18%) per annum. Interest on the Senior Subordinated Notes shall be computed on the basis of the actual number of days elapsed over a three hundred-sixty (360) day year. Each Senior Subordinated Note shall be substantially in the form attached hereto as Exhibit A.

1.2 Funding.

(a) Subject to the terms and conditions hereof and on the basis of the representations and warranties hereinafter set forth, the Company agrees to issue and sell to each Purchaser, and each Purchaser agrees to purchase from the Company, a Senior Subordinated Note in the principal amount set forth beneath the name of such Purchaser on the signature page of this Agreement. Each Senior Subordinated Note will be delivered to each respective Purchaser in fully registered form, and shall be issued in each Purchaser's name or the name of its respective nominee.

(b) On the Closing Date, the Company shall deliver to each Purchaser a Senior Subordinated Note in the original principal amount set forth beneath the name of such Purchaser on the signature page of this Agreement, and upon receipt thereof and subject to Section 1.3, each Purchaser shall disburse one hundred percent (100%) of such principal amount in immediately available funds to such Persons as the Company shall designate in writing (the "Principal Amount").

1.3 Commitment Fee. Each Purchaser hereby acknowledges that the Company has paid to such Purchaser, prior to the date hereof, a commitment fee equal to the amount set forth each such Purchaser's name on Schedule 1.3 attached hereto (the "Commitment Fee"), which fee was fully earned and nonrefundable on the date of such payment. On or prior to the Closing Date, the Company shall pay to each Purchaser, in immediately available funds, a closing fee equal to the amount set forth each such Purchaser's name on Schedule 1.3 attached hereto (the "Closing Fee"), which fee shall be payable and deemed fully earned and nonrefundable on the Closing Date. At closing, each Purchaser will deduct its portion of the Closing Fee and its portion of all reasonable fees and expenses of Purchaser's counsel from the Principal Amount to be disbursed by it on the Closing Date.

1.4 Use of Proceeds. The proceeds from the sale of the Senior Subordinated Notes shall be used solely: (a) to fund the Company's bonding requirements for self insured workers' compensation programs; (b) to finance the expansion of the Company's business into new dispatch hall locations during the years ending December 31, 1995 and December 31, 1996; (c) to pay costs and expenses payable pursuant to this Agreement and the transactions contemplated hereunder (including, without limitation, fees, expenses and disbursements of the Purchaser's

counsel and the Company's broker), (d) to provide the Company with general working capital and (e) to finance up to \$400,000 of costs and expenses associated with the construction of improvements to the Company's real property facility located at 2156 Pacific Avenue South, Tacoma, Washington 98402.

II. PAYMENT AND PREPAYMENT OF SENIOR SUBORDINATED OBLIGATIONS

2.1 Principal and Interest Payments. Principal and interest on each of the Senior Subordinated Notes shall be due and payable as follows:

(a) Unless otherwise accelerated pursuant to the terms hereof, principal shall be due and payable in seventeen (17) installments (each in an equal amount sufficient to fully amortize the principal balance of such Senior Subordinated Note in seventeen (17) installments), commencing on the fifth Business Day of October, 1998, and continuing on the fifth Business Day of each January, April, July and October thereafter through and including October 5, 2002, with all remaining unpaid principal being due and payable in full on Termination Date.

(b) Interest shall be due and payable (i) quarterly in arrears on the fifth Business Day of each October, January, April and July, commencing on the fifth Business Day of January, 1995, and (ii) on the Termination Date.

2.2 Optional Prepayments.

(a) At the Company's option, upon notice given as provided below, the Company may, at any time and from time to time, prepay all or any part of the principal of the Senior Subordinated Notes.

(b) Each partial prepayment under this Section 2.2 shall be in a principal amount of not less than \$100,000 or, if greater than \$100,000, then in integral multiples of \$100,000. Each prepayment under this Section 2.2 shall be applied first to accrued interest on the principal amount prepaid, second to installments of principal in the inverse order of their maturities, and third to any expenses and/or damages to which Purchaser may be entitled. The amount of any such prepayment may not be reborrowed by the Company. The Company shall give notice of any optional prepayment to Purchaser not less than thirty (30) days nor more than sixty (60) days before the date for prepayment, specifying in each such notice the date upon which prepayment is to be made and the principal amount (together with accrued interest) to be prepaid on such date. Notice of prepayment having been so given, the applicable prepayment amount shall become due and payable on the specified prepayment date. The Company shall have no right to prepay the Senior Subordinated Notes except as provided in this Section 2.2 or in Section 2.3.

2.3 Mandatory Prepayments. Any prepayment under this Section 2.3 shall be applied first to accrued interest, second to installments of principal in the inverse order of their maturities and third to any expenses and/or damages for which Purchaser may be entitled. The amount of any such mandatory prepayment may not be reborrowed by the Company. The Company shall make mandatory prepayments in each of the following circumstances:

(a) If during any fiscal year the Company shall sell or otherwise dispose of (other than in the ordinary course of business or a disposition governed by Section 2.3(b) hereof or a disposition permitted by Section 6.8 or Section 7.3) any property or properties, then the Company shall prepay the Senior Subordinated Obligations in an amount equal to the lesser of (i) the aggregate net cash proceeds of such sales or other dispositions or (ii) the aggregate amount of all Senior Subordinated Obligations, such prepayment to be made within five (5) Business Days of receipt of such net proceeds. The amount of any prepayment required under this Section 2.3(a) shall be reduced, if applicable, by the amount of any prepayment required under the Senior Loan Documents resulting from the same event triggering the mandatory prepayment required under this Section 2.3(a).

(b) In the event of any sale or other disposition of all or substantially all of the stock or assets of the Company or any Significant Subsidiary of the Company in a single transaction or series of transactions, the Company shall prepay the Senior Subordinated Notes in an amount equal to the lesser of (i) the aggregate net cash proceeds of such sales or dispositions

or (ii) the aggregate amount of all Senior Subordinated Obligations, such prepayment to be made within five (5) Business Days of receipt of such net proceeds.

(c) In the event of the resignation or termination of Glenn A. Welstad as Chief Executive Officer of the Company, the Company shall prepay the Senior Subordinated Obligations in full, such prepayment to be made within ninety (90) Business Days from the date of such resignation or termination.

2.4 Additional Payments. Unless otherwise provided herein or in the Other Agreements, all Senior Subordinated Obligations, other than principal and interest on the Senior Subordinated Notes, shall be payable by the Company to the Holder thereof within thirty (30) days of demand therefor, and shall bear interest thereafter until paid at the rate of interest then applicable under Section 1.1. Payment of reasonable fees and expenses due and payable on the Closing Date to Purchaser and Purchaser's legal counsel shall be paid in full on the Closing Date.

2.5 Direct Payment. The Company will pay all sums becoming due hereunder and on the Senior Subordinated Notes to each Purchaser at the address specified for each Purchaser on Annex I hereto, by wire transfer in U.S. Dollars of Federal Reserve Funds or other immediately available funds, to the account specified for such Purchaser on Annex I, or at such other address or in such other form as such Purchaser shall have designated by notice to the Company at least five Business Days prior to the date of any payment, in each case without presentment and without notations being made thereon. All payments by the Company shall be made without set-off or counterclaim. Any wire transfer shall identify such payment as "Labor Ready, Inc., 13% Senior Subordinated Note" and shall identify the payment as principal, premium, interest and/or reimbursement of costs and expenses, together with the applicable date or period to which it relates.

2.6 Payments Payable on Business Days. Payments of all amounts due hereunder or under the Senior Subordinated Notes shall be made on a Business Day. Any payment due on a day that is not a Business Day shall be made on the next Business Day.

2.7 Interest Laws. Notwithstanding any provision to the contrary contained in this Agreement or any Other Agreement, the Company shall not be required to pay, and Purchaser shall not be permitted to contract for, take, reserve, charge or receive, any compensation which constitutes interest under applicable law in excess of the maximum amount of interest permitted by law ("Excess Interest"). If any Excess Interest is provided for or determined by a court of competent jurisdiction to have been provided for in this Agreement or in any Other Agreement or otherwise contracted for, taken, reserved, charged or received, then in such event: (a) the provisions of this Section 2.7 shall govern and control; (b) the Company shall not be obligated to pay any Excess Interest; (c) any Excess Interest that Purchaser may have contracted for, taken, reserved, charged or received hereunder shall be, at Purchaser's option, (i) applied as a credit against the outstanding principal balance of the Senior Subordinated Obligations or accrued and unpaid interest (not to exceed the maximum amount permitted by law), (ii) refunded to the payor thereof, or (iii) any combination of the foregoing; (d) the interest provided for shall be automatically reduced to the maximum lawful rate allowed from time to time under applicable law (the "Maximum Rate"), and this Agreement and the Other Agreements shall be deemed to have been, and shall be, reformed and modified to reflect such reduction; and (e) the Company shall have no action against Purchaser for any damages arising due to any Excess Interest. Notwithstanding the foregoing, if for any period of time interest on any Senior Subordinated Obligations is calculated at the Maximum Rate rather than the applicable rate under this Agreement, and thereafter such applicable rate becomes less than the Maximum Rate, the rate of interest payable on such Senior Subordinated Obligations shall remain at the Maximum Rate until Purchaser shall have received the amount of interest which Purchaser would have received during such period on such Senior Subordinated Obligations had the rate of interest not been limited to the Maximum Rate during such period. All sums paid or agreed to be paid hereunder or under the Other Agreements for the use, forbearance or detention of sums due shall, to the extent permitted by applicable law, be amortized, pro-rated, allocated and spread throughout the full term of the Senior Subordinated Obligations until payment in full so that the rate or amounts of interest on account of the Senior Subordinated Obligations does not exceed the Maximum Rate. The terms of this Section 2.7 shall

be deemed incorporated into each Other Agreement and any other document or instrument between the Company and any Purchaser or directed to the Company by any Purchaser, whether or not specific reference to this Section 2.7 is made.

2.8 Security. Payment of the Senior Subordinated Notes and the other Senior Subordinated Obligations, and the performance of the covenants set forth herein and in the Other Agreements, will be secured by a perfected security interest, mortgage, assignment or Lien, as the case may be (subject only to Permitted Liens), in favor of the Purchaser, in and upon the Collateral. The Company shall execute, acknowledge and deliver, and/or cause to be executed, acknowledged and delivered, to each Purchaser such certificates, stock powers, instruments, security agreements, pledges, statements, assignments, consents, Lien waivers, financing statements or amendments thereof, guarantees and other documents, in form and substance reasonably acceptable to each such Purchaser, as in each such Purchaser's good faith belief may be required to grant, enforce, perfect and protect such security interest, assignments, Liens and mortgages, including, without limitation, the Security Documents.

2.9 Joint and Several Liability; Rights of Contribution.

(a) Each Company states and acknowledges that: (i) pursuant to this Agreement, the Companies desire to utilize their borrowing potential on a consolidated basis to the same extent possible if they were merged into a single corporate entity; (ii) it has determined that it will benefit specifically and materially from the advances of credit contemplated by this Agreement; (iii) it is both a condition precedent to the obligations of the Purchaser hereunder and a desire of the Companies that each Company execute and deliver to the Purchaser this Agreement; and (iv) the Companies have requested and bargained for the structure and terms of and security for the advances contemplated by this Agreement.

(b) Each Company hereby irrevocably and unconditionally: (i) agrees that it is jointly and severally liable to the Purchaser for the full and prompt payment of the Senior Subordinated Obligations and the performance by each Company of its obligations hereunder in accordance with the terms hereof; (ii) agrees to fully and promptly perform all of its obligations hereunder with respect to each advance of credit hereunder as if such advance had been made directly to it; and (iii) agrees as a primary obligation to indemnify the Purchaser on demand for and against any loss incurred by the Purchaser as a result of any of the obligations of any Company being or becoming void, voidable, unenforceable or ineffective for any reason whatsoever, whether or not known to the Purchaser or any Person, the amount of such loss being the amount which the Purchaser would otherwise have been entitled to recover from such Company.

(c) It is the intent of each Company that the indebtedness, obligations and liability hereunder of no one of them be subject to challenge on any basis. Accordingly, as of the date hereof, the liability of each Company under this Section 2.9, together with all of its other liabilities to all Persons as of the date hereof and as of any other date on which a transfer is deemed to occur by virtue of this Agreement, calculated in amount sufficient to pay its probable net liabilities on its existing Indebtedness as the same become absolute and matured ("Dated Liabilities") is, and is to be, less than the amount of the aggregate of a fair valuation of its assets as of such corresponding date ("Dated Assets"). To this end, each Company under this Section 2.9, (i) grants to and recognizes in each other Company, ratably, rights of subrogation and contribution in the amount, if any, by which the Dated Assets of such Company, but for the aggregate of subrogation and contribution in its favor recognized herein, would exceed the Dated Liabilities of such Company or, as the case may be, (ii) acknowledges receipt of and recognizes its right to subrogation and contribution ratably from each other Company in the amount, if any, by which the Dated Liabilities of such Company, but for the aggregate of subrogation and contribution in its favor recognized herein, would exceed the Dated Assets of such Company under this Section 2.9. In recognizing the value of the Dated Assets and the Dated Liabilities, it is understood that the Companies will recognize, to at least the same extent of their aggregate recognition of liabilities hereunder, their rights to subrogation and contribution hereunder. It is a material objective of this Section 2.9 that each Company recognizes rights to subrogation and contribution rather than be deemed to be insolvent (or in contemplation thereof) by reason of an arbitrary interpretation of its joint and several obligations hereunder.

2.10 Certain Rights and Obligations Among Holders. The provisions of this Section 2.10 are solely for the benefit of the Holders, and neither the Company nor any other Person shall have any rights with respect to or be entitled to enforce this Section 2.10.

(a) Sharing of Payments. If, at any time or times, a Holder shall not have received a payment on its Senior Subordinated Note, then it shall notify the other Holders of such fact, the amount of such nonpayment, the date or period to which it relates and, subject to the terms of the Senior Subordination Agreement, such other Holders which have received such payments shall remit to the unpaid Holder such amount as is necessary to allocate the aggregate amount of such payments pro rata among all Holders. The amount of any such remittance shall be credited on the Senior Subordinated Note of the Holder to whom it is remitted, and shall not be credited on the Senior Subordinated Note of the remitting Holder.

(b) Sharing of Prepayments. Subject to the terms and provisions of the Senior Subordination Agreement, if, at any time or times, a Holder shall receive a prepayment on its Senior Subordinated Note, it shall notify the other Holders of the amount and date of such prepayment. If all other Holders shall not have received a pro rata prepayment as agreed, the Holder giving such notice shall remit to the other Holders such amount as is necessary to distribute such prepayment pro rata among all Holders. The amount of any such remittance shall be credited on the Senior Subordinated Note of the Holder to whom it is remitted, and shall not be credited on the Senior Subordinated Note of the remitting Holder.

III. REPRESENTATIONS AND WARRANTIES OF PURCHASER

Each Purchaser severally and not jointly represents and warrants to the Company as follows:

3.1 Existence. It is a limited partnership or corporation, as the case may be, duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization.

3.2 Authority. It has the right and power and authority to enter into, execute, deliver and perform its obligations under this Agreement, and its partners, officers or agents executing and delivering this Agreement are duly authorized to do so. This Agreement has been duly and validly executed and delivered and constitutes the legal, valid and binding obligation of such Purchaser, enforceable in accordance with its terms.

3.3 Investor Status. It (i) is an "accredited investor," as that term is defined in Regulation D under the Securities Act of 1933, as amended, and (ii) has such knowledge, skill, sophistication and experience in business and financial matters, based on actual participation, that it is capable of evaluating the merits and risks of the purchase of its Senior Subordinated Note from the Company and the suitability thereof for such Purchaser.

3.4 Investment for own Account. Except as otherwise contemplated by this Agreement, it is acquiring its Senior Subordinated Note for investment for its own account and not with a view to any distribution thereof in violation of applicable securities laws.

3.5 Legend on Notes. Its Senior Subordinated Note will bear the appropriate legends referencing restrictions on transfer and will not be offered, sold or transferred in the absence of registration or exemption under applicable securities laws.

3.6 Access to Information; Due Diligence and Principal Place of Business. Purchaser has had the opportunity to ask questions of and receive answers from officers of the Company, including Glenn A. Welstad and John R. Coghlan, the Company's President and Chief Executive Officer and Secretary and Treasurer, respectively, and the Company's accountants and legal counsel concerning the transactions contemplated hereby and by the Warrant Documents. Purchaser's principal place of business is set forth on Annex I hereto. Notwithstanding anything in this Section 3.6 to the contrary, nothing in this Section 3.6 shall affect any representation or warranty made by the Company in Article IV.

IV. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

To induce each Purchaser to enter into this Agreement, the Company represents and warrants to each Purchaser that the following statements are true, correct and complete:

4.1. Corporate Existence and Authority. The Company (a) is a corporation duly organized, validly existing, and in good standing under the laws of Washington; (b) has all requisite corporate power and authority to own its assets and carry on its business as now conducted; and (c) is qualified to do business in all jurisdictions in which the nature of its business makes such qualification necessary and where failure to so qualify would have a Material Adverse Effect. The Company has the corporate power and authority to execute, deliver, and perform its obligations under this Agreement, the Senior Loan Documents, and all Other Agreements to which it is, or in connection with the transactions contemplated hereby, may become, a party.

4.2 Financial Statements. The Company has delivered to Purchaser (a) audited consolidated financial statements of the Company as at and for the fiscal year ended December 31, 1994, (b) unaudited consolidated financial statements of the Company for the eight (8) month period ended August 31, 1995, and (c) cash flow projections and analyses of the Company through December 31, 1999, together with a written statement of the assumptions underlying them, which financial statements are attached hereto as Schedule 4.2. The financial statements referred to in clauses (a) and (b) of this Section 4.2 are true and correct in all material respects, have been prepared in accordance with GAAP (except as otherwise noted therein or on Schedule 4.2), and fairly present both the financial condition of the Company as of the respective dates indicated therein and the results of the Company's operations for the respective periods indicated therein. The cash flow projections and analyses referred to in clause (c) of this Section 4.2 fairly present the Company's best estimate of the future cash flow position of the Company, based on the Company's historical performance and the Company's knowledge of its business plans and assumptions underlying them. It is the Company's good faith belief that such cash flow projections are reasonably achievable by the Company. At August 31, 1995, the Company has no liabilities or obligations (absolute, accrued, contingent or otherwise) of a nature required by GAAP to be reflected in such financial statements which are, individually or in the aggregate, material to the condition, financial or otherwise, or operations of the Company as of that date which are not reflected on such financial statements. There has been no material adverse change in the condition, financial or otherwise, or operations of the Company since August 31, 1995, nor has there otherwise occurred a Material Adverse Effect.

4.3 Default. Except as disclosed on Schedule 4.3, the Company is not in default under any loan agreement, indenture, mortgage, security agreement, lease, franchise, permit, license or other agreement or obligation to which it is a party or by which any of its properties may be bound. The Company is paying its debts as they become due.

4.4 Authorization and Compliance with Laws and Material Agreements. The execution, delivery and performance by the Company of this Agreement, the Senior Loan Documents and the Other Agreements to which it is or may in connection with the transactions contemplated hereby become a party, have been or prior to the consummation of such transactions will be duly authorized by all requisite action on the part of the Company and do not and will not violate its Articles of Incorporation or Bylaws or any law or any order of any court, governmental authority or arbitrator, and, except as set forth on Schedule 4.4, do not and will not upon the consummation of the transactions contemplated hereby conflict with, result in a breach of, or constitute a default under, or result in the imposition of any Lien (except Permitted Liens) upon any assets of the Company pursuant to the provisions of any loan agreement, indenture, mortgage, security agreement, franchise, permit, license or other instrument or agreement by which the Company or any of its properties is bound. Except as set forth on Schedule 4.4, no authorization, approval or consent of, and no filing or registration with, any court, governmental authority or third Person is or will be necessary for the execution, delivery or performance by the Company of this Agreement, the Senior Loan Documents, and the Other Agreements to which it is a party or the validity or enforceability thereof. All such authorizations, approvals, consents, filings and registrations described in Schedule 4.4 have been obtained. The Company is not in violation of any term of its Articles of Incorporation or Bylaws or any contract, agreement, judgment or decree and is in full compliance

with all applicable laws, regulations and rules.

4.5 Environmental Condition of the Property. Except as disclosed on Schedule 4.5, to the best of the Company's knowledge:

(a) The location, construction, occupancy, operation and use of the Property do not violate any applicable law, statute, ordinance, rule, regulation, order or determination of any governmental authority or other body exercising similar functions, or any restrictive covenant or deed restriction (recorded or otherwise) affecting the Property, including, without limitation, all applicable zoning ordinances and building codes, flood disaster, occupational health and safety laws and Environmental Laws and regulations (as referred to in this Section 4.5, collectively, "applicable laws");

(b) Without limitation of clause (a) of this Section 4.5, neither the Company nor the Property is subject to any existing, pending or threatened investigation or inquiry by any governmental authority or subject to any remedial obligations due to violations of applicable laws;

(c) The Company is not subject to any liability or obligation relating to (i) the environmental conditions on, under or about the Property, including, without limitation, the soil and ground water conditions at the Property, or (ii) the use, management, handling, transport, treatment, generation, storage, disposal, release or discharge of any Polluting Substance;

(d) There is no Polluting Substance or other substance that may pose any risk to safety, health or the environment on, under or about any Property;

(e) The Company has taken reasonable steps to determine and hereby represents and warrants that no Polluting Substances have been disposed of or otherwise released on, onto, into, or from the Property, and the use which the Company makes and intends to make of the Property does not and will not result in the disposal or other release of any Polluting Substances on, onto, into or from the Property; and

(f) The Company has been issued all required federal, state and local licenses, certificates or permits relating to, and the Property, the Company and the Company's facilities, business, assets, leaseholds and equipment are all in compliance in all respects with all applicable federal, state and local laws, rules and regulations relating to, air emissions, water discharge, noise emissions, solid or liquid waste disposal, Polluting Substances, or other environmental, health or safety matters.

4.6 Solvency. After giving effect to the transactions contemplated by the Senior Loan Agreement, this Agreement and the Other Agreements, the Company will be solvent, able to pay its debts as they mature, have capital sufficient to carry on its business and all businesses in which it is about to engage, and

(a) the assets of the Company, at a fair valuation, exceed the total liabilities (including contingent, subordinated, unmatured and unliquidated liabilities) of the Company;

(b) current projections which are based on underlying assumptions which provide a reasonable basis for the projections and which reflect the Company's judgment based on present circumstances, the most likely set of conditions and the Company's most likely course of action for the period projected, demonstrate that the Company will have sufficient cash flow to enable it to pay its debts as they mature; and

(c) the Company does not have an unreasonably small capital base with which to engage in its anticipated business.

For purposes of clause (a) of this Section 4.6, the "fair valuation" of the assets of the Company shall be determined on the basis of the amount which may be realized within a reasonable time, either through collection or sale of such assets at market value, deeming the latter as the amount which could be obtained for the property in question within such period by a capable and diligent businessman from an interested buyer who is willing to purchase under ordinary selling conditions.

4.7 Litigation and Judgments. Except as disclosed on Schedule 4.7, there is no material action, suit, proceeding or investigation before any court, governmental authority or

arbitrator pending, or to the knowledge of the Company threatened, against or affecting the Company, this Agreement, the Senior Loan Documents and/or the Other Agreements. Except as disclosed on Schedule 4.7, there are no outstanding judgments against the Company. None of the matters listed on Schedule 4.7 could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect.

4.8 Rights in Properties; Liens. The Company has good and indefeasible title to all properties and assets reflected on its balance sheets, and none of such properties or assets is subject to any Liens, except Permitted Liens. The Company enjoys peaceful and undisturbed possession under all leases necessary for the operation of its other properties, assets, and businesses and all such leases are valid and subsisting and are in full force and effect. There exists no default under any provision of any lease which would permit the lessor thereunder to terminate any such lease or to exercise any rights under such lease which, individually or together with all other such defaults, could have a Material Adverse Effect. Except as otherwise set forth on Schedule 4.8, the Company has the right to terminate each of its leases upon ninety (90) days prior notice to the respective landlord. The Company has the exclusive right to use all of the Intellectual Property necessary to its business as presently conducted, and the Company's use of the Intellectual Property does not infringe on the rights of any other Person. To the best of the Company's knowledge, no other Person is infringing the rights of the Company in any of the Intellectual Property. The Company owes no royalties, honoraria or fees to any Person by reason of its use of the Intellectual Property.

4.9 Enforceability. This Agreement, the Senior Loan Documents and the Other Agreements to which the Company is a party, when delivered, shall constitute the legal, valid and binding obligations of the Company enforceable against the Company in accordance with their respective terms, except to the extent that such enforceability may be limited by (a) bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforceability of creditor's rights generally, or (b) general principles of equity.

4.10 Indebtedness. The Company has no Indebtedness, except Permitted Indebtedness. All Indebtedness owed by the Company to any Affiliate is set forth on Schedule 4.10.

4.11 Taxes. The Company has filed all tax returns (federal, state, and local) required to be filed, including, without limitation, all income, franchise, employment, property, and sales taxes, and has paid all of its tax liabilities, other than immaterial amounts and taxes that are being contested by the Company in good faith by appropriate actions or proceedings diligently pursued, and for which adequate reserves in conformity with GAAP with respect thereto have been established to the reasonable satisfaction of Purchaser. The Company knows of no pending investigation of the Company by any taxing authority or pending but unassessed tax liability of the Company. The Company has made no presently effective waiver of any applicable statute of limitations or request for an extension of time to file a tax return, and the Company is not a party to any tax-sharing agreement.

4.12 Use of Proceeds; Margin Securities. The Company is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulations G, T, U or X of the Board of Governors of the Federal Reserve System), and no part of the proceeds of any extension of credit under this Agreement will be used to purchase or carry any such margin stock or to extend credit to others for the purpose of purchasing or carrying margin stock. Neither the Company nor any Person acting on its behalf has taken any action that might cause the transactions contemplated by this Agreement, the Senior Loan Documents or any Other Agreements to violate Regulations G, T, U or X or to violate the Securities Exchange Act of 1934, as amended.

4.13 ERISA. All members of any Controlled Group have complied with all applicable minimum funding requirements and all other applicable and material requirements of ERISA and the Code, applicable to the Employee Benefit Plans it or they sponsor or maintain, and there are no existing conditions that would give rise to material liability thereunder. With respect to any Employee Benefit Plan, all members of any Controlled Group have made all contributions or payments to or under each Employee Benefit Plan required by law, by the terms of such Employee

Benefit Plan or the terms of any contract or agreement. No Termination Event has occurred in connection with any Pension Plan, and there are no unfunded benefit liabilities, as defined in Section 4001(a)(18) of ERISA, with respect to any Pension Plan which poses a risk of causing a Lien to be created on the assets of the Company or which will result in the occurrence of a Reportable Event. No member of any Controlled Group has been required to contribute to a multiemployer plan, as defined in Section 4001(a)(3) of ERISA, since September 2, 1974. No material liability to the Pension Benefit Guaranty Corporation has been, or is expected to be, incurred by any member of a Controlled Group. The term "liability," as referred to in this Section 4.13, includes any joint and several liability. No prohibited transaction under ERISA or the Code has occurred with respect to any Employee Benefit Plan which could have a Material Adverse Effect or a material adverse effect on the condition, financial or otherwise, of an Employee Benefit Plan.

4.14 Non-Compete Agreements. Purchaser has received a complete copy of the Non-Compete Agreements and all documents executed in connection therewith (including all exhibits, schedules and disclosure letters referred to therein or delivered pursuant thereto, if any) and all amendments thereto, waivers relating thereto and other side letters or agreements affecting the terms thereof. None of such documents and agreements has been amended or supplemented, nor have any of the provisions thereof been waived, except pursuant to a written agreement or instrument which has heretofore been delivered to Purchaser.

4.15 Disclosure. No representation or warranty made by the Company in this Agreement, the Senior Loan Documents or any Other Agreement to which the Company is a party contains any untrue fact or omits to state any material fact necessary to make the statements herein or therein not misleading. There is no fact known to the Company which the Company has determined has a Material Adverse Effect, or which the Company has determined could have a Material Adverse Effect, that has not been disclosed in writing to Purchaser.

4.16 Subsidiaries and Capitalization. The Company has no Subsidiaries except as otherwise set forth on Schedule 4.16. All the issued and outstanding shares of capital stock of the Company are duly authorized, validly issued, fully paid and nonassessable. The capitalization of the Company on the Closing Date is set forth on Schedule 4.16. No violation of any preemptive rights of shareholders of the Company has occurred by virtue of the transactions contemplated under this Agreement, the Senior Loan Documents or any Other Agreement. Except as otherwise set forth on Schedule 4.16, there are no outstanding contracts, options, warrants, instruments, documents or agreements binding upon the Company granting to any Person or group of Persons any right to purchase or acquire shares of the Company's capital stock, except pursuant to the Warrant Documents.

4.17 Current Locations. Schedule 4.17 identifies (a) the Company's principal place of business and chief executive office, (b) all the locations where the Company maintains any books or records relating to any of its assets, (c) all other locations where the Company has a place of business, and (d) each address where any of the Company's assets are located. Schedule 4.17 accurately indicates whether each such location is owned or leased, and, if leased, identifies the owner or manager of such location. No Person other than the Company has possession of any material amount of the assets of the Company except as disclosed on Schedule 4.17.

4.18 Investment Company Act. Neither the Company nor any company controlling the Company is required to be registered as an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

4.19 Public Utility Holding Company Act. The Company is not a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of a "holding company" or a "public utility" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

4.20 Securities Laws. Based in part on the Purchaser's representations and warranties contained herein, the Company has complied with or is exempt from the registration and/or qualification requirements of all federal and state securities or blue sky laws applicable to the issuance or sale of the Senior Subordinated Notes.

4.21 Labor Relations. The Company is not involved in any labor dispute. Except as disclosed on Schedule 4.21, the Company is not a party to any collective bargaining agreement, and there are no strikes or walkouts of any of the Company's employees threatened or in existence and no labor contract is scheduled to expire during the term of this Agreement.

4.22 Brokers. Neither the Company nor any of its shareholders has dealt with any broker, finder, commission agent or other Person in connection with the transactions referenced in or contemplated by this Agreement, nor is the Company or any of its shareholders under any obligation to pay any broker's fee or commission in connection with such transactions, except as set forth on Schedule 4.22.

4.23 Liens. Purchaser's Liens attaching to the Collateral and the Mortgaged Property will constitute at all times valid, perfected and enforceable Liens, subject to no prior or superior Lien, except Permitted Liens. Before purchase of the Senior Subordinated Notes, the Company will have taken, or will have participated with Purchaser in taking, such action (including making all necessary filings) as requested by the Purchaser to provide Purchaser with perfected Liens in the Collateral and the Mortgaged Property under the laws of all applicable jurisdictions.

4.24 Insurance. Except as otherwise disclosed on Schedule 4.24 hereto, the amount and types of insurance carried by the Company, and the terms and conditions thereof, are substantially similar to the coverage maintained by companies in the same or similar business as the Company and similarly situated. The Company has, under the direction of its insurance carriers, established workers compensation reserves in an amount sufficient to cover any losses payable under the Company's self insured workers compensation program.

4.25 Conduct of Business. On the Closing Date, the Company is engaged only in businesses of the type described in Schedule 4.25.

4.26 Small Business Concern. The Company is a "small business concern" as defined in Section 103(5) of the Act, which for purposes of size eligibility meets the applicable criteria set forth in Section 121.802(a)(3) of Title 13 of the Code of Federal Regulations.

4.27 Projections. The projections delivered to Purchaser in connection herewith and with the Warrant Documents have been prepared on the basis of the assumptions accompanying them, and such projections and assumptions, as of the date of preparation thereof and as of the Closing Date, are reasonable and represent the Company's good faith estimate of its future financial performance, it being understood that nothing contained in this Section 4.27 shall constitute a representation or warranty that such future financial performance or results of operation will in fact be achieved.

4.28 Net Income. The Company's net income (determined in accordance with GAAP) for the period commencing on July 1, 1995 and ending on September 30, 1995 was in excess of One Million Dollars (\$1,000,000).

V. CONDITIONS PRECEDENT TO OBLIGATIONS OF PURCHASER

Each Purchaser's obligations hereunder shall be subject to (a) the performance by the Company of its obligations hereunder which by the terms hereof are to be performed at or prior to delivery of the Senior Subordinated Notes, and (b) the satisfaction of the following conditions on or before the Closing Date:

5.1 Effectiveness of Senior Loan Documents. The Senior Loan Documents have been duly executed and delivered by the parties thereto and shall be on terms and conditions satisfactory to Purchaser. All conditions precedent to the making of the Senior Loans shall have been satisfied or waived with Purchasers' consent.

5.2 Portfolio Financing Report. The Company shall have provided Purchaser with all information and documentation that Purchaser shall have requested in connection with the preparation and completion of the Portfolio Financing Report on SBA Form 1031.

5.3 Effectiveness of Senior Subordination Agreement.

The Senior Subordination Agreement shall have been duly executed and delivered by the parties thereto, and shall be on terms and conditions which are satisfactory to Purchaser.

5.4 No Litigation; Consummation of Transactions. No injunction, preliminary injunction, or temporary restraining order shall be threatened or shall exist which prohibits or may prohibit the transactions contemplated herein or any other related transaction, and no litigation or similar proceeding (including, without limitation, any litigation or other proceeding seeking injunctive or similar relief) shall be threatened or shall exist with respect to the transactions contemplated herein, which, if adversely determined, could in the judgment of Purchaser have a Material Adverse Effect.

5.5 Documents. Purchaser shall have received the following, each in form and substance satisfactory to Purchaser:

(a) Senior Subordinated Notes. The Senior Subordinated Notes issued in the name of each Purchaser and duly executed by the Company;

(b) Warrants and Warrant Documents. The Warrants, duly issued by the Company to each Purchaser in the denomination specified on Annex I hereto, along with the other fully executed Warrant Documents and all other documents and instruments required pursuant thereto;

(c) Security Documents and Other Agreements. The Security Documents and all Other Agreements, duly executed by the parties thereto;

(d) Approvals and Consents. Copies, certified by the Company of all consents, authorizations, filings, licenses and approvals, if any, required in connection with the execution, delivery and performance by the Company, or the validity and enforceability of, this Agreement, the Senior Loan Documents or the Other Agreements to which the Company is a party;

(e) Opinion of Counsel to the Company. The written legal opinions of Brad E. Herr, P.S., general counsel to the Company, and Preston Gates & Ellis, special counsel to the Company; and written permission from each other legal counsel issuing a legal opinion to the Company or the Senior Lender in connection with this Agreement or the Senior Loan Documents, authorizing the Purchaser to rely on such opinion;

(f) General Certificate of the Company's Secretary. A certificate of the Secretary of the Company together with true, correct and complete copies of the following:

(i) Articles of Incorporation. The Articles of Incorporation of the Company, including all amendments thereto, certified by the Secretary of State of the state of its incorporation and dated within thirty (30) days prior to the Closing Date;

(ii) Bylaws. The Bylaws of the Company, including all amendments thereto;

(iii) Resolutions. The resolutions of the Board of Directors of the Company authorizing the execution, delivery and performance of this Agreement and the Other Agreements to which the Company is a party;

(iv) Existence and Good Standing Certificates. Certificates of the appropriate government officials of the state of incorporation of the Company as to its existence and good standing, and certificates of the appropriate government officials in each state where the Company does business and where failure to qualify as a foreign corporation would have a Material Adverse Effect, as to its good standing and due qualification to do business in such state, each dated within sixty (60) days prior to the Closing Date; and

(v) Incumbency. The names of the officers of the Company authorized to sign this Agreement and the Other Agreements to be executed by the Company, together with a sample of the true signature of each such officer;

(g) Senior Loan Documents. Copies of the Senior Loan Documents and each document relating thereto in form and substance satisfactory to Purchaser, and a certificate of the Chief Executive Officer and Chief Financial Officer or Treasurer of the Company certifying that the attached documents are a true,

correct and complete set of the Senior Loan Documents, that all conditions precedent to funding of the Senior Loans have been met or waived, and that those transactions have been consummated prior to or are being consummated simultaneously with the sale of the Senior Subordinated Note;

(h) Sources and Uses Certificate. A certificate executed by the Chief Executive Officer and Chief Financial Officer of the Company, setting forth in reasonable detail the sources and uses of funds in the transactions contemplated herein and in the Other Agreements;

(i) Communication with Accountants. Purchaser shall have received a copy of a letter from the Company addressed to its accountants authorizing such accountants to disclose to Purchaser any and all financial information concerning the Company requested by Purchaser in determining compliance with any of the financial covenants set forth in Sections 7.10 and 7.11;

(j) Transaction Certificate. A certificate of the Chief Executive Officer and the Chief Financial Officer of the Company that, to the best of their knowledge after due investigation, all conditions precedent to the effectiveness of this Agreement have been satisfied or waived;

(k) Liens. Evidence satisfactory to Purchaser that, as of the Closing Date, Purchaser has (other than with respect to Permitted Liens) a (i) first priority Lien on all Collateral which is not subject to a Lien in favor of the Senior Lender and (ii) second priority Lien on all other Collateral;

(l) SBA Documentation. Originals executed by the Company of each of (i) the Size Status Declaration on SBA Form 480, and (ii) the Assurance of Compliance on SBA Form 652-D;

(m) Non-Compete Agreements. A copy of the Non-Compete Agreements; and

(n) Additional Information, Other Documents and Agreements. Such other information, documents, agreements, commitments and undertakings as Purchaser or Purchaser's counsel shall reasonably request.

5.6 Material Adverse Change. For the period from June 30, 1995 to the Closing Date, and except for the transactions contemplated by this Agreement, the Other Agreements, and the Senior Loan Documents, there shall have been (a) no occurrence or event which, in Purchaser's opinion, has or could have a Material Adverse Effect, and (b) no occurrence or event which would lead the Company or Purchaser to believe that the Company would fail to meet the cash flow projections delivered to Purchaser pursuant to Section 4.2.

5.7 No Event of Default. No Event of Default or Potential Default shall have occurred and be continuing.

5.8 Representations and Warranties. All representations and warranties contained in this Agreement and the Other Agreements shall be true and correct on the Closing Date.

VI. AFFIRMATIVE COVENANTS

The Company covenants and agrees that, from the date hereof and until the Senior Subordinated Obligations have been finally and irrevocably paid in full in accordance with the terms hereof and thereof:

6.1 Financial Statements. The Company will furnish to Purchaser:

(a) As soon as available, and in any event within ninety (90) days after the end of each fiscal year of the Company, beginning with the fiscal year ending December 31, 1995, (i) a copy of the annual report of the Company for such fiscal year on Form 10-K, containing a balance sheet, statement of income, statement of stockholders' equity, and statement of cash flow as at the end of such fiscal year and for the fiscal year then ended, in each case setting forth in comparative form the figures for the preceding fiscal year, all in reasonable detail and audited and certified by BDO Seidman, or other independent certified public accountants of recognized national standing selected by the Company, to the effect that such report has been prepared in accordance with GAAP; (ii) a certificate delivered to Purchaser by such independent certified public accountants confirming the calculations set forth in the officers'

certificate delivered to Purchaser simultaneously therewith in accordance with Section 6.2(a); and (iii) a comparison of the actual results during such fiscal year to those originally budgeted by the Company prior to the beginning of such fiscal year, together with a summary analysis of variances prepared by the Company's management. The annual audit report required hereby shall not be qualified or limited. The Company shall deliver copies of all material reports and correspondence (including, without limitation, any management letters) sent to the Company by its independent certified public accountants promptly upon receipt thereof.

(b) As soon as available, and in any event within forty-five (45) days after the end of each calendar quarter, a copy of the Company's Form 10-Q, containing balance sheets, statements of income, and statements of cash flow, in each case setting forth in comparative form the figures for the corresponding period of the preceding fiscal year, together with a comparison of the actual results during such period to those originally budgeted by the Company for such period.

(c) As soon as available, and in any event within thirty (30) days after the end of each calendar month, a copy of an unaudited financial report of the Company as of the end of such calendar month and for the portion of the fiscal year then ended, containing balance sheets, statements of income, and statements of cash flow, in each case setting forth in comparative form the figures for the corresponding period of the preceding fiscal year, together with a comparison of the actual results during such period to those originally budgeted by the Company for such period.

(d) On or before thirty (30) days prior to the beginning of each fiscal year of the Company, an annual budget or business plan for such fiscal year on a monthly basis, including projected consolidated and consolidating balance sheets, income statements, and cash flow statements for each month of such fiscal year, and, promptly during each fiscal year, all revisions thereto.

6.2 Certificates; Other Information. The Company will furnish to Purchaser all of the following:

(a) Concurrently with the delivery of each of the financial statements referred to in Section 6.1(a) and Section 6.1(b), a certificate of an authorized officer of the Company in the form of the officer's certificate attached hereto as Exhibit B (i) stating that no Potential Default or Event of Default has occurred and is continuing or, if such officer has knowledge of a Potential Default or Event of Default, the nature thereof and specifying the steps taken or proposed to remedy such matter, (ii) showing in reasonable detail the calculations showing compliance with Sections 7.10 and 7.11, (iii) stating that the financial statements attached have been prepared in accordance with GAAP (except as otherwise noted thereon) and fairly and accurately present (subject to year-end audit adjustments, for the annual certificates) the financial condition and results of operations of the Company at the date and for the period indicated therein, (iv) containing summaries of accounts payable agings and accounts receivable agings, (v) containing a schedule of the outstanding Indebtedness for borrowed money of the Company and its Subsidiaries describing in reasonable detail each such debt issue or loan outstanding and the principal amount and amount of accrued and unpaid interest with respect to each such debt issue or loan, (vi) containing management's discussion and analysis of the business and affairs of the Company which includes, but is not limited to, a discussion of the results of operations compared to those originally budgeted for such period, and (vii) a report detailing all matters that could reasonably be expected to have a Material Adverse Effect.

(b) As soon as available, (i) a copy of each financial statement, report, notice or proxy statement sent by the Company to its stockholders in their capacity as stockholders, (ii) a copy of each regular, periodic or special report, registration statement, or prospectus filed by the Company with any securities exchange or the Securities and Exchange Commission or any successor agency, (iii) any material order issued by any court, governmental authority, or arbitrator in any material proceeding to which the Company is a party, (iv) copies of all press releases and other statements made available generally by the Company to the public generally concerning material developments in the Company's business, and (v) a copy of all correspondence and reports sent by the Company to the Senior Lender outside of the ordinary course of business.

(c) Promptly, such additional information concerning the Company as Purchaser may reasonably request.

6.3 Books and Records. The Company will keep (a) proper books of record and account in which full, true and correct entries will be made of all dealings or transactions of or in relation to its business and affairs; (b) set up on its books accruals with respect to all taxes, assessments, charges, levies and claims; and (c) on a reasonably current basis set up on its books from its earnings allowances against doubtful receivables, advances and investments and all other proper accruals (including, without limitation, by reason of enumeration, accruals for premiums, if any, due on required payments and accruals for depreciation, obsolescence, or amortization of properties), which should be set aside from such earnings in connection with its business. All determinations pursuant to this subsection shall be made in accordance with, or as required by, GAAP consistently applied.

6.4 Financial Disclosure. The Company hereby irrevocably authorizes and directs all accountants and auditors employed by it at any time during the term of this Agreement to exhibit and deliver to Purchaser copies of any of the Company's financial statements, trial balances or other accounting records in the accountant's or auditor's possession, and to disclose to Purchaser any information they may have concerning the Company's financial status and business operations. The Company will, upon the request of Purchaser, authorize any federal, state or municipal authority to furnish to Purchaser copies of reports or examinations relating to the Company, whether made by the Company or otherwise.

6.5 Disclosure of Material Matters. The Company will promptly report to Purchaser all matters materially and adversely affecting the value, enforceability or collectibility of any material portion of the Collateral or its business.

6.6 Performance of Obligations. The Company will duly and punctually pay and perform its obligations under this Agreement, the Senior Loan Documents and the Other Agreements.

6.7 Preservation of Existence and Conduct of Business. The Company will preserve and maintain its corporate existence and all of its leases, privileges, franchises, qualifications and rights that are necessary or useful in the ordinary conduct of its business, and conduct its business as presently conducted in an orderly and efficient manner in accordance with good business practices.

6.8 Maintenance of Properties. The Company will operate and maintain in good condition and repair (ordinary wear and tear excepted) and replace as necessary, all of its assets and properties which are necessary or useful in accordance with sound business practices in the proper conduct of its business so that the value and operating efficiency of its assets and properties are maintained and preserved. The Company will at all times maintain the Intellectual Property in full force and effect, and will defend and protect the Intellectual Property against all adverse claims.

6.9 Payment of Taxes and Claims. The Company will pay or discharge, at or before maturity or before becoming delinquent (a) all taxes, levies, assessments, vault, water and sewer rents, rates, charges, levies, permits, inspection and license fees and other governmental and quasi-governmental charges and any penalties or interest for nonpayment thereof, heretofore or hereafter imposed or which may become a Lien upon any property owned by the Company or arising with respect to the occupancy, use, possession or leasing thereof (collectively the "Impositions") and (b) all lawful claims for labor, material, and supplies, which, if unpaid, might become a Lien upon any of its property; provided, however, the Company will not be required to pay or discharge any claim for labor, material, or supplies or any Imposition which is being contested in good faith by appropriate actions or proceedings diligently pursued, and for which adequate reserves in conformity with GAAP with respect thereto have been established to the reasonable satisfaction of Purchaser.

6.10 Compliance with Laws. The Company will comply with all acts, rules, regulations and orders of any legislative, administrative or judicial body or official applicable to the operation of the Company's business if noncompliance with such acts, rules, regulations or orders could have a Material Adverse

Effect; provided, however, the Company may contest or dispute any acts, rules, regulations, orders and directions of those bodies or officials by appropriate actions or proceedings diligently pursued, if adequate reserves in conformity with GAAP with respect thereto are established to the reasonable satisfaction of Purchaser.

6.11 Payment of Leasehold Obligations. The Company will at all times pay, when and as due, its rental obligations under all leases under which it is a tenant or lessee, and shall otherwise comply, in all material respects, with all other terms of such leases and keep them in full force and effect and, at Purchaser's request, will provide evidence of its having done so; provided, however, the Company may contest or dispute its obligations under such leases by appropriate actions or proceedings diligently pursued if adequate reserves in conformity with GAAP with respect thereto are established.

6.12 Insurance. Except as otherwise disclosed on Schedule 6.12 hereto, the Company will maintain, with financially sound, reputable and solvent companies, insurance policies (a) insuring its assets against loss by fire, explosion, theft and other risks and casualties as are customarily insured against by companies engaged in the same or a similar business and (b) insuring it against liability for personal injury and property damages relating to its assets, such policies to be in such amounts and covering such risks as are usually insured against by companies engaged in the same or a similar business. All general liability policies shall be endorsed in favor of Purchaser as an additional insured. The Company shall provide copies of all such insurance policies to Purchaser within ten (10) days following Purchaser's request for the same. The Company shall (i) pay, or cause to be paid, all premiums for such insurance on or before the date on which such premiums become due, (ii) cause such policies to require the insurer to give notice to Purchaser of termination of any such policy at least thirty (30) days before such termination is to be effective, and (iii) immediately deliver written notice to Purchaser of any casualty loss affecting the Collateral. If the Company fails to provide and pay for any such insurance, Purchaser may, at its option, but shall not be required to, pay the same and charge the Company therefor.

6.13 Inspection Rights. Subject to the provisions of Section 12.15 hereof, at any reasonable time and from time to time, the Company will permit representatives of Purchaser to examine and make copies of the books and records of, and visit and inspect the properties of, the Company, and to discuss the business, operations, and financial condition of the Company with its respective officers and employees and with its independent certified public accountants. Such examinations and inspections may include, but are not limited to, audits of the application of proceeds from the Senior Subordinated Notes. In accordance with the terms of Section 12.1 hereof, the Company will promptly reimburse Purchaser for all reasonable expenses incurred by representatives of Purchaser in connection with such inspections.

6.14 Notices. The Company will promptly, but in any event within (i) fifteen (15) Business Days with respect to Subsection (a) below and (ii) five (5) Business Days with respect to Subsections (b) and (c) below after first becoming aware thereof, notify Purchaser in writing of:

(a) the commencement of any event, including but not limited to, any action, suit, or proceeding against the Company, that could have a Material Adverse Effect, which notice shall specify the nature of such event and what action the Company has taken or is taking or proposes to take with respect thereto;

(b) the occurrence of an event of default, or an event which with the passage of time or giving of notice or both constitutes an event of default under the Senior Loan Documents or under any instrument or agreement evidencing any other Indebtedness of the Company, which notice shall specify the nature of such event, condition or default and what action the Company has taken or is taking or proposes to take with respect thereto; or

(c) The occurrence of a Potential Default or an Event of Default, which notice shall specify the nature of such event, condition or default and what action the Company has taken or is taking or proposes to take with respect thereto.

6.15 Senior Loan Document Amendments. The Company shall

promptly provide Purchaser with copies of all proposed amendments to the Senior Loan Documents, all other material loan agreements to which the Company is a party and all other loan agreements to which the Company is a party that could have a Material Adverse Effect or in any way impair the Purchaser's Liens on the Collateral.

6.16 Further Assurances. The Company shall execute and deliver to Purchaser from time to time, upon demand, such supplemental agreements, statements, assignments and transfers, or instructions or documents as Purchaser may request, in order that the full intent of this Agreement and the Other Agreements may be carried into effect.

6.17 Compliance with ERISA and the Code. The Company will comply, and will cause each other member of any Controlled Group to comply, with all minimum funding requirements, and all other material requirements, of ERISA and the Code, if applicable, to any Employee Benefit Plan it or they sponsor or maintain, so as not to give rise to any liability thereunder. The Company will pay and will cause each other member of any Controlled Group to pay when due any amount payable by it to the Pension Benefit Guaranty Corporation. Promptly after the filing thereof, the Company shall furnish to Purchaser with regard to each Employee Benefit Plan, copies of each annual report required to be filed pursuant to Section 104 of ERISA in connection with each such plan for each plan year.

6.18 Compliance with Regulations G, T, U and X. Neither the Company nor any Person acting on its behalf will take any action which might cause this Agreement, the Senior Subordinated Note, the Warrant Documents, the Senior Loan Documents or any Other Agreements to violate, and the Company will take all actions necessary to cause compliance with, Regulations G, T, U and X of the Board of Governors of the Federal Reserve System and the Securities Exchange Act of 1934, in each case as now in effect or as the same may hereafter be in effect.

6.19 Board Observation and Membership. The Company will deliver to Purchaser a copy of the minutes of and all materials distributed at or prior to all meetings of the Board of Directors of the Company (including, without limitation, meetings of the executive committee), certified as true and accurate by the Secretary of the Company, promptly following each such meeting. The Company will (a) permit Seacoast, so long as Seacoast is a Holder, to designate one (1) Observer who shall be entitled to attend all meetings of the Company's Board of Directors and shareholders as an observer, (b) permit the Allied Investors, collectively, so long as any Allied Investor is a Holder, to designate one (1) Observer who shall be entitled to attend all meetings of the Company's Board of Directors and shareholders as an observer (provided that if a representative of Purchaser is serving as a member of the Company's Board of Directors, Purchaser shall be allowed to collectively designate only one (1) Observer), (c) provide such Observers not less than twenty one (21) calendar days' actual notice of all regular meetings of the Company's Board of Directors and shareholders and two (2) Business Days' actual notice via facsimile of all special meetings of the Company's Board of Directors (provided that the approval at a duly-called meeting of the Company's Board of Directors of a schedule of dates of future regular meetings of the Company's Board of Directors shall satisfy the notice requirements of this Subsection (c) if (i) the Observer(s) is/are in attendance at such meeting and (ii) the approved schedule of dates is clearly reflected in the minutes of the meeting), (d) permit Purchaser to collectively designate one (1) person to serve as a member of the Company's Board of Directors; provided, however, that the Purchaser will not have any obligation to designate or cause such individuals to serve on the Company's Board of Directors, and (e) provide to such designees a copy of all materials distributed at such meetings or otherwise to the Board of Directors of the Company. Any failure by the Purchaser to designate such persons pursuant to Subsection (d) above will not constitute a failure to comply with this Agreement or result in any liability to the Purchaser. Such meetings shall be held in person at least quarterly, and the Company will cause its Board of Directors to call a meeting at any time upon the request of any such designated observer on two (2) occasions per calendar year on seven (7) calendar days' actual notice to the Company. The Company agrees to compensate such individuals referred to in Subsection (d) above in the same manner as each of the other members of the Company's Board of Directors and agrees to reimburse each individual referred to in Subsections (a), (b) and (d) above for all reasonable expenses incurred in traveling to and from such meetings and attending such meetings.

(a) The Company hereby indemnifies and holds Purchaser harmless from and against any liability, loss, damage, suit, action or proceeding pertaining to solid or hazardous waste materials or other waste-like or toxic substances, including, but not limited to, claims of any federal, state or municipal government or quasi-governmental agency or any third person, whether arising under any federal, state or municipal law or regulation, or tort, contract or common law that relates to the Company.

(b) To the extent the laws of the United States or any state in which property, leased or owned, of the Company provide that a Lien upon the property of the Company may be obtained for the removal of Polluting Substances which have been released, no later than sixty (60) days after notice is given by Purchaser to the Company, the Company shall deliver to Purchaser a report issued by a qualified, third party environmental consultant selected by the Company and approved by Purchaser as to the existence of any Polluting Substances located upon or beneath the specified property, leased or owned by the Company. To the extent any such Polluting Substance is located therein or thereunder that either (i) subjects the property to Lien or (ii) requires removal to safeguard the health of any Person, the Company shall remove, or cause to be removed, such Lien and such Polluting Substance at the Company's expense.

6.21 The Act. At the request any Purchaser, the Company will promptly correct any defect, error, or omission with respect to the Act which may be discovered in the contents of this Agreement or the Other Agreements or in the execution or acknowledgment thereof, and will execute, acknowledge and deliver such further instruments and do such further acts as may be reasonably necessary for this Agreement and the Other Agreements, and all transactions contemplated thereby, to comply with the Act.

6.22 Key-Man Life Insurance. The Company will maintain and pay for a key-man life insurance policy in the amount of at least \$1,000,000 on the life of Glenn A. Welstad, such life insurance policy to be issued by a life insurance company reasonably satisfactory to the Purchaser. Promptly after the Closing Date, the Company will use its best efforts to procure, maintain and pay for an additional key-man life insurance policy in the amount of at least \$4,000,000 on the life of Glenn A. Welstad, such life insurance policy to be issued by a life insurance company reasonably satisfactory to the Purchaser.

6.23 Non-Compete Agreements. The Company will at all times maintain the Non-Compete Agreements in full force and effect, and will diligently enforce the Non-Compete Agreements against any parties thereto who violate or attempt to violate the terms of such Non-Compete Agreements.

VII. NEGATIVE COVENANTS

The Company covenants and agrees that from the date hereof until the Senior Subordinated Obligations have been finally and irrevocably paid in full in accordance with the terms hereof and thereof:

7.1 Indebtedness. The Company will not create, incur, issue, assume, guarantee or otherwise become liable for any Indebtedness except (a) Permitted Indebtedness; (b) any extension, renewal or refinancing of any Permitted Indebtedness (other than the Senior Loans) on such terms and conditions as are, on the whole, no more onerous to the Company than the terms and conditions of such Permitted Indebtedness on the date of such extension, renewal or refinancing; and (c) any replacement or refinancing of the Senior Loans; provided that (i) the interest rate on such refinancing shall be no greater than the interest rate provided for in the Senior Loan Agreement in effect on the date hereof, (ii) the Company will not incur any term Indebtedness in connection with any replacement or refinancing of the Senior Loans, (iii) the amount so replaced or refinanced shall be no greater than an amount equal to eighty percent (80%) of the Company's billed Eligible Accounts, (iv) the collateral security for such replacement or refinancing does not extend to assets other than those contemplated by the Senior Loan Agreement in effect on the date hereof (and proceeds thereof) and (v) the other terms and conditions of such replacement or refinancing are, on the whole, no more onerous to the Company than the terms of the Senior Loan Agreement in effect on the date hereof. Any

Permitted Indebtedness which is subordinated to the Senior Subordinated Obligations shall continue to be subordinated to the Senior Subordinated Obligations on terms and conditions satisfactory to Purchaser.

7.2 Limitation on Liens. The Company will not incur, create, assume, or permit to exist any Lien upon any of its property, assets, or revenues, including, but not limited to, its shares of capital stock of each of its Subsidiaries, whether now owned or hereafter acquired, except Permitted Liens.

7.3 Merger, Acquisition, Dissolution and Sale of Assets. The Company will not (a) become a party to any merger or consolidation if the Purchase Price for the assets to be acquired in connection with any such merger or consolidation would exceed, when combined with the Purchase Price of all other Acquisitions consummated during any calendar year, ten percent (10%) of the Company's Net Worth (determined as of the first day of such calendar year), (b) purchase or otherwise acquire all or a substantial part of the assets of any Person or any shares or other evidence of beneficial ownership of any Person if the Purchase Price for the assets or shares to be acquired in connection with any such acquisition would exceed, when combined with the Purchase Price of all other Acquisitions consummated during any calendar year, ten percent (10%) of the Company's Net Worth (determined as of the first day of such calendar year), (c) dissolve or liquidate, (d) form or acquire any Significant Subsidiary, or (e) without Purchaser's prior written consent, sell, assign or transfer any of its assets (except assets reasonably and in good faith determined by the Company to be obsolete or no longer necessary to the Company's business).

7.4 Negative Pledge. Until payment and performance in full of all of the Senior Subordinated Obligations and termination of this Agreement, the Company will not, without Purchaser's prior written consent, pledge or suffer to exist any Lien (except for Permitted Liens) on any part of its assets.

7.5 Restricted Payments. The Company will not at any time make or become obligated to make, directly or indirectly, any (a) declaration of any dividend on, or any other payment or distribution in respect of, any shares of capital stock of the Company (except for the payment of an annual cumulative dividend of not more than five percent (5%) on the Preferred Stock, but only if no Potential Default or Event of Default (A) shall have occurred and be continuing at the time any such dividend is declared or paid or (B) would arise as a result of the declaration or payment of any such dividend), (b) payment or distribution on account of the purchase, repurchase, redemption, put, call or other retirement of any shares of the Company or of any warrant, option or other right to acquire such shares (except pursuant to the Warrant Documents or the Kemper Agreement), or (c) payment or distribution on account of any Indebtedness of the Company which is subordinate to the Senior Subordinated Note, except Permitted Indebtedness.

7.6 Loans and Investments. Except for Permitted Investments or except as otherwise permitted by Section 7.3, the Company will not make any advance, loan, extension of credit, or capital contribution to or investment in, or purchase any stock, bonds, notes, debentures, or other securities of any Person.

7.7 Transactions with Affiliates. Except as contemplated by this Agreement and the Other Agreements, the Company will not enter into any transaction with any director, officer, employee, shareholder, or Affiliate of the Company except transactions (including those permitted by Section 7.6, if any) that are (i) approved by the Company's Board of Directors and, (ii) upon terms which are fair and reasonable and which are at least as favorable as would result in a comparable arm's-length transaction with a Person not a director, officer, employee, shareholder or Affiliate of the Company.

7.8 Nature of Business. The Company will not engage in any business other than the businesses set forth on Schedule 4.25, or any business reasonably related thereto.

7.9 Modification of Senior Loan Agreement. The Company will not agree or consent to any modification, amendment or waiver of any of the terms or provisions of the Senior Loan Documents in effect on the date hereof without Purchaser's prior written consent, which consent will not be unreasonably withheld.

7.10 Capital Expenditures. The Company will not make any Capital Expenditures if, as a result thereof, the Capital

Expenditures of the Company in the aggregate would, as a result thereof, exceed the following maximum aggregate amounts for any of the corresponding periods set forth below:

Period	Amount
January 1, 1995 - December 31, 1995	\$3,000,000
January 1, 1996 - December 31, 1996	\$4,000,000
January 1, 1997 - December 31, 1997	\$5,000,000
January 1, 1998 - December 31, 1998	\$5,000,000
January 1, 1999 - December 31, 1999	\$5,000,000
January 1, 2000 - December 31, 2000	\$5,000,000
January 1, 2001 - December 31, 2001	\$5,000,000
January 1, 2002 - October 30, 2002	\$5,000,000

In the event that the Company enters into a capital lease with respect to fixed assets, for purposes of calculating Capital Expenditures under this Section 7.10, the lesser of (a) the aggregate amount of the present value of all minimum payments (excluding executory costs) due for the entire term of such capital lease or (b) the cost of such fixed asset at the inception of such capital lease shall be considered expended in full on the date that the Company enters into such capital lease.

7.11 Financial Covenants.

(a) Minimum Net Worth. At all times during the periods set forth below, the Company shall not permit its Net Worth to be less than the amounts set forth below for the period corresponding thereto:

Period	Minimum Net Worth
Closing Date - December 31, 1995	\$ 6,000,000
January 1, 1996 - September 30, 1996	\$ 6,000,000
October 1, 1996 - December 31, 1996	\$ 8,000,000
January 1, 1997 - December 31, 1997	\$10,000,000
January 1, 1998 - December 31, 1998	\$15,000,000
January 1, 1999 - December 31, 1999	\$20,000,000
January 1, 2000 and thereafter	\$25,000,000

(b) Minimum Cash Flow Coverage Ratio. The Company shall not permit its Minimum Cash Flow Coverage Ratio to be or become less than 2.0 to 1.0, measured as of the last day of each calendar quarter for the twelve-month period ending on the last day of such calendar quarter.

(c) Maximum Indebtedness to Net Worth Ratio. The Company shall not permit its Maximum Indebtedness to Net Worth Ratio to exceed the ratios set forth below, measured as of the end of the calendar quarters specified below:

Calendar Quarter	Ratio
December 31, 1995	3.0 to 1.0
Last day of each calendar quarter from January 1, 1996 through December 31, 1996	3.0 to 1.0
Last day of each calendar quarter thereafter	2.0 to 1.0

7.12 Remuneration. The Company will not permit (a) the base compensation (including, without limitation, all salary, employee benefits and professional, consulting and management fees) paid by the Company to either of Glenn A. Welstad or John R. Coghlan to exceed (i) with respect to the Company's fiscal year ending December 31, 1995, the amounts set forth on Schedule 7.12 hereto, and (ii) with respect to any fiscal year of the Company thereafter, an amount greater than one hundred ten percent (110%) of the amount permitted to be paid under this Section 7.12(a) during the preceding fiscal year of the Company, or (b) the payment of any bonuses (or other incentive compensation or commissions, whether direct or indirect) by the Company to either of Glenn A. Welstad or John R. Coghlan, unless (i) the payment of such bonuses (or other incentive compensation) is approved by the compensation committee of the Company's Board of Directors (and such compensation committee is comprised of Persons other than Glenn A. Welstad and John R. Coghlan), (ii) the aggregate amount of such bonuses (or other incentive compensation) does not exceed \$200,000 during any fiscal year of the Company and (iii) no Potential Default or Event of Default exists at the time any such bonuses (or other incentive compensation) are approved or would exist after giving effect to any such payments.

7.13 Modification of Non-Compete Agreement. The Company will not agree to any modification, amendment or waiver of any of

the terms or provisions of the Non-Compete Agreement without Purchaser's prior written consent.

7.14 Use of Proceeds. The Company will not use the proceeds of the sale of the Senior Subordinated Notes for any purpose except as set forth in Section 1.4.

7.15 Going Private. The Company will not enter into a Rule 13e-3 transaction within the meaning of Section 13e-3(a)(3) of the Exchange Act.

7.16. Junior Debt Documents. The Company will not agree or consent to any modification, amendment or waiver of any of the terms or provisions of the Junior Debt Documents as in effect on the date hereof without Purchaser's prior written consent.

VIII. EVENTS OF DEFAULT AND REMEDIES THEREFOR

8.1 Events of Default. The occurrence of any one or more of the following events shall constitute an "Event of Default":

(a) The Company or the Guarantor shall fail to pay, when due (whether upon acceleration or otherwise), any principal, interest or other sums payable under the Senior Subordinated Notes or this Agreement, or shall fail to pay, when due (whether upon acceleration or otherwise), any other Senior Subordinated Obligations;

(b) The Company or the Guarantor shall fail to pay when due and after passage of any applicable notice and cure periods (whether upon acceleration or otherwise), any Indebtedness (excluding the Senior Loans) in excess of \$250,000 in the aggregate;

(c) The Company shall fail to perform or observe any agreement, covenant, term or condition contained in the Senior Subordinated Notes or in Sections 6.1, 6.2, 6.7, 6.13, 6.14, 6.19, or in Article VII of this Agreement;

(d) The Company shall fail to perform or observe any agreement, covenant, term or condition contained in this Agreement (excluding the specific Sections and Article referred to in Section 8.1 (c) above), and such failure shall continue for a period of thirty (30) days after the later to occur of (i) the initial occurrence of such failure or (ii) the date that any Responsible Officer first becomes aware of the occurrence of such failure;

(e) The Company or the Guarantor shall fail to comply, after giving effect to any applicable notice or cure periods, with any material agreement, indenture, mortgage, deed of trust, or other agreement binding on it or affecting its properties or business, including, without limitation, the Senior Loan Documents and the Other Agreements to which the Company is a party;

(f) Any representation, warranty or other material information whatsoever made or provided by the Company or the Guarantor in connection with this Agreement or otherwise to induce Purchaser to purchase the Senior Subordinated Notes or the Warrants was incorrect or misleading in any respect, when made;

(g) The Company or the Guarantor shall become subject to an Event of Bankruptcy;

(h) Any judgment or order for payment of money shall be rendered against the Company or the Guarantor which exceeds \$250,000 and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order, or (ii) there shall be a period of thirty (30) consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect;

(i) The occurrence or existence of any event of default under the Senior Loan Documents, except for such defaults as have been waived by the Senior Lender;

(j) The Guarantor shall revoke or attempt to revoke the Guaranty Agreement, or shall repudiate its liability thereunder or shall fail to observe or comply with any of the terms thereof; or

(k) The occurrence of a change in control of the Company (excluding a material change in ownership arising solely

from the exercise of the Warrants).

8.2 Remedies of Holders upon Occurrence of Event of Default. When any Event of Default described in Section 8.1 above, other than any Event of Default described in clause (g) thereof, has occurred and is continuing, any Purchaser may (in addition to any other right, power or remedy permitted to such Purchaser by law) declare the entire amount of the Senior Subordinated Obligations owing to it, including, without limitation, the entire principal and all interest accrued then outstanding under its Senior Subordinated Note, to be, and the same shall thereupon become, forthwith due and payable, without any presentment, demand, protest, notice of default, notice of intention to accelerate, notice of acceleration or other notice of any kind, all of which are hereby expressly waived, and in such event the Company shall (subject to the terms of the Senior Subordination Agreement) forthwith pay to such Purchaser an amount equal to one hundred percent (100%) of the amount thereof. When any Event of Default described in clause (g) of Section 8.1 above shall occur, all of the Senior Subordinated Obligations, including, without limitation, the entire principal and all accrued interest then outstanding under the Senior Subordinated Notes, shall thereupon be forthwith due and payable without any presentment, demand, protest, notice of default, notice of intention to accelerate, notice of acceleration or other notice of any kind (including any notice by the Holders of the Senior Subordinated Notes), all of which are hereby expressly waived by the Company, and the Company will (subject to the terms of the Senior Subordination Agreement) forthwith pay to Purchaser an amount equal to one hundred percent (100%) of the amount thereof. Notwithstanding anything to the contrary in this Section 8.2, any action taken under this Section 8.2 will be deemed binding and effective (i) with respect to Seacoast, if such action is approved by not less than fifty percent (50%) of the Holders of the Senior Subordinated Notes held by Seacoast on the date hereof and (ii) with respect to the Allied Investors, if such action is approved by not less than fifty percent (50%) of the Holders of the Senior Subordinated Notes held by the Allied Investors on the date hereof.

8.3 Joint Action by Holders after Default. The provisions of this Section 8.3 are solely for the benefit of the Holders, and neither the Company nor any other Person shall have any rights with respect to or be entitled to enforce this Section 8.3. If, at any time or times, the Company shall be in default under the Senior Subordinated Notes, this Agreement or any Other Agreement, the Holders shall consult one another before taking any action with respect to such default and shall attempt to agree on the action to be taken to protect all Holders' interests and/or enforce their rights and remedies. To the extent the Holders agree on such matters, all expenses incurred and all amounts realized shall be apportioned among the Holders, pro rata, and reimbursed by the Company as provided in this Agreement.

8.4 Annulment of Acceleration. The provisions of the foregoing Section 8.2 are subject to the condition that, if all or any part of the Senior Subordinated Obligations have been declared or have otherwise become immediately due and payable by reason of the occurrence of any Event of Default, any Purchaser may, by written instrument delivered to the Company (an "Annulment Notice"), rescind and annul such declaration and the consequences thereof as to its Senior Subordinated Note, provided that (a) at the time such Annulment Notice is delivered no judgment or decree has been entered for the payment of any monies due pursuant to such Senior Subordinated Obligations in connection therewith, and (b) all arrears of interest and all other sums payable on such Senior Subordinated Obligations in connection therewith (except any principal or interest which has become due and payable solely by reason of such declaration under Section 8.2 hereof) shall have been duly paid or deferred by the Holder of the Senior Subordinated Obligations agreeing to such rescission and annulment; and provided further, that no such rescission and annulment shall extend to or affect any subsequent default or Event of Default or impair any right consequent thereto, and shall not be deemed a waiver of the Event of Default giving rise to the acceleration unless specifically waived in writing by the Purchaser consenting to such rescission and annulment.

8.5 Payment of Senior Subordinated Obligations. Subject to the terms of the Senior Subordination Agreement, Purchaser shall have the right, which is absolute and unconditional, to receive payment of the principal of and interest on such Senior Subordinated Notes and payment of all other Senior Subordinated

Obligations on the date when due and, upon the occurrence and continuance of an Event of Default, to institute suit against the Company for the enforcement of any such payment. Such rights shall not be impaired without Purchaser's prior written consent.

8.6 Remedies. Subject to the terms of the Senior Subordination Agreement, if any Event of Default shall occur and be continuing, each and every Holder may exercise any right or remedy it has at law, in equity or under this Agreement or any Other Agreement. No right or remedy conferred upon or reserved to Purchaser under this Agreement or any Other Agreement is intended to be exclusive of any other right or remedy, and every right and remedy shall be cumulative and in addition to every other right or remedy given hereunder or now or hereafter existing under any applicable law. Every right and remedy given by this Agreement or by applicable law to Purchaser may be exercised from time to time and as often as may be deemed expedient by Purchaser.

8.7 Conduct No Waiver. No course of dealing on the part of any Purchaser, nor any delay or failure on the part of any Purchaser to exercise any of its rights, shall operate as a waiver of such right or otherwise prejudice any Purchaser's rights, powers and remedies. If the Company fails to pay, when due, the principal of or the interest on, the Senior Subordinated Notes, or fails to comply with any other provision of this Agreement, the Company shall pay to the Holder, to the extent permitted by law, on demand, such further amounts as shall be sufficient to cover the cost and expenses, including, but not limited to, reasonable attorney's fees, incurred by Purchaser in collecting any sums due on the Senior Subordinated Notes or in otherwise enforcing any of Purchaser's rights.

IX. SUBORDINATION

Notwithstanding any provision in this Agreement to the contrary, the Indebtedness evidenced by the Senior Subordinated Notes shall be subordinate in right of payment to all regularly scheduled payments of principal and interest with respect to Senior Debt, and Purchaser's rights and remedies hereunder shall be subordinate to the rights and remedies of the Senior Lender, in accordance with the terms of the Senior Subordination Agreement. Nothing contained in this Article IX or elsewhere in this Agreement, in the Senior Subordinated Notes or the Senior Subordination Agreement is intended to or shall impair, as between the Company and Purchaser, the obligations of the Company, which are absolute and unconditional, to pay to Purchaser the principal of and interest on the Senior Subordinated Notes and all other Senior Subordinated Obligations as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of Purchaser and creditors of the Company other than the holders of the Senior Debt, nor shall anything herein or therein prevent Purchaser from exercising all remedies otherwise permitted by applicable law upon an Event of Default under this Agreement.

X. FORM OF SENIOR SUBORDINATED NOTES, REGISTRATION, TRANSFER AND REPLACEMENT

10.1 Form of Senior Subordinated Notes. The Senior Subordinated Notes initially delivered under this Agreement will be fully registered notes on the books of the Company. The Senior Subordinated Notes are issuable only in fully registered form in such denominations as are requested by each Purchaser. Each Senior Subordinated Note shall contain the following legend:

THIS NOTE HAS BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO OR FOR SALE IN CONNECTION WITH THE DISTRIBUTION HEREOF. THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS, AND MAY NOT BE PLEDGED, SOLD, OFFERED FOR SALE, TRANSFERRED, OR OTHERWISE DISPOSED OF IN THE ABSENCE OF REGISTRATION UNDER OR EXEMPTION FROM SUCH ACT AND ALL APPLICABLE STATE SECURITIES LAWS.

THIS NOTE IS SUBJECT TO THE TERMS AND PROVISIONS OF A NOTE PURCHASE AGREEMENT, DATED AS OF OCTOBER 31, 1995, BY AND AMONG LABOR READY, INC., LABOR READY OF NEVADA, INC. AND LABOR READY FRANCHISE DEVELOPMENT CORP. INC. (INDIVIDUALLY AND COLLECTIVELY, THE "COMPANY"), SEACOAST CAPITAL PARTNERS LIMITED PARTNERSHIP, ALLIED INVESTMENT CORPORATION, ALLIED INVESTMENT CORPORATION II AND ALLIED CAPITAL CORPORATION II (AS SUCH AGREEMENT MAY BE SUPPLEMENTED, MODIFIED, AMENDED, OR RESTATED FROM TIME TO TIME, THE "AGREEMENT"). COPIES OF THE AGREEMENT ARE AVAILABLE AT THE CHIEF EXECUTIVE OFFICES OF THE COMPANY.

THE TRANSFER OF AND ANY PAYMENTS ON THIS NOTE ARE RESTRICTED BY AND SUBJECT TO THE TERMS AND PROVISIONS OF, AN INTERCREDITOR AND SUBORDINATION AGREEMENT DATED AS OF OCTOBER 31, 1995, BY AND AMONG CONCORD GROWTH CORPORATION, SEACOAST CAPITAL PARTNERS LIMITED PARTNERSHIP, ALLIED INVESTMENT CORPORATION, ALLIED INVESTMENT CORPORATION II AND ALLIED CAPITAL CORPORATION II (AS SUCH AGREEMENT MAY BE SUPPLEMENTED, MODIFIED, AMENDED OR RESTATED FROM TIME TO TIME), A COPY OF WHICH IS ON FILE AT THE CHIEF EXECUTIVE OFFICES OF THE COMPANY.

10.2 Senior Subordinated Notes Register. The Company shall cause to be kept at the principal office a register for the registration and transfer of the Senior Subordinated Notes. The names and addresses of the Holder of the Senior Subordinated Notes, the transfer thereof and the name and address of the transferee of such Senior Subordinated Note shall be recorded in such register.

10.3 Issuance of New Senior Subordinated Notes upon Exchange or Transfer. Upon surrender for exchange or registration of transfer of a Senior Subordinated Note at the office of the Company designated for notices in accordance with Section 12.3 hereof, the Company shall execute and deliver, at its expense, one or more new Senior Subordinated Notes of any authorized denomination requested by the Holder of the surrendered Senior Subordinated Note, each dated the date to which interest has been paid on the Senior Subordinated Note so surrendered (or, if no interest has been paid, the date of such surrendered Senior Subordinated Note), but in the same aggregate unpaid principal amount as such surrendered Senior Subordinated Note, and registered in the name of such Person or Persons as shall be designated in writing by such Holder. Every Senior Subordinated Note surrendered for registration of transfer shall be duly endorsed, or be accompanied by a written instrument of transfer duly executed, by the Holder of such Senior Subordinated Note or by his attorney duly authorized in writing.

10.4 Replacement of Senior Subordinated Notes. Upon receipt of evidence satisfactory to the Company of the loss, theft, mutilation or destruction of any Senior Subordinated Note and, in the case of any such loss, theft or destruction, upon delivery of a bond of indemnity in such form and amount as shall be reasonably satisfactory to the Company or, in the event of such mutilation upon surrender and cancellation of such Senior Subordinated Note, the Company, without charge to the Holder thereof, will make and deliver a new Senior Subordinated Note of like tenor and the same series in lieu of such lost, stolen, destroyed or mutilated Senior Subordinated Note. If any such lost, stolen or destroyed Senior Subordinated Note is owned by any Purchaser or any other Holder whose credit is satisfactory to the Company, then the affidavit of an authorized officer of such owner setting forth the fact of loss, theft or destruction and of its ownership of such Senior Subordinated Note at the time of such loss, theft or destruction shall be accepted as satisfactory evidence thereof, and no further indemnity shall be required as a condition to the execution and delivery of a new Senior Subordinated Note, other than a written agreement of such owner (in form reasonably satisfactory to the Company) to indemnify the Company.

XI. INTERPRETATION OF AGREEMENT

11.1 Certain Terms Defined. When used in this Agreement, the terms set forth below are defined as follows:

"Acquisitions" means, with respect to the Company, any purchase of, or investment in, any assets or stock of any Person (whether by asset purchase, stock purchase, merger, consolidation or otherwise).

"Act" means the Small Business Investment Act of 1958, as amended and in effect from time to time, and the regulations promulgated thereunder.

"Affiliate" means any Person directly or indirectly controlling, controlled by, or under common control with, the Person in question. A Person shall be deemed to control a corporation if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such corporation, whether through the ownership of voting securities, by contract, or otherwise.

"Agreement" means this Note Purchase Agreement, including

all schedules and exhibits hereto, as the same may be modified, supplemented, extended and/or amended from time to time.

"Allied Investors" is defined in the opening paragraph.

"Annulment Notice" is defined in Section 8.4.

"Business Day" means each day of the week except Saturdays, Sundays, and days on which banking institutions are authorized by law to close in the Commonwealth of Massachusetts.

"Capital Expenditures" means expenditures made and liabilities incurred for the acquisition of any fixed assets or improvements, replacements, substitutions or additions thereto which have a useful life of more than one (1) year, including, but not limited to, the direct or indirect acquisition of such assets or incurrence of such expenses by way of increased product or service charges, offset items or otherwise and payments with respect to capitalized lease obligations.

"Closing Date" means October 31, 1995.

"Closing Fee" is defined in Section 1.3.

"Code" means the Internal Revenue Code of 1986, as amended and in effect from time to time, and the regulations promulgated thereunder.

"Collateral" is defined in Section 2 of the Security Agreement.

"Commitment Fee" is defined in Section 1.3.

"Company" means Labor Ready, Inc., a Washington corporation and, unless the context requires otherwise, shall include its Subsidiaries, if any.

"Controlled Group" means any group of organizations within the meaning of Section 414(b), (c), (m) or (o) of the Code of which the Company is a member.

"Dated Assets" is defined in Section 2.9.

"Dated Liabilities" is defined in Section 2.9.

"EBITDA" means, for any period of determination, (a) net income; plus, (b) in each case, to the extent deducted in determining net income for such period (i) taxes, (ii) interest expenses and (iii) amortization and depreciation and similar non-cash charges; and minus (c) to the extent included in determining net income for such period, extraordinary gains, all calculated in accordance with GAAP.

"Eligible Accounts" means accounts created by the Company in the ordinary course of its business which are and remain acceptable to Purchaser for lending purposes. Purchaser will deem the Company's accounts to be Eligible Accounts if:

(a) such accounts arise from bona fide completed transactions and have not remained unpaid for more than ninety (90) days after the invoice date;

(b) the amounts of the account reported to Purchaser are absolutely owing to the Company and do not arise from sales on consignment, guaranteed sale or other terms under which payment by the account debtors may be conditional or contingent;

(c) the account debtor's chief executive office or principal place of business is located in the United States or Canada;

(d) such accounts do not arise from progress billings or retainages or bill and hold sales;

(e) there are no contra relationships, setoffs, counterclaims or disputes existing with respect thereto and there are no other facts existing or threatened which would impair or delay the collectibility of all or any portion thereof;

(f) the goods giving rise thereto were not at the time of the sale subject to any liens except those permitted in this Agreement and the Senior Loan Agreement;

(g) such accounts are not accounts with respect to which the account debtor or any officer or employee thereof is an

officer, employee or agent of or is affiliated with the Company, directly or indirectly, whether by virtue of family membership, ownership, control, management or otherwise;

(h) such accounts are not accounts with respect to which the account debtor is the United States or any State or political subdivision, unless there has been compliance with the Assignment of Claims Act or any similar State or local law, if applicable;

(i) The Company has delivered to the Purchaser or the Purchaser's representative such original documents as the Purchaser may have requested in connection with such accounts and the Purchaser shall have received a verification of such account, satisfactory to it, if sent to the account debtor or any other obligor or any bailee;

(j) there are no facts existing or threatened which might result in any adverse change in the account debtor's financial condition;

(k) such accounts owned by a single account debtor or its affiliates do not represent more than twenty percent (20%) of all otherwise Eligible Accounts (accounts excluded from Eligible Accounts solely by reason of this Subsection (k) shall nevertheless be considered Eligible Accounts to the extent of the amount of such accounts which does not exceed twenty percent (20%) of all otherwise Eligible Accounts;

(l) such accounts are not owned by an account debtor who is or whose affiliates are past due upon other accounts owed to the Company comprising more than twenty-five percent (25%) of the accounts of such account debtor or its affiliates owed to the Company; and

(m) such accounts are owed by account debtors whose total indebtedness to the Company does not exceed the amount of any customer credit limits as established, and changed, from time to time by the Purchaser on notice to the Company (accounts excluded from Eligible Accounts solely by reason of this Subsection (m) shall nevertheless be considered Eligible Accounts to the extent the amount of such accounts does not exceed such customer credit limit).

"Employee Benefit Plan" means any employee benefit plan, as defined in Section 3(3) of ERISA, which is, previously has been or will be established or maintained by any member of a Controlled Group.

"Environmental Laws" means all federal, state, or local laws, ordinances, rules, regulations, interpretations and orders of courts or administrative agencies or authorities relating to pollution or protection of the environment (including, without limitation, ambient air, surface water, ground water, land surface, and subsurface strata), and other laws relating to (a) Polluting Substances or (b) the manufacture, processing, distribution, use, treatment, handling, storage, disposal, or transportation of Polluting Substances.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended and in effect from time to time, and the regulations promulgated thereunder.

"Event of Bankruptcy" means any of (a) the filing by a Person of a voluntary petition in bankruptcy under any provision of any bankruptcy law or a petition to take advantage of any insolvency act, (b) the admission in writing by the Company of its inability to pay its debts generally as they become due, (c) the appointment of a receiver or receivers for all or a material part of a Person's assets with the consent of such Person, (d) the filing of any bankruptcy, arrangement or reorganization petition by or, with the consent of a Person, against such Person under any provision of any bankruptcy law, (e) a receiver, liquidator or trustee of a Person or a substantial part of its assets shall be appointed pursuant to the Federal Bankruptcy Code by the order of a court of competent jurisdiction which shall not be dismissed or stayed within thirty (30) days, or (f) an involuntary petition to reorganize or liquidate a Person pursuant to the Federal Bankruptcy Code shall be filed against such Person and shall not be dismissed or stayed within 30 days.

"Event of Default" is defined in Section 8.1.

"Excess Interest" is defined in Section 2.7.

"Exchange Act" means the Securities Exchange Act of 1934, as

amended, and the rules and regulations thereunder.

"GAAP" means generally accepted accounting principles, applied on a consistent basis, as set forth in Opinions of the Accounting Principles Board of the American Institute of Certified Public Accountants and/or in statements of the Financial Accounting Standards Board and/or their respective successors and which are applicable in the circumstances as of the date in question, provided, that the Company may not change the use or application of any accounting method, practice or principle without the prior written consent of Purchaser, which consent may require that an adjustment be made to any and all the financial covenants and the capital expenditure covenant set forth herein. Accounting principles are applied on a "consistent basis" when the accounting principles observed in a current period are comparable in all material respects to those accounting principles applied in a preceding period.

"Guarantor" means Labour Ready Temporary Services, Ltd., a corporation organized under the laws of the Province of British Columbia, Canada.

"Guaranty Agreement" means the Unconditional Guaranty Agreement dated as of the Closing Date executed by Guarantor for the benefit of the Purchaser.

"Holder" when used in reference to the Senior Subordinated Notes and/or the Senior Subordinated Obligations, means the Person or Persons who, at the time of determination, is the lawful owner of all or a portion of the Senior Subordinated Notes or an obligee of all or a portion of the Senior Subordinated Obligations.

"Impositions" is defined in Section 6.9.

"Indebtedness" means for any Person: (a) all indebtedness, whether or not represented by bonds, debentures, notes, securities, or other evidences of indebtedness, for the repayment of money borrowed, (b) all indebtedness representing deferred payment of the purchase price of property or assets, (c) all indebtedness under any lease which, in conformity with GAAP, is required to be capitalized for balance sheet purposes and leases of property or assets made as a part of any sale and lease-back transaction if required to be capitalized, (d) all indebtedness under guaranties, endorsements, assumptions, or other contractual obligations, including any letters of credit, or the obligations in respect of, or to purchase or otherwise acquire, indebtedness of others, (e) all indebtedness secured by a Lien existing on property owned, subject to such Lien, whether or not the indebtedness secured thereby shall have been assumed by the owner thereof, (f) trade accounts payable more than [120] days past due, (g) all amendments, renewals, extensions, modifications and refundings of any indebtedness or obligations referred to in clauses (a), (b), (c), (d) or (e), excluding trade accounts payable in the ordinary course of business.

"Intellectual Property" means all patents, patent rights, patent applications, licenses, inventions, trade secrets, know-how, proprietary techniques (including processes and substances), trademarks, service marks, trade names and copyrights.

"Kemper Agreement" means that certain agreement between the Company and Everen Securities, Inc., formerly known as Kemper Securities, Inc., dated as of February 21, 1995, as amended on October 3, 1995, providing for the payment by the Company to Everen Securities, Inc. of a private placement fee and for the issuance by the Company to Everen Securities, Inc. of warrants to purchase 40,000 shares of the Company's common stock, pursuant to the terms and conditions thereunder.

"Junior Debt Documents" means, collectively, that certain (a) Convertible Promissory Note dated May 8, 1995, in the original principal amount of \$100,000, executed by Labor Ready, Inc. and payable to the order of Norman H. Schroth, (b) Convertible Promissory Note dated May 18, 1995, in the original principal amount of \$100,000, executed by Labor Ready, Inc. and payable to the order of Willis Glinz, and (c) Convertible Promissory Note dated May 22, 1995, in the original principal amount of \$100,000, executed by Labor Ready, Inc. and payable to the order of William C. Newton.

"Lien" means any lien, mortgage, security interest, tax lien, pledge, encumbrance, financing statement, or conditional sale or title retention agreement, or any other interest in property designed to secure the repayment of Indebtedness or any

other obligation, whether arising by agreement, operation of law, or otherwise.

"Material Adverse Effect" means (a) a material adverse effect upon the business, operations, properties, assets or condition (financial or otherwise) of the Company taken as a whole or (b) the impairment of the ability of any party to perform its obligations under this Agreement or any of the Other Agreements to which it is a party or of Purchaser to enforce or collect any of the Senior Subordinated Obligations. In determining whether any individual event would result in a Material Adverse Effect, notwithstanding that such event does not of itself have such effect, a Material Adverse Effect shall be deemed to have occurred if such event and all other then existing events would result in a Material Adverse Effect.

"Maximum Indebtedness to Net Worth Ratio" means at any date of determination thereof, the ratio of the Company's (a) Indebtedness to (b) Net Worth.

"Maximum Rate" is defined in Section 2.7.

"Minimum Cash Flow Coverage Ratio" means at any date of determination thereof, the ratio of (a) EBITDA to (b) an amount equal to (i) interest expense for the period ending on such date on all of the Company's Indebtedness plus (ii) all principal payments made on all of the Company's Indebtedness during such period.

"Mortgaged Property" means the Company's real property located at 2156 Pacific Avenue South, Tacoma, Washington, together with all improvements constructed thereon and all fixtures affixed thereto.

"Net Worth" means at any date of determination thereof, the aggregate amount of (i) all assets of the Company, less (ii) the aggregate amount of all liabilities of the Company, all as determined in accordance with GAAP.

"Non-Compete Agreements" means, collectively, (a) those certain Employment and Non-Compete Agreements, dated on or about October 31, 1995, by and between the Company and each of Glenn A. Welstad and Scott Sabo, (b) that certain Consulting and Non-Compete Agreement, dated on or about October 31, 1995, by and between the Company and John R. Coghlan, and (c) any other non-competite agreement hereafter entered into by and between the Company and any other officer, employee or consultant of the Company, together with all renewals, modifications, amendments or supplements thereto.

"Observer" means any person appointed by Purchaser who is entitled pursuant to the terms of Section 6.19 to attend meetings of the Company's Board of Directors or Shareholders as an observer.

"Other Agreements" means the Senior Subordinated Note, the Warrant Documents, the Security Documents and all other agreements, instruments and documents (including, without limitation, notes, guarantees, powers of attorney, consents, assignments, contracts, notices, subordination agreements and all other written matter), and all renewals, modifications and extensions thereof, whether heretofore, now or hereafter executed by or on behalf of the Company and delivered to and for the benefit of Purchaser or any Person participating with Purchaser in the Senior Subordinated Notes with respect to this Agreement or any of the transactions contemplated by this Agreement.

"Pension Plan" means any employee pension benefit plan, as defined in Section 3(2) of ERISA, which is, was or will be established or maintained by any member of the Controlled Group.

"Permitted Indebtedness" means (a) any Indebtedness in favor of the Senior Lender not greater than eighty percent (80%) of the Company's billed Eligible Accounts, (b) any Indebtedness in favor of Purchaser under this Agreement and/or the Other Agreements and created pursuant thereto, (c) presently existing or hereafter arising purchase money Indebtedness incurred by the Company to finance the acquisition of capital assets by the Company, subject to the limitations placed on Capital Expenditures in Section 7.10, (d) any presently existing or hereafter arising unsecured Indebtedness which is subordinate in the right of payment of the Senior Subordinated Obligations, and (e) the other Indebtedness set forth on Schedule 11.1(a) and approved by Purchaser.

"Permitted Investments" means the following:

(a) securities issued or directly and fully guaranteed or insured by the United States Government or any agency or instrumentality thereof (provided that the full faith and credit of the United States Government is pledged in support thereof), having maturities of not more than twelve (12) months from the date of acquisition;

(b) time deposits and certificates of deposit (i) of any commercial bank incorporated in the United States of recognized standing having capital and surplus in excess of \$100,000,000 with maturities of not more than twelve months from the date of acquisition or (ii) which are fully insured by the Bank Insurance Fund with maturities of not more than twelve (12) months from the date of acquisition;

(c) commercial paper issued by any Person incorporated in the United States rated at least A-1 or the equivalent thereof by Standard & Poor's Corporation or at least P-1 or the equivalent thereof by Moody's Investors Service, Inc. and in each case maturing not more than twelve (12) months after the date of acquisition;

(d) investments in money market funds substantially all of whose assets are comprised of securities of the types described in clauses (a) through (c) above; or

(e) investments in, or purchases of, one or more Subsidiaries provided that the aggregate investment in, or Purchase Price for, any such Subsidiaries does not exceed, when combined with the Purchase Price of all other Acquisitions consummated in any calendar year, ten percent (10%) of the Company's Net Worth (determined as of the first day of such calendar year).

"Permitted Liens" means (a) Liens in favor of the Senior Lender under the Senior Loan Agreement in effect on the date hereof or created pursuant thereto, (b) Liens in favor of Purchaser under the Security Documents, (c) Liens securing purchase money Indebtedness incurred to finance the acquisition of capital assets by the Company, subject to the limitations placed on Capital Expenditures in Section 7.10 hereof, but only so long as (i) such Lien attaches only to the asset so financed, (ii) the Indebtedness secured by such Lien does not exceed one hundred percent (100%) of the purchase price, including installation and freight, of the asset so financed and (iii) no Potential Default or Event of Default has occurred and is continuing, (d) Liens for property taxes not yet due, (e) materialmen's, mechanics', worker's, repairmen's, employees' or other like Liens arising against the Company in the ordinary course of business, in each case which are either not delinquent or are being contested in good faith and by appropriate actions or proceedings conducted with due diligence and for the payment of which adequate reserves in accordance with GAAP have been established with respect thereto to the reasonable satisfaction of Purchaser and (f) Liens disclosed on Schedule 11.1(b) and approved by Purchaser.

"Person" means any individual, sole proprietorship, corporation, business trust, unincorporated organization, association, company, partnership, joint venture, governmental authority (whether a national, federal, state, county, municipality or otherwise, and shall include without limitation any instrumentality, division, agency, body or department thereof), or other entity.

"Polluting Substances" means all pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes and shall include, without limitation, any flammable explosives, radioactive materials, oil, hazardous materials, hazardous or solid wastes, hazardous or toxic substances or related materials defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Resource Conservation and Recovery Act of 1976, the Hazardous and Solid Waste Amendments of 1984, and the Hazardous Materials Transportation Act, as any of the same are hereafter amended, and in the regulations adopted and publications promulgated thereto; provided, in the event any of the foregoing Environmental Laws is amended so as to broaden the meaning of any term defined thereby, such broader meaning shall apply subsequent to the effective date of such amendment and, provided, further, to the extent that the applicable laws of any state establish a meaning for "hazardous substance," "hazardous waste," "hazardous material," "solid waste," or "toxic

substance" which is broader than that specified in any of the foregoing Environmental Laws, such broader meaning shall apply.

"Potential Default" means the occurrence of any condition or event which, with the passage of time or giving of notice or both, would constitute an Event of Default.

"Preferred Stock" means the Series A Cumulative Preferred Stock, \$1.00 par value, of the Company.

"Principal Amount" is defined in Section 1.2(b).

"Property" means all real property owned, leased or operated by the Company.

"Purchaser" means Seacoast and the Allied Investors, together with all of their respective transferees, successors and assigns of all or any portion of the Senior Subordinated Notes or the Senior Subordinated Obligations and any nominees on whose behalf any of the foregoing purchase or otherwise acquire any of such Indebtedness of the Company, and shall include, but not be limited to, each and every "Holder" as defined herein. With respect to any right or action to be taken by Purchaser under this Agreement (other than under Section 8.2), the term Purchaser means Holders representing a majority in interest of the Senior Subordinated Obligations.

"Purchase Price" means, with respect to any purchase of, or investment in, any assets or stock of any Person (whether by asset purchase, stock purchase, merger, consolidation or otherwise), the aggregate purchase price for such assets or stock, including all (a) cash paid, plus (b) all liabilities assumed, plus (c) the present value of all future payments to be paid in connection with such acquisition or investment (discounted to present value based upon a rate that is mutually acceptable to the Company and Purchaser at the time of any such acquisition or investment).

"Reportable Event" means (i) any of the events set forth in Sections 4043(b) (other than a merger, consolidation or transfer of assets in which no Pension Plan involved has any unfunded benefit liabilities), 4068(f) or 4063(a) of ERISA, (ii) any event requiring any member of the Controlled Group to provide security under Section 401(a)(29) of the Code, or (iii) any failure to make payments required by Section 412(m) of the Code.

"Responsible Officer" means the Chairman of the Board, President, any Vice President, Secretary, Treasurer, Chief Financial Officer and such other Persons reasonably designated in writing by Purchaser from time to time.

"Security Agreement" means the Security Agreement dated as of the Closing Date by and between the Company and Purchaser.

"Security Documents" means all security agreements, pledge agreements, stock pledge agreements, collateral assignments and other documents executed in connection with this Agreement and granting to Purchaser liens and security interests in the Collateral, second in priority only to the liens and security interests of the Senior Lender under the Senior Loan Agreement, and all mortgages, deeds of trust and other documents executed in connection with this Agreement and granting to Purchaser liens upon and security interests in the Property, all renewals, modifications or extensions of such documents, and any such documents hereafter executed in favor of Purchaser to secure payment of all or any part of the Senior Subordinated Obligations, together with all financing statements and other documents necessary to record or perfect the Liens granted by any of the foregoing.

"Senior Debt" means, at any given time, the Indebtedness (whether now outstanding or hereafter incurred) of the Company in respect of the Senior Loan Agreement, in a principal amount not to exceed eighty percent (80%) of the Company's billed Eligible Accounts in revolving loans, plus interest, fees, expenses, indemnities and all other amounts payable under the Senior Loan Agreement and any notes, security documents, guaranties or other loan documents referred to therein or pursuant thereto, secured by all assets of the Company.

"Senior Lender" means Concord Growth Corporation, a California corporation, and its successors and assigns, and any Person who replaces or refinances the Senior Loans under the terms set forth in Section 7.1(c).

"Senior Loan Agreement" means the Loan Agreement between the Company and the Senior Lender, dated as of October 31, 1995 and all documents and instruments delivered pursuant thereto in connection with the loans and advances made thereunder.

"Senior Loan Documents" means the Senior Loan Agreement and the agreements, documents and instruments executed in connection therewith or contemplated thereby, and all amendments thereto.

"Senior Loans" means revolving loans, in the maximum principal amount of eighty percent (80%) of the Company's billed Eligible Accounts, made to the Company by the Senior Lender under the Senior Loan Agreement and any permitted replacements and refinancings thereof.

"Senior Subordinated Notes" means the term promissory notes issued by the Company to Purchaser pursuant to this Agreement, together with all renewals, modifications, extensions, substitutions and replacements thereof.

"Senior Subordinated Obligations" means and includes any and all Indebtedness and/or liabilities of the Company to Purchaser of every kind, nature and description, direct or indirect, secured or unsecured, joint, several, joint and several, absolute or contingent, due or to become due, now existing or hereafter arising, under this Agreement or any Other Agreement (regardless of how such Indebtedness or liabilities arise or by what agreement or instrument they may be evidenced or whether evidenced by any agreement or instrument) and all obligations of the Company to Purchaser to perform acts or refrain from taking any action under any of the aforementioned documents, together with all renewals, modifications, extensions, increases, substitutions or replacements of any of such Indebtedness.

"Senior Subordination Agreement" means that certain Senior Subordination Agreement of even date herewith executed by the Company, the Senior Lender and Purchaser pursuant to which the relative priorities of the Senior Lender and Purchaser with respect to the repayment of Senior Debt and the Senior Subordinated Obligations are established, and all amendments and modifications thereto.

"Shareholder Agreement" means the Shareholder Agreement dated as of the Closing Date by and among the Company, the Purchaser and the shareholders of the Company listed on the signature pages thereto.

"Significant Subsidiary" has the meaning ascribed to it under Regulation S-X as adopted by the United States Securities and Exchange Commission.

"Subsidiary" means any Person of which or in which the Company and its other Subsidiaries own directly or indirectly fifty percent (50%) or more of (a) the combined voting power of all classes having general voting power under ordinary circumstances to elect a majority of the board of directors or equivalent body of such Persons, if it is a corporation, (b) the capital interest or profits interest of such Person, if it is a partnership, joint venture or similar entity, or (c) the beneficial interest of such Person if it is a trust, association or other unincorporated organization.

"Termination Date" means the earliest to occur of (a) October 30, 2002, (b) the date on which the Senior Subordinated Notes are accelerated pursuant to Article VIII, or (c) the date on which the Senior Subordinated Obligations are paid in full.

"Termination Event" means (a) a Reportable Event, (b) the termination of a Pension Plan which has unfunded benefit liabilities (including an involuntary termination under Section 4042 of ERISA), (c) the filing of a Notice of Intent to Terminate a Pension Plan, (d) the initiation of proceedings to terminate a Pension Plan under Section 4042 of ERISA or (e) the appointment of a trustee to administer a Pension Plan under Section 4042 of ERISA.

"Transfer" is defined in Section 12.5 hereof.

"Transferee" means any Person to whom a Transfer is made.

"Warrants" mean the warrants issued by Labor Ready, Inc. to Purchaser providing for the purchase of up to 454,912 shares of Labor Ready, Inc.'s common stock, representing ten percent (10%) of Labor Ready, Inc.'s common stock (on a fully diluted basis), as the same may be adjusted from time to time pursuant to the

terms and conditions of the Warrant Documents.

"Warrant Documents" means, collectively, (a) the Warrants, (b) the Warrant Purchase Agreement, and (c) the Shareholder Agreement.

"Warrant Purchase Agreement" means the Warrant Purchase Agreement dated as of the Closing Date executed by and between Labor Ready, Inc. and Purchaser.

Terms which are defined in other Sections of this Agreement shall have the meanings specified therein. All other terms contained in this Agreement shall have, when the context so indicates, the meanings provided for by the Uniform Commercial Code as adopted and in force in the Commonwealth of Massachusetts, as from time to time in effect.

11.2 Accounting Principles. Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, the same shall be done, unless specified otherwise, in accordance GAAP, except where such principles are inconsistent with the requirements of this Agreement.

11.3 Directly or Indirectly. Where any provision in this Agreement refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether the action in question is taken directly or indirectly by such Person.

11.4 The Term "Company" or "Companies". All references to "Company" or "Companies" herein shall refer to and include each Company separately and all representations contained herein shall be deemed to be separately made by each of them, and each of the covenants, agreements and obligations set forth herein shall be deemed to be the joint and several covenants, agreements and obligations of them. Any notice, request, consent, report or other information or agreement delivered to the Purchaser by any Company shall be deemed to be ratified by, consented to and also delivered by the other Companies. Each Company recognizes and agrees that each covenant and agreement of "Company" or "Companies" under this Agreement and the Other Agreements shall create a joint and several obligation of the Companies, which may be enforced against the Companies, jointly, or against each Company separately. Without limiting the terms of this Agreement and the Other Agreements, security interests granted under this Agreement and the Other Agreements in properties, interests, assets and collateral shall extend to the properties, interests, assets and collateral of each Company. Similarly, the term "Senior Subordinated Obligations" shall include, without limitation, all obligations, liabilities and indebtedness of such corporations, or any one of them, to the Purchaser, whether such obligations, liabilities and indebtedness shall be joint, several, joint and several or individual.

XII. MISCELLANEOUS

12.1 Expenses. The Company agrees to pay (a) all reasonable out-of-pocket expenses of Purchaser (including reasonable fees, expenses and disbursements of Purchaser's counsel and the allocated costs of staff counsel) in connection with the preparation, negotiation, enforcement, operation and administration of this Agreement, the Senior Subordinated Notes, the Other Agreements, or any documents executed in connection therewith, or any waiver, modification or amendment of any provision hereof or thereof; and (b) if an Event of Default occurs, all court costs and costs of collection, including, without limitation, reasonable fees, expenses and disbursements of counsel employed in connection with any and all collection efforts. The attorneys' fees arising from such services, including those of any appellate proceedings, and all expenses, costs, charges and other fees incurred by such counsel or Purchaser in any way or respect arising in connection with or relating to any of the events or actions described in this Article XII shall be payable by the Company to Purchaser, on demand, and shall be additional Senior Subordinated Obligations secured under this Agreement. Without limiting the generality of the foregoing, such expenses, costs, charges and fees may include: recording costs, appraisal costs, paralegal fees, costs and expenses; accountants' fees, costs and expenses; court costs and expenses; photocopying and duplicating expenses; court reporter fees, costs and expenses; long distance telephone charges; air express charges, telegram charges; facsimile charges; secretarial overtime charges; and expenses for travel,

lodging and food paid or incurred in connection with the performance of such legal services. The Company agrees to indemnify Purchaser from and hold it harmless against any documentary taxes, assessments or charges made by any governmental authority by reason of the execution and delivery by the Company or any other Person of this Agreement, the Other Agreements, and any documents executed in connection therewith.

12.2 Indemnification. IN ADDITION TO AND NOT IN LIMITATION OF THE OTHER INDEMNITIES PROVIDED FOR HEREIN OR IN ANY OTHER AGREEMENTS, THE COMPANY HEREBY INDEMNIFIES AND AGREES TO HOLD HARMLESS PURCHASER AND ANY OTHER HOLDERS, AND EVERY AFFILIATE OF ANY OF THE FOREGOING, AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS, FROM ANY CLAIMS, ACTIONS, DAMAGES, COSTS, ATTORNEYS' FEES AND EXPENSES (INCLUDING ANY OF THE SAME ARISING OUT OF THE SOLE OR CONTRIBUTORY NEGLIGENCE OF THE PERSON TO BE INDEMNIFIED) TO WHICH ANY OF THEM MAY BECOME SUBJECT, INSOFAR AS SUCH LOSSES, LIABILITIES, CLAIMS, ACTIONS, DAMAGES, COSTS AND EXPENSES ARISE FROM OR RELATE TO THIS AGREEMENT OR THE OTHER AGREEMENTS, OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREBY, OR FROM ANY INVESTIGATION, LITIGATION, OR OTHER PROCEEDING, INCLUDING, WITHOUT LIMITATION, ANY THREATENED INVESTIGATION, LITIGATION OR OTHER PROCEEDING RELATING TO ANY OF THE FOREGOING, OR FROM ANY VIOLATION OR CLAIM OF VIOLATION OF ANY APPLICABLE ENVIRONMENTAL LAWS WITH RESPECT TO ANY REAL OR PERSONAL PROPERTY, OR FROM ANY GOVERNMENTAL OR JUDICIAL CLAIM, ORDER OR JUDGMENT WITH RESPECT TO ANY REAL OR PERSONAL PROPERTY OF THE COMPANY, OR FROM ANY BREACH OF THE WARRANTIES, REPRESENTATIONS OR COVENANTS CONTAINED IN THIS AGREEMENT OR THE OTHER AGREEMENTS. THE FOREGOING INDEMNIFICATION INCLUDES ANY SUCH CLAIMS, ACTIONS, DAMAGES, COSTS, AND EXPENSES INCURRED BY REASON OF THE SOLE OR CONTRIBUTORY NEGLIGENCE OF THE PERSON TO BE INDEMNIFIED, BUT EXCLUDES ANY OF THE SAME INCURRED BY REASON OF SUCH PERSON'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

12.3 Notices. Except as otherwise expressly provided herein, all communications provided for hereunder shall be in writing and delivered or mailed by the United States mails, certified mail, return receipt requested, (a) if to Purchaser, addressed to Purchaser at the address specified on Annex I hereto or to such other address as Purchaser may in writing designate, (b) if to any other Holder, addressed to such Holder at such address as such Holder may in writing designate, and (c) if to the Company, addressed to the Company at the address set forth next to its name on the signature pages hereto or to such other address as the Company may in writing designate. Notices shall be deemed to have been validly served, given or delivered (and "the date of such notice" or words of similar effect shall mean the date) five (5) days after deposit in the United States mails, certified mail, return receipt requested, with proper postage prepaid, or upon actual receipt thereof (whether by noncertified mail, telecopy, telegram, facsimile, express delivery or otherwise), whichever is earlier.

12.4 Reproduction of Documents. Subject to the provisions of Section 12.15, this Agreement and all documents relating hereto, including, without limitation (a) consents, waivers and modifications which may hereafter be executed, (b) documents received by Purchaser at the closing of the purchase of the Senior Subordinated Note, and (c) financial statements, certificates and other information previously or hereafter furnished to Purchaser, may be reproduced by Purchaser by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and Purchaser may destroy any original document so reproduced. The Company agrees and stipulates that any such reproduction which is legible shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by you in the regular course of business) and that any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence; provided that nothing herein contained shall preclude the Company from objecting to the admission of any reproduction on the basis that such reproduction is not accurate, has been altered, is otherwise incomplete or is otherwise inadmissible.

12.5 Assignment, Sale of Interest. The Company may not sell, assign or transfer this Agreement, or the Other Agreements or any portion thereof, including, without limitation, the Company's rights, title, interests, remedies, powers and/or duties hereunder or thereunder. The Company hereby consents to Purchaser's participation, sale, assignment, transfer or other disposition (collectively, a "Transfer"), at any time or times hereafter, of this Agreement, or the Other Agreements to which

the Company is a party, or of any portion hereof or thereof, including, without limitation, Purchaser's rights, title, interests, remedies, powers and/or duties hereunder or thereunder. In connection with any Transfer, the Company agrees to cooperate fully with Purchaser and any potential Transferee. Such cooperation shall include, but is not limited to, cooperating with any audits or other due diligence investigation undertaken by any potential Transferee.

12.6 Successors and Assigns. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

12.7 Headings. The headings of the sections and subsections of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

12.8 Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart or reproduction thereof permitted by Section 12.3.

12.9 Reliance on and Survival Provisions. All covenants, representations and warranties made by the Company herein and in any certificates delivered pursuant hereto, whether or not in connection with a closing, (a) shall be deemed to be material and to have been relied upon by Purchaser, notwithstanding any investigation heretofore or hereafter made by Purchaser or on Purchaser's behalf, and (b) shall survive the delivery of this Agreement and the Senior Subordinated Notes until the Senior Subordinated Notes and all other monetary obligations owing by the Company to Purchaser under this Agreement shall have been paid in full.

12.10 Integration and Severability. This Agreement embodies the entire agreement and understanding between Purchaser and the Company, and supersedes all prior agreements and understandings relating to the subject matter hereof. In case any one or more of the provisions contained in this Agreement or in any Senior Subordinated Notes, or any application thereof, shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein, and any other application thereof, shall not in any way be affected or impaired thereby.

12.11 Law Governing. THIS AGREEMENT HAS BEEN SUBSTANTIALLY NEGOTIATED AND IS BEING EXECUTED, DELIVERED, AND ACCEPTED, AND IS INTENDED TO BE PERFORMED, IN PART IN THE COMMONWEALTH OF MASSACHUSETTS. ALL OBLIGATIONS, RIGHTS AND REMEDIES HEREUNDER, SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS. THE SENIOR SUBORDINATED NOTES SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE SPECIFIED THEREIN. PURCHASER RETAINS ALL RIGHTS UNDER THE LAWS OF THE UNITED STATES OF AMERICA, INCLUDING THOSE RELATING TO THE CHARGING OF INTEREST.

12.12 Waivers; Modification. NO PROVISION OF THIS AGREEMENT MAY BE WAIVED, CHANGED OR MODIFIED, OR THE DISCHARGE THEREOF ACKNOWLEDGED, ORALLY, BUT ONLY BY AN AGREEMENT IN WRITING SIGNED BY THE PARTY AGAINST WHOM THE ENFORCEMENT OF ANY WAIVER, CHANGE, MODIFICATION OR DISCHARGE IS SOUGHT.

12.13 Waiver of Jury Trial. TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE COMPANY AND PURCHASER HEREBY IRREVOCABLY AND EXPRESSLY WAIVE ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED UPON CONTRACT, TORT, OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE SENIOR SUBORDINATED NOTES OR ANY DOCUMENTS ENTERED INTO IN CONNECTION THEREWITH OR THE TRANSACTIONS CONTEMPLATED THEREBY OR THE ACTIONS OF PURCHASER IN THE NEGOTIATION, ADMINISTRATION, OR ENFORCEMENT THEREOF.

12.14 The Act. This Agreement, the Other Agreements and all transactions contemplated hereby and thereby are subject to provisions of the Act, and shall be governed thereby to the extent of any conflict therewith.

12.15 Confidentiality. Each Purchaser and each Holder agrees to keep confidential any information delivered by the Company to such Person under this Agreement; provided, however, that nothing in this Section 12.15 will prevent such Person from disclosing such information (a) to any Affiliate of such Person

or any actual or potential purchaser, participant, assignee, or transferee of such Person's rights or obligations hereunder that agrees to be bound by the terms of this Section 12.15, (b) upon order of any court or administrative agency, (c) upon the request or demand of any regulatory agency or authority having jurisdiction over such Person, (d) that is in the public domain otherwise than through the breach of this Section 12.5 by any such Person, (e) that has been obtained from any Person that is not a party to this Agreement or an Affiliate of any such party without breach by such Person of a confidentiality obligation known to such Holder, (f) in connection with the exercise of any remedy under this Agreement, (g) to the certified public accountants of such Person, or (h) to the Senior Lender pursuant to the terms of the Senior Subordination Agreement. The Company agrees that such Person will be presumed to have met its obligations under this Section 12.15 to the extent that it exercises the same degree of care with respect to information provided by the Company as it exercises with respect to its own information of similar character.

IN WITNESS WHEREOF, the Company and Purchaser have caused this Agreement to be executed and delivered by their respective officers thereunto duly authorized.

COMPANY:

LABOR READY, INC.

By:

Name: Glenn A. Welstad
Its: Chief Executive Officer

LABOR READY OF NEVADA, INC.

By:

Name: Glenn A. Welstad
Its: Chief Executive Officer

LABOR READY FRANCHISE DEVELOPMENT CORP. INC.

By:

Name: Glenn A. Welstad
Its: Chief Executive Officer

Company's Address for Notices:

2156 Pacific Avenue South
Tacoma, Washington 98402
Attn: Glenn A. Welstad
Facsimile: (206) 383-9311

with copies to:

Brad E. Herr, P.S.
2150 North Pines, Suite 202
Spokane, Washington 99206-7624
Attn: Brad E. Herr, Esq.
Facsimile: (509) 928-9338

Preston Gates & Ellis
701 5th Avenue, Suite 5000
Seattle, Washington 98104
Attn: Mark Beatty, Esq.
Facsimile: (206) 623-7022

PURCHASER:

SEACOAST CAPITAL PARTNERS LIMITED PARTNERSHIP

By: Seacoast Capital Corporation,
its general partner

By:

Name: Thomas W. Gorman
Title: Vice President

Amount of Senior Subordinated Note: \$5,000,000

ALLIED INVESTMENT CORPORATION

By:

Name: George Stelljes III

Title: Senior Vice President

Amount of Senior Subordinated Note: \$2,650,000

ALLIED INVESTMENT CORPORATION II

By:

Name: George Stelljes III

Title: Senior Vice President

Amount of Senior Subordinated Note: \$1,300,000

ALLIED CAPITAL CORPORATION II

By:

Name: George Stelljes III

Title: Senior Vice President

Amount of Senior Subordinated Note: \$1,050,000

WARRANT PURCHASE AGREEMENT

WARRANT PURCHASE AGREEMENT (the "Agreement") made as of October 31, 1995, by and among LABOR READY, INC., a Washington corporation (the "Company"), SEACOAST CAPITAL PARTNERS LIMITED PARTNERSHIP, a Delaware limited partnership ("Seacoast"), and ALLIED INVESTMENT CORPORATION, a Maryland corporation, ALLIED INVESTMENT CORPORATION II, a Maryland corporation, and ALLIED CAPITAL CORPORATION II, a Maryland corporation (collectively, the "Allied Investors") (Seacoast and the Allied Investors are collectively referred to herein as the "Purchaser").

W I T N E S S E T H:

WHEREAS, the Company and the Purchaser have entered into a Note Purchase Agreement (the "Note Agreement") dated of even date with this Agreement; and

WHEREAS, the Company, the Purchaser and Glenn A. Welstad, John R. Coghlan and Coghlan Family Corporation, a Washington corporation (collectively the "Shareholders"), have entered into a Shareholder Agreement (the "Shareholder Agreement") dated of even date with this Agreement; and

WHEREAS, the Purchaser is willing to enter into and consummate the transactions contemplated by the Note Agreement only if, among other things, the Company enters into, and performs under, this Agreement, and the Company and the Shareholders enter into, and perform under, the Shareholder Agreement.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants contained in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Purchaser and the Company, intending to be legally bound, agree as follows:

Article I Definitions

As used in this Agreement, the following terms have the meanings indicated:

Act. This term is defined in Section 3.01(k).

Additional Securities. This term is defined in Section 2.08(a) (iv).

Affiliate. With respect to any Person, (a) a Person that, directly or indirectly or through one or more intermediaries, controls, is controlled by, or is under common control with, such Person; (b) any Person of which such Person or such Person's spouse is an officer, director, security holder, partner, or, in the case of a trust, the beneficiary or trustee, and (c) any Person that is an officer, director, security holder, partner, or, in the case of a trust, the beneficiary or trustee of such Person. The term "control" as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by contract, or otherwise.

Agreement. This term is defined in the preamble.

Allied Investors. This term is defined in the preamble.

Appraised Value. The value determined in accordance with the following procedures. For a period of 30 days after the date of a Valuation Event (the "Negotiation Period"), each party to this Agreement agrees to negotiate in good faith to reach agreement upon the Appraised Value of the securities or property at issue, as of the date of the Valuation Event, which will be the fair market value of such securities or property, without premium for control or discount for minority interests, illiquidity, or restrictions on transfer. In the event that the parties are unable to agree upon the Appraised Value of such securities or other property by the end of the Negotiation Period, then the Appraised Value of such securities or property will be determined for purposes of this Agreement by a recognized appraisal or investment banking firm mutually agreeable to the Holders and the Company (the "Appraiser"). If the Holders and the Company cannot agree on an Appraiser within fifteen (15) days after the end of the Negotiation Period, the Company, on the one hand, and the Holders, on the other hand, shall each select an

Appraiser within twenty-one (21) days after the end of the Negotiation Period and those two Appraisers shall select within twenty-five (25) days after the end of the Negotiation Period an independent Appraiser to determine the fair market value of such securities or property, without premium for control or discount for minority interests. Such independent Appraiser shall be directed to determine fair market value of such securities or property as soon as practicable, but in no event later than thirty (30) days from the date of its selection. The determination by an Appraiser of the fair market value will be conclusive and binding on all parties to this Agreement. Appraised Value of each share of Common Stock at a time when (i) the Company is not a reporting company under the Exchange Act and (ii) the Common Stock is not traded in the organized securities markets, will, in all cases, be calculated by determining the Appraised Value of the entire Company taken as a whole and dividing that value by the sum of (x) the number of shares of Common Stock then outstanding plus (y) the number of shares of Common Stock Equivalents, without premium for control or discount for minority interests, illiquidity, or restrictions on transfer. The costs of the Appraiser will be borne equally by the Company and the Purchaser. In no event will the Appraised Value of the Common Stock or Other Securities be less than the per share consideration received or receivable with respect to the Common Stock or securities or property of the same class as the Other Securities, as the case may be, in connection with a pending transaction involving a sale, merger, recapitalization, reorganization, consolidation, or share exchange, dissolution of the Company, sale or transfer of all or a majority of its assets or revenue or income generating capacity, or similar transaction. The prevailing market prices for any security or property will not be dispositive of the Appraised Value thereof.

Appraiser. This term is defined in the definition of Appraised Value.

Average Market Value. The average of the Closing Price for the security in question for the thirty (30) trading days immediately preceding the date of determination.

Capital Stock. As to any Person, its common stock and any other capital stock of such Person authorized from time to time, and any other shares, options, interests, participations, or other equivalents (however designated) of or in such Person, whether voting or nonvoting, including, without limitation, common stock, options, warrants, preferred stock, phantom stock, stock appreciation rights, preferred stock, convertible notes or debentures, stock purchase rights, and all agreements, instruments, documents, and securities convertible, exercisable, or exchangeable, in whole or in part, into any one or more of the foregoing.

Closing Date. October 31, 1995.

Closing Price.

(a) If the primary market for the security in question is a national securities exchange registered under the Exchange Act, the National Association of Securities Dealers Automated Quotation System -- National Market System, or other market or quotation system in which last sale transactions are reported on a contemporaneous basis, the last reported sales price, regular way, of such security for such day, or, if there has not been a sale on such trading day, the highest closing or last bid quotation therefor on such trading day (excluding, in any case, any price that is not the result of bona fide arm's length trading); or

(b) If the primary market for such security is not an exchange or quotation system in which last sale transactions are contemporaneously reported, the highest closing or last bona fide bid or asked quotation by disinterested Persons in the over-the-counter market on such trading day as reported by the National Association of Securities Dealers through its Automated Quotation System or its successor or such other generally accepted source of publicly reported bid quotations as the Holders designate.

Common Stock. The common stock, no par value, of the Company.

Common Stock Equivalent. Any option, warrant, right, or similar security exercisable into, exchangeable for, or convertible to Common Stock.

Commission. The Securities and Exchange Commission and any

successor federal agency having similar powers.

Company. Labor Ready, Inc. and any successor or assign, and, unless the context requires otherwise, the term Company includes any Subsidiary.

Dilution Fee. This term is defined in Article VII.

Exchange Act. The Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

Exercise Price. The price per share specified in Section 2.03 as adjusted from time to time pursuant to the provisions of this Agreement.

Fair Market Value.

(a) As to securities regularly traded in the organized securities markets, the Average Market Value; and

(b) As to all securities (including, without limitation, the Issuable Warrant Shares) not regularly traded in the securities markets and other property, the fair market value of such securities or property as determined in good faith by the board of directors of the Company at the time it authorizes the transaction or if no authorization is required, at the time of the transaction requiring valuation, (a "Valuation Event") requiring a determination of Fair Market Value under this Agreement; provided, however, that, at the election of the Holders, the Fair Market Value of such securities and other property will be the Appraised Value.

Forced Exercise Date. This term is defined in Section 8.04.

Forced Exercise Option. This term is defined in Section 8.01.

Forced Exercise Period. This term is defined in Section 8.01.

Holder. The Purchaser, and all Persons holding Registrable Securities, except that neither the Company nor any Shareholder nor any Affiliate of the Company or any Shareholder will at any time be a Holder. Unless otherwise provided in this Agreement, in each instance that either of the Purchasers is required to request or consent to an action, such Purchaser will be deemed to have requested or consented to such action if (a) with respect to Seacoast, the Holders of a majority in interest of the Registrable Securities initially issued to Seacoast on the date hereof so requests or consents and (b) with respect to the Allied Investors, the Holders of a majority in interest of the Registrable Securities initially issued to the Allied Investors on the date hereof so requests or consents.

Indemnified Party. This term is defined in Section 10.01.

Initial Holders. Seacoast, the Allied Investors and any Affiliate of Seacoast or the Allied Investors to which any of the Warrants or any part of or interest in the Warrants is assigned.

Intellectual Property. This term is defined in Section 3.01(g).

Issuable Warrant Shares. Shares of Common Stock or Other Securities issuable on exercise of the Warrants.

Issued Warrant Shares. Shares of Common Stock or Other Securities issued on exercise of the Warrants.

Kemper Agreement. That certain agreement between the Company and Everen Securities, Inc., formerly known as Kemper Securities, Inc., dated as of February 21, 1995, as amended on October 3, 1995, providing for the payment by the Company to Everen Securities, Inc. of a private placement fee and for the issuance by the Company to Everen Securities, Inc. of warrants to purchase 40,000 shares of Common Stock pursuant to the terms and conditions thereof.

Material Adverse Effect. (a) a material adverse effect upon the business, operations, properties, assets or condition (financial or otherwise) of the Company taken as a whole or (b) the impairment of the ability of the Company to perform its obligations under this Agreement. In determining whether any individual event would result in a Material Adverse Effect, notwithstanding that such event does not of itself have such

effect, a Material Adverse Effect shall be deemed to have occurred if such event and all other then existing events would result in a Material Adverse Effect.

Negotiation Period. This term is defined in the definition of Appraised Value.

New Securities. Any Capital Stock other than Warrant Shares and other than the Permitted Stock.

Non-Compete Agreements. Collectively, (a) those certain Employment and Non-Compete Agreements dated as of October 31, 1995, by and between the Company and each of Glenn A. Welstad and Scott Sabo, (b) that certain Consulting and Non-Compete Agreement on or about the Closing Date, by and between the Company and John R. Coghlan, and (c) any other non-compete agreement hereinafter entered into by and between the Company and any other officer, employee or consultant of the Company, and all renewals, modifications, amendments and supplements thereto.

Note Agreement. This term is defined in the preamble and includes the Note Purchase Agreement of even date with this Agreement among the Company, the Purchaser and the other entities a party thereto, and all documents evidencing indebtedness thereunder or otherwise related to the Note Agreement as the same may be amended from time to time, and any refinancing, refunding, or replacements of the indebtedness under the Note Agreement.

Notes. All or any portion of any of the Senior Subordinated Notes (as defined in the Note Agreement) and any and all documents evidencing the indebtedness under the Notes and any refinancing, refunding, or replacement of the Notes.

Offering Price. This term is defined in Section 2.08(a)(iv).

Other Securities. Any stock, other securities, property, or other property or rights (other than Common Stock) that the Holders become entitled to receive upon exercise of the Warrants.

Permitted Stock. Common Stock or options or warrants to acquire Common Stock issued or reserved for issuance to (a) Everen Securities, Inc. pursuant to the terms of the Kemper Agreement, and (b) present and future key management of the Company pursuant to a management incentive program, constituting, in the aggregate, ten percent (10%) or less of the outstanding Common Stock. In no event will (a) the number of shares of Permitted Stock issued or reserved for issuance, in the aggregate, exceed the lesser of the number of shares constituting ten percent (10%) of the outstanding Common Stock on (i) the date of this Agreement or (ii) the date issued, (b) the number of shares of Permitted Stock issued or reserved for issuance to any present and future key management of the Company during any calendar year exceed, in the aggregate, the lesser of the number of shares constituting two percent (2%) of the outstanding Common Stock on (i) the date of this Agreement or (ii) the date issued and (c) any shares of Permitted Stock issued to present and future key management of the Company be exercisable for a per share consideration less than eighty-five percent (85%) of the Fair Market Value per share of the Common Stock determined as of the date of issuance of such Permitted Stock.

Person. This term will be interpreted broadly to include any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, company, institution, entity, party, or government (whether national, federal, state, county, city, municipal, or otherwise, including, without limitation, any instrumentality, division, agency, body, or department of any of the foregoing).

Purchaser. This term is defined in the preamble.

Qualifying Holder. The Initial Holders and any transferee of fifty percent (50%) or more of an Initial Holder's Issued Warrant Shares or Issuable Warrant Shares.

"Register," "registered," and "registration" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of the effectiveness of such registration statement.

Registrable Securities. (a) the Issuable Warrant Shares and (b) the Issued Warrant Shares that have not been previously sold to the public.

SEC Filings. This term is defined in Section 3.01(1).

Securities Act. The Securities Act of 1933, as amended, and the rules and regulations thereunder.

Senior Lender. This term means Concord Growth Corporation, a California corporation, and its successors and assigns, and any Person who replaces or refinances the Senior Loans (as defined in the Note Agreement) under the terms set forth in Section 7.1(c) of the Note Agreement.

Shareholders. This term is defined in the preamble.

Shareholder Agreement. This term is defined in the preamble and includes the Shareholder Agreement dated as of the Closing Date between the Company, the Purchaser and the Shareholders in substantially the form attached to this Agreement as Annex A and incorporated in this Agreement by reference.

Subsidiary. Each Person of which or in which the Company or its other Subsidiaries own directly or indirectly fifty-one percent (51%) or more of (i) the combined voting power of all classes of stock having general voting power under ordinary circumstances to elect a majority of the board of directors or equivalent body of such Person, if it is a corporation or similar person; (ii) the capital interest or profits interest of such Person, if it is a partnership, joint venture, or similar entity; or (iii) the beneficial interest of such Person, if it is a trust, association, or other unincorporated organization.

Valuation Event. This term is defined in the definition of Fair Market Value.

Warrants. The Warrants referred to in Section 2.01, dated as of the Closing Date, issued to Initial Holders, and all Warrants issued upon the transfer or division of, or in substitution for, such Warrants.

Warrant Shares. The Issued Warrant Shares and the Issuable Warrant Shares.

Article II The Warrant

2.01 The Warrant. On the Closing Date, each Purchaser severally agrees to purchase from the Company at the purchase price set forth beneath the name of such Purchaser on the signature page of this Agreement, and the Company agrees to issue to each Purchaser, a Warrant in substantially the form attached to this Agreement as Annex A and incorporated in this Agreement by reference to purchase the number of shares of Common Stock set forth beneath the name of each such Purchaser on the signature page of this Agreement, all in accordance with the terms and conditions of this Agreement.

2.02 Legend. The Company will deliver to each Purchaser on the Closing Date one or more certificates representing the Warrant purchased by such Purchaser in such denominations as such Purchaser requests. Such certificates will be issued in the Purchaser's name or in the name or names of its designee or designees, as the case may be. It is understood and agreed that the certificates evidencing the Warrants will bear the following legend:

"THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO OR FOR SALE IN CONNECTION WITH THE DISTRIBUTION HEREOF. THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS, AND MAY NOT BE PLEDGED, SOLD, OFFERED FOR SALE, TRANSFERRED, OR OTHERWISE DISPOSED OF IN THE ABSENCE OF REGISTRATION UNDER OR EXEMPTION FROM SUCH ACT AND ALL APPLICABLE STATE SECURITIES LAWS".

"THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF ARE SUBJECT TO THE TERMS AND PROVISIONS OF A WARRANT PURCHASE AGREEMENT, DATED AS OF OCTOBER 31, 1995, BY AND AMONG LABOR READY, INC. (THE "COMPANY"), SEACOAST CAPITAL PARTNERS LIMITED PARTNERSHIP ("SEACOAST"), ALLIED INVESTMENT CORPORATION ("AIC"), ALLIED INVESTMENT CORPORATION II ("AIC II") AND ALLIED CAPITAL CORPORATION II ("ACC II") AND A SHAREHOLDER AGREEMENT, DATED AS OF OCTOBER 31, 1995, BY AND AMONG THE COMPANY, SEACOAST, AIC, AIC II, ACC II AND THE SHAREHOLDERS OF THE COMPANY LISTED ON THE SIGNATURE PAGES THERETO (AS SUCH AGREEMENTS MAY BE

SUPPLEMENTED, MODIFIED, AMENDED, OR RESTATED FROM TIME TO TIME, THE "AGREEMENTS"). COPIES OF THE AGREEMENTS ARE AVAILABLE AT THE EXECUTIVE OFFICES OF THE COMPANY."

2.03 Exercise Price. The Exercise Price per share will be \$17.50 for each share of Common Stock covered by the Warrants, subject to adjustment as provided in this Section 2.03 and in Section 2.08. In the event the Company fails to employ a Chief Financial Officer reasonably acceptable to the Purchaser on or before the one hundred eightieth (180th) day of the Closing Date, the Exercise Price for each share of Common Stock covered by the Warrants shall be reduced by \$1.00 per share on such date (i.e. reduced from \$17.50 to \$16.50 per share). The Exercise Price for each share of Common Stock covered by the Warrants shall continue to be reduced by an additional \$1.00 per share upon the expiration of each successive ninety (90) day period thereafter until such time as the Company has employed a Chief Financial Officer reasonably acceptable to the Purchaser.

2.04 Exercise.

(a) Each of the Warrants may be exercised at any time or from time to time on or after the Closing Date and prior to the earlier of (i) the seventh (7th) anniversary of the Closing Date and (ii) six (6) years from the date the Notes are paid in full, on any day that is a business day, for all or any part of the number of Issuable Warrant Shares purchasable upon its exercise. In order to exercise any Warrant, in whole or in part, the Holder will deliver to the Company at the address designated by the Company pursuant to Section 10.06, (i) a written notice of such Holder's election to exercise its Warrant, which notice will specify the number of Issuable Warrant Shares to be purchased pursuant to such exercise, (ii) payment of the Exercise Price, in an amount equal to the aggregate purchase price for all Issuable Warrant Shares to be purchased pursuant to such exercise, and (iii) the Warrant. Such notice will be substantially in the form of the Subscription Form appearing at the end of the Warrants. Upon receipt of such notice, the Company will, as promptly as practicable, and in any event within five (5) business days, execute, or cause to be executed, and deliver to such Holder a certificate or certificates representing the aggregate number of full shares of Common Stock and Other Securities issuable upon such exercise, as provided in this Agreement. The stock certificate or certificates so delivered will be in such denominations as may be specified in such notice and will be registered in the name of such Holder, or such other name as designated in such notice. A Warrant will be deemed to have been exercised, such certificate or certificates will be deemed to have been issued, and such Holder or any other Person so designated or named in such notice will be deemed to have become a holder of record of such shares for all purposes, as of the date that such notice, together with payment of the Exercise Price and the Warrant, is received by the Company. If the Warrant has been exercised in part, the Company will, at the time of delivery of such certificate or certificates, deliver to such Holder a new Warrant evidencing the rights of such Holder to purchase a number of Issuable Warrant Shares with respect to which the Warrant has not been exercised, which new Warrant will, in all other respects, be identical with the Warrants, or, at the request of such Holder, appropriate notation may be made on the Warrant and the Warrant returned to such Holder.

(b) Payment of the Exercise Price will be made, at the option of the Holder, by (i) company or individual check, certified or official bank check, (ii) cancellation of any debt owed by the Company to the Holder, or (iii) cancellation of Warrants, valued at Fair Market Value. If the Holder surrenders a combination of cash or cancellation of any debt owed by the Company to the Holder or Warrants, the Holder will specify the respective number of shares of Common Stock to be purchased with each form of consideration, and the foregoing provisions will be applied to each form of consideration with the same effect as if the Warrant were being separately exercised with respect to each form of consideration; provided, however, that a Holder may designate that any cash to be remitted to a Holder in payment of debt be applied, together with other monies, to the exercise of the portion of the Warrant being exercised for cash.

2.05 Taxes. The issuance of any Common Stock or Other Securities upon the exercise of the Warrant will be made without charge to any Holder for any tax, other than income taxes assessed on such Holder, in respect of such issuance.

2.06 Warrant Register. The Company will, at all times while any of the Warrants remain outstanding and exercisable,

keep and maintain at its principal office a register in which the registration, transfer, and exchange of the Warrants will be provided for. The Company will not at any time, except upon the dissolution, liquidation, or winding up of the Company, close such register so as to result in preventing or delaying the exercise or transfer of any Warrant.

2.07 Transfer and Exchange. Subject to compliance with the restrictions on transfer set forth in the legend prescribed by Section 2.02, the Warrants and all options and rights under the Warrants are transferable, as to all or any part of the number of Issuable Warrant Shares purchasable upon its exercise, by the Holders of the Warrants, in person or by duly authorized attorney, on the books of the Company upon surrender of the Warrants at the principal offices of the Company, together with the form of transfer authorization attached to the Warrants duly executed and, if requested by the Company, an opinion of Hughes & Luce, L.L.P. (or other counsel reasonably acceptable to the Company) to the effect that such transfer does not violate the registration requirements of the Securities Act. Absent any such transfer and subject to the terms and conditions of this Agreement, the Company may deem and treat the registered Holders of the Warrants at any time as the absolute owners of the Warrants for all purposes and will not be affected by any notice to the contrary. If any Warrant is transferred in part, the Company will, at the time of surrender of such Warrant, issue to the transferee a Warrant covering the number of Issuable Warrant Shares transferred and to the transferor a Warrant covering the number of Issuable Warrant Shares not transferred.

2.08 Adjustments to Number of Shares Purchasable.

(a) The Warrants will be exercisable for the number of shares of Common Stock in such manner that, following the complete and full exercise of the Warrant of each Holder, the amount of Common Stock issued to all Holders will equal the aggregate number of shares of Common Stock set forth beneath the names of the Purchaser on the signature pages of this Agreement, as adjusted, to the extent necessary, to give effect to the following events:

(i) In case at any time or from time to time, the holders of any class of Common Stock or Common Stock Equivalent have received, or (on or after the record date fixed for the determination of shareholders eligible to receive) have become entitled to receive, without payment therefor:

(A) consideration (other than cash) by way of dividend or distribution; or

(B) consideration (including cash) by way of spin-off, split-up, reclassification (including any reclassification in connection with a consolidation or merger in which the Company is the surviving corporation), recapitalization, combination of shares into a smaller number of shares, or similar corporate restructuring;

other than additional shares of Common Stock issued as a stock dividend or in a stock-split (adjustments in respect of which are provided for in Sections 2.08(a)(ii) and (iii)), then, and in each such case, the Holders, on the exercise of the Warrants, will be entitled to receive for each share of Common Stock issuable under the Warrants as of the record date fixed for such distribution, the greatest per share amount of consideration received by any holder of any class of Common Stock or Common Stock Equivalent or to which such holder is entitled less the amount of any Dilution Fee actually and irrevocably paid to such Holders. All such consideration receivable upon exercise of the Warrant with respect to such a distribution will be deemed to be outstanding and owned by such Holder for purposes of determining the amount of consideration to which such Holder is entitled upon exercise of the Warrant with respect to any subsequent distribution.

(ii) If at any time there occurs any stock split, stock dividend, reverse stock split, or other subdivision of the Common Stock, then the number of shares of Common Stock to be received by the Holder of the Warrant and the Exercise Price, subject to the limitations set forth in this Agreement, will be proportionately adjusted.

(iii) In case of any reclassification or change of outstanding shares of any class of Common Stock or Common Stock Equivalent (other than a change in par value, or from par value to no par value, or from no par value to par

value), or in the case of any consolidation of the Company with, or merger or share exchange of the Company with or into, another Person, or in case of any sale of all or a majority of the property, assets, business, income or revenue generating capacity, or goodwill of the Company, the Company, or such successor or other Person, as the case may be, will provide in writing that the Holder of this Warrant will thereafter be entitled to receive, upon exercise of a Warrant, in lieu of each share of Common Stock otherwise issuable under this Warrant, the highest per share kind and amount of consideration received or receivable (including cash) upon such reclassification, change, consolidation, merger, share exchange, or sale by any holder of any class of Common Stock or Common Stock Equivalent that the Holder would have been entitled to receive if, immediately prior to such reclassification, change, consolidation, merger, share exchange, or sale (as adjusted pursuant to Section 2.08(a)(i) and otherwise in this Agreement) the Holder had exercised its Warrants in full. Any such successor Person, which thereafter will be deemed to be the Company for purposes of the Warrants, will provide for adjustments that are as nearly equivalent as may be possible to the adjustments provided for by this Section 2.08.

(iv) If at any time the Company issues or sells any shares of any Common Stock or any Common Stock Equivalent (the "Additional Securities") at a per unit or share consideration which consideration will include the price paid upon issuance plus the minimum amount of any exercise, conversion, or similar payment made upon exercise or conversion of any Common Stock Equivalent (the "Offering Price"), less than the Exercise Price or the then current Fair Market Value per share of Common Stock immediately prior to the time such Additional Securities are issued or sold, then:

(A) the Exercise Price will be reduced to the lower of:

(I) the Offering Price; and

(II) the price determined by multiplying the then existing Exercise Price by a fraction, the numerator of which is (x) the sum of (1) the number of shares of Common Stock outstanding on a fully diluted basis immediately prior to such issuance or sale, multiplied by the Fair Market Value per share of Common Stock immediately prior to such issuance or sale, plus (2) the aggregate net consideration received by the Company upon such issuance or sale, divided by (y) the total number of shares of Common Stock outstanding on a fully diluted basis immediately after such issuance or sale, and the denominator of which is the Fair Market Value per share of Common Stock immediately prior to such issuance or sale (for purposes of this subsection (II), the date as of which the Fair Market Value per share of Common Stock will be computed will be the earlier of the date upon which the Company (aa) enters into a firm contract for the issuance of such shares, or (bb) issues such shares); and

(B) the number of shares of Common Stock for which any of the Warrants may be exercised at the Exercise Price resulting from the adjustment described in subsection (A) above will be equal to the product of the number of shares of Common Stock purchasable under such Warrants immediately prior to such adjustment multiplied by a fraction, the numerator of which is the Exercise Price in effect immediately prior to such adjustment and the denominator of which is the Exercise Price resulting from such adjustment.

(v) In case any event occurs as to which the preceding Sections 2.08(a)(i) through (iv) are not strictly applicable, but as to which the failure to make any adjustment would not fairly protect the purchase rights represented by the Warrants in accordance with the essential intent and principles of this Agreement, then, in each such case, the Company may appoint an independent investment bank or firm of independent public accountants acceptable to the Holder in good faith, which will give its opinion as to the adjustment, if any, on a basis consistent with the essential intent and principles established in this Agreement, necessary to preserve the purchase rights represented by the Warrants. Upon receipt of such opinion, the Company will promptly deliver a copy of such opinion to the Holder and will make the adjustments described in such opinion. The fees and expenses of such investment bank or independent public accountants will be borne by the Company.

(b) The Company will not by any action including, without limitation, amending, or permitting the amendment of, the

charter documents, bylaws, or similar instruments of the Company or through any reorganization, reclassification, transfer of assets, consolidation, merger, share exchange, dissolution, issue or sale of securities, or any other similar voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Agreement or the Warrants, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of the Holders against impairment or dilution. Without limiting the generality of the foregoing, the Company will (i) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock and Other Securities, free and clear of all liens, encumbrances, equities, and claims and (ii) use its best efforts to obtain all such authorizations, exemptions, or consents from any public regulatory body having jurisdiction as may be necessary to enable the Company to perform its obligations under the Warrants. Without limiting the generality of the foregoing, the Company represents and warrants that the board of directors of the Company has determined the Exercise Price to be adequate and the issuance of the Warrants to be in the best interests of the Company.

(c) Any calculation under this Section 2.08 will be made to the nearest one ten-thousandth of a share and the number of Issuable Warrant Shares resulting from such calculation will be rounded up to the next whole share of Common Stock or Other Securities comprising Issuable Warrant Shares.

(d) The Company will not, and will not permit any Subsidiary to, issue any Capital Stock other than Common Stock and Common Stock Equivalents.

(e) If the Company pays in full the Notes, including all principal and interest thereon, prior to the third anniversary of the Closing Date, the aggregate number of Issuable Warrant Shares shall be reduced by twenty percent (20%) (with such reduction calculated based upon the number of Issuable Warrant Shares at January 1, 1996), as adjusted from time to time consistent with the adjustments set forth in Section 2.08(a).

2.09 Lost, Stolen, Mutilated, or Destroyed Warrants. If any Warrant is lost, stolen, mutilated, or destroyed, the Company will issue a new Warrant of like denomination, tenor, and date as the Warrant so lost, stolen, mutilated, or destroyed. Any such new Warrant will constitute an original contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated, or destroyed Warrant is at any time enforceable by any Person.

2.10 Stock Legend. The Warrants and the Warrant Shares have not been registered under the Securities Act or qualified under applicable state securities laws. Accordingly, unless there is an effective registration statement and qualification respecting the Warrants and the Warrant Shares under the Securities Act or under applicable state securities laws at the time of exercise of a Warrant, any stock certificate issued pursuant to the exercise of a Warrant will bear the following legend:

"THE SHARES REPRESENTED BY THIS CERTIFICATE (A) HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS, AND MAY NOT BE PLEDGED, SOLD, OFFERED FOR SALE, TRANSFERRED, OR OTHERWISE DISPOSED OF IN THE ABSENCE OF REGISTRATION UNDER OR EXEMPTION FROM SUCH ACT AND ALL APPLICABLE STATE SECURITIES LAWS AND (B) ARE SUBJECT TO THE TERMS OF AND PROVISIONS OF A WARRANT PURCHASE AGREEMENT, DATED AS OF OCTOBER 31, 1995 BY AND AMONG LABOR READY, INC. (THE "COMPANY"), SEACOAST CAPITAL PARTNERS LIMITED PARTNERSHIP ("SEACOAST"), ALLIED INVESTMENT CORPORATION ("AIC"), ALLIED INVESTMENT CORPORATION II ("AIC II") AND ALLIED CAPITAL CORPORATION II ("ACC II") AND A SHAREHOLDER AGREEMENT, DATED AS OF OCTOBER 31, 1995, BY AND AMONG THE COMPANY, SEACOAST, AIC, AIC II, ACC II AND THE SHAREHOLDERS OF THE COMPANY LISTED ON THE SIGNATURE PAGES THERETO (AS SUCH AGREEMENTS MAY BE SUPPLEMENTED, MODIFIED, AMENDED, OR RESTATED FROM TIME TO TIME, THE "AGREEMENTS"). COPIES OF THE AGREEMENTS ARE AVAILABLE AT THE OFFICES OF THE COMPANY."

Article III Representations and Warranties

3.01 Representations and Warranties of the Company. The Company represents and warrants to the Purchaser that:

(a) The Company is a corporation duly organized and existing and in good standing under the laws of its state of incorporation and is qualified or licensed to do business in all other countries, states, and jurisdictions the laws of which require it to be so qualified or licensed and where the failure to be so qualified or licensed would have a Material Adverse Effect. Except as set forth on Schedule I, the Company has no Subsidiaries or debt or equity investment in any Person. Each Shareholder owns the equity interest of the Company set forth on Schedule II, free and clear of all liens, claims, and encumbrances, and no Person has any rights, whether granted by the Company or any other Person, to acquire any portion of the equity interest of the Company or the assets of the Company except pursuant to this Agreement or pursuant to the agreements described on Schedule III which grant warrants or options to any Persons other than Purchaser.

(b) The Company has, and at all times that this Agreement is in force will have, the right and power, and is duly authorized, to enter into, execute, deliver, and perform this Agreement, the Shareholder Agreement and the Warrants, and the officers of Company executing and delivering this Agreement, the Shareholder Agreement and the Warrants are duly authorized to do so. This Agreement, the Shareholder Agreement and the Warrants have been duly and validly executed, issued, and delivered and constitute the legal, valid, and binding obligations of Company and the Shareholders, enforceable in accordance with their respective terms.

(c) The execution, delivery, and performance of this Agreement, the Shareholder Agreement and the Warrants will not, by the lapse of time, the giving of notice, or otherwise, constitute a violation of any applicable provision contained in the charter, bylaws, or organizational documents of the Company or contained in any agreement, instrument, or document to which the Company is a party or by which it is bound.

(d) As of the Closing Date, the authorized capital stock of the Company consists of (i) 25,000,000 shares of Common Stock, no par value, of which 3,878,415 shares are issued and outstanding, and (ii) 5,000,000 shares of Preferred Stock consisting of 1,052,242 authorized shares of Series A Cumulative Preferred Stock, of which 854,082 shares are issued and outstanding. 454,912 shares of Common Stock are reserved for issuance on exercise of the Warrants. All such issued and outstanding shares have been duly authorized and validly issued, are fully paid and nonassessable, and have been offered, issued, sold, and delivered by Company free from preemptive rights, rights of first refusal, or similar rights and in compliance with applicable federal and state securities laws. Except pursuant to this Agreement and except for the Permitted Stock, the Company is not obligated to issue or sell any Capital Stock, and neither the Company nor the Shareholders are party to, or otherwise bound by, any agreement affecting the voting of any Capital Stock. Except for this Agreement, the Company is not, a party to, or otherwise bound by, any agreement obligating it to register any of its Capital Stock.

(e) The shares of Common Stock and other consideration issuable on exercise of the Warrants have been duly and validly authorized and reserved for issuance and, when issued in accordance with the terms of the Warrants will be validly issued, fully paid, and nonassessable and free of preemptive rights, rights of first refusal, or similar rights.

(f) The Company has good, indefeasible, merchantable, and marketable title to, and ownership of, all of its assets free and clear of all liens, pledges, security interests, claims, or other encumbrances except those in favor of the Senior Lender, and those pursuant to the Note Agreement.

(g) The Company has the exclusive right to use all patents, patent rights, patent applications, licenses, inventions, trade secrets, know-how, proprietary techniques, including processes and substances, trademarks, service marks, trade names, and copyrights used in or necessary or desirable to its business as presently, or presently proposed to be, conducted (the "Intellectual Property"), and, to the best of the Company's knowledge, the use by the Company of the Intellectual Property does not infringe the rights of any other Person. No other Person is infringing the rights of the Company in any of the Intellectual Property. The Company owes no royalties, honoraria, or fees to any Person by reason of its use of any of Intellectual Property.

(h) There is not now, and at no time during the term of this Agreement will there be, any agreement, arrangement, or understanding involving the Company or the Shareholders, other than this Agreement and the documents contemplated hereby and thereby, modifying, restricting, or in any way affecting the rights of any security holder to vote securities of the Company.

(i) Each of the representations and warranties made by the Company pursuant to the Note Agreement is true and correct.

(j) None of the documents, instruments, or other information furnished to the Purchaser by the Company, contains any untrue statement of a material fact or omits to state any material fact necessary in order to make any statements made therein not misleading. No representation, warranty, or statement made by the Company in this Agreement, the Note Agreement or in any document, certificate, exhibit or schedule attached hereto or thereto or delivered in connection herewith or therewith, contains or will contain any untrue statement of a material fact, or omits or will omit to state a material fact necessary to make any statements made herein or therein not misleading. There is no fact that materially and adversely affects the condition (financial or otherwise), results of operations, business, properties, or prospects of the Company or any of its Subsidiaries that has not been disclosed in the documents provided to the Purchaser.

(k) The Company is a "small business concern" as defined in Section 103(5) of the Small Business Investment Act of 1958, as amended and in effect from time to time, and the regulations promulgated thereunder (the "Act"), which for purposes of size eligibility meets the applicable criteria set forth in Section 121.802(a)(3) of Title 13 of the Code of Federal Regulations.

(l) The Company has delivered to the Purchaser copies of (a) the Company's annual report on Form 10-K for the fiscal years ended December 31, 1993 and 1994, (b) the Company's quarterly reports on Form 10-Q for the periods ended March 31, 1995 and June 30, 1995, and (c) the Company's registration statement on Form S-1 dated August 11, 1995, and (d) the Company's proxy statement dated June 26, 1995, ((a), (b), (c) and (d) are collectively referred to herein as the "SEC Filings"). All reports and filings required to be filed by the Company with the Commission during the last twelve (12) months have been timely filed with the Commission. The SEC Filings (a) were prepared in all material respects in accordance with the requirements of the Exchange Act, and the rules and regulations thereunder, and (b) did not at the time of filing contain any untrue statement of material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements contained in the Company's SEC Filings present fairly in all material respects the consolidated financial position and results of operations and changes in shareholders' equity and changes in cash flow of the Company and its subsidiaries as of the dates and for the periods indicated therein in accordance with GAAP throughout the periods indicated. The Company has no outstanding liabilities or indebtedness not reflected on the balance sheet (known or unknown, absolute, accrued, contingent or otherwise) which are material to the financial condition or operating results of the Company on a consolidated basis.

3.02 Representations and Warranties of the Purchaser.
Each Purchaser, severally and not jointly, represents and warrants to the Company with respect to itself and not with respect to any other Purchaser:

(a) It is a limited partnership or corporation, as the case may be, duly incorporated and existing and in good standing under the laws of the state of its organization.

(b) It has the right and power and is duly authorized to enter into, execute, deliver, and perform this Agreement and the Shareholder Agreement, and its partners, officers or agents executing and delivering this Agreement and the Shareholder Agreement are duly authorized to do so. This Agreement and the Shareholder Agreement have been duly and validly executed, issued, and delivered and constitute the legal, valid, and binding obligation of the Purchaser, enforceable in accordance with their terms.

(c) It (i) is an "accredited investor," as that term is defined in Regulation D under the Securities Act; and (ii) has

such knowledge, skill, and experience in business and financial matters, based on actual participation, that it is capable of evaluating the merits and risks of an investment in the Company and the suitability thereof as an investment for the Purchaser.

(d) Except as otherwise contemplated by this Agreement, it is acquiring its Warrant and any securities issuable upon exercise of its Warrant for investment for its own account and not with a view to any distribution thereof in violation of applicable securities laws.

(e) It agrees that the certificates representing its Warrant and any Issued Warrant Shares will bear the legends referenced in this Agreement, and such Warrant or securities issuable upon exercise of the Warrant will not be offered, sold, or transferred in the absence of registration or exemption under applicable securities laws.

(f) It has had the opportunity to ask questions of and receive answers from officers of the Company, including Glen A. Welstad and John R. Coghlan, the Company's President and Chief Executive Officer and Secretary and Treasurer, respectively, and the Company's accountants and legal counsel concerning the transactions contemplated hereby and by the Note Agreement. Purchaser's principal place of business is set forth in Section 10.06. Notwithstanding anything in this Section 3.2(f) to the contrary, nothing in this Section 3.2(f) shall affect any representation or warranty made by the Company in Section 3.1.

Article IV Covenants

The Company covenants and agrees as follows:

4.01 Financial Statements. The Company will keep books of account and prepare financial statements and will cause to be furnished to the Purchaser or other Holder (all of the foregoing and following to be kept and prepared in accordance with United States generally accepted accounting principles applied on a consistent basis):

(a) As soon as available, and in any event within ninety (90) days after the end of each fiscal year, beginning with the fiscal year ending December 31, 1995, a certificate of an authorized officer of the Company in the form of the officer's certificate attached as Exhibit B to the Note Agreement.

(b) As soon as available, a copy of each (i) financial statement, report, notice, or proxy statement sent by the Company to its shareholders; (ii) regular, periodic, or special report, registration statement, or prospectus filed by the Company with any securities exchange, state securities regulator, or the Commission; (iii) material order issued by any court, governmental authority, or arbitrator in any material proceeding to which the Company is a party or to which any of its assets is subject; (iv) press release or other statement made available generally by the Company or the Shareholders to the public generally concerning material developments in the business of the Company; and (v) a copy of all material correspondence, reports, and other information sent by the Company to any holder of any indebtedness, including, without limitation the Senior Lender.

(c) Promptly, such additional information concerning the Company as any Holder may reasonably request, including, without limitation, (i) auditor management reports and audit "waive" lists and (ii) at any time that the Company fails to comply or is not required to comply with the financial reporting requirements of the Securities Act, copies of the financial statements and other information required under Section 6.1 of the Note Agreement, which financial statements and other information shall be delivered in the same form, for the same periods, and at the same intervals as required under Section 6.1 of the Note Agreement.

4.02 Laws. The Company and the Shareholders will comply with all applicable statutes, regulations, and orders of the United States, domestic and foreign states, and municipalities, agencies, and instrumentalities of the foregoing applicable to the Company and the Shareholders.

4.03 Board Observation and Membership. The Company will deliver to Purchaser a copy of the minutes of and all materials distributed at or prior to all meetings of the board of directors of the Company (including, without limitation, meetings of the

executive committee), certified as true and accurate by the Secretary of the Company, promptly following each such meeting. The Company will (a) permit Seacoast, so long as Seacoast owns at least twenty percent (20%) or more of the Warrant Shares owned by it on January 1, 1996, to designate one (1) person to attend all meetings of the Company's board of directors and shareholders as an observer, (b) permit the Allied Investors, collectively, so long as the Allied Investors own, in the aggregate, at least twenty percent (20%) or more of the Warrant Shares owned by them on January 1, 1996, to designate one (1) person to attend all meetings of the Company's board of directors and shareholders as an observer (provided that if a representative of the Purchaser is serving as a member of the Company's board of directors, Purchaser shall be allowed to collectively designate only one (1) person to attend such meetings of the Company's board of directors and shareholders as an observer), (c) provide such designees not less than twenty-one (21) calendar days' actual notice of all regular meetings of the Company's board of directors and shareholders and two (2) business days' actual notice via facsimile of all special meetings of the Company's board of directors (provided that the approval at a duly-called meeting of the Company's Board of Directors of a schedule of dates of future regular meetings of the Company's Board of Directors shall satisfy the notice requirements of this Subsection (c) if (i) the Observer(s) is/are in attendance at such meeting and (ii) the approved schedule of dates is clearly reflected in the minutes of the meeting), (d) permit Purchaser, so long as Purchaser owns, in the aggregate, at least twenty percent (20%) or more of the Warrant Shares owned by it on January 1, 1996, to collectively designate one (1) person to serve as a member of the Company's board of directors provided, however, that the Purchaser will not have any obligation to designate or cause such individuals to serve on the Company's board of directors, and (e) provide to such designees a copy of all materials distributed at such meetings or otherwise to the Company's directors. Any failure by the Purchaser to designate such persons pursuant to Subsection (d) above will not constitute a failure to comply with this Agreement or result in any liability to the Purchaser. Such meetings shall be held in person at least quarterly, and the Company will cause its board of directors to call a meeting at any time upon the request of any such designated observer on two (2) occasions per calendar year on seven (7) calendar days' actual notice to the Company. The Company agrees to compensate such individuals referred to in Subsection (d) above in the same manner as each of the other members of the Company's board of directors and agrees to reimburse each individual referred to in Subsections (a), (b) and (d) above for all reasonable expenses incurred in traveling to and from such meetings and attending such meetings. Notwithstanding anything to the contrary contained in this Agreement or in the Note Agreement, Company and Purchaser hereby agree and acknowledge that the number of persons who may be appointed by Purchaser to attend meetings of the Company's board of directors pursuant to this Section 4.03 (whether as observers or as members of the Company's board of directors) shall not be cumulative of the number of persons who may be appointed to by Purchaser to attend meetings of the Company's board of directors pursuant to Section 6.19 of the Note Agreement. Furthermore, this Section 4.03 shall not become effective until the payment in full of the Notes (prior to which time Section 6.19 of the Note Agreement shall govern Purchaser's board observation and membership rights).

4.04 Certain Actions. Without the prior written consent of the Holders, which consent may be withheld in the sole discretion of the Holders, the Company will not:

(a) permit to occur any amendment, alteration, or modification of the Articles of Incorporation or Bylaws of the Company, as constituted on the date of this Agreement, the effect of which, in the sole judgment of the Holders, would be to alter, impair, or affect adversely, either the rights and benefits of the Holders or the duties and obligations of Company or the Shareholders under this Agreement or the Warrants;

(b) redeem, retire, purchase, or otherwise acquire, directly or indirectly, any of the Capital Stock or capital stock or securities of any Affiliate of the Company, or any securities convertible or exchangeable into Capital Stock or capital stock or securities of any Affiliate of the Company;

(c) dissolve or liquidate, or effect any consolidation or merger involving the Company or any Subsidiary (other than a merger in which the Company or its Subsidiary, as the case may be, is the surviving entity and the holders of each

class of voting securities of the Company continue to hold a majority of each class of voting securities of the Company);

(d) except for the issuance of Permitted Stock, enter into any transaction or transactions with any director, officer, employee, or shareholder of the Company, or any Affiliate or relative of the foregoing except upon terms that are fair and reasonable and that are, in any event, at least as favorable as would result in a comparable arm's-length transaction with a Person not a director, officer, employee, shareholder, or Affiliate of the Company or any Affiliate or related party of the foregoing, or advance any monies to any such Persons, except for travel advances in the ordinary course of business;

(e) materially modify or amend, or terminate or waive any provision of the Non-Compete Agreements or require Glenn A. Welstad to cease to perform the functions of chief executive officer of the Company for reasons other than permanent disability;

(f) allow the aggregate par value of the Capital Stock subject to the Warrants from time to time to exceed the price payable upon exercise of the Warrants, as adjusted from time to time; or

(g) obligate itself or otherwise agree to take, permit or enter into any of the events described in subsections (a) through (f) above.

4.05 Records. The Company and each of its Subsidiaries will keep books and records of account in which full, true, and correct entries will be made of all dealings and transactions in relation to its business and affairs in accordance with generally accepted accounting principles applied on a consistent basis.

4.06 Accountants. The Company will retain independent public accountants who will certify the consolidated and consolidating financial statements of the Company at the end of each fiscal year, and in the event that the services of the independent public accountants so selected, or any firm of independent public accounts hereafter employed by Company, are terminated, the Company will promptly thereafter notify each Holder and upon the Holders' request, the Company will request the firm of independent public accountants whose services are terminated to deliver (without liability for such firm) to each Holder a letter of such firm setting forth the reasons for the termination of their services and in its notice to each Holder the Company will state whether the change of accountants was recommended or approved by the board of directors of the Company or any committee thereof.

4.07 Existence. The Company will maintain in full force and effect its corporate existence, rights, and franchises and all licenses and other rights to use Intellectual Property.

4.08 Notice.

(a) In the event of (i) any setting by the Company of a record date with respect to the holders of any class of Capital Stock for the purpose of determining which of such holders are entitled to dividends, repurchases of securities or other distributions, or any right to subscribe for, purchase or otherwise acquire any shares of Capital Stock or other property or to receive any other right; or (ii) any capital reorganization of the Company, or reclassification or recapitalization of the Capital Stock or any transfer of all or a majority of the assets, business, or revenue or income generating capacity of the Company, or consolidation, merger, share exchange, reorganization, or similar transaction involving the Company; or (iii) any voluntary or involuntary dissolution, liquidation, or winding up of the Company; or (iv) any proposed issue or grant by the Company of any Capital Stock, or any right or option to subscribe for, purchase, or otherwise acquire any Capital Stock (other than the issue of Permitted Stock or Issuable Warrant Shares upon exercise of the Warrants), then, in each such event, the Company will deliver or cause to be delivered to the Holders a notice specifying, as the case may be, (A) the date on which any such record is to be set for the purpose of such dividend, distribution, or right, and stating the amount and character of such dividend, distribution, or right; (B) the date as of which the holders of record will be entitled to vote on any reorganization, reclassification, recapitalization, transfer, consolidation, merger, share exchange, conveyance, dissolution, liquidation, or winding-up; (C) the date on which any such

reorganization, reclassification, recapitalization, transfer, consolidation, merger, share exchange, conveyance, dissolution, liquidation, or winding-up is to take place and the time, if any is to be fixed, as of which the holders of record of any class of Capital Stock will be entitled to exchange their shares of Capital Stock for securities or other property deliverable upon such event; (D) the amount and character of any Capital Stock, property, or rights proposed to be issued or granted, the consideration to be received therefor, and, in the case of rights or options, the exercise price thereof, and the date of such proposed issue or grant and the Persons or class of Persons to whom such proposed issue or grant will be offered or made; and (E) such other information as the Holders may reasonably request. Any such notice will be deposited in the United States mail, postage prepaid, at least twenty (20) days prior to the date therein specified, and notwithstanding anything in this Agreement or the Warrants to the contrary the Holders may exercise the Warrants within thirty (30) days from the receipt of such notice.

(b) If there is any adjustment as provided above in Article II, or if any Other Securities become issuable in lieu of shares of such Common Stock upon exercises of the Warrants, the Company will immediately cause written notice thereof to be sent to the each Holder, which notice will be accompanied by a certificate of the chief financial officer of the Company setting forth in reasonable detail the basis for the Holders' becoming entitled to receive such Other Securities, the facts requiring any such adjustment in the number of shares receivable after such adjustment, or the kind and amount of any Other Securities so purchasable upon the exercise of the Warrants, as the case may be. At the request of any Holder and upon surrender of the Warrant of such Holder, the Company will reissue the Warrant of such Holder in a form conforming to such adjustments.

4.09 Taxes. The Company will file all required tax returns, reports, and requests for refunds on a timely basis and will pay on a timely basis all taxes imposed on either of it or upon any of its assets, income, or franchises.

4.10 Warrant Rights. The Company covenants and agrees that during the term of this Agreement and so long as any Warrant is outstanding, (a) the Company will at all times have authorized and reserved a sufficient number of shares of Common Stock and Other Securities, to provide for the exercise in full of the rights represented by the Warrants and the exercise in full of the rights of the Holders under this Agreement; (b) the Company will not increase or permit to be increased the par value per share or stated capital of the Issuable Warrant Shares or the consideration receivable upon issuance of its Issuable Warrant Shares; and (c) in the event that the exercise of the Warrant would require the payment by the Holder of consideration for the Common Stock or Other Securities receivable upon such exercise of less than the par or stated value of such Issuable Warrant Shares, the Company and the Shareholders will promptly take such action as may be necessary to change the par or stated value of such Issuable Warrant Shares to an amount less than or equal to such consideration.

4.11 Inspection. Subject to Section 10.17, at any reasonable time and from time to time, the Company will permit representatives of Purchaser to examine and make copies of the books and records of, and visit and inspect the properties of, the Company, and to discuss the business, operations, and financial condition of the Company with its respective officers and employees and with its independent certified public accountants. The Company will promptly reimburse Purchaser for all reasonable expenses incurred by representatives of Purchaser in connection with such inspections.

4.12 Small Business Investment Act. At the request of any Holder, the Company will promptly correct any defect, error or omission with respect to the Act that may be discovered in the contents of this Agreement or the documents executed in connection herewith or in the execution or acknowledgment thereof, and will execute, acknowledge and deliver such further instruments and do such further acts as may be necessary for this Agreement and such other documents, and all transactions contemplated thereby, to comply with the Act.

Article V Conditions

The obligations of the Purchaser to effect the transactions contemplated by this Agreement are subject to the following conditions precedent:

5.01 Opinion. The Purchaser will have received favorable opinions, dated the Closing Date, from Brad E. Herr, P.S., general counsel to the Company, and Preston Gates & Ellis, special counsel to the Company, covering matters raised by this Agreement and the Shareholder Agreement and such other matters as the Purchaser or their counsel may request, and otherwise in form and substance satisfactory to the Purchaser and its counsel.

5.02 Note Agreement Conditions. All of the conditions precedent to the obligations of the Purchaser under the Note Agreement will have been satisfied in full.

5.03 Material Change. There will have occurred no material adverse change in the business, prospects, results, operations, or condition, financial or otherwise, of the Company.

5.04 Representations and Agreements. Each representation and warranty of the Company set forth in this Agreement will be true and correct when made and as of the Closing Date, and the Company will have fully performed all covenants and agreements set forth in this Agreement to be performed by the Company on or prior to the date hereof.

5.05 Proceedings; Consents. All proceedings taken in connection with the transactions contemplated by this Agreement, and all documents necessary to the consummation of this Agreement, will be satisfactory in form and substance to the Purchaser and their counsel, and the Purchaser and their counsel will have received certificates of compliance and copies (executed or certified as may be appropriate) of all documents, instruments, and agreements that the Purchaser or such counsel may request in connection with the consummation of such transactions. All consents of any Person necessary to the consummation of the transactions contemplated by this Agreement will have been received, be in full force and effect, and not be subject to any onerous condition.

5.06 Small Business Concern Documents. The Company will have completed, executed and delivered to the Purchaser a Size Status Declaration on SBA Form 480, a Non-Discrimination Certificate on SBA Form 652-D and shall have provided the Purchaser the information necessary to complete the Portfolio Financing Report on SBA Form 1031.

5.07 Shareholder Agreement. The Company and the Shareholders will have entered into the Shareholder Agreement with Purchaser.

Article VI Holders' Right to Purchase New Securities

6.01 Right to Purchase New Securities. The Company will not issue or sell any New Securities without first complying with this Article VI. The Company hereby grants to each Holder the right to purchase, pro rata, all or any part of the New Securities that the Company may, from time to time, propose to sell or issue. In the event New Securities are offered or sold as part of a unit with other New Securities, the right granted by this Article VI will apply to such units and not to the individual New Securities composing such units. Each Holder's pro rata share for purposes of Article VI is the ratio that the number of shares of Common Stock issuable to such Holder upon exercise of its Warrant plus the number of shares of Common Stock that are Issued Warrant Shares owned by such Holder immediately prior to the issuance of the New Securities, bears to the sum of (x) the total number of shares of Common Stock then outstanding, plus (y) the number of shares of Common Stock issuable upon exercise of all Warrants then outstanding.

6.02 Notice to Holders. In the event the Company proposes to issue or sell New Securities, it will give each Holder written notice of its intention, describing the type of New Securities and the price and terms upon which the Company proposes to issue or sell the New Securities. Each Holder will have fifteen (15) days from the date of receipt of any such notice and such information as the Holders may reasonably request to facilitate their investment decision to agree to purchase up to its respective pro rata share of the New Securities for the price (valued at Fair Market Value for any noncash consideration) and upon the terms specified in the notice by giving written notice to the Company stating the quantity of New Securities agreed to be purchased.

6.03 Allocation of Unsubscribed New Securities. In the

event a Holder fails to exercise such right to purchase within such fifteen (15) day period, the other Holders, if any, will have an additional five (5) day period to purchase such Holder's portion not so agreed to be purchased in the same proportion in which such other Holders were entitled to purchase the New Securities (excluding for such purposes such nonpurchasing Holder). Thereafter, the Company will have ninety (90) days to sell the New Securities not elected to be purchased by the Holders at the same price and upon the same terms specified in the Company's notice described in Section 6.02. In the event the Company has not sold the New Securities within such ninety (90) day period, the Company will not thereafter issue or sell any New Securities without first offering such securities in the manner provided above.

Article VII Dilution Fee

In the event that, during the term of the Warrants, the Company pays any cash dividend or makes any cash distribution to any holder of any class of its Capital Stock with respect to such Capital Stock, each Holder of the Warrants will be entitled to receive in respect of its Warrant a dilution fee in cash (the "Dilution Fee") on the date of payment of such dividend or distribution, which Dilution Fee will be equal to the highest amount per share paid to any class of Capital Stock times the number of Issued Warrant Shares then owned by such Holder plus the number of Issuable Warrant Shares then owned by such Holder, less the amount of such dividend or distribution otherwise paid to such Holder as a result of its ownership of Common Stock.

Article VIII Forced Exercise Option

8.01 Grant of Option. Each Holder hereby severally grants to the Company an option to require such Holder to exercise, and each Holder is obligated to exercise under this option (the "Forced Exercise Option"), its Warrant. The Forced Exercise Option shall only be effective (i) after the fourth anniversary of the Closing Date, (ii) after the Notes have been paid in full, and (iii) if the closing price of the Common Stock has exceeded two hundred percent (200%) of the Exercise Price for the thirty (30) trading days ending five (5) days prior to the Company giving notice to each Holder pursuant to Section 8.03 hereof (the "Forced Exercise Period").

8.02 Exercise Price. In the event that the Company exercises the Forced Exercise Option, each Holder shall pay to the Company, at the Forced Exercise Date (as defined below), the Exercise Price for each Issuable Warrant Share covered by its Warrant. The Exercise Price shall be paid, at the option of each Holder, in the same form(s) of consideration permitted under Section 2.04(b) hereof; provided, however, that if any Holder fails to designate the form of consideration to be utilized to pay the Exercise Price, such Holder shall pay the Exercise Price by cancellation of its Warrant, valued at Fair Market Value.

8.03 Exercise of Forced Exercise Option. The Forced Exercise Option may be exercised during the Forced Exercise Period with respect to all of the Warrants of all Holders, by the Company giving notice to each Holder during the Forced Exercise Period of the election of the Company to exercise the Forced Exercise Option, and the date of the Forced Exercise Date, which in any event shall be the thirtieth (30th) day after the date of such notice (unless such thirtieth day is not a business day in which case the Forced Exercise Date shall be held on the next succeeding business day). Notwithstanding anything contained in this Article VIII to the contrary, each Holder shall be permitted to exercise its Warrants pursuant to Section 2.04 at any time following receipt of notice that the Company intends to exercise the Forced Exercise Option and prior to the Forced Exercise Date.

8.04 Forced Exercise Date. The closing for the forced exercise of all of the Warrants will take place at the office of the Company, on the date specified in such notice of exercise (the "Forced Exercise Date"). At the Forced Exercise Date, the Holders of the Warrants will deliver the Warrants to the Company. In consideration therefor, the Company will deliver to each Holder a certificate or certificates representing the aggregate number of full shares of Common Stock and Other Securities issuable upon the exercise of such Holder's Warrant. The Stock certificate or certificates so delivered will be in such denominations as may be specified by each Holder and will be registered in the name of such Holder, or such other name as designated by such Holder prior to the Forced Exercise Date. A

Warrant will be deemed to have been exercised, such certificate or certificates will be deemed to have been issued, and such Holder or any other person so designated will be deemed to have become a holder of record of such shares for all purposes, as of the date of the Forced Exercise Date.

8.05 Holdback Agreement. The Company agrees (i) not to effect any public sale or distribution during the period thirty (30) days prior to the Forced Exercise Date and ending on the sixtieth (60th) day after the Forced Exercise Date, and (ii) to use their best efforts to cause each holder of the Company's equity securities or any securities convertible into or exchangeable or exercisable for any of such securities, in each case purchased from the Company at any time after the date of this Agreement (other than in a public offering), to agree not to effect any such public sale or distribution of such securities during such period.

Article IX Liquidity

9.01 Required Registration. At any time, each Qualifying Holder may, upon not more than one (1) occasion, make a written request to the Company requesting that the Company effect the registration of Registrable Securities. After receipt of such a request, the Company will, as soon as practicable, notify all Holders of such request and use its best efforts to effect the registration of all Registrable Securities that the Company has been so requested to register by any Qualifying Holder for sale, all to the extent required to permit the disposition (in accordance with the intended method or methods thereof) of the Registrable Securities so registered. In no event will any Person other than a Holder be entitled to include any shares of Capital Stock in any registration statement filed pursuant to this Section 9.01.

9.02 Incidental Registration. If the Company at any time proposes to file on its behalf or on behalf of any of its security holders a registration statement under the Securities Act on any form (other than a registration statement on Form S-4 or S-8 or any successor form unless such forms are being used in lieu of or as the functional equivalent of, registration rights) for any class that is the same or similar to Registrable Securities, it will give written notice setting forth the terms of the proposed offering and such other information as the Holders may reasonably request to all holders of Registrable Securities at least thirty (30) days before the initial filing with the Commission of such registration statement, and offer to include in such filing such Registrable Securities as any Holder may request. Each Holder of any such Registrable Securities desiring to have Registrable Securities registered under this Section 9.02 will advise the Company in writing within thirty (30) days after the date of receipt of such notice from the Company, setting forth the amount of such Registrable Securities for which registration is requested. The Company will thereupon include in such filing the number of Registrable Securities for which registration is so requested, and will use its best efforts to effect registration under the Securities Act of such Registrable Securities.

Notwithstanding the foregoing, if the managing underwriter or underwriters, if any, of such offering deliver a written opinion to each Holder of such Registrable Securities that the success of the offering would be materially and adversely affected by the inclusion of the Registrable Securities requested to be included, then the amount of securities to be offered for the accounts of Holders will be reduced pro rata (according to the Registrable Securities proposed for registration) to the extent necessary to reduce the total amount of securities to be included in such offering to the amount recommended by such managing underwriter or underwriters; provided, however, that if securities are being offered for the account of other persons as well as the Company, then with respect to the Registrable Securities intended to be offered to Holders, the proportion by which the amount of such class of securities intended to be offered by Holders is reduced will not exceed the proportion by which the amount of such class of securities intended to be offered by such other Persons (other than the Company) is reduced.

9.03 Form S-3 Registrations. In addition to the registration rights provided in Sections 9.01 and 9.02 above, if at any time the Company is eligible to use Form S-3 (or any successor form) for registration of secondary sales of Registrable Securities, any Holder of Registrable Securities may

request in writing that the Company register shares of Registrable Securities on such form. Upon receipt of such request, the Company will promptly notify all holders of Registrable Securities in writing of the receipt of such request and each such Holder may elect (by written notice sent to the Company within thirty (30) days of receipt of the Company's notice) to have its Registrable Securities included in such registration pursuant to this Section 9.03. Thereupon, the Company will, as soon as practicable, use its best efforts to effect the registration on Form S-3 of all Registrable Securities that the Company has so been requested to register by such Holder for sale. The Company will use its best efforts to qualify and maintain its qualification for eligibility to use Form S-3 for such purposes.

9.04 Registration Procedures. In connection with any registration of Registrable Securities under this Article IX, the Company will, as soon as practicable:

(a) prepare and file with the Commission a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration statement to become and remain effective until the earlier of such time as all Registrable Securities subject to such registration statement have been disposed of or the expiration of two hundred seventy (270) days (except with respect to registrations effected on Form S-3 or any successor form, as to which no such period shall apply);

(b) prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective and to comply with the provisions of the Securities Act with respect to the sale or other disposition of all Registrable Securities covered by such registration statement until the earlier of such time as all of such Registrable Securities have been disposed of or the expiration of two hundred seventy (270) days (except with respect to registrations effected on Form S-3 or any successor form, as to which no such period shall apply);

(c) furnish to each Holder such number of copies of the registration statement and prospectus (including, without limitation, a preliminary prospectus) in conformity with the requirements of the Securities Act (in each case including all exhibits) and each amendment or supplement thereto, together with such other documents as any Holder may reasonably request;

(d) use its best efforts to register or qualify the Registrable Securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions within the United States and Puerto Rico as each Holder reasonably requests, and do such other acts and things as may be reasonably required of it to enable such holder to consummate the disposition in such jurisdiction of the securities covered by such registration statement;

(e) otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its securities holders, as soon as practicable, an earnings statement covering the period of at least twelve months beginning with the first month after the effective date of such registration statement, which earnings statement will satisfy the provisions of Section 11(a) of the Securities Act;

(f) provide and cause to be maintained a transfer agent and registrar for Registrable Securities covered by such registration statement from and after a date not later than the effective date of such registration statement;

(g) if requested by the underwriters for any underwritten offering or Registrable Securities on behalf of a Holder of Registrable Securities pursuant to a registration requested under Section 9.01, the Company will enter into an underwriting agreement with such underwriters for such offering, such agreement to contain such representations and warranties by the Company and such other terms and provisions as are customarily contained in underwriting agreements with respect to secondary distributions, including, without limitation, provisions with respect to indemnities and contribution as are reasonably satisfactory to such underwriters and the Holders; the Holders on whose behalf Registrable Securities are to be distributed by such underwriters will be parties to any such underwriting agreement and the representations and warranties by, and the other agreements on the part of, the Company to and for

the benefit of such underwriters, will also be made to and for the benefit of such Holders of Registrable Securities; and no Holder of Registrable Securities will be required by the Company to make any representations or warranties to or agreements with the Company or the underwriters other than reasonable and customary representations, warranties, or agreements regarding such Holder, such Holder's Registrable Securities, such Holder's intended method or methods of disposition, and any other representation required by law;

(h) furnish, at the written request of any Holder, on the date that such Registrable Securities are delivered to the underwriters for sale pursuant to such registration, or, if such Registrable Securities are not being sold through underwriters, on the date that the registration statement with respect to such Registrable Securities becomes effective, (i) an opinion in form and substance reasonably satisfactory to such Holders, and addressing matters customarily addressed in underwritten public offerings, of the counsel representing the Company for the purposes of such registration (who will not be an employee of the Company and who will be satisfactory to such Holders), addressed to the underwriters, if any, and to the selling Holders; and (ii) a letter (the "comfort letter") in form and substance reasonably satisfactory to such Holders, from the independent certified public accountants of the Company, addressed to the underwriters, if any, and to the selling Holders making such request (and, if such accountants refuse to deliver the comfort letter to such Holders, then the comfort letter will be addressed to the Company and accompanied by a letter from such accountants addressed to such Holders stating that they may rely on the comfort letter addressed to the Company); and

(i) during the period when the registration statement is required to be effective, notify each selling Holder of the happening of any event as a result of which the prospectus included in the registration statement contains an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and prepare a supplement or amendment to such prospectus so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

It will be a condition precedent to the obligation of the Company to take any action pursuant to this Article IX in respect of the Registrable Securities that are to be registered at the request of any Holder of Registrable Securities that such Holder furnish to the Company such information regarding the Registrable Securities held by such Holder and the intended method of disposition thereof as is legally required in connection with the action taken by the Company. The managing underwriter or underwriters, if any, for any offering of Registrable Securities to be registered pursuant to Section 9.01 or 9.03 will be selected by the Holders of a majority of the Registrable Securities being so registered.

9.05 Allocation of Expenses. Except as provided in the following sentence, the Company will bear all expenses arising or incurred in connection with any of the transactions contemplated by this Article IX, including, without limitation, (a) all expenses incident to filing with the National Association of Securities Dealers, Inc.; (b) registration fees; (c) printing expenses; (d) accounting and legal fees and expenses; (e) expenses of any special audits or comfort letters incident to or required by any such registration or qualification; and (f) expenses of complying with the securities or blue sky laws of any jurisdictions in connection with such registration or qualification. Each Holder will severally bear the expense of its underwriting fees, discounts, or commissions relating to its sale of Registrable Securities.

9.06 Listing on Securities Exchange. If the Company lists any shares of Capital Stock on any securities exchange or on the National Association of Securities Dealers, Inc. Automated Quotation System or similar system, it will, at its expense, list thereon, maintain and, when necessary, increase such listing of, all Registrable Securities.

9.07 Holdback Agreements.

(a) If any registration pursuant to Section 9.02 is in connection with an underwritten public offering, each Holder of Registrable Securities agrees, if so required by the managing

underwriter, not to effect any public sale or distribution of Registrable Securities (other than as part of such underwritten public offering) during the period beginning seven (7) days prior to the effective date of such registration statement and ending on the one hundred eightieth (180th) day after the effective date of such registration statement; provided, however, that the Shareholders and each Person that is an officer, director, or beneficial owner of five percent (5%) or more of the outstanding shares of any class of Capital Stock enters into such an agreement.

(b) The Company and the Shareholders agree (i) not to effect any public sale or distribution during the period seven (7) days (or such longer period as may be prescribed by Rule 10b-6 under the Exchange Act) prior to the effective date of the registration statement employed in any underwritten public offering and ending on the one hundred eightieth (180th) day after any such registration statement contemplated by Sections 9.01 or 9.03 has become effective, except as part of such underwritten public offering pursuant to such registration statement and except pursuant to securities registered on Forms S-4 or S-8 of the Commission or any successor forms, and (ii) use their best efforts to cause each holder of its equity securities or any securities convertible into or exchangeable or exercisable for any of such securities, in each case purchased from the Company at any time after the date of this Agreement (other than in a public offering), to agree not to effect any such public sale or distribution of such securities during such period.

9.08 Rule 144. The Company will, at all times during the terms of this Agreement, take such action as any Holder may reasonably request, all to the extent required from time to time, to enable such Holder to sell shares of Registrable Securities without registration pursuant to and in accordance with (a) Rule 144 under the Securities Act, as such Rule may be amended from time to time, or (b) any similar rule or regulation adopted by the Commission. Upon the request of any Holder of Registrable Securities, the Company will deliver to such Holder a written statement as to whether it has complied with such requirements.

9.09 Rule 144A. The Company agrees that, upon the request of any Holder or any prospective purchaser of a Warrant or Warrant Shares designated by a Holder, the Company will promptly provide (but in any case within fifteen (15) days of a request) to such Holder or potential purchaser, the following information:

(a) a brief statement of the nature of the business of the Company and any Subsidiaries and the products and services they offer;

(b) the most recent consolidated balance sheets and profit and losses and retained earnings statements, and similar financial statements of the Company for such part of the two preceding fiscal years prior to such request as the Company has been in operation (such financial information will be audited, to the extent reasonably available); and

(c) such other information about the Company, any Subsidiaries, and their business, financial condition, and results of operations as the requesting Holder or purchaser of such Warrants requests in order to comply with Rule 144A, as amended, and the antifraud provisions of the federal and state securities laws.

The Company hereby represents and warrants to any such requesting Holder and any prospective purchaser of Warrants or Warrant Shares from such Holder that the information provided by the Company pursuant to this Section 9.09 will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

9.10 Form S-3 Required Registration. As soon as the Company is eligible to use Form S-3 (or any successor form) for registration of secondary sales of Registrable Securities, the Company will register all shares of Registrable Securities owned by the Holders on such form. The Company will promptly notify all holders of Registrable Securities in writing at such time that it is eligible to use Form S-3 (or any successor form) for registration of Secondary Sales of Registrable Securities, and thereafter, upon the request of Holders representing a majority in interest of the Registrable Securities, the Company will, as soon as practicable, use its best efforts to effect the registration on Form S-3 of all Registrable Securities owned by

the Holders. The Company will use its best efforts to qualify and maintain its qualification for eligibility to use Form S-3 for such purposes. In connection with any registration of Registrable Securities under this Section 9.10, the Company will comply with Section 9.04 hereof.

9.11 Limitations on Subsequent Registration Rights.

From and after the date of this Agreement, the Company will not, without the prior written consent of the Holders of a majority of the outstanding Registrable Securities, enter into any agreement with any holder or prospective holder of any securities of the Company that would allow such holder or prospective holder (a) to include such securities in any registration filed under Section 9.01, unless under the terms of such agreement, such holder or prospective holder may include such securities in any such registration only to the extent that the inclusion of its securities will not reduce the amount of the Registrable Securities of the Holders that is included or (b) to make a demand registration that could result in such registration statement being declared effective prior to the effectiveness of the first registration statement effected under Section 9.01 or within one hundred twenty (120) days of the effective date of any registration effected pursuant to Section 9.01.

9.12 No Impairment of Registration Rights. The Company

and the Shareholders will not avoid or seek to avoid the observance or performance of any of the terms of this Article IX, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate in order to protect the rights of the Holders under this Article IX from dilution or impairment.

9.13 Survivability of Demand Registration Rights.

Notwithstanding anything contained herein to the contrary, if the Company has registered all shares of Registrable Securities owned by the Holders on Form S-3 pursuant to Section 9.10 and for so long as the Company is complying with all of its obligations under Section 9.10, no Holder shall be entitled to the benefits of Sections 9.01, 9.02 or 9.03 hereof.

Article X
Miscellaneous

10.01 Indemnification. In addition to any other rights

or remedies to which the Purchaser and the Holders may be entitled, the Company agrees to and will indemnify and hold harmless the Purchaser, the Holders, and their Affiliates and their respective successors, assigns, officers, directors, employees, attorneys, and agents (individually and collectively, an "Indemnified Party") from and against any and all losses, claims, obligations, liabilities, deficiencies, diminutions in value, penalties, causes of action, damages, costs, and expenses (including, without limitation, costs of investigation and defense, attorneys' fees, and expenses), including, without limitation, those arising out of the sole or contributory negligence of any Indemnified Party, that the Indemnified Party may suffer, incur, or be responsible for, arising or resulting from any misrepresentation, breach of warranty, or nonfulfillment of any covenant or agreement on the part of the Company under this Agreement, the Shareholder Agreement, or under any other agreement to which the Company is a party in connection with this transaction, or from any misrepresentation in or omission from any certificate or other instrument furnished or to be furnished to the Purchaser or the Holders under this Agreement.

10.02 Default. It is agreed that a violation by any

party of the terms of this Agreement cannot be adequately measured or compensated in money damages, and that any breach or threatened breach of this Agreement by a party to this Agreement would do irreparable injury to the nondefaulting party. It is, therefore, agreed that in the event of any breach or threatened breach by a party to this Agreement of the terms and conditions set forth in this Agreement, the nondefaulting party will be entitled, in addition to any and all other rights and remedies that it may have in law or in equity, to apply for and obtain injunctive relief requiring the defaulting party to be restrained from any such breach or threatened breach or to refrain from a continuation of any actual breach.

10.03 Integration. This Agreement constitutes the

entire agreement between the parties with respect to the subject matter hereof and thereof and supersede all previous written, and all previous or contemporaneous oral, negotiations, understandings, arrangements, and agreements. This Agreement may not be amended or supplemented except by a writing signed by

Company, the Shareholders, and each Holder.

10.04 Headings. The headings in this Agreement are for convenience and reference only and are not part of the substance of this Agreement. References in this Agreement to Sections and Articles are references to the Sections and Articles of this Agreement unless otherwise specified.

10.05 Severability. The parties to this Agreement expressly agree that it is not the intention of any of them to violate any public policy, statutory or common law rules, regulations, or decisions of any governmental or regulatory body. If any provision of this Agreement is judicially or administratively interpreted or construed as being in violation of any such policy, rule, regulation, or decision, the provision, section, sentence, word, clause, or combination thereof causing such violation will be inoperative (and in lieu thereof there will be inserted such provision, sentence, word, clause, or combination thereof as may be valid and consistent with the intent of the parties under this Agreement) and the remainder of this Agreement, as amended, will remain binding upon the parties, unless the inoperative provision would cause enforcement of the remainder of this Agreement to be inequitable under the circumstances.

10.06 Notices. Whenever it is provided herein that any notice, demand, request, consent, approval, declaration, or other communication be given to or served upon any of the parties by another, such notice, demand, request, consent, approval, declaration, or other communication will be in writing and will be deemed to have been validly served, given or delivered (and "the date of such notice" or words of similar effect will mean the date) five (5) days after deposit in the United States mails, certified mail, return receipt requested, with proper postage prepaid, or upon receipt thereof (whether by non-certified mail, telecopy, telegram, express delivery, or otherwise), whichever is earlier, and addressed to the party to be notified as follows:

If to the Purchaser, at: Seacoast Capital Partners
Limited Partnership
c/o Seacoast Capital
Corporation
55 Ferncroft Road
Danvers, Massachusetts 01923
Attention: Thomas W. Gorman
Facsimile: (508) 750-1301

Allied Investment Corporation
1666 K Street, N.W.
Suite 901
Washington D.C. 20006
Attn: George Stelljes III
Facsimile: (202) 659-2053

Allied Investment Corporation II
1666 K Street, N.W.
Suite 901
Washington D.C. 20006
Attn: George Stelljes III
Facsimile: (202) 659-2053

Allied Capital Corporation II
1666 K Street, N.W.
Suite 901
Washington, D.C. 20006
Attn: George Stelljes III
Facsimile: (201) 659-2053

with courtesy copies to: Hughes & Luce, L.L.P.
1717 Main Street
Suite 2800
Dallas, Texas 75201
Attn: Larry A. Makel, Esq.
Facsimile: 214-939-6100

Dickstein Shapiro & Morin
2101 L Street, N.W.
Suite 800
Washington, D.C. 20037
Attn: David Parker
Facsimile: (202) 887-0689

If to the Company, at: Labor Ready, Inc.
2156 Pacific Avenue South
Tacoma, Washington 98402

Attn: Glenn A. Welstad
Facsimile: (206) 383-9311

with courtesy copies to: Preston Gates & Ellis
701 5th Avenue, Suite 5000
Seattle, Washington 98104
Attn: Mark Beatty, Esq.
Facsimile: (206) 623-7022

Brad E. Herr, P.S.
2150 North Pines, Suite 202
Spokane, Washington 99206
Facsimile: (509) 928-9338

or to such other address as each party may designate for itself by like notice. Notice to any Holder other than the Purchaser will be delivered as set forth above to the address shown on the stock transfer books of the Company or the Warrant Register unless such Holder has advised the Company in writing of a different address to which notices are to be sent under this Agreement.

Failure or delay in delivering courtesy copies of any notice, demand, request, consent, approval, declaration, or other communication to the persons designated above to receive copies of the actual notice will in no way adversely affect the effectiveness of such notice, demand, request, consent, approval, declaration, or other communication.

No notice, demand, request, consent, approval, declaration or other communication will be deemed to have been given or received unless and until it sets forth all items of information required to be set forth therein pursuant to the terms of this Agreement.

10.07 Successors. This Agreement will be binding upon and inure to the benefit of the parties and their respective successors and assigns, provided that the Purchaser will have the right to assign its rights under this Agreement in connection with any transfer of the Warrants or Warrant Shares to not more than twenty (20) Persons.

10.08 Remedies. The failure of any party to enforce any right or remedy under this Agreement, or promptly to enforce any such right or remedy, will not constitute a waiver thereof, nor give rise to any estoppel against such party, nor excuse any other party from its obligations under this Agreement. Any waiver of any such right or remedy by any party must be in writing and signed by the party against which such waiver is sought to be enforced.

10.09 Survival. All warranties, representations, and covenants made by any party in this Agreement or in any certificate or other instrument delivered by such party or on its behalf under this Agreement will be considered to have been relied upon by the party to which it is delivered and will survive the Closing Date, regardless of any investigation made by such party or on its behalf. All statements in any such certificate or other instrument will constitute warranties and representations under this Agreement. Notwithstanding anything to the contrary contained in this Agreement, (a) Seacoast shall not be entitled to the benefits of this Agreement at such time that it (i) no longer owns a Warrant and (ii) owns less than twenty percent (20%) of the Warrant Shares owned by it on the Closing Date, (b) no Allied Investor shall be entitled to the benefits of this Agreement at such time that (i) no Allied Investor holds a Warrant and (ii) the Allied Investors own, in the aggregate, less than twenty percent (20%) of the Warrant Shares owned by them, collectively, on the Closing Date, and (c) a Holder (other than Seacoast or the Allied Investors) shall not be entitled to the benefits of this Agreement at such time that it (i) no longer owns a Warrant and (ii) owns less than ten percent (10%) of the Warrant Shares.

10.10 Fees. Subject to the second sentence of this Section 10.10, any and all fees, costs, and expenses, of whatever kind and nature, including attorneys' fees and expenses, incurred by the Holders in connection with the defense or prosecution of any actions or proceedings arising out of or in connection with this Agreement will be borne and paid by the Company within ten (10) days of demand by the Holders. Notwithstanding the foregoing, with respect to any actions or proceedings solely between any Holder and the Company arising out of or in connection with this Agreement, the prevailing party shall recover, within ten (10) days of demand, any and all fees, costs,

and expenses, of whatever kind and nature, including attorneys' fees and expenses, reasonably incurred in connection with the defense or prosecution of any such actions or proceedings.

10.11 Counterparts. This Agreement may be executed in any number of counterparts, which will individually and collectively constitute one agreement.

10.12 Other Business. It is understood and accepted that the Purchaser, the Holders, and their Affiliates have interests in other business ventures that may be in conflict with the activities of the Company and that nothing in this Agreement will limit the current or future business activities of such parties whether or not such activities are competitive with those of the Company. The Company agrees that all business opportunities in any field substantially related to the business of the Company will be pursued exclusively through the Company.

10.13 Choice of Law. THIS AGREEMENT HAS BEEN EXECUTED, DELIVERED, AND ACCEPTED BY THE PARTIES IN THE COMMONWEALTH OF MASSACHUSETTS, WILL BE DEEMED TO HAVE BEEN MADE IN THE COMMONWEALTH OF MASSACHUSETTS, AND WILL BE INTERPRETED AND THE RIGHTS OF THE PARTIES DETERMINED IN ACCORDANCE WITH THE LAWS OF THE UNITED STATES APPLICABLE THERETO AND THE INTERNAL LAWS OF THE COMMONWEALTH OF MASSACHUSETTS APPLICABLE TO AN AGREEMENT EXECUTED, DELIVERED AND PERFORMED THEREIN WITHOUT GIVING EFFECT TO THE CHOICE-OF-LAW RULES THEREOF OR ANY OTHER PRINCIPLE THAT COULD REQUIRE THE APPLICATION OF THE SUBSTANTIVE LAW OF ANY OTHER JURISDICTION.

10.14 Nominees for Beneficial Owners. In the event that any Registrable Securities are held by a nominee for the beneficial owner of such Registrable Securities, the beneficial owner of Registrable Securities may, at its election, be treated as the Holder of such Registrable Securities for purposes of any request or other action by any Holder or Holders of Registrable Securities pursuant to this Agreement or any determination of any number or percentage of shares of Registrable Securities held by any Holder or Holders of Registrable Securities contemplated by this Agreement. If the beneficial owner of any Registrable Securities so elects, the Company may require assurances reasonably satisfactory to it of such owner's beneficial ownership of such Registrable Securities. In no event will a Holder be required to exercise the Warrants as a condition to the registration of such Warrant or Registrable Securities thereunder.

10.15 Duties Among Holders. Each Holder agrees that no other Holder will by virtue of this Agreement be under any fiduciary or other duty to give or withhold any consent or approval under this Agreement or to take any other action or omit to take any action under this Agreement, and that each other Holder may act or refrain from acting under this Agreement as such other Holder may, in its discretion, elect.

10.16 Small Business Investment Act. This Agreement, the other purchase documents executed in connection herewith, and all transactions contemplated hereby and thereby are subject to the provisions of the Act, and shall be governed thereby to the extent of any conflict therewith.

10.17 Confidentiality. Each Purchaser and each Holder agrees to keep confidential any information delivered by the Company to such Person under this Agreement; provided, however, that nothing in this Section 10.17 will prevent such Person from disclosing such information (a) to any Affiliate of such Person or any actual or potential purchaser, participant, assignee, or transferee of such Person's rights or obligations hereunder that agrees to be bound by the terms of this Section 10.17, (b) upon order of any court or administrative agency, (c) upon the request or demand of any regulatory agency or authority having jurisdiction over such Person, (d) that is in the public domain otherwise than through the breach of this Section 10.17 by any such Person, (e) that has been obtained from any Person that is not a party to this Agreement or an Affiliate of any such party without breach by such Person of a confidentiality obligation known to such Person, (f) in connection with the exercise of any remedy under this Agreement, (g) to the certified public accountants of such Person, or (h) to the Senior Lender pursuant to the terms of the Senior Subordination Agreement (as defined in the Note Agreement). The Company agrees that such Person will be presumed to have met its obligations under this Section 10.17 to the extent that it exercises the same degree of care with respect to information provided by the Company as it exercises with respect to its own information of similar character.

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IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first above written.

COMPANY:

LABOR READY, INC.

By:

Name: Glenn A. Welstad
Title: Chief Executive Officer

PURCHASER:

SEACOAST CAPITAL PARTNERS
LIMITED PARTNERSHIP

By: Seacoast Capital Corporation,
its general partner

By:

Name: Thomas W. Gorman
Title: Vice President

55 Ferncroft Road
Danvers, Massachusetts 01923
Attn: Thomas W. Gorman
Facsimile: (508) 750-1301

Number of Warrant Shares: 227,456 shares
Purchase Price: \$23

ALLIED INVESTMENT CORPORATION

By:

Name: George Stelljes III
Title: Senior Vice President

1666 K Street, N.W., Suite 901
Washington D.C. 20006
Attn: George Stelljes III
Facsimile: (202) 659-2053

Number of Warrant Shares: 120,552 shares
Purchase Price: \$12

ALLIED INVESTMENT CORPORATION II

By:

Name: George Stelljes III
Title: Senior Vice President

1666 K Street, N.W., Suite 901
Washington D.C. 20006
Attn: George Stelljes III
Facsimile: (202) 659-2053

Number of Warrant Shares: 59,138 shares
Purchase Price: \$6

ALLIED CAPITAL CORPORATION II

By:

Name: George Stelljes III
Title: Senior Vice President

1666 K Street, N.W., Suite 901
Washington D.C. 20006
Attn: George Stelljes III
Facsimile: (202) 659-2053

Number of Warrant Shares: 47,766 shares
Purchase Price: \$5

WARRANT

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO OR FOR SALE IN CONNECTION WITH THE DISTRIBUTION HEREOF. THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS, AND MAY NOT BE PLEDGED, SOLD, OFFERED FOR SALE, TRANSFERRED, OR OTHERWISE DISPOSED OF IN THE ABSENCE OF REGISTRATION UNDER OR EXEMPTION FROM SUCH ACT AND ALL APPLICABLE STATE SECURITIES LAWS.

"THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF ARE SUBJECT TO THE TERMS AND PROVISIONS OF A WARRANT PURCHASE AGREEMENT, DATED AS OF OCTOBER 31, 1995, BY AND AMONG LABOR READY, INC. (THE "COMPANY"), SEACOAST CAPITAL PARTNERS LIMITED PARTNERSHIP ("SEACOAST"), ALLIED INVESTMENT CORPORATION ("AIC"), ALLIED INVESTMENT CORPORATION II ("AIC II") AND ALLIED CAPITAL CORPORATION II ("ACC II"), AND A SHAREHOLDER AGREEMENT, DATED AS OF OCTOBER 31, 1995, BY AND AMONG THE COMPANY, SEACOAST, AIC, AIC II, ACC II AND THE SHAREHOLDERS OF THE COMPANY LISTED ON THE SIGNATURE PAGES THERETO (AS SUCH AGREEMENTS MAY BE SUPPLEMENTED, MODIFIED, AMENDED, OR RESTATED FROM TIME TO TIME, THE "AGREEMENTS"). COPIES OF THE AGREEMENTS ARE AVAILABLE AT THE EXECUTIVE OFFICES OF THE COMPANY."

227,456 shares of
Common Stock

Warrant No. W-1

WARRANT TO PURCHASE COMMON STOCK OF
LABOR READY, INC.

This is to certify that, in consideration of _____ dollars (\$_____) and other valuable consideration, which is hereby acknowledged as received, Seacoast Capital Partners Limited Partnership (the "Holder"), its successors and registered assigns, is entitled at any time after the date hereof and prior to 5:00 p.m. October 31, 2002, to exercise this Warrant to purchase _____(_____) shares of the common stock of Labor Ready, Inc., a Washington corporation, as the same shall be adjusted from time to time pursuant to the provisions of the Agreements at a price per share as specified in the Agreements and to exercise the other rights, powers, and privileges hereinafter provided, all on the terms and subject to the conditions specified in this Warrant and in the Agreements.

This Warrant is issued under, and the rights represented hereby are subject to the terms and provisions contained in the Agreements, to all terms and provisions of which the registered holder of this Warrant, by acceptance of this Warrant, assents. Reference is hereby made to the Agreements for a more complete statement of the rights and limitations of rights of the registered holder of this Warrant and the rights and duties of the Company under this Warrant. Copies of the Agreements are on file at the office of the Company.

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed.

Dated as of October ___, 1995.

LABOR READY, INC.

By:

Name: Glenn A. Welstad
Title: Chief Executive Officer

SUBSCRIPTION FORM

(To be executed only upon exercise of Warrant)

The undersigned registered owner of this Warrant irrevocably exercises this Warrant for and purchases _____ of the number of shares of Common Stock of Labor Ready, Inc. purchasable with this Warrant, and herewith makes payment therefor, all at the price and on the terms and conditions specified in this Warrant and requests that certificates for the shares of Common Stock hereby purchased (and any securities or other property issuable

upon such exercise) be issued in the name of and delivered to _____ whose address is _____, and if such shares of Common Stock do not include all of the shares of Common Stock issuable as provided in this Warrant, that a new Warrant of like tenor and date for the balance of the shares of Common Stock issuable thereunder to be delivered to the undersigned.

Dated: _____, 19__.

By:
Name:
Title

Address:

ASSIGNMENT FORM

FOR VALUE RECEIVED the undersigned registered owner of this Warrant hereby sells, assigns and transfers unto the Assignee named below all of the rights of the undersigned under this Warrant, with respect to the number of shares of Common Stock set forth below:

No. of Shares	Name and Address of Assignee
---------------	------------------------------

and does hereby irrevocably constitute and appoint as attorney _____ to register such transfer on the books of Labor Ready, Inc. maintained for the purpose, with full power of substitution in the premises.

Dated: _____, 19__.

By:
Name:
Title:

SHAREHOLDER AGREEMENT

SHAREHOLDER AGREEMENT (the "Agreement") made as of October 31, 1995, by and between LABOR READY, INC., a Washington corporation (the "Company"), and GLENN A. WELSTAD, JOHN R. COGHLAN and COGHLAN FAMILY CORPORATION, a Washington corporation (individually and collectively, the "Shareholder" or the "Shareholders"), SEACOAST CAPITAL PARTNERS LIMITED PARTNERSHIP, a Delaware limited partnership ("Seacoast"), and ALLIED INVESTMENT CORPORATION, a Maryland corporation, and ALLIED INVESTMENT CORPORATION II, a Maryland corporation and ALLIED CAPITAL CORPORATION II (collectively, the "Allied Investors") (Seacoast and the Allied Investors are collectively referred to herein as the "Purchaser").

W I T N E S S E T H:

WHEREAS, the Company has entered into a Note Purchase Agreement (the "Note Agreement") dated of even date with this Agreement with the Purchaser;

WHEREAS, the Company has entered into a Warrant Purchase Agreement (the "Warrant Agreement") dated of even date with this Agreement with the Purchaser;

WHEREAS, the Purchaser is willing to enter into and consummate the transactions contemplated by the Note Agreement and the Warrant Agreement only if, among other things, the Company and the Shareholders enter into, and perform under, this Agreement.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants contained in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Purchaser, the Shareholders, and the Company, intending to be legally bound, agree as follows:

Article I
Definitions

Act. The Small Business Investment Act of 1958, as amended and in effect from time to time, and the regulations promulgated thereunder.

Affiliate. With respect to any Person, (a) a Person that, directly or indirectly or through one or more intermediaries, controls, is controlled by, or is under common control with, such Person; (b) any Person of which such Person or such Person's spouse is an officer, director, security holder, partner, or, in the case of a trust, the beneficiary or trustee, and (c) any Person that is an officer, director, security holder, partner, or, in the case of a trust, the beneficiary or trustee of such Person. The term "control" as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by contract, or otherwise.

Agreement. This term is defined in the preamble.

Allied Investors. This term is defined in the preamble.

Buyer. This term is defined in Section 2.02(a)(ii).

Capital Stock. As to any Person, its common stock and any other capital stock of such Person authorized from time to time, and any other shares, options, interests, participations, or other equivalents (however designated) of or in such Person, whether voting or nonvoting, including, without limitation, common stock, options, warrants, preferred stock, phantom stock, stock appreciation rights, preferred stock, convertible notes or debentures, stock purchase rights, and all agreements, instruments, documents, and securities convertible, exercisable, or exchangeable, in whole or in part, into any one or more of the foregoing.

Closing Date. October 31, 1995.

Coghlan Shareholders. Collectively, John R. Coghlan and Coghlan Family Corporation, a Washington corporation.

Commission. The Securities and Exchange Commission and any successor federal agency having similar powers.

Common Stock. The common stock, no par value, of the Company.

Company. Labor Ready, Inc. and any successor or assign, and, unless the context requires otherwise, the term Company includes any Subsidiary.

Company Sale. The consummation of a single transaction or series of related transactions, wherein one or more "independent third parties" (i.e., persons who, prior to the consummation of the transaction in question, did not own more than five percent (5%) of any class of the Capital Stock of the Company), either directly or indirectly, (i) acquire (whether by merger, consolidation, transfer or issuance of Capital Stock or otherwise) Capital Stock of the Company (or any such surviving or resulting corporation or entity) possessing the voting power to elect a majority of the Board of Directors of such corporation (or such surviving or resulting corporation or entity) or (ii) acquire assets constituting all or any substantial part of the assets of the Company (that is, twenty percent (20%) or more).

Co-Sell Shares. This term is defined in Section 2.02(c).

Co-Sellers. This term is defined in Section 2.02(c).

Election Notice. This term is defined in Section 2.02(b).

Exchange Act. The Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

Fair Market Value. This term is defined in the Warrant Agreement.

Holder. The Purchaser, and all Persons holding Registrable Securities, except that neither the Company nor any Shareholder nor any Affiliate of the Company or any Shareholder will at any time be a Holder. Unless otherwise provided in this Agreement, in each instance that the either of the Purchasers is required to request or consent to an action, such Purchaser will be deemed to have requested or consented to such action if (a) with respect to Seacoast, the Holders of a majority in interest of the Registrable Securities initially issued to Seacoast on the date hereof so requests or consents and (b) with respect to the Allied Investors, the Holders of a majority in interest of the Registrable Securities initially issued to the Allied Investors on the date hereof so requests or consents.

Indemnified Party. This term is defined in Section 7.01.

Initial Holders. Seacoast, the Allied Investors and any Affiliate of Seacoast or the Allied Investors to which any of the Warrants or any part of or interest in the Warrants is assigned.

Issuable Warrant Shares. Shares of Common Stock or Other Securities issuable on exercise of the Warrants.

Issued Warrant Shares. Shares of Common Stock or Other Securities issued on exercise of the Warrants.

Kemper Agreement. That certain agreement between the Company and Everen Securities, Inc., formerly known as Kemper Securities, Inc., dated as of February 21, 1995, as amended on October 3, 1995, providing for the payment by the Company to Everen Securities, Inc. of a private placement fee and for the issuance by the Company to Everen Securities, Inc. of warrants to purchase 40,000 shares of Common Stock pursuant to the terms and conditions thereof.

Material Adverse Effect. (a) a material adverse effect upon the business, operations, properties, assets or condition (financial or otherwise) of the Company taken as a whole or (b) the impairment of the ability of the Company to perform its obligations under this Agreement. In determining whether any individual event would result in a Material Adverse Effect, notwithstanding that such event does not of itself have such effect, a Material Adverse Effect shall be deemed to have occurred if such event and all other then existing events would result in a Material Adverse Effect.

Non-Compete Agreements. Collectively, (a) those certain Employment and Non-Compete Agreements dated as of October 31, 1995, by and between the Company and each of Glenn A. Welstad and Scott Sabo, (b) that certain Consulting and Non-Compete

Agreement dated on or about the Closing Date, by and between the Company and John R. Coghlan, and (c) any other non-compete agreement hereinafter entered into by and between the Company and any other officer, employee or consultant of the Company, and all renewals, modifications, amendments and supplements thereto.

Note Agreement. This term is defined in the preamble and includes the Note Purchase Agreement of even date with this Agreement between the Company and the Purchaser and all documents evidencing indebtedness thereunder or otherwise related to the Note Agreement as the same may be amended from time to time, and any refinancing, refunding, or replacements of the indebtedness under the Note Agreement.

Notice of Sale. This term is defined in Section 2.02(a).

Other Securities. Any stock, other securities, property, or other property or rights (other than Common Stock) that the Holders become entitled to receive upon exercise of the Warrants.

Permitted Sales. (a) With respect to Glenn A. Welstad, the sale of up to twenty thousand (20,000) shares of Common Stock in any calendar quarter, not to exceed one hundred sixty thousand (160,000) shares of Common Stock in the aggregate, and (b) with respect to the Coghlan Shareholders, the sale of up to one hundred fifty thousand (150,000) shares of Common Stock in the aggregate.

Permitted Stock. Common Stock or options or warrants to acquire Common Stock issued or reserved for issuance to (a) Everen Securities, Inc. pursuant to the terms of the Kemper Agreement, and (b) present and future key management of the Company pursuant to a management incentive program, constituting, in the aggregate, ten percent (10%) or less of the outstanding Common Stock. In no event will (a) the number of shares of Permitted Stock issued or reserved for issuance, in the aggregate, exceed the lesser of the number of shares constituting ten percent (10%) of the outstanding Common Stock on (i) the date of this Agreement or (ii) the date issued, (b) the number of shares of Permitted Stock issued or reserved for issuance to any present and future key management of the Company during any calendar year exceed, in the aggregate, the lesser of the number of shares constituting two percent (2%) of the outstanding Common Stock on (i) the date of this Agreement or (ii) the date issued and (c) any shares of Permitted Stock issued to present and future key management of the Company be exercisable for a per share consideration less than eighty-five percent (85%) of the Fair Market Value per share of the Common Stock determined as of the date of issuance of such Permitted Stock.

Person. This term will be interpreted broadly to include any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, company, institution, entity, party, or government (whether national, federal, state, county, city, municipal, or otherwise, including, without limitation, any instrumentality, division, agency, body, or department of any of the foregoing).

Purchaser. This term is defined in the preamble.

Registrable Securities. (a) the Issuable Warrant Shares and (b) the Issued Warrant Shares that have not been previously sold to the public.

Related Party. (a) An entity wholly owned by a Selling Shareholder or one or more Related Parties, (b) a trust all of the beneficiaries of which are a parent, sibling, spouse or lineal issue of a Selling Shareholder that is an individual and (c) a parent, sibling, spouse, or lineal issue, as well as, the heirs, devisees, executors, administrators and testamentary trustees of a Selling Shareholder that is an individual.

Selling Shareholder. This term is defined in Section 2.02.

Securities Act. The Securities Act of 1933, as amended, and the rules and regulations thereunder.

Shareholders. This term is defined in the preamble.

Subsidiary. Each Person of which or in which the Company or its other Subsidiaries own directly or indirectly fifty-one percent (51%) or more of (i) the combined voting power of all classes of stock having general voting power under ordinary circumstances

to elect a majority of the board of directors or equivalent body of such Person, if it is a corporation or similar person; (ii) the capital interest or profits interest of such Person, if it is a partnership, joint venture, or similar entity; or (iii) the beneficial interest of such Person, if it is a trust, association, or other unincorporated organization.

Warrant Purchase Agreement. The Warrant Purchase Agreement dated as of the Closing Date by and between the Company and Purchaser.

Warrant Shares. This term is defined in Article I of the Warrant Purchase Agreement.

Warrants. The Warrants issued to the Initial Holders referred to in Section 2.01 of the Warrant Purchase Agreement and all Warrants issued upon the transfer or division of, or in substitution for, such Warrants.

Article II Co-Sale Rights; and Unlocking Rights

2.01 Rights of Co-Sale. In the event that any Shareholder intends to sell or transfer, directly or indirectly, any shares of any class of Capital Stock held by it to any Person other than a Related Party, each Holder will have the right to participate in such sale or transfer on the terms set forth in this Article II; provided, however, none of the provisions of this Article II will apply to (a) any sale by the Shareholders of shares of Capital Stock in a bona fide underwritten public offering under the Securities Act, so long as all Holders have had an opportunity to participate in such offering pursuant to the registration rights under this Agreement, or (b) Permitted Sales, so long as such sales are consummated in compliance with Rule 144 under the Securities Act and with respect to which the provisions of paragraphs (e), (f), and (g) of such Rule 144 apply.

2.02 Method of Electing Sale; Allocation of Sales. No sale or transfer by any Shareholder of any shares of Capital Stock will be valid unless the transferee of such Capital Stock first agrees in writing to be bound by the same terms and conditions that apply to such Shareholder under this Agreement. In addition, before any shares of Capital Stock held, directly or indirectly, by any Shareholder may be sold or transferred to a Person other than a Related Party, the Shareholder (as such, the "Selling Shareholder") will comply with the following provisions:

(a) The Selling Shareholder will deliver or cause to be delivered a written notice (the "Notice of Sale") to each Holder at least fifteen (15) days prior to making any such sale or transfer. The Company agrees to provide the Selling Shareholder with a list of the names and addresses of each such Holder for such purpose. The Notice of Sale will include (i) a statement of the Selling Shareholder's bona fide intention to sell or transfer; (ii) the name of the and address of the prospective transferee (the "Buyer"); (iii) the number of shares of Capital Stock of the Company to be sold or transferred; (iv) the terms and conditions of the contemplated sale or transfer; (v) the purchase price that the Buyer will pay for such shares of Capital Stock; (vi) the expected closing date of the transaction; and (vii) such other information as the Holders may reasonably request to facilitate their decision as to whether or not to exercise the rights granted by this Article II.

(b) Any Holder receiving the Notice of Sale may elect to participate in the contemplated sale or transfer by exercising its right to co-sell its Capital Stock pursuant to Section 2.02(c). Such rights may be exercised in the sole discretion of the Holder by delivering a written notice (an "Election Notice") to the Company and the Selling Shareholder within fifteen (15) days after receipt of such Notice of Sale stating the election of the Holder to exercise its right of co-sale pursuant to Section 2.02(c).

(c) Each Holder may elect to sell or transfer in the contemplated transaction up to the total of the number of shares of Capital Stock then held by it (including the Issuable Warrant Shares). Promptly after the receipt of an Election Notice exercising such right, the Selling Shareholder will use its best efforts to cause the Buyer to amend its offer so as to provide for the Buyer's purchase, upon the same terms and conditions as those contained in the Notice of Sale, of all of the shares of Capital Stock (including the Issuable Warrant Shares) elected to be sold (the "Co-Sell Shares") in such

Election Notices. In the event that the Buyer is unwilling to amend its offer to purchase all of the Co-Sell Shares in addition to the shares of Capital Stock described in the related Notice of Sale, if the Selling Shareholder desires to proceed with the sale, the total number of shares that such Buyer is willing to purchase will be allocated to the Selling Shareholder and each Holder having given an Election Notice exercising its right pursuant to this Section 2.02(c) (the "Co-Sellers") in proportion to the aggregate number of shares of Capital Stock (including Issuable Warrant Shares) held by each such Person; provided, however, that no such Person will be so allocated a number of shares greater than the number of shares that it has sought to sell to such Buyer in the related Notice of Sale or Election Notice. All Capital Stock sold or transferred by the Selling Shareholder and the Co-Sellers with respect to a single Notice of Sale under Section 2.02(b) will be sold or transferred to the Buyer in a single closing on the terms described in such Notice of Sale, and each such share will receive the same per share consideration. In the event that the Buyer for whatever reason, declines to purchase any shares from any Holder delivering an Election Notice, then the Selling Shareholder will not be permitted to sell or transfer any shares of Capital Stock to such Buyer.

2.03 Sales to Related Parties. No sale or transfer of shares of Capital Stock by any Shareholder to a Related Party will be subject to the provisions of Section 2.02; provided, however, that such Related Party first agrees to assume the obligations of such Shareholder (without relieving such Shareholder of any obligations under this Agreement) under this Agreement with respect to the shares of Capital Stock thereby acquired by it and to be bound by the same terms and conditions that apply to the Shareholders under this Agreement in a written instrument in a form and substance satisfactory to the Holders.

2.04 Unlocking Rights. If at any time the Company or its shareholders (other than the Holders) receive an offer to consummate a transaction that would constitute a Company Sale, then the party receiving such offer (hereinafter, the offeree) shall submit a copy of the offer, together with such information pertinent thereto as the offeree may have, to the Holders (in their capacity as equity holders) within three (3) days of receipt of said offer. Within ten (10) days of receipt of said copy, each Holder will indicate in writing to the offeree whether it approves or disapproves of the offer. If a Holder approves the offer, then the offeree shall within twenty (20) days thereafter (or such shorter time if provided in the offer) accept or reject the offer. If the offeree desires to accept such offer after approval by a Holder, then such Holder shall have the right to participate in such sale proportionately based on the terms of the offer (that is, the Holder shall receive a proportionate amount of the net proceeds received (or which would be received by the Company's shareholders) from the Company Sale equal to such Holder's proportionate interest in the Company). If the offeree desires to reject the offer after approval of the offer by a Holder, then simultaneously with such rejection the offeree shall be bound to purchase, or cause the Company to purchase if the offeree is not the Company, the approving Holder's Warrants or resulting stock in the Company on the same terms and conditions that such Holder would have received under the offer. If a Holder disapproves the offer, then the offeree shall reject the offer. If a Holder fails to communicate approval or disapproval within such ten (10) day period, the Company may construe such failure as disapproval.

Article III

Registration Rights and Forced Exercise Agreements

3.01 Registration Holdback Agreements.

(a) If any registration pursuant to Section 9.02 of the Warrant Purchase Agreement is in connection with an underwritten public offering, each Holder of Registrable Securities agrees, if so required by the managing underwriter, not to effect any public sale or distribution of Registrable Securities (other than as part of such underwritten public offering) during the period beginning seven (7) days prior to the effective date of such registration statement and ending on the one hundred eightieth (180th) day after the effective date of such registration statement; provided, however, that the Shareholders and each Person that is an officer, director, or beneficial owner of five percent (5%) or more of the outstanding shares of any class of Capital Stock enters into such an agreement.

(b) The Shareholders agree (i) not to effect any public sale or distribution during the period seven (7) days (or such longer period as may be prescribed by Rule 10b-6 under the Exchange Act) prior to the effective date of the registration statement employed in any underwritten public offering and ending on the one hundred eightieth (180th) day after any such registration statement contemplated by Sections 9.01 or 9.03 of the Warrant Purchase Agreement has become effective, except as part of such underwritten public offering pursuant to such registration statement and except pursuant to securities registered on Forms S-4 or S-8 of the Commission or any successor forms, and (ii) use their best efforts to cause each holder of its equity securities or any securities convertible into or exchangeable or exercisable for any of such securities, in each case purchased from the Company at any time after the date of this Agreement (other than in a public offering), to agree not to effect any such public sale or distribution of such securities during such period.

3.02 No Impairment of Registration Rights. The Shareholders will not avoid or seek to avoid the observance or performance of any of the terms of Article IX of the Warrant Purchase Agreement or this Article III, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate in order to protect the rights of the Holders under Article IX of the Warrant Purchase Agreement or this Article III from dilution or impairment.

3.03 Forced Exercise Holdback Agreement. The Shareholders agree (i) not to effect any public sale or distribution during the period thirty (30) days prior to the Forced Exercise Date (as defined in the Warrant Agreement) and ending on the sixtieth (60th) day after the Forced Exercise Date, and (ii) to use their best efforts to cause each holder of the Company's equity securities or any securities convertible into or exchangeable or exercisable for any of such securities, in each case purchased from the Company at any time after the date of this Agreement (other than in a public offering), to agree not to effect any such public sale or distribution of such securities during such period.

Article IV Directors

4.01 Voting Agreement. To ensure compliance with this Article IV, the Shareholders hereby irrevocably covenant and agree to vote, or give or withhold consent with respect to, all shares of Capital Stock now owned or later acquired by it, all in accordance with the terms of this Article IV. The agreement to vote contained in this Article IV will expire on the earlier to occur of (a) the day prior to maximum period permitted under applicable law or (b) the date that Purchaser is no longer entitled to designate a Person to serve on the Company's board of directors in accordance with the terms and conditions of the Warrant Agreement. A counterpart of this Agreement will be deposited with the Company at its principal place of business or registered office and will be subject to the same right of examination by a shareholder of the Company, in person or by agent or attorney, as are the books and records of the Company.

4.02 Board of Directors. So long as either the Note Agreement or the agreement to vote set forth in Section 4.01 remains in effect, each Shareholder will, at the request of the each Purchaser, vote, or give or withhold consent with respect to, all shares of Capital Stock now owned or later acquired by such Shareholder so that at all times the individuals designated as directors by the Purchaser or its respective designee in accordance with the terms and conditions of the Warrant Agreement and Note Agreement will be directors of the Company; provided, however, that the Purchaser will not have any obligation to designate or cause any individual to serve on the board of directors of the Company. No director designated by the Purchaser or its designee may be removed without the consent of the Purchaser unless such designee breaches its/his/her fiduciary duties to the Company and/or the Company's shareholders under applicable law, and in any such case, such designee may be removed only if the Company shall have appointed another individual designated by the Purchaser to serve on the Company's board of directors. The Purchaser may, at any time, terminate its rights under this Article IV by providing written notice of such termination to the Company.

Article V Representations, Warranties and Covenants

5.01 Representations and Warranties of the Shareholders.

Each Shareholder, severally and not jointly, represents and warrants to the Purchaser with respect to itself and not with respect to any other Shareholder:

(a) If such Shareholder is a corporation or partnership, it is duly organized and existing and in good standing under the laws of its state of organization and is qualified or licensed to do business in all other countries, states, and jurisdictions the laws of which require it to be so qualified or licensed and where the failure to be so qualified or licensed would have a Material Adverse Effect. Each Shareholder owns the equity interest of the Company set forth on Schedule I, free and clear of all liens, claims, and encumbrances, and, to the knowledge of such Shareholder, no Person has any rights, whether granted by the Company or any other Person, to acquire any portion of the equity interest of the Company or the assets of the Company except pursuant to this Agreement, the Warrant Agreement or the agreements described on Schedule II which grant warrants or options to Persons other than Purchaser.

(b) Such Shareholder has, and at all times that this Agreement is in force will have, the right and power, and is duly authorized, to enter into, execute, deliver, and perform this Agreement. This Agreement has been duly and validly executed, issued, and delivered and constitutes a legal, valid, and binding obligation of such Shareholder, enforceable in accordance with its terms.

(c) The execution, delivery, and performance of this Agreement will not, by the lapse of time, the giving of notice, or otherwise, constitute a violation of any applicable provision contained in the charter, bylaws, or organizational documents of such Shareholder, if any, or contained in any agreement, instrument, or document to which it is a party or by which it is bound.

(d) There is not now, and at no time during the term of this Agreement will there be, any agreement, arrangement, or understanding involving such Shareholder, other than this Agreement and the documents contemplated hereby and thereby, modifying, restricting, or in any way affecting the rights of such Shareholder to vote securities of the Company.

(e) None of the documents, instruments, or other information furnished to the Purchaser, contains any untrue statement of a material fact or omits to state any material fact necessary in order to make any statements made therein not misleading. No representation, warranty, or statement made by such Shareholder in this Agreement or in any document, certificate, exhibit or schedule attached hereto or thereto or delivered in connection herewith or therewith, contains or will contain any untrue statement of a material fact, or omits or will omit to state a material fact necessary to make any such statements made herein or therein not misleading. To the knowledge of such Shareholder, in its capacity as such, there is no fact that materially and adversely affects the condition (financial or otherwise), results of operations, business, properties, or prospects of the Company or any of its Subsidiaries that has not been disclosed in the documents provided by such Shareholder to the Purchaser.

5.02 Covenants of the Shareholders. Without the prior written consent of the Holders, which consent may be withheld in the sole discretion of the Holders, the Shareholders will not permit the Company to:

(a) permit to occur any amendment, alteration, or modification of the Articles of Incorporation or Bylaws of the Company, as constituted on the date of this Agreement, the effect of which, in the sole judgment of the Holders, would be to alter, impair, or affect adversely, either the rights and benefits of the Holders or the duties and obligations of Company or the Shareholders under this Agreement or the Warrants;

(b) redeem, retire, purchase, or otherwise acquire, directly or indirectly, any of the Capital Stock or capital stock or securities of any Affiliate of the Company, or any securities convertible or exchangeable into Capital Stock or capital stock or securities of any Affiliate of the Company;

(c) dissolve or liquidate, or effect any consolidation or merger involving the Company or any Subsidiary (other than a merger in which the Company or its Subsidiary, as

the case may be, is the surviving entity and the holders of each class of voting securities of the Company continue to hold a majority of each class of voting securities of the Company);

(d) except for the issuance of Permitted Stock, enter into any transaction or transactions with any director, officer, employee, or shareholder of the Company, or any Affiliate or relative of the foregoing except upon terms that are fair and reasonable and that are, in any event, at least as favorable as would result in a comparable arm's-length transaction with a Person not a director, officer, employee, shareholder, or Affiliate of the Company or any Affiliate or related party of the foregoing, or advance any monies to any such Persons, except for travel advances in the ordinary course of business;

(e) materially modify or amend, or terminate or waive any provision of the Non-Compete Agreements or require Glenn A. Welstad to cease to perform the functions of chief executive office of the Company, for reasons other than cause or permanent disability;

(f) allow the aggregate par value of the Capital Stock subject to the Warrants from time to time to exceed the price payable upon exercise of the Warrants, as adjusted from time to time; or

(g) obligate themselves or otherwise agree to take, permit or enter into any of the events described in subsections (a) through (f) above.

Article VI Conditions

The obligations of the Purchaser to effect the transactions contemplated by this Agreement will be subject to the following conditions:

6.01 Note Agreement and Warrant Agreement Conditions. All of the conditions precedent to the obligations of the Purchaser under the Note Agreement and the Warrant Agreement will have been satisfied in full or waived.

6.02 Proceedings. All proceedings taken in connection with the transactions contemplated by this Agreement, and all documents necessary to the consummation thereof, will be reasonably satisfactory in form and substance to the Purchaser and its counsel, and the Purchaser and its counsel will have received copies (executed or certified as may be appropriate) of all documents, instruments, and agreements that the Purchaser or its counsel may request in connection with the consummation of such transactions.

Article VII Miscellaneous

7.01 Indemnification. In addition to any other rights or remedies to which the Purchaser and the Holders may be entitled, the Shareholder agree to and will indemnify and hold harmless the Purchaser, the Holders, and their Affiliates and their respective successors, assigns, officers, directors, employees, attorneys, and agents (individually and collectively, an "Indemnified Party") from and against any and all losses, claims, obligations, liabilities, deficiencies, diminutions in value, penalties, causes of action, damages, out-of-pocket costs, reasonable attorneys' fees, and expenses (including, without limitation, costs of investigation and defense, attorneys' fees, and expenses) including, without limitation, those arising out of the sole or contributory negligence of any Indemnified Party (but excluding those arising out of the gross negligence or willful misconduct of any Indemnified Party), that the Indemnified Party may suffer, incur, or be responsible for, arising or resulting from any misrepresentation, breach of warranty, or nonfulfillment of any agreement on the part of the Shareholders under this Agreement, or the Company under this Agreement, the Warrant Agreement, or under any other agreement to which the Company or the Shareholders are a party in connection with the transactions contemplated by this transaction, or from any misrepresentation in or omission from any certificate or other instrument furnished or to be furnished by the Company to the Purchaser or the Holders under this Agreement.

7.02 Default. It is agreed that a violation by any party of the terms of this Agreement cannot be adequately measured or compensated in money damages, and that any breach or

threatened breach of this Agreement by a party to this Agreement would do irreparable injury to the nonbreaching party. It is, therefore, agreed that in the event of any breach or threatened breach by a party to this Agreement of the terms and conditions set forth in this Agreement, the nondefaulting party will be entitled, in addition to any and all other rights and remedies that it may have in law or in equity, to apply for and obtain injunctive relief requiring the defaulting party to be restrained from any such breach, or threatened breach or to refrain from a continuation of any actual breach.

7.03 Integration. This Agreement constitutes the entire agreement among the parties with respect to the subject matter hereof and supersedes all previous written, and all previous or contemporaneous oral, negotiations, understandings, arrangements, and agreements. This Agreement may not be amended or supplemented except by a writing signed by the Shareholders and each Holder.

7.04 Headings. The headings in this Agreement are for convenience and reference only and are not part of the substance of this Agreement. References in this Agreement to Sections and Articles are references to the Sections and Articles of this Agreement unless otherwise specified.

7.05 Severability. The parties to this Agreement expressly agree that it is not their intention to violate any public policy, statutory or common law rules, regulations, or decisions of any governmental or regulatory body. If any provision of this Agreement is judicially or administratively interpreted or construed as being in violation of any such policy, rule, regulation, or decision, the provision, section, sentence, word, clause, or combination thereof causing such violation will be inoperative (and in lieu thereof there will be inserted such provision, sentence, word, clause, or combination thereof as may be valid and consistent with the intent of the parties under this Agreement) and the remainder of this Agreement, as amended, will remain binding upon the parties to this Agreement, unless the inoperative provision would cause enforcement of the remainder of this Agreement to be inequitable under the circumstances.

7.06 Notices. Whenever it is provided herein that any notice, demand, request, consent, approval, declaration, or other communication be given to or served upon any of the parties by another, such notice, demand, request, consent, approval, declaration, or other communication will be in writing and will be deemed to have been validly served, given or delivered (and "the date of such notice" or words of similar effect will mean the date) five (5) days after deposit in the United States mails, certified mail, return receipt requested, with proper postage prepaid, or upon receipt thereof (whether by non-certified mail, telecopy, telegram, express delivery, or otherwise), whichever is earlier, and addressed to the party to be notified as follows:

If to the Purchaser, at: Seacoast Capital Partners
Limited Partnership
c/o Seacoast Capital Corporation
55 Ferncroft Road
Danvers, Massachusetts 01923
Attention: Thomas W. Gorman
Facsimile: (508) 750-1301

Allied Investment Corporation
1666 K Street, N.W.
Suite 901
Washington D.C. 20006
Attn: George Stelljes III
Facsimile: (202) 659-2053

Allied Investment Corporation II
1666 K Street, N.W.
Suite 901
Washington D.C. 20006
Attn: George Stelljes III
Facsimile: (202) 659-2053

Allied Capital Corporation II
1666 K Street, N.W.
Suite 901
Washington D.C. 20006
Attn: George Stelljes III
Facsimile: (202) 659-2053

with courtesy copies to: Hughes & Luce, L.L.P.

1717 Main Street
Suite 2800
Dallas, Texas 75201
Attn: Larry A. Makel, Esq.
Facsimile: 214 939-6100

Dickstein Shapiro & Morin
2101 L Street, N.W.
Suite 800
Washington, D.C. 20037
Attn: David Parker
Facsimile: (202) 887-0689

If to the Company, at: Labor Ready, Inc.
2150 Pacific Avenue
Tacoma, Washington 98402
Attn: Glenn A. Welstad
Facsimile: (206) 383-9311

If to the Shareholders, at: Glenn A. Welstad
2156 Pacific Avenue South
Tacoma, Washington 98402
Facsimile: (206) 383-9311

John R. Coghlan
2156 Pacific Avenue South
Tacoma, Washington 98402
Facsimile: (206) 383-9311

Coghlan Family Corporation
2156 Pacific Avenue South
Tacoma, Washington 98402
Facsimile: (206) 383-9311

with courtesy copies to: Preston Gates & Ellis
701 5th Avenue, Suite 5000
Seattle, Washington 98104
Facsimile: (206) 623-7022
Attn: Mark Beatty

Brad E. Herr, P.S.
2150 North Pines, Suite 202
Spokane, Washington 99206
Facsimile: (509) 928-9338

or to such other address as each party may designate for itself by like notice. Notice to any Holder other than the Purchaser will be delivered as set forth above to the address shown on the stock transfer books of the Company or the Warrant Register unless such Holder has advised the Company in writing of a different address to which notices are to be sent under this Agreement.

Failure or delay in delivering courtesy copies of any notice, demand, request, consent, approval, declaration, or other communication to the persons designated above to receive copies of the actual notice will in no way adversely affect the effectiveness of such notice, demand, request, consent, approval, declaration, or other communication.

No notice, demand, request, consent, approval, declaration or other communication will be deemed to have been given or received unless and until it sets forth all items of information required to be set forth therein pursuant to the terms of this Agreement.

7.07 Successors. This Agreement will be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns, provided that the Purchaser will have the right to assign its rights under this Agreement in connection with any transfer of the Warrants or the Warrant Shares to not more than twenty (20) Persons.

7.08 Remedies. The failure of any party to enforce any right or remedy under this agreement, or to enforce any such right or remedy promptly, will not constitute a waiver thereof, nor give rise to any estoppel against such party, nor excuse any other party from its obligations under this Agreement. Any waiver of any such right or remedy by any party must be in writing and signed by the party against which such waiver is sought to be enforced.

7.09 Survival. All warranties, representations, and covenants made by any party in this Agreement or in any certificate or other instrument delivered by such party or on its

behalf under this Agreement will be considered to have been relied upon by the party to which it is delivered and will survive the Closing Date, regardless of any investigation made by such party or on its behalf. All statements in any such certificate or other instrument will constitute warranties and representations under this Agreement. Notwithstanding anything to the contrary contained in this Agreement (a) Seacoast shall not be entitled to the benefits of this Agreement at such time that it (i) no longer owns a Warrant and (ii) owns less than twenty percent (20%) of the Warrant Shares owned by it on the Closing Date, (b) no Allied Investor shall be entitled to the benefits of this Agreement at such time that (i) no Allied Investor holds a Warrant and (ii) the Allied Investors own, in the aggregate, less than twenty percent (20%) of the Warrant Shares owned by them, collectively, on the Closing Date, (c) a Holder (other than Seacoast or the Allied Investors) shall not be entitled to the benefits of this Agreement at such time that it (i) no longer owns a Warrant and (ii) owns less than ten percent (10%) of the Warrant Shares, (d) Glenn A. Welstad shall no longer be bound by the terms of this Agreement if his employment with the Company is terminated by the Company for reasons other than cause (as defined in his Non-Compete Agreement with the Company), and (e) John R. Coghlan shall no longer be bound by the terms of this Agreement if his employment with the Company (as a consultant) is terminated by the Company for reasons other than cause (as defined in his Non-Compete Agreement with the Company).

7.10 Fees. Subject to the second sentence of this Section 7.10, any and all fees, costs, and expenses, of whatever kind and nature, including attorneys' fees and expenses, incurred by the Holders in connection with the defense or prosecution of any actions or proceedings arising out of or in connection with this Agreement will, to the extent provided in this Agreement, be borne and paid by the Company within ten (10) days of demand by the Holders. Notwithstanding anything to the contrary in this Section 7.10, with respect to any actions or proceedings solely between any Holder and the Company and/or Shareholders, the prevailing party shall recover, within ten (10) days of demand, any and all fees, costs, and expenses, of whatever kind and nature, including attorneys' fees and expenses, reasonably incurred in connection with the defense or prosecution of any such actions or proceedings arising out of or in connection with this Agreement.

7.11 Counterparts. This Agreement may be executed in any number of counterparts, which will individually and collectively constitute one agreement.

7.12 Other Business. It is understood and accepted that the Purchaser, the Holders, and their Affiliates have interests in other business ventures that may be in conflict with the activities of the Company and that nothing in this Agreement will limit the current or future business activities of such parties whether or not such activities are competitive with those of the Company. The Shareholders agree that all business opportunities in any field substantially related to the business of the Company will be pursued exclusively through the Company.

7.13 Choice of Law. THIS AGREEMENT HAS BEEN EXECUTED, DELIVERED, AND ACCEPTED BY THE PARTIES IN THE COMMONWEALTH OF MASSACHUSETTS, WILL BE DEEMED TO HAVE BEEN MADE IN THE COMMONWEALTH OF MASSACHUSETTS, AND WILL BE INTERPRETED AND THE RIGHTS OF THE PARTIES DETERMINED IN ACCORDANCE WITH THE LAWS OF THE UNITED STATES APPLICABLE THERETO AND THE INTERNAL LAWS OF THE COMMONWEALTH OF MASSACHUSETTS APPLICABLE TO AN AGREEMENT EXECUTED, DELIVERED AND PERFORMED THEREIN WITHOUT GIVING EFFECT TO THE CHOICE-OF-LAW RULES THEREOF OR ANY OTHER PRINCIPLE THAT COULD REQUIRE THE APPLICATION OF THE SUBSTANTIVE LAW OF ANY OTHER JURISDICTION.

7.14 Duties Among Holders. Each Holder agrees that no other Holder will by virtue of this Agreement be under any fiduciary or other duty to give or withhold any consent or approval under this Agreement or to take any other action or omit to take any action under this Agreement, and that each other Holder may act or refrain from acting under this Agreement as such other Holder may, in its discretion, elect.

7.15 Small Business Investment Act. This Agreement, the other purchase documents executed in connection herewith, and all transactions contemplated hereby and thereby are subject to the provisions of the Act, and shall be governed thereby to the extent of any conflict therewith.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first above written.

COMPANY:
LABOR READY, INC.
By:
Name: Glenn A. Welstad
Title: Chief Executive Officer

PURCHASER:
SEACOAST CAPITAL PARTNERS
LIMITED PARTNERSHIP

By: Seacoast Capital Corporation,
its general partner

By:
Name: Thomas W. Gorman
Title: Vice President

55 Ferncroft Road
Danvers, Massachusetts 01923
Attn: Thomas W. Gorman
Facsimile: (508) 750-1301

ALLIED INVESTMENT CORPORATION

By:
Name: George Stelljes III
Title: Senior Vice President

1666 K Street, N.W., Suite 901
Washington D.C. 20006
Attn: George Stelljes III
Facsimile: (202) 659-2053

ALLIED INVESTMENT CORPORATION II

By:
Name: George Stelljes III
Title: Senior Vice President

1666 K Street, N.W., Suite 901
Washington D.C. 20006
Attn: George Stelljes III
Facsimile: (202) 659-2053

ALLIED CAPITAL CORPORATION II

By:
Name: George Stelljes III
Title: Senior Vice President

1666 K Street, N.W., Suite 901
Washington D.C. 20006
Attn: George Stelljes III
Facsimile: (202) 659-2053

SHAREHOLDERS:

Glenn A. Welstad

John R. Coghlan

COGHLAN FAMILY CORPORATION

By:

Name: John R. Coghlan
Title: President

SECURITY AGREEMENT

This SECURITY AGREEMENT (the "Agreement") is dated October 31, 1995 and is executed by and among LABOR READY, INC., a Washington corporation, LABOR READY OF NEVADA, INC., a Washington corporation, and LABOR READY FRANCHISE DEVELOPMENT CORP. INC., a Washington corporation (individually and collectively, "Debtor"), SEACOAST CAPITAL PARTNERS LIMITED PARTNERSHIP, a Delaware limited partnership ("Seacoast"), and ALLIED INVESTMENT CORPORATION, a Maryland corporation, ALLIED INVESTMENT CORPORATION II, a Maryland corporation, and ALLIED CAPITAL CORPORATION II, a Maryland corporation (collectively, "Allied") (Seacoast and Allied are collectively referred to herein as the "Purchasers").

W I T N E S S E T H:

WHEREAS, Debtor and Purchasers are parties to a Note Purchase Agreement dated the date hereof (as the same may be amended and in effect from time to time, the "Note Purchase Agreement"), providing for the purchase by Purchasers from Debtor of four senior subordinated notes in the aggregate original principal amount of \$10,000,000;

WHEREAS, it is a condition precedent to the performance by Purchasers of their obligations under the Note Purchase Agreement that Debtor shall have granted the security interests contemplated by this Agreement; and

NOW, THEREFORE, in consideration of the premises and in order to induce Purchasers to enter into the Note Purchase Agreement and perform its obligations thereunder, Debtor hereby agrees with Purchasers as follows:

SECTION 1. Definitions

1.1 Certain Defined Terms. Unless otherwise defined herein, all capitalized terms shall have the meanings ascribed to them in the Note Purchase Agreement. The following terms, as used herein, have the meanings set forth below:

"Accounts" means all "accounts" (as defined in the UCC) now owned or hereafter created or acquired by Debtor including, without limitation, all of the following now owned or hereafter created or acquired by Debtor: (a) accounts receivable, contract rights, book debts, notes, drafts and other obligations or indebtedness owing to Debtor arising from the sale, lease or exchange of goods or other property and/or the performance of services; (b) Debtor's rights in, to and under all purchase orders for goods, services or other property; (c) Debtor's rights to any goods, services or other property represented by any of the foregoing (including returned or repossessed goods and unpaid sellers' rights of rescission, replevin, reclamation and rights to stoppage in transit); (d) monies due to or to become due to Debtor under all contracts for the sale, lease or exchange of goods or other property and/or the performance of services (whether or not earned by performance on the part of Debtor); and (e) Proceeds of any of the foregoing and all collateral security and guaranties of any kind given by any Person with respect to any of the foregoing.

"Collateral" has the meaning assigned to that term in Section 2.

"Collateral Account" has the meaning assigned to that term in Section 7.

"Copyright License" means any written agreement now or hereafter in existence granting to Labor Ready, Inc. any right to use any Copyright including, without limitation, the agreements described in Schedule 1 of the Copyright Security Agreement.

"Copyrights" means collectively all of the following: (a) all copyrights, rights and interests in copyrights, works protectable by copyright, copyright registrations and copyright applications now owned or hereafter created or acquired by Debtor, including, without limitation, those listed on Schedule 1 of the Copyright Security Agreement; (b) all renewals of any of the foregoing; (c) all income, royalties, damages and payments now or hereafter due and/or payable under any of the foregoing, including, without limitation, damages or payments for past or future infringements of any of the foregoing; (d) the right to sue for past, present and future infringements of any of the foregoing; (e) all rights corresponding to any of the foregoing throughout the world; and (f) all goodwill associated with and

symbolized by any of the foregoing.

"Copyright Security Agreement" means the copyright security agreement to be executed and delivered by Labor Ready, Inc. to Purchasers, substantially in the form of Exhibit A, as such agreement may hereafter be amended, supplemented or otherwise modified from time to time.

"Documents" means all "documents" (as defined in the UCC) or other receipts covering, evidencing or representing goods now owned or hereafter acquired by Debtor.

"Equipment" means all "equipment" (as defined in the UCC) now owned or hereafter acquired by Debtor including, without limitation, all machinery, motor vehicles, trucks, trailers, vessels, aircraft and rolling stock and all parts thereof and all additions and accessions thereto and replacements therefor.

"Fixtures" means all of the following now owned or hereafter acquired by Debtor: plant fixtures; business fixtures; other fixtures and storage office facilities, wherever located; and all additions and accessions thereto and replacements therefor.

"General Intangibles" means all "general intangibles" (as defined in the UCC) now owned or hereafter acquired by Debtor including, without limitation, all right, title and interest of Debtor in and to: (a) all agreements, leases, licenses and contracts to which Debtor is or may become a party; (b) all obligations or indebtedness owing to Debtor (other than Accounts) from whatever source arising; (c) all tax refunds; (d) Intellectual Property; and (e) all trade secrets and other confidential information relating to the business of Debtor including by way of illustration and not limitation: the names and addresses of, and credit and other business information concerning, Debtor's past, present or future customers; the prices which Debtor obtains for its services or at which it sells merchandise; estimating and cost procedures; profit margins; policies and procedures pertaining to the sale and design of equipment, components, devices and services furnished by Debtor; information concerning suppliers of Debtor; and information concerning the manner of operation, business plans, pledges, projections and all other information of any kind or character, whether or not reduced in writing, with respect to the conduct by Debtor of its business not generally known by the public.

"Instruments" means all "instruments", "chattel paper" or "letters of credit" (each as defined in the UCC) including, but not limited to, promissory notes, drafts, bills of exchange and trade acceptances, now owned or hereafter acquired by Debtor.

"Intellectual Property" shall mean collectively all of the following: Copyrights, Copyright Licenses, Patents, Patent Licenses, Trademarks and Trademark Licenses.

"Inventory" means all "inventory" (as defined in the UCC), now owned or hereafter acquired by Debtor, wherever located including, without limitation, finished goods, raw materials, work in process and other materials and supplies (including packaging and shipping materials) used or consumed in the manufacture or production thereof and goods which are returned to or repossessed by Debtor.

"Patent License" means any written agreement now or hereafter in existence granting to Debtor any right to use any invention on which a Patent is in existence.

"Patents" means collectively all of the following: (a) all patents, patentable inventions and patent applications now owned or hereafter created or acquired by Debtor; (b) the reissues, divisions, continuations, renewals, extensions and continuations-in-part of any of the foregoing; (c) all income, royalties, damages or payments now and hereafter due and/or payable under any of the foregoing with respect to any of the foregoing, including, without limitation, damages of payments for past or future infringements of any of the foregoing; (d) the right to sue for past, present and future infringements of any of the foregoing; (e) all rights corresponding to any of the foregoing throughout the world; and (f) all goodwill associated with any of the foregoing.

"Proceeds" means all proceeds of, and all other profits, rentals or receipts, in whatever form, arising from the collection, sale, lease, exchange, assignment, licensing or other disposition of, or realization upon, any Collateral, including, without limitation, all claims of Debtor against third parties

for loss of, damage to or destruction of, or for proceeds payable under, or unearned premiums with respect to, policies of insurance with respect to any Collateral, and any condemnation or requisition payments with respect to any Collateral, in each case whether now existing or hereafter arising.

"Secured Obligations" has the meaning assigned to that term in Section 3.

"Security Interests" means the security interests granted pursuant to Section 2, as well as all other security interests created or assigned by Debtor as additional security for the Secured Obligations pursuant to the provisions of this Agreement.

"Senior Debt Payout Date" means that day on which (i) the Senior Loans are paid in full and (ii) the Senior Loan Documents are terminated.

"Trademark License" means any written agreement now or hereafter in existence granting to Debtor any right to use any Trademark, including, without limitation, the agreements described in Schedule 1 to the Trademark Security Agreement.

"Trademarks" means collectively all of the following now owned or hereafter created or acquired by Debtor: (a) all trademarks, trade names, corporate names, company names, business names, fictitious business names, trade styles, service marks, logos, other business identifiers, prints and labels on which any of the foregoing have appeared or appear, all registrations and recordings thereof, and all applications in connection therewith including registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof, including, without limitation, those described in Schedule 1 of the Trademark Security Agreement; (b) all reissues, extensions or renewals thereof; (c) all income, royalties, damages and payments now or hereafter due and/or payable under any of the foregoing or with respect to any of the foregoing including damages or payments for past or future infringements of any of the foregoing; (d) the right to sue for past, present and future infringements of any of the foregoing; (e) all rights corresponding to any of the foregoing throughout the world; and (f) all goodwill associated with and symbolized by any of the foregoing.

"Trademark Security Agreement" means the trademark security agreement executed and delivered by Labor Ready, Inc. to Purchasers substantially in the form of Exhibit B, as such agreement may hereafter be amended, supplemented or otherwise modified from time to time.

"UCC" means the Uniform Commercial Code as in effect on the date hereof in the Commonwealth of Massachusetts, as amended from time to time, and any successor statute; provided that if by reason of mandatory provisions of law, the perfection or the effect of perfection or non-perfection of the Security Interest in any Collateral is governed by the Uniform Commercial Code as in effect on or after the date hereof in any other jurisdiction, "UCC" means the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provision hereof relating to such perfection or effect of perfection or non-perfection.

1.2 Other Definition Provisions. References to "Sections", "subsections", "Exhibits" and "Schedules" shall be to Sections, subsections, Exhibits and Schedules, respectively, of this Agreement unless otherwise specifically provided. Any of the terms defined in Section 1.1 may, unless the context otherwise requires, be used in the singular or the plural depending on the reference. All references to statutes and related regulations shall include any amendments to the same and any successor statutes and regulations.

SECTION 2. Grant of Security Interests

In order to secure the payment and performance of the Secured Obligations in accordance with the terms thereof, Debtor hereby grants to Purchasers a continuing security interest in and to all right, title and interest of Debtor in the following property, whether now owned or existing or hereafter acquired or arising and regardless of where located (all being collectively referred to as the "Collateral"):

- (a) Accounts;

- (b) Inventory;
- (c) General Intangibles;
- (d) Documents;
- (e) Instruments;
- (f) Equipment;
- (g) Fixtures;
- (h) All deposit accounts of Debtor maintained with any bank or financial institution;
- (i) The Collateral Account, all cash deposited therein from time to time and other monies and property of Debtor in the possession or under the control of Purchasers;
- (j) All books, records, ledger cards, files, correspondence, computer programs, tapes, disks and related data processing software that at any time evidence or contain information relating to any of the property described in subparts (a) - (i) above or are otherwise necessary or helpful in the collection thereof or realization thereon; and
- (k) Proceeds of all or any of the property described in subparts (a) - (j) above.

Notwithstanding the foregoing, so long as no Event of Default has occurred and is continuing, Debtor shall have the exclusive, non-transferable right and license to use the Intellectual Property and the exclusive right to grant to other Persons licenses and sublicenses with respect to Intellectual Property.

SECTION 3. Security for Obligations

The Security Interests secure the payment and performance of (a) the Senior Subordinated Obligations, (b) all obligations of Debtor now or hereafter existing under this Agreement and (c) all renewals, extensions, restructurings and refinancings of any of the above (all such debts, obligations and liabilities of Debtor being collectively called the "Secured Obligations").

SECTION 4. Debtor Remains Liable

Anything herein to the contrary notwithstanding: (a) Debtor shall remain liable under the contracts and agreements included in the Collateral to the extent set forth therein to perform all of its duties and obligations thereunder to the same extent as if this Agreement had not been executed; (b) the exercise by Purchasers of any of the rights hereunder shall not release Debtor from any of its duties or obligations under the contracts and agreements included in the Collateral; and (c) Purchasers shall not have any obligation or liability under the contracts and agreements included in the Collateral by reason of this Agreement, nor shall Purchasers be obligated to perform any of the obligations or duties of Debtor thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

SECTION 5. Representations and Warranties

Debtor represents and warrants as follows:

5.1 Binding Obligation. This Agreement is the legally valid and binding obligation of Debtor, enforceable against it in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally.

5.2 Location of Equipment and Inventory. Except for Inventory and Equipment in transit, all of the Equipment and Inventory is located at the places specified on Schedule I.

5.3 Ownership of Collateral. Except for matters disclosed on Schedule II, other Permitted Liens and the Security Interests, Debtor owns the Collateral free and clear of any Lien. No effective financing statement or other form of lien notice covering all or any part of the Collateral is on file in any recording office, except for Permitted Liens, those in favor of Purchasers and as disclosed on Schedule II.

5.4 Office Locations; Fictitious Names. The chief place

of business, the chief executive office and the office where Debtor keeps its books and records are located at the places specified on Schedule I. Debtor does not do business and has not done business during the past five years under any trade-name or fictitious business name except as disclosed on Schedule III.

5.5 Perfection. Purchasers shall have a valid, perfected security interest in the Collateral (subject only to the prior security interest in favor of the Senior Lender) securing the payment of the Secured Obligations. All filings and other actions necessary or desirable to perfect and protect such security interest have been duly taken.

5.6 Governmental Authorizations. No authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required either (a) for the grant by Debtor of the security interest granted hereby or for the execution, delivery or performance of this Agreement by Debtor or (b) for the perfection of or the exercise by Purchasers of their rights and remedies hereunder (except as may have been taken by or at the direction of Debtor or Purchasers).

5.7 Accounts. Each Account constitutes the legally valid and binding obligation of the customer obligated to pay the same. The amount represented by Debtor to Purchasers as owing by each customer is the correct amount actually and unconditionally owing, except for normal cash discounts and allowances where applicable. No customer has any defense, set-off, claim or counterclaim against Debtor that can be asserted against Purchasers, whether in any proceeding to enforce Purchasers' rights in the Collateral or otherwise except defenses, set-offs, claims or counterclaims that are not, in the aggregate, material to the value of the Accounts. None of the Accounts is evidenced by a promissory note or other instrument other than a check that has not been delivered to Purchasers.

5.8 Intellectual Property. The Copyrights, Copyright Licenses, Trademarks and Trademark Licenses listed on the respective schedules to each of the Copyright Security Agreement and the Trademark Security Agreement constitute all of the Intellectual Property owned by Debtor.

5.9 Accurate Information. All information heretofore, herein or hereafter supplied to Purchasers by or on behalf of Debtor with respect to the Collateral is and will be accurate and complete in all material respects.

5.10 Credit Agreement Warranties. Each representation and warranty set forth in Article IV of the Note Purchase Agreement is true and correct in all material respects and such representations and warranties are hereby incorporated herein by this reference with the same effect as though set forth in their entirety herein.

SECTION 6. Further Assurances; Covenants

6.1 Other Documents and Actions. Debtor will, from time to time, at its expense, promptly execute and deliver all further instruments and documents and take all further action that may be necessary or desirable, or that Purchasers may request, in order to perfect and protect any security interest granted or purported to be granted hereby or to enable Purchasers to exercise and enforce their rights and remedies hereunder with respect to any Collateral. Without limiting the generality of the foregoing, Debtor will: (a) execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or desirable, or as Purchasers may request, in order to perfect and preserve the security interests granted or purported to be granted hereby; (b) at any reasonable time, upon demand by Purchasers exhibit the Collateral to allow inspection of the Collateral by Purchasers or persons designated by Purchasers; and (c) upon Purchasers' request, appear in and defend any action or proceeding that may affect Debtor's title to or Purchasers' security interest in the Collateral.

6.2 Purchasers Authorized. Debtor hereby authorizes Purchasers to file one or more financing or continuation statements, and amendments thereto, relating to all or any part of the Collateral without the signature of Debtor where permitted by law.

6.3 Corporate or Name Change. Debtor will notify Purchasers prior to any change in Debtor's name, identity or corporate structure.

6.4 Business Locations. Except as provided in Section 5.2, Debtor will keep the Collateral at the locations specified on Schedule I. Debtor will give Purchasers 30 days prior notice of any change in Debtor's chief place of business or of any new location of business or any new location for any of the Collateral. With respect to any new location, Debtor will execute such documents and take such actions as Purchasers deem necessary to perfect and protect the Security Interests.

6.5 Bailees. If any Collateral is at any time in the possession or control of any warehouseman, bailee or any of Debtor's agents or processors, Debtor shall, upon the request of Purchasers, notify such warehouseman, bailee, agent or processor of the Security Interests created hereby and shall instruct such Person to hold all such Collateral for Purchasers' account subject to Purchasers' instructions.

6.6 Instruments. Debtor will deliver and pledge to Purchasers all Instruments duly endorsed and accompanied by duly executed instruments of transfer or assignment, all in form and substance satisfactory to Purchasers. Debtor will mark conspicuously all chattel paper with a legend, in form and substance satisfactory to Purchasers, indicating that such chattel paper is subject to the Security Interests.

6.7 Certificates of Title. Debtor shall, upon Purchasers' request, promptly deliver to Purchasers any and all certificates of title, applications for title or similar evidence of ownership of all Equipment and shall cause Purchasers to be named as lienholder on any such certificate of title or other evidence of ownership. Debtor shall promptly inform Purchasers of any additions to or deletions from the Equipment and shall not permit any such items to become fixtures to real estate unless Purchasers have perfected security interest thereon (subject only to the lien of the Senior Lender) superior to any rights held by the owner, or any other person with an interest in, such real estate.

6.8 Account Covenants. Except as otherwise provided in this Section 6.8, Debtor shall continue to collect, at its own expense, all amounts due or to become due Debtor under the Accounts. In connection with such collections, Debtor may take (and, after the occurrence of an Event of Default, at Purchasers' direction, shall take such actions as reasonably directed by Purchasers) such action as Debtor or Purchasers may deem necessary or advisable to enforce collection of the Accounts; provided, that Purchasers shall have the right at any time after the occurrence of an Event of Default to: (a) notify the customers or obligors under any Accounts of the assignment of such Accounts to Purchasers and to direct such customers or obligors to make payment of all amounts due or to become due directly to Purchasers; (b) enforce collection of any such Accounts; and (c) adjust, settle or compromise the amount or payment of such Accounts. After the occurrence of an Event of Default, all amounts and proceeds (including instruments) received by Debtor with respect to the Accounts shall be received in trust for the benefit of Purchasers, shall be segregated from other funds of Debtor, and shall be forthwith paid over to Purchasers in the same form as so received (with any necessary endorsement) to be held in the Collateral Account pursuant to Section 7. After the occurrence of an Event of Default, Debtor shall not adjust, settle or compromise the amount or payment of any Account, or release wholly or partly any customer or obligor thereof, or allow any credit or discount thereon without the prior consent of Purchasers.

6.9 Intellectual Property Covenants. Labor Ready, Inc. shall concurrently herewith deliver to Purchasers the Copyright Security Agreement and the Trademark Security Agreement and all other documents, instruments and other items as may be necessary for Purchasers to file such agreements with the United States Copyright Office, United States Patent and Trademark Office and any similar domestic or foreign office, department or agency. If, before the Secured Obligations are paid in full, any Debtor obtains any new Intellectual Property or rights thereto or becomes entitled to the benefit of any Intellectual Property not listed on the respective schedules to each security agreement, such Debtor shall give to Purchasers prompt written notice thereof, and shall amend the respective security agreement to include any such new Intellectual Property. Debtor shall: (a) prosecute diligently any copyright, patent, trademark or license application at any time pending; (b) make application on all new copyrights, patents and trademarks as reasonably deemed appropriate by Debtor; (c) preserve and maintain all rights in the Intellectual Property; and (d) use its best efforts to obtain

any consents, waivers or agreements necessary to enable Purchasers to exercise its remedies with respect to the Intellectual Property. Debtor shall not abandon any right to file a copyright, patent or trademark application nor shall Debtor abandon any pending copyright, patent or trademark application, or Copyright, Copyright License, Patent, Patent License, Trademark or Trademark License without the prior written consent of Purchasers. Debtor represents and warrants to Purchasers that the execution, delivery and performance of this Agreement by Debtor will not violate or cause a default under any of the Intellectual Property or any agreement in connection therewith.

6.10 Equipment Covenants. Debtor shall cause the equipment to be maintained and preserved in the same condition, repair and working order as when new, ordinary wear and tear excepted, and in accordance with any manufacturer's manual, and shall promptly make or cause to be made all repairs, replacements and other improvements in connection therewith that are reasonably necessary or desirable to such end.

6.11 Insurance. Debtor shall maintain insurance with respect to the Collateral in accordance with the terms of the Note Purchase Agreement.

6.12 Taxes and Claims. Debtor will pay promptly when due all property and other taxes, assessments and governmental charges or levies imposed upon, and all claims against, the Collateral (including claims for labor, materials and supplies), except to the extent the validity thereof is being contested in good faith.

6.13 Collateral Description. Debtor will furnish to Purchasers, from time to time, statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as Purchasers may reasonably request, all in reasonable detail.

6.14 Use of Collateral. Debtor will not use or permit any Collateral to be used unlawfully or in violation of any provision of this Agreement or any applicable statute, regulation or ordinance or any policy of insurance covering any of the Collateral.

6.15 Records of Collateral. Debtor shall keep full and accurate books and records relating to the Collateral and shall stamp or otherwise mark such books and records in such manner as Purchasers may reasonably request indicating that the Collateral is subject to the Security Interests.

6.16 Other Information. Debtor will, promptly upon request, provide to Purchasers all information and evidence it may reasonably request concerning the Collateral, and in particular the Accounts, to enable Purchasers to enforce the provisions of this Agreement.

SECTION 7. Collateral Account

7.1 Cash Account. After the occurrence of an Event of Default at any time after the Senior Debt Payout Date and upon notice by Purchasers, Debtor shall establish with Purchasers a cash collateral account (the "Collateral Account") in the name and under the control of Purchasers into which there shall be deposited from time to time the cash proceeds of the Collateral required to be delivered to Purchasers pursuant to Section 7.2 or any other provision of this Agreement. Any income received by Purchasers with respect to the balance from time to time standing to the credit of the Collateral Account shall remain, or be deposited, in the Collateral Account. All right, title and interest in and to the cash amounts on deposit from time to time in the Collateral Account shall vest in Purchasers and shall constitute part of the Collateral.

7.2 Customer Payments. After the occurrence of an Event of Default at any time after the Senior Debt Payout Date and upon notice by Purchasers, Debtor shall instruct all customers and other Persons obligated with respect to all Accounts to make all payments directly to Purchasers (by instructing that such payments be remitted to a post office box which shall be in the name and under the control of Purchasers). All such payments made to Purchasers shall be deposited in the Collateral Account. In addition to the foregoing, Debtor agrees that if the proceeds of any Collateral hereunder (including the payments made in respect of Accounts) shall be received by it, Debtor shall as promptly as possible deposit such proceeds into the Collateral

Account. Until so deposited, all such proceeds shall be held in trust by Debtor for the benefit of Purchasers and shall be segregated from any other funds or property of Debtor.

7.3 Direction to Pay. Debtor hereby authorizes and directs Purchasers to apply the balance from time to time outstanding in the Collateral Account to the Secured Obligations on a daily basis.

SECTION 8. Purchasers Appointed Attorney-in-Fact

Debtor hereby irrevocable appoints Purchasers as Debtor's attorney-in-fact, with full authority in the place and stead of Debtor and in the name of Debtor, Purchasers or otherwise, from time to time in Purchasers' discretion to take any action and to execute any instrument that Purchasers may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation:

(a) to obtain and adjust insurance required to be paid to Purchasers;

(b) to ask, demand, collect, sue for, recover, compound, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral;

(c) to receive, endorse, and collect any drafts or other instruments, documents and chattel paper, in connection with clauses (a) and (b) above;

(d) to file any claims or take any action or institute any proceedings that Purchasers may deem reasonably necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of Purchasers with respect to any of the Collateral;

(e) to pay or discharge taxes or Liens, levied or placed upon or threatened against the Collateral, the legality or validity thereof and the amounts necessary to discharge the same to be determined by Purchasers in its reasonable discretion, and such payments made by Purchasers to become obligations of Debtor to Purchasers, due and payable immediately without demand;

(f) to sign and endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, assignments, verifications and notices in connection with Accounts and other documents relating to the Collateral; and

(g) generally to sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though Purchasers were the absolute owner thereof for all purposes, and to do, at Purchaser's option and Debtor's expense, at any time or from time to time, all acts and things that Purchasers deems reasonably necessary to protect, preserve or realize upon the Collateral.

Debtor hereby ratifies and approves all acts of Purchasers made or taken pursuant to this Section 8. Neither Purchasers nor any person designated by Purchasers shall be liable for any acts or omissions or for any error of judgment or mistake of fact or law, except any of same resulting from its or their gross negligence or willful misconduct. This power, being coupled with an interest, is irrevocable so long as this Agreement shall remain in force.

SECTION 9. Transfers and Other Liens

Except as otherwise permitted by the Note Purchase Agreement, Debtor shall not:

(a) Sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to, any of the Collateral, except that Debtor may sell Inventory in the ordinary course of business.

(b) Create or suffer to exist any lien, security interest or other charge or encumbrance upon with respect to any of the Collateral to secure indebtedness of any Person except for the security interest created by this Agreement or permitted under the Note Purchase Agreement.

SECTION 10. Remedies

If any Event of Default shall have occurred and be

continuing, Purchasers may exercise in respect of the Collateral, in addition to all other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the UCC (whether or not the UCC applies to the affected Collateral) and also may: (a) require Debtor to, and Debtor hereby agrees that it will, at its expense and upon request of Purchasers forthwith, assemble all or part of the Collateral as directed by Purchasers and make it available to Purchasers at a place to be designated by Purchasers which is reasonably convenient to both parties; (b) withdraw all cash in the Collateral Account and apply such monies in payment of the Secured Obligations in the manner provided in Section 13; (c) without notice or demand or legal process, enter upon any premises of Debtor and take possession of the Collateral; and (d) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Purchasers' offices or elsewhere, at such time or times, for cash, on credit or for future delivery, and at such price or prices and upon such other terms as Purchasers may deem commercially reasonable. Debtor agrees that, to the extent notice of sale shall be required by law, at least twenty days notice to Debtor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. At any sale of the Collateral, if permitted by law, Purchasers may bid (which bid may be, in whole or in part, in the form of cancellation of indebtedness) for the purchase of the Collateral or any portion thereof for the account of Purchasers. Purchasers shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. Purchasers may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. To the extent permitted by law, Debtor hereby specifically waives all rights of redemption, stay or appraisal which it has or may have under any law now existing or hereafter enacted.

SECTION 11. License of Intellectual Property

Debtor hereby assigns, transfers and conveys to Purchasers, effective upon the occurrence of an Event of Default hereunder, the nonexclusive right and license to use all Intellectual Property owned or used by Debtor together with any goodwill associated therewith, all to the extent necessary to enable Purchasers to realize on the Collateral and any successor or assign to enjoy the benefits of the Collateral. This right and license shall inure to the benefit of all successors, assigns and transferees of Purchasers and its successors, assigns and transferees, whether by voluntary conveyance, operation of law, assignment, transfer, foreclosure, deed in lieu of foreclosure or otherwise. Such right and license is granted free of charge, without requirement that any monetary payment whatsoever be made to Debtor by Purchasers.

SECTION 12. Limitation on Duty of Purchasers with Respect to Collateral

Beyond the safe custody thereof, Purchasers shall have no duty with respect to any Collateral in its possession or control (or in the possession or control of any agent or bailee) or with respect to any income thereon or the preservation of rights against prior parties or any other rights pertaining thereto. Purchasers shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which it accords its own property. Purchasers shall not be liable or responsible for any loss or damage to any of the Collateral, or for any diminution in the value thereof, by reason of the act or omission of any warehouseman, carrier, forwarding agency, consignee or other agent or bailee selected by Purchasers in good faith.

SECTION 13. Application of Proceeds

Upon the occurrence and during the continuance of an Event of Default, the proceeds of any sale of, or other realization upon, all or any part of the Collateral and any cash held in the Collateral Account shall be applied: first, to all reasonable fees, costs and expenses incurred by Purchasers with respect to the Note Purchase Agreement, the Other Agreements or the Collateral including, without limitation, those described in Section 12.1 of the Note Purchase Agreement and in Section 14 hereof; second, to accrued and unpaid interest on the Secured Obligations (including any interest which, but for the provisions of any bankruptcy law, would have accrued on such amounts);

third, to the principal amounts of the Secured Obligations outstanding; fourth, to any other indebtedness or obligations of Debtor owing to Purchasers; and fifth, to Debtor or such other persons as a court of competent jurisdiction may direct.

SECTION 14. Expenses

Debtor shall pay all insurance expenses and all expenses of protecting, storing, warehousing, appraising, insuring, handling, maintaining and shipping the Collateral, all costs, fees and expenses of perfecting and maintaining the Security Interests, any and all excise, property, sales and use taxes imposed by any state, federal or local authority on any of the Collateral, or with respect to periodic appraisals and inspections of the Collateral, or with respect to the sale or other disposition thereof. If Debtor fails to promptly pay any portion of the above expenses when due or to perform any other obligation of Debtor under this Agreement, Purchasers may, at their option, but shall not be required to, pay or perform the same and charge Debtor's account for all costs and expenses incurred therefor, and Debtor agrees to reimburse Purchasers therefor on demand. All sums so paid or incurred by Purchasers for any of the foregoing, any and all other sums for which Debtor may become liable hereunder and all costs and expenses (including attorneys' fees, legal expenses and court costs) incurred by Purchasers or any other Lender in enforcing or protecting the Security Interests or any of their rights or remedies under this Agreement shall be payable on demand, shall constitute Secured Obligations, shall bear interest until paid at the highest rate provided in the Note Purchase Agreement and shall be secured by the Collateral.

SECTION 15. Termination of Security Interests; Release of Collateral

Upon indefeasible payment in full of the Senior Subordinated Notes and all other monetary obligations owing by Debtor to Purchasers under the Note Purchase Agreement and the Other Agreements (other than the Warrant Documents), the Security Interests shall terminate and all rights to the Collateral shall revert to Debtor. Upon such termination of the Security Interests or release of any Collateral, Purchasers will, at the expense of Debtor, execute and deliver to Debtor such documents as Debtor shall reasonably request to evidence the termination of the Security Interests and the release of such Collateral, as the case may be.

SECTION 16. Notices

All notices, approvals, requests, demands and other communications hereunder shall be given in accordance with the notice provision of the Note Purchase Agreement.

SECTION 17. Successors and Assigns

This Agreement is for the benefit of Purchasers and their successors and assigns, and in the event of an assignment of all or any of the Secured Obligations, the rights hereunder, to the extent applicable to the Secured Obligations so assigned, may be transferred with such Secured Obligations. This Agreement shall be binding on Debtor and its successors and assigns.

SECTION 18. Changes in Writing

No amendment, modification, termination or waiver of any provision of this Agreement or consent to any departure by Debtor therefrom, shall in any event be effective without the written concurrence of Purchasers and Debtor.

SECTION 19. Applicable Law

THIS AGREEMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE COMMONWEALTH OF MASSACHUSETTS, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.

SECTION 20. Failure or Indulgence Not Waiver; Remedies Cumulative

No failure or delay on the part of Purchasers in the exercise of any power, right or privilege hereunder shall impair such power, right or privilege or be construed to be a waiver of any default or acquiescence therein, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or any other right, power or

privilege. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

SECTION 21. Headings

Section and subsection headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose or be given any substantive effect.

SECTION 22. Counterparts

This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart.

SECTION 23. Subordination

Notwithstanding any provision in this Agreement to the contrary, the Secured Obligations shall be subordinate in right of payment to the Senior Debt, and Purchasers' rights and remedies hereunder shall be subordinate to the rights and remedies of the Senior Lender, all in accordance with the terms of the Senior Subordination Agreement. Nothing contained in this Section 23 or elsewhere in this Agreement, in the Senior Subordinated Notes or the Senior Subordination Agreement is intended to or shall impair, as between Debtor and Purchasers, the obligations of Debtor, which are absolute and unconditional, to pay to Purchasers the principal of and interest on the Senior Subordinated Notes and all other Secured Obligations as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of Purchasers and creditors of Debtor other than the holders of the Senior Debt, nor, as between Purchasers and Debtor, shall anything herein or therein prevent Purchasers from exercising all remedies otherwise permitted by applicable law upon an Event of Default under the Note Purchase Agreement.

Witness the due execution hereof by the respective duly authorized officers of the undersigned as of the day first above written.

LABOR READY, INC.

By:
Glenn A. Welstad,
Chief Executive Officer

LABOR READY OF NEVADA, INC.

By:
Glenn A. Welstad,
Chief Executive Officer

LABOR READY FRANCHISE DEVELOPMENT CORP. INC.

By:
Glenn A. Welstad,
Chief Executive Officer

SEACOAST CAPITAL PARTNERS
LIMITED PARTNERSHIP

By:
Seacoast Capital Corporation, its general partner

By:
Thomas W. Gorman,
Vice President

ALLIED INVESTMENT CORPORATION

By:
George Stelljes III,
Senior Vice President

ALLIED INVESTMENT CORPORATION II

By:
George Stelljes III,
Senior Vice President

ALLIED CAPITAL CORPORATION II

By:
George Stelljes III,
Senior Vice President

INTERCREDITOR AND SUBORDINATION AGREEMENT

THIS INTERCREDITOR AND SUBORDINATION AGREEMENT (the "Agreement") is entered into as of October 31, 1993 by and among Concord Growth Corporation, & California corporation ("Senior Lender") and Seacoast Capital Partners Limited Partnership, a Delaware limited partnership, Allied Investment Corporation, a Maryland corporation, Allied Investment Corporation II, a Maryland corporation and Allied Capital Corporation II, a Maryland corporation (individually and collectively, the "Subordinated Lender"), with reference to the following facts.

A. Senior lender has made, or in the future may make, certain loans and financial accommodations to Labor Ready, Inc., a Washington corporation, Labor Ready of Nevada, Inc., a Washington corporation and Labor Ready Franchise Development Corp. Inc., a Washington corporation (individually and collectively, the "Borrower") pursuant to the terms of that certain Loan Agreement (as defined below);

B. Subordinated Lender has made, or in the future may make, credit accommodations available to Borrower pursuant to terms of the Note Purchase Agreement (as defined below) ; and

C. Subordinated Lender and Senior Lender desire to confirm, as between themselves, their respective rights and priorities with respect to the Senior Debt (as defined below) Subordinated Debt (as defined below) and the collateral (as defined below).

AGREEMENT

NOW, THEREFORE, in consideration of the premises and for other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and in order to induce Senior Lender to make the loans and financial accommodations provided for in the Loan Agreement, Senior Lender and Subordinated Lender agree as follows:

1. Definitions. The following terms shall have the meanings specified below.

"Agreement" shall have the meaning assigned to such term in the first paragraph of this Agreement.

"Blockage Period" shall have meaning assigned to such term in Section 2.4.

"Borrower" shall have the meaning assigned to such term in Recital A, and shall include any and all successors and assigns.

"Collateral" means any and all property which now constitutes or hereafter will constitute collateral, or other security for payment of the Senior Debt pursuant to the Loan Documents or otherwise.

"Default Period" shall have the meaning assigned to such term in Section 2.4.

"Enforcement Period" shall have the meaning assigned to it in Section 2.5.

"Expenses" shall have the meaning assigned to such term in Section 2.2.

"Guarantor" shall mean Labour Ready Temporary Services Ltd., and any and all successors and assigns.

"Loan Agreement" means that certain Amended and Restated Loan Agreement dated as of October 31, 1995 between Borrower and Senior Lender, as such Loan Agreement has been or may hereafter be restated, amended, increased, supplemented or otherwise modified from time to time.

"Loan Documents" means each and every "Loan Document," as defined in the Loan Agreement, including without limitation, the Loan Agreement, the Security Agreement (as defined in the Loan Agreement) and the Senior Guaranties.

"Missed Payments" shall have the meaning assigned to such term in section 2.4.

"Note Purchase Agreement" means that certain Note Purchase Agreement dated as of October 31, 1995 by and among Borrower and Subordinated Lender, as the same may be restated, amended, supplemented or otherwise modified from time to time.

"Senior Debt" means (i) all principal advances by Senior Lender to Borrower under the Loan Agreement up to an aggregate principal amount

outstanding at any time of not more than \$5,500,000 (ii) any and all obligations and liabilities of Borrower to Senior Lender, other than obligations and liabilities for principal advances, under or pursuant to the Loan Agreement, or the Loan Documents, and (iii) any and all obligations and liabilities of Guarantor or any other person or entity to senior lender under or pursuant to the Senior Guaranties, in each case now existing or hereafter arising, and with respect to clauses (ii) and (iii) above, of every kind and description, direct or indirect, absolute or contingent, whether consisting of premium, interest, penalties; fees (including attorneys' fees) experts fees, indemnification obligations, liabilities for breaches of representations or warranties or other obligations or liabilities of any kind, together with any and all renewals, extensions, modifications, increases and replacements of any of the foregoing; provided, that in the event Borrower files or has filed against it a petition under the United States Bankruptcy code, the definition of Senior Debt shall include postpetition interest on prepetition indebtedness only to the extent such postpetition interest is recoverable under the United States Bankruptcy Code; provided, further; that the definition of Senior Debt includes postpetition interest on postpetition financing provided by Senior Lender; provided further, that with respect to clause (iii) above, the inclusion of the guaranty obligations shall not have the effect of increasing the principal amount set forth in clause (i) above.

"Senior Guaranties" means that certain Guarantee and Postponement of Claim, dated as a October 21, 1995, executed, by Labour Ready Temporary Services Ltd., in favor of Senior Lender, and any other guarantee pursuant to which a guarantor guarantees payment of the obligations of Borrower to Senior Lender.

"Senior Lender" shall have the meaning assigned to such term in the first paragraph of this Agreement and shall include any participants and co-lenders that may from time to time be participants in or co-lenders under, the Loan Agreement, and, any and all successors and assigns.

"Subordinated Debt" means (i) any and all obligations and liabilities of Borrower to Subordinated Lender, and (ii). any and all obligations and liabilities of Guarantor or any other person or entity to Subordinated Lender under or pursuant to' the Subordinated Guaranties, in each case of every kind and description, direct or indirect, absolute or contingent, now existing or thereafter arising, Including, without limitation, obligations under the Subordinated Notes. the Note Purchase Agreement or the other Subordinated Lender Documents, whether,consisting of principal, premiums, interest (including post-petition interest accrued subsequent to the filing of any petition under any bankruptcy, insolvency or similar law, penalties, fees, expenses .indemnification obligations, liabilities for breaches of representations or warranties or other obligations or liabilities of any kind including any put obligations, together with any and all renewals, extensions, modifications, increases and replacements of any of the foregoing.

"Subordinated Guaranties" means that certain Unconditional Guaranty Agreement, dated as of October 31, 1995, executed by Labour Ready Temporary Services, Ltd. in favor of Subordinated Lender, and any other guaranty pursuant to which guarantor guarantees payment of the obligations of Borrower to Subordinated Lender.

"Subordinated Lender" shall have the meaning assigned to such term in the first paragraph of this Agreement, together with each and every future holder of any Subordinated Note and any and all successors and assigns.

"Subordinated Lender Documents" means each and every agreement, instrument, promissory note, financing statement and document executed in connection with or as security for the Subordinated Debt, including, without limitation, the Subordinated Notes, the Note Purchase Agreement and the Subordinated Guaranties; provided that the 'Warrant Documents' as defined in the Note Purchase Agreement, existing and as in effect on the date of this Agreement, shall not be included in the definition of Subordinated Lender documents; provided further, that any "put" or debt obligations of Borrower to Subordinated Lender under such Warrant Documents shall be - included in the definition of "Subordinated Debt."

"Subordinated Notes" means each of the subordinated notes to be executed by Borrower and payable to the order of Subordinated Lender pursuant to the Note Purchase Agreement as any of the foregoing may be renewed, extended, consolidated; increased, replaced or otherwise modified at any time, and from time to time, in accordance with the terms hereof.

2 . SUBORDINATION.

2.1 Subordinated Debt Subordinate to Senior Debt. Subordinated Lender agrees that (i) to the extent and in the manner set forth in this

Agreement, all Subordinated debt is expressly made subordinate in priority and subject in right and priority of payment to the prior performance and payment in full, in cash or cash equivalents, of the Senior Debt, and (ii) Subordinated Lender's liens upon and security interests in the Collateral are absolutely subordinate to the priority of the liens and security interests of Senior Lender in the Collateral, notwithstanding the date, order, or manner of the granting or perfection of any security interest in or Lien upon the Collateral. Except as otherwise provided in Sections 2.2, 2.4, and 2.5 hereof, Subordinated Lender will not ask for, demand; sue for, take, receive, or possess from Borrower by setoff, recoupment, collection or enforcement actions against Borrower, enforcement of rights in Collateral, foreclosure, or any other manner, all or any payment of the Subordinated Debt whether by the institution or commencement of a bankruptcy proceeding or other judicial action or otherwise, unless and until the Senior Debt has been fully paid and satisfied. Without limiting the generality of the foregoing, unless and until the Senior Debt' has been fully paid and satisfied, Subordinated Lender shall not attempt to verify the validity, amount, or any other matter relating to, and shall not notify any account debtor on, any account of Borrower; and, except as provided in Section 2.4 and 2.5 hereof, Subordinated Lender shall not take any action to enforce its liens or security interests in any Collateral. Notwithstanding that Subordinated Lender has a lien on certain real property of Borrower and that Senior Lender does; not have a lien on such real property, Subordinated Lender agrees that the Blockage Period provisions set forth in Sections 2.4 and 2.5 apply to actions in connection with the real property as if such real property was included in the definition of Collateral.

2.2 Permitted Payments. Nothing contained in Section 2 shall prevent Subordinated Lender from receiving from Borrower (i) regularly scheduled payments of principal and interest on the Subordinated Note, or (ii) payment of reimbursable out-of-pocket costs and expenses that have been incurred and are then due and payable under the Subordinated Lender Documents, up to a maximum amount of \$10,000 per month (the "Expenses"), except (a) during the pendency of any case proceeding, dissolution, liquidation, or other winding up, assignment for the benefit; of creditors or other marshalling of assets and liabilities of Borrower referred to in Section 2.3 or (b) under the conditions described in Sections 2.4 and 2.5. With respect to payment of Expenses, in the event Borrower pays less than \$10,000 in any month, the remaining portion of such \$10,000 shall not be added to the amount permitted for the next month and so on, and no anticipated expenses may be prepaid. For purposes of this Agreement, regularly scheduled payments of principal specifically do not include payment of any mandatory prepayments required under the Subordinated Lender Documents.

2.3 Payment Over Of Proceeds Upon Bankruptcy or Dissolution. In the event of (i) any insolvency or bankruptcy case or proceeding, or any receivership, liquidation, reorganization, or other similar case or proceeding in connection therewith, relative to Borrower or to its creditors, as such, or to its assets, commenced or filed after the date hereof, or (ii) any liquidation, dissolution, or other Winding up of Borrower whether voluntary or involuntary and whether or not involving insolvency or bankruptcy, or (iii) any assignment for the benefit of creditors or any other marshalling of assets; or liabilities of Borrower, then and in any such event:

A. Senior Lender shall be entitled to receive payment in full, in cash or cash equivalents, of all amounts due on or in respect of the Senior Debt or provision satisfactory to Senior Lender shall be made for such payment, before Subordinated Lender is entitled to receive any payment or distribution of any kind or character on account of any indebtedness of Borrower to Subordinated Lender under any of the Subordinated Lender Documents or otherwise, including, without limitation, principal of, or interest on the Subordinated Note; and

B. Any payment or distribution of assets of Borrower of any kind or character, whether in cash, property or securities by setoff or otherwise, to which Subordinated Lender would be entitled, under any of the Subordinated Lender Documents, or otherwise, but for the provisions of this Section 2.3, shall be paid by the liquidating trustee or agent or other person making such payment or distribution, whether a trustee in bankruptcy, a receiver, or otherwise, directly to senior Lender to the extent necessary to make payment in full, in cash or cash equivalents, of the Senior Debt remaining unpaid, after giving effect to any concurrent payment or distribution to or for Senior Lender, and Senior Lender shall be empowered to demand, sue for, collect, and receive every such payment or distribution.

Notwithstanding the foregoing or anything to the contrary in this Agreement, Subordinated Lender shall not be required to pay over to senior Lender any common stock or other securities received by Subordinated Lender from Borrower that are subordinated and junior in right and time of payment to the Senior Debt at Least to the extent

provided in this Agreement.

2.4 Suspension of Payment When Senior Debt in Default. Upon (i) the occurrence of an "Event of Default" under and as defined in the Loan Agreement, and (ii) receipt by Subordinated Lender from Senior Lender of written notice of such occurrence together with a copy of the default notice sent by Senior Lender to Borrower ("Default Notice") , for a period (for purposes of this Section and Section 2.5, a "Blockage Period") equal to the lesser of (a) 180 days from the date of Borrower's receipt of a Default Notice, or (b) the Period during which the Event of Default is in effect and until senior Lender has confirmed to Borrower in writing that such Event of Default has been cured or waived pursuant to the Senior Lender Documents or the Senior Debt has been fully satisfied ("Default Period"), Subordinated Lender shall not receive any payments otherwise permitted under Section 2.2, and shall not ask for, demand, sue for, take, or receive from Borrower, by setoff, recoupment, enforcement of rights in Collateral, or otherwise, any payment or distribution of any assets of Borrower of any kind or character on account of the Subordinated Debt. If the Blockage Period ends because the Event of Default has been cured or waived, Subordinated Lender may receive from Borrower regularly scheduled payments of principal, interest and Expenses that (i) Borrower did not pay during the Blockage Period (but not any other amounts due as a result of an acceleration by Subordinated Lender) (the Missed Payments) and (ii) are due and payable after the Blockage Period, so long as no subsequent Blockage Period is in effect. If the Blockage Period ends and the Event of Default is a payment or monetary default and such payment or monetary default has not been cured or otherwise waived, Subordinated Lender may not receive any Missed Payments but may take any action otherwise prohibited during the Blockage Period, as described above; provided, that if, in such case, Subordinated Lender takes any such action, or receives any payments from Borrower absent any such action, any monies or other assets received by Subordinated Lender shall be held in trust for Senior Lender and immediately paid over to Senior Lender for application to the Senior Debt. If the Blockage Period ends and the Event of Default is a non-monetary, non-payment default and such default has not been cured or otherwise waived, Subordinated Lender may receive from Borrower any Missed Payments and any regularly scheduled payments of principal, interest and Expenses due after such Blockage Period, so long as no subsequent Blockage Period is in effect, unless Senior Lender has accelerated the Senior Debt Notwithstanding the foregoing, (i) not more than one Default Notice shall be given within a period equal to the lesser of: (a) 210 consecutive days, or (b) 30 consecutive days after the end of a Default Period, (ii) no Event of Default that existed or was continuing on the date of any Default Notice shall be made the basis for the giving of a subsequent Default Notice, unless such Event of Default has been cured or waived for a period of not less than.. 30 consecutive days subsequent to the end of the immediately preceding Blockage Period, (iii) not more than one Blockage Period under this Section 2.4 or Section 2.5 or both shall be in effect during any period of the lesser of (a) 210 consecutive days, or (b) 30 consecutive days from the end of, the immediately preceding Blockage Period under this Section 2.4 or Section 2.5 or both. Nothing in Section 2.1, this Section 2.4 or in section 2.5 shall prohibit Subordinated Lender during any Blockage Period from (i) commencing or joining an involuntary case against Borrower under the United States Bankruptcy Code, (ii) accelerating the Subordinated Debt, (iii) commencing an action, and obtaining a judgment, against Borrower to recover all or any part of the Subordinated Debt, or (iv) commencing an action against Borrower (a) for delivery of financial and other information required to be delivered under the Subordinated Lender Documents, (b) to enable Subordinated Lender to inspect the property of Borrower on Borrower's premises, or (c) to enable representatives of Subordinated Lender to attend board meetings of Borrower; provided, that in no event shall (x) any such action referred to in clauses (iii) and (iv) immediately above involve the collateral, including without limitation, any action for turnover or possession of the Collateral, or (y) Subordinated Lender (A) take any action to require Borrower to pay the debts of any third party, or (B) enforce any judgment obtained against Borrower, whether by attachment, levy or the like, or by any other means.

2.5. Suspension of Payment When Subordinated Debt in Default. Upon written notice by Subordinated Lender to Borrower that a default or an "Event of Default" under and as defined in the Subordinated Note or under and as defined. in the Note Purchase Agreement has occurred and that Subordinated Lender intends to take an enforcement action (an "Enforcement Notice"), (i) Subordinated Lender shall simultaneously give Senior Lender a copy of such Enforcement Notice, and (ii) for a Blockage Period of 180 days from the date of such Enforcement Notice, Subordinated Lender shall not receive any payments otherwise permitted under Section 2.2 and shall not have any right to ask for, demand, sue for, take, or receive from Borrower, by Setoff recoupment, enforcement of rights in Collateral, or otherwise, any payment or distribution of any asset of Borrower of any kind or character on account of principal of or interest on the Subordinated Note or any other amounts payable

under the Subordinated Note or other Subordinated Lender Documents unless the Senior Debt shall have been discharged or paid in full, or so long as no Event of Default under and as defined in the Loan Agreement has occurred and is continuing, unless and until such default shall have been cured or waived to the reasonable satisfaction of Senior Lender. Thereafter (i) Borrower may pay the Subordinated Lender all Missed Payments and any regularly scheduled payments of principal, interest and Expenses due after such Blockage Period so long as no subsequent Blockage Period is in effect; provided, that Subordinated Lender shall have no right to receive any such payments if either (a) Senior Lender has accelerated the Senior debt, or (b) a monetary or payment default exists under the Loan Agreement, and (ii) Subordinated Lender may take any action otherwise prohibited during the Blockage Period as described above; provided, that if Subordinated Lender takes any such action, any monies or other assets received by Subordinated Lender in connection with any such action shall be held in trust for Senior Lender and immediately paid over to Senior Lender for application to the Senior Debt so long as either (a) Senior Lender has accelerated the Senior Debt or (b) a monetary or payment default exists under the Loan Agreement. Notwithstanding the foregoing, if a default under the Subordinated Note or the Note Purchase Agreement becomes the basis for a Default Notice and commencement of a Blockage Period pursuant to Section 2.4, the provisions of Section 2.4 shall govern and control the rights and obligations of Senior Lender and Subordinated Lender with respect to such default; provided, that if either Senior Lender or Subordinated Lender commences a Blockage Period under Section 2.4 or Section 2.5, respectively, and the other commences a subsequent Blockage Period before expiration of the then existing Blockage Period, the latter Blockage Period shall be in effect for not more than 180 days from the date of commencement of the Blockage Period that was first initiated. In the event a Blockage Period expires under either Section 2.4 or 2.5 and Subordinated Lender has commenced an enforcement action that was prohibited during such Blockage Period before a new Blockage Period is initiated, Subordinated Lender shall not be prohibited from continuing with such enforcement action during a subsequent Blockage Period so long as prior to initiation of such subsequent Blockage Period (i) Subordinated Lender has taken substantial steps to pursue such enforcement action (e.g. Subordinated Lender initiated a collection, foreclosure, replevy, receivership or similar action against Borrower) and (ii) the Event of Default giving rise to such enforcement action is not cured or otherwise waived; provided, that notice to account debtors shall, in and of itself, not constitute a substantial step to pursue such enforcement action.

2.6 Payment Over of Proceeds Upon Event of Default or Default. In the event that Subordinated Lender shall receive any payment or distribution of assets of Borrower of any kind or character, in respect of the Subordinated Debt, that it is not entitled to receive pursuant to this Agreement, such payment or distribution shall be segregated and shall be deemed to have been received by Subordinated Lender in trust, as trustee, for the benefit of Senior Lender. Subordinated Lender shall promptly upon receipt, and immediately upon demand by Senior Lender, deliver the same to Senior Lender, in the form received from Borrower with any necessary endorsement or assignment, or Subordinated Lender shall pay to Senior Lender an amount equal to the payment received from or on behalf of Borrower, for application to the payment of the Senior Debt remaining unpaid. Until so delivered to Senior Lender, all such Payments and distributions shall be held in trust by Subordinated Lender as the property of Senior Lender.

2.7 Provisions Solely to Define Relative Rights. The provisions of Section 2 are solely for the purpose of defining the relative rights of Subordinated Lender and Senior Lender. Nothing contained in Section 2 or elsewhere in this Agreement shall impair, as between Borrower and Subordinated Lender, the obligation of Borrower, which is absolute and Unconditional, to pay to Subordinated Lender, the principal of and interest on the Subordinated Note and the other indebtedness, if any, owing to Subordinated Lender under the other Subordinated Lender Documents as and when the same shall become due and payable in accordance with its terms. This Agreement is not for the benefit of any person other than Subordinated Lender and Senior Lender.

2.8 Power of Attorney. Subordinated Lender hereby irrevocably appoints Senior Lender as attorney-in-Fact for Subordinated Lender to file any claim or proof of claim in any bankruptcy or insolvency proceeding in the event Subordinated Lender fails to file any such claim or proof of claim by the thirtieth (30th) day before the bar date for filing such claim or proof of claim. Subordinated Lender will execute and deliver to Senior Lender such other and further powers-of-attorney or other documents and agreements as Senior Lender may reasonably request in order to accomplish the foregoing, and shall cooperate with Senior Lender in providing information and copies of any documentation requested by Senior Lender to accomplish the foregoing. Nothing in this Section 2.8 shall prohibit Subordinated Lender from voting its claim in any such bankruptcy case as Subordinated Lender deems appropriate.

2.9 No Waiver of Subordination Provisions.

(i) No right of Senior Lender to enforce the subordination herein provided shall be prejudiced or impaired by any act or failure to act by Subordinated Lender or Borrower, or by any act or failure to act, in good faith, by Senior Lender, or by any non-compliance by Borrower with the terms, provisions, and covenants of this Agreement or any of the Subordinated Lender Documents, regardless of any knowledge thereof Senior Lender may have or be otherwise charged with,

(ii) Without in any way limiting the generality of Subsection (i) of this Section 2.9, Senior Lender may, at any time and from time to time, without the consent of or notice to Subordinated Lender, and without impairing or releasing the subordination provided in this Agreement or the obligations hereunder of Subordinated Lender to Senior Lender, do any one or more of the following: (a) change the manner, place, or terms of payment or extend the time of Payment of, or refund or refinance, or renew or amend the terms of the Senior Debt or any instrument evidencing the senior Debt or any agreement under which the Senior Debt is outstanding; provided, that Senior Lender shall not, without the consent of Subordinated Lender, (w) increase the "Maximum Credit" under and as defined in the Loan Agreement above \$5,500,000, (x) increase the rates of interest payable under the Senior Lender Documents except that senior Lender shall be entitled to charge any default rate of interest as set forth in the Loan Documents, (y) extend the "Term" under and as defined in the Loan Agreement beyond October 31, 1996, or (z) add any additional covenants or events of default to the Loan Documents or make any covenants or events of default included in the Loan Documents more restrictive than those existing on the date of this Agreement; provided that nothing in this Agreement shall restrict or prohibit Lender from adjusting the advance rate or making changes to the eligibility criteria (b) sell, exchange, release, or otherwise deal with any Collateral, or take additional property to secure the senior Debt; (c) release any person or entity liable in any manner for the payment, performance, or collection of the Senior Debt; and (d) exercise or refrain from exercising any right or waive any right or claim against Borrower or any other person or entity.

2.10 Subrogation. Upon the satisfaction and payment in full of the Senior Debt, Subordinated Lender shall be subrogated to the rights of Senior Lender to receive payments and distributions of cash, property, and securities on account of the Senior Debt, to the extent of any payments or distributions on account of the Subordinated Debt that were received and applied by Senior Lender to the Senior Debt as a result of the provisions of this Agreement until the principal of; and interest on, the Subordinated Debt shall be paid in full. For purposes of such subrogation, no payments or distributions; to Senior Lender by Borrower, or payments received by Subordinated Lender and paid over to Senior Lender, of any cash, property or securities which Subordinated Lender would have been entitled to receive and apply on account of the Subordinated Debt but for the provisions of this Agreement shall, as among Borrower, its creditors other than Senior Lender and Subordinated Lender, be deemed to be a payment or distribution by Borrower on account of the Senior Debt.

2.11 Consent to Security Interests. Subordinated Lender and Senior Lender each consent to the continuing liens and security interests of the other in the Collateral, as described herein.

3. Prepayment. So long as any of the Senior Debt remains unpaid and outstanding, Subordinated Lender shall not ask for, demand, sue for, take, or receive from Borrower any prepayment of the Subordinated Note or the other Subordinated Debt unless Senior Lender shall have given its prior written consent to such prepayment and to the application of such prepayment to the Subordinated Debt.

4. Amendment and Waiver. Any term covenant, agreement, or condition of this Agreement may be amended, or compliance therewith may be waived (either generally or in a particular instance and either retroactively or prospectively), with the written consent of Senior Lender and Subordinated Lender; provided, however, that no such waiver shall extend to or affect any obligation not expressly waived or impair any right consequent thereon.

5. Modification and Assignment of Subordinated Debt. Subordinated Lender may, at any time and from time to time, without the consent of Senior Lender, without incurring responsibility to any Senior Lender, and without impairing or releasing any of Subordinated Lender's rights, or any of the obligations of Senior Lender hereunder, amend or modify the Subordinated Debt Documents; provided that Subordinated Lender shall not, without the prior written Consent of Senior Lender, agree to or allow any such amendment or modification that has the effect of (i) increasing the principal amount of the Subordinated Debt above the amount outstanding on the date of this Agreement, (ii) increasing the

rates of interest payable under the Subordinated Notes or the other Subordinated Lender Documents above the rates in effect under the Subordinated Lender Documents as of the date of this Agreement (except that Subordinated Lender shall be entitled, upon notice to Senior Lender, to charge the default rate of interest set forth in the Subordinated Lender Documents upon the occurrence of a default under the Subordinated Lender Documents), (iii) accelerating the amortization or maturity date of the Subordinated Debt from the scheduled amortization and maturity date in effect under the Subordinated Debt Documents as of the date at this Agreement, or (iv) adding any additional covenants or events of default to the Subordinated Lender Documents or making any covenants or events of default under the Subordinated Lender Documents more restrictive than those existing on the date of this Agreement. The Subordinated Lender Documents may be assigned by Subordinated Lender to any transferee without the prior written consent of Senior Lender so long as the transferee agrees in writing to be bound by the terms of this Agreement.

6. Application of Payments, Marshalling of Assets. Subordinated Lender agrees that all payments received by Senior Lender may be applied and reapplied, in whole or part, to any of the Senior Debt, as Senior Lender, in its sole discretion, deems appropriate. Subordinated Lender agrees that the subordination by Subordinated Lender of the priority of its liens upon and security interests in the Collateral to the priority of the liens and security interests of Senior Lender shall not be affected by, and Subordinated Lender expressly waives any right; accruing to Subordinated Lender as a result, of, or with respect to:

(i) any obligation or failure by Senior Lender to marshal any assets in favor of Subordinated Lender or against or in payment of all or any of the indebtedness evidenced by any Subordinated Lender Document;

(ii) any failure by Senior Lender to enforce any security interest in or lien upon other assets, if any, of Borrower or any other obligor or guarantor of the Senior Debt before enforcement of any security interest in or lien upon the Collateral,

(iii) any failure by senior Lender to pursue any remedy against Borrower or any other assets; of Borrower, or against any other individual, entity or property that may be liable for or security for the Senior Debt, including, without limitation, any guarantor, or any collateral for any guaranty, of the Senior Debt;

(iv) any release by Senior Lender of (a) any security interest in or lien upon any collateral, (b) any guarantor or other individual or entity now or hereafter liable for the Senior Debt, or (c) any other property that may now be or hereafter become security for the Senior Debt;

(v) any amendments to or modifications of the Loan Agreement, or of any other Loan Document, or any individual or entity liable for the Senior Debt (unless such amendments, are prohibited under Section 2.9 hereof); or

(vi) any failure by Senior Lender to pursue any other right or remedy in the power of Senior Lender.

Subordinated Lender further agrees that, to the extent that Borrower makes a payment or payments to Senior Lender, which payment or payments or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside, or required to be repaid to a trustee or receiver or any other party under the Bankruptcy Code, any State or federal law, common law, or equitable cause, then to the extent of such payment or repayment, the obligation or part thereof intended to be satisfied shall be revived and continued in full force and effect as part of the obligations of Borrower under the Senior Debt as if said payment had not been made, and shall be subject in all respects to the subordination and subrogation provisions in favor of Senior Lender hereunder.

7. Non Interference with Senior Lender's Rights. Subordinated Lender agrees that the Subordinated Lender will not take any action to prejudice or interfere in any manner with any right or remedy of Senior Lender under the Loan Agreement or any other Loan Document; provided, that nothing' in this Section 7 shall prohibit Subordinated Lender from taking any action otherwise permitted under this Agreement and nothing in this Section 7 shall prohibit Subordinated Lender from opposing any motion for relief from the automatic stay that may be filed by Senior Lender in any bankruptcy case of Borrower or from voting any claim of Subordinated Lender in any such bankruptcy case as Subordinated Lender deems appropriate. At no time, whether before or after the commencement of a bankruptcy proceeding, shall Subordinated Lender challenge the extent, validity, enforceability, perfection or priority of Senior Lender's security interest in the Collateral.

8. Indebtedness Under the Subordinated Note and Other Subordinated Lender Documents Owed Only to Subordinated Lender. Subordinated Lender warrants and represents to Senior Lender that Subordinated Lender holds all of the Subordinated Debt and has not assigned any Interest in the indebtedness evidenced by any Subordinated Lender Documents to any party, that no other party owns an interest in the Subordinated Debt other than Subordinated Lender, whether as joint holders of said indebtedness, Participants, or otherwise., and, except as permitted under Section 5 of this Agreement, that the entire amount of the Senior Debt is, and shall continue to be, owing only to Subordinated Lender

9. Instrument Legend. The Subordinated Note is or will on the date hereof be, inscribed with a legend conspicuously indicating that payment thereof is subordinated to the claims of Senior Lender pursuant to the terms of this Agreement Any instrument evidencing any indebtedness or any portion of any indebtedness owing by Borrower to Subordinated Lender, whether or not negotiable, which is hereafter excuted by Borrower will, on the date thereof, be inscribed with the aforesaid legend.

10. Notice. Any notice, demand, request, consent, approval, declaration, delivery, or other communication hereunder to be made pursuant to the provisions of this Agreement shall be sufficiently given or made if in writing and either delivered in person with receipt acknowledged or sent by facsimile that is confirmed by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

(i) If to Subordinated Lender, at:
SeaCoast Capital Partners Limited Partnership
c/o Seacoast Capital Corporation
5 Ferncroft Road
Danvers, MA 01923
Attention: Thomas W. Gorman
Facsimile: (508) 750-1301

Allied Investment Corporation
Allied Investment Corporation II
Allied Capital Corporation' II
1666 K Street, N.W., Suite 901
Washington, DC 20006
Attention: George Stelljes III
Facsimile (202) 659-2053

with copies to:

Hughes & Luce. L.L.P.
1717 Main Street, Suite 2800
Dallas, TX 75201
Attention: Larry A Makel, Esq.
Facsimile (214) 939-6100

Dickstein Shapiro & Marin
2101 L Street N.W., Suite 800
Washington, D.C. 20037
Attention: David Parker, Esq.
Facsimile (202) 887-0689

(ii) If to Senior Lender:

Concord Growth Corporation
1170 East Meadow Drive
Palo Alto, CA 94303
Attention: Geoffrey Butner
Facsimile: (415) 857-0900

with copies to:

Murphy, Weir & Butler
101 California Street, 39th Floor
San Francisco, CA 94111
Attention: Jane K Springwater, Esq
Facsimile: (415) 421-7979

or at such other address or facsimile transmission number as; may be substituted by notice as herein provided

11. Miscellaneous.

11.1 Successors and Assigns. This Agreement shall be binding upon, and inure to the benefit of, the successors and, assigns of Senior Lender and the permitted successors and assigns of Subordinated Lender.

11.2. Section titles. The section titles contained in this

Agreement are are and shall be without substantive meaning or content of any kind whatsoever, and are not a part of the agreement set forth in this Agreement, but are inserted for convenience only.

11.3. Severability. Wherever possible each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalidated under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provision of this Agreement.

11.4 Attorneys' Fees.. If either Subordinated Lender or Senior Lender shall incur costs and expenses, including attorneys' fees and costs, to enforce its rights under this Agreement, the prevailing party shall be entitled to recover from the other party the reasonable amount of such costs and expenses incurred.

11.5 Governing Law, Consent to Jurisdiction and Venue. In all respects, including all matters of construction, validity, and performance, this Agreement and the obligations arising hereunder shall be governed by and construed and enforced in accordance with the laws of the State of California applicable to contracts made and performed in such State, without regard to the principals thereof regarding conflict of law, and any applicable laws of the United States of America. THE PARTIES HERETO CONSENT TO PERSONAL JURISDICTION, WAIVE ANY OBJECTION AS TO JURISDICTION AND VENUE, AND AGREE NOT TO ASSERT ANY DEFENSE BASED ON LACK OF JURISDICTION OR VENUE IN THE COUNTY OF SAN FRANCISCO, STATE OF CALIFORNIA. Service of process on any the the parties hereto in any action arising out of or relating to this Agreement shall be effective if mailed to such party at the address listed in Section 10 of this Agreement Nothing herein shall preclude Senior Lender or Subordinated Lender from bringing suit or taking other legal action in any other jurisdiction.

11.6 MUTUAL WAIVER OF JURY TRIAL. BECAUSE DISPUTES ARISING IN CONNECTION WITH COMPLEX FINANCIAL TRANSACTIONS ARE MOST QUICKLY AND ECONOMICALLY RESOLVED BY AN EXPERIENCED AND EXPERT PERSON AND THE PARTIES WISH APPLICABLE FEDERAL AND STATE LAWS TO APPLY, RATHER THAN ARBITRATION RULES, THE PARTIES DESIRE THAT THEIR DISPUTES BE RESOLVED BY A JUDGE APPLYING SUCH APPLICABLE LAWS. THEREFORE, TO ACHIEVE THE BEST COMBINATION OF THE BENEFITS OF THE JUDICIAL SYSTEM AND OF ARBITRATION, THE PARTIES HERETO WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT, OR PROCEEDING BROUGHT TO ENFORCE OR DEFEND ANY RIGHTS OR REMEDIE UNDER THIS AGREEMENT.

11.7 Counterparts. This Agreement may be executed in any number of counterparts each of which when executed and delivered shall be deemed to be an original an all of which, when taken together, shall constitute on and the same agreement.

In witness whereof, the parties hereto have executed this Agreement as of the day and year first above written.

Allied Investment Corporation
("Subordinated Lender")
By: Robert M. Monk
Assistant Vice President

Allied Capital Corporation II
("Subordinated Lender")
By: Robert M. Monk
Assistant Vice President

Allied Investment Corporation II
("Subordinated Lender")
By: Robert M. Monk
Assistant Vice President

Seacoast Capital Partners Limited Partnership
("Subordinated Lender")
By Seacoast Capital Corporation, General Partner
By Thomas W. Gorman
Vice President

Concord Growth Corporation
By Geoffrey Butner
Vice President

EXECUTIVE EMPLOYMENT AGREEMENT

This Executive Employment Agreement is made and entered into this ___ day of October, 1995, by and between Labor Ready, Inc., a Washington corporation ("Company") and Glenn Welstad ("Executive").

WHEREAS, Executive has been a valued employee and key executive of the Company and the parties wish to provide for his continued employment and future services upon the terms and conditions set forth in this Agreement; and

WHEREAS, it is the consensus of the board of directors that Executive's services have been of exceptional merit, in excess of the compensation paid and an invaluable contribution to the profits and position of the Company in its field of activity. The board further believes that Executive's experience, knowledge of corporate affairs, reputation and industry contacts are of such value and his continued services essential to Company's future growth and profits and that it would suffer great financial loss should Executive terminate his services.

NOW THEREFORE, in consideration of the mutual promises and covenants set forth herein, the Company and Executive agree as follows:

1. Termination of Prior Agreements. Effective as of October ____, 1995, all agreements previously entered into between Executive and Company (whether Labor Ready, Inc., PNLF, Inc., Labor Ready of Southern Calif., Inc., or any other subsidiary company) concerning the employment and compensation of Executive, are hereby terminated.

2. Employment. The Company agrees to and hereby does continue Executive in its employment, and Executive agrees to and hereby does continue in employment with the Company, as President and Chief Executive Officer of the Company in charge of the operation of its business and affairs, subject to the supervision and direction of its Board of Directors, for a period commencing on October ____, 1995 and ending on December 31, 1998, unless such period is extended by written agreement of the parties or is sooner terminated pursuant to the provisions of Paragraphs 5, 12 or 13.

3. Duties of Executive. Executive agrees to continue to devote his full time, attention, skill, and efforts to the performance of his duties as Chief Executive Officer of the Company, and to the performance of all the duties of the office of President of the Company and, if elected, of any subsidiary or subsidiaries of the Company, all under the supervision and direction of their respective boards of directors.

4. Compensation.

(a) Base Salary. Executive's base salary ("Base Salary") shall be at the rate of Thirty One Thousand Two Hundred Fifty and No/100 Dollars (\$31,250.00) per month, payable semi-monthly, from the date of this Agreement. The Base Salary amount shall be increased annually on the anniversary date of this Agreement to 110% of the preceding years salary.

(b) Bonus. The Board of Directors, or the Compensation Committee, as the case may be, may award to Executive such bonuses, from time to time, subject to limitations imposed by agreement with lenders or others, as the board may see fit, commensurate with Executive's performance and the overall performance of the Company.

(c) Fringe Benefits. In addition to the compensation described in Paragraphs 4.(a) and 4.(b), Executive shall also be entitled to fringe benefits, including car allowances, insurance and other benefits, as shall be provided in accordance with Company policy as it is developed from time to time, by the Company's Board of Directors.

5. Death or Disability.

(a) In the event that Executive, during the term of his employment hereunder, shall fail to perform his duties as the result of illness or other incapacity and such illness or other incapacity shall continue for a period of more than six months, the Company shall have the right, by written notice either personally delivered or sent by certified mail, to terminate Executive's employment hereunder as of a date (not less than 30 days after the date of the sending of such notice) to be specified in such notice. Upon such termination Executive shall be entitled to receive his compensation computed as provided in Paragraph 4 hereof for a period of six (6) months following the giving of such notice, or in the amount of \$30,000.00, whichever is less; provided, however, that if, prior to the date specified in such notice, Executive's illness or incapacity shall have terminated and he shall have taken up and performed his duties hereunder, Executive shall be entitled to resume his employment hereunder as though such notice had not been given.

(b) In the event of Executive's death during the term of his employment hereunder, his estate shall be entitled to receive his compensation computed provided in Paragraph 4 hereof for a period of six (6) months following the date of death, or in the amount of \$30,000.00, whichever is less.

6. Qualified and Non-Qualified Options to Purchase Common Stock.

Company acting through its board of directors may from time to time, but shall not be required to provide and deliver to Executive qualified and/or non-qualified options to purchase the Company's common stock. Upon termination of this Agreement for any reason, the exercise date of all outstanding non-qualified stock options shall be accelerated, and shall be exercisable only within six months from the date of termination.

7. Reimbursement for Expenses.

Company shall reimburse Executive for reasonable out-of-pocket expenses that Executive shall incur in connection with his services for Company contemplated by this Agreement, on presentation by Executive of appropriate vouchers and receipts for such expenses to

Company. At times it may be in the best interests of the Company for Executive's spouse to accompany him on such business travel. On such occasions Company shall reimburse Executive for reasonable out-of-pocket expenses incurred for his spouse. Such occasions shall be determined by guidelines established by the Board of sound discretion.

8. Automobile. The duties to be performed by Executive under the provisions of this agreement will require the regular use of an automobile. The parties agree that Executive shall be provided with a monthly car allowance. The amount of the car allowance shall be \$500.00 per month, and shall remain fixed throughout the term of this Agreement.

9. Vacation. Executive shall be entitled each year during the term of this Agreement to a vacation of twenty-three (23) days, no two of which need be consecutive, during which time his compensation shall be paid in full. The length of annual vacation time shall increase by one day for every year of service to the Company after 1995 to a maximum of 35 days per year. Such vacation time shall be accrued and may be taken by executive in accordance standard Company policy governing Corporate executives..

10. Liability Insurance. The Company shall procure and maintain throughout the term of this Agreement a policy or policies of liability insurance for the protection and benefit of directors and officers of the Company. Such insurance shall have a combined limit of not less than \$2,000,000.00 and may have a deductible of not more than \$100,000.00.

11. Other Benefits. Nothing in this Agreement shall be construed as limiting or restricting any benefit of Executive, under any pension, profit-sharing or similar retirement plan, or under any group life or group health or accident or other plan of the Company, for the benefit of its employees generally or a group of them, now or hereafter in existence, nor shall any payment under this Agreement be deemed to constitute payment to Executive, in lieu of or in reduction of any benefit or payment under any such plan.

12. Termination by Company. Company may terminate this Agreement for cause at any time upon thirty (30) days written notice to Executive. Cause shall exist if the Company's Board of Directors determines, in good faith, that Executive has been dishonest, has grossly neglected his duties hereunder, or has committed some other act or omission which substantially impairs Company's ability to conduct its ordinary business in its usual manner. The notice of termination shall specify with particularity the actions or inaction's constituting such cause. In the event of termination under this section, Company shall pay Executive all amounts due hereunder which are then accrued but unpaid within thirty (30) days after Executive's last day of employment.

13. Termination by Executive. If Company shall cease conducting its business, take any action looking toward its dissolution or liquidation, make an assignment for the benefit of its creditors, admit in writing its inability to pay its debts as they become due, file a voluntary petition or be the subject of an involuntary petition in bankruptcy, or be the subject of any state or federal insolvency proceeding of any kind, then Executive may, in his sole discretion, by written notice to Company, terminate his employment and Company hereby consents to the release of Executive under such circumstances and agrees that if Company ceases to operate or to exist as a result of such event, the non-competition and other provisions of Paragraph 17 of this Agreement shall terminate. In the event of termination by executive pursuant to this Paragraph 13, executive shall be entitled to payment of salary and other benefits and expense reimbursements accrued up to the date of such termination, and any outstanding stock options shall be exercisable for six months in accordance with Paragraph 6 of this Agreement, but Executive shall not be entitled to any other termination payments under this Agreement.

14. Communications to Company. Executive shall communicate and channel to Company all knowledge, business, and customer contacts and any other matters of information that could concern or be in any way beneficial to the business of Company, whether acquired by Executive before or during the term of this Agreement shall be construed as requiring such communications where the information is lawfully protected from disclosure as a trade secret of a third party.

15. Binding Effect. This Agreement shall be binding on and shall inure to tile benefit of any successor or successors of employer and the personal representatives of Executive.

16. Non-Competition after Termination. Executive agrees that, in addition to any other limitation, for a period of two years after the termination of his employment under this Agreement (except a termination pursuant to an event described in Paragraph 14, above), Executive will not directly or indirectly engage, or in any manner be connected with or employed by any person, firm, corporation, or other entity in competition with Company or engaged in providing unskilled or semi-skilled temporary workers within the United States, Canada, and in such foreign jurisdictions as the Company now conducts business or hereafter, during the term of this Agreement, contemplates conducting business. If the provisions set forth are determined to be too broad to be enforceable at law, then the area and/or length of time shall be reduced to such area and time that shall be enforceable.

17. Use of Confidential Information. Executive agrees that, in addition to any other limitation contained in this Agreement, regardless of the circumstances of the termination of employment, he will not use for his own benefit or communicate to any person, firm, corporation, or other entity any information relating to customer lists, prices, advertising, nor any confidential knowledge or secrets that Executive might from time to time

acquire with respect to the business of the Company, or any of its affiliates or subsidiaries. If the provisions set forth herein are determined to be too broad to be enforceable at law, then such provisions shall be limited in application so that they shall be enforceable.

18. Law to Govern Contract. It is agreed that this Agreement shall be governed by, construed, and enforced in accordance with the laws of the Washington.

19. Entire Agreement. This Agreement shall constitute the entire agreement between the parties and any prior understanding or representation of any kind preceding the date of this Agreement shall not be binding upon either party except to the extent incorporated in this Agreement.

20. Modification of Agreement. Any modification of this Agreement or additional obligation assumed by either party in connection with this Agreement shall be binding only if evidenced in writing signed by each party or an authorized representative of each party. This Agreement may not be modified without the written consent of the Seacoast Capital Partners Limited Partnership, Allied Investment Corporation, Allied Investment Corporation II, and Allied Capital Corporation II (hereafter collectively the "Purchasers"), so long as the provisions governing Executive Compensation of that certain Note Purchase Agreement dated October __, 1995, between Labor Ready, Inc., et al., and Purchasers, and that certain Warrant Purchase Agreement dated October __, 1995, between Labor Ready, Inc., et al., and Purchasers shall survive.

21. No Waiver. The failure of either party to this Agreement to insist upon the performance of any of the terms and conditions of this Agreement, or the waiver of any breach of any of the terms and conditions of this Agreement, shall not be construed as thereafter waiving any such terms and conditions, but the same shall continue and remain in full force and effect as if no such forbearance or waiver had occurred.

22. Attorney Fees. In the event that any action is filed in relation to this Agreement, the unsuccessful party in the action shall pay to the successful party, in addition to all other required sums, a reasonable sum for the successful party's attorneys' fees

23. Notices. Any notice provided for or concerning this Agreement shall be in writing and shall be deemed sufficiently given when personally delivered or when sent by certified or registered, return receipt requested mail if sent to the respective address of each party shall designate by notice.

IN WITNESS WHEREOF, each party to this Agreement has caused it to be executed at Tacoma, Washington on the date first above written.

COMPANY: LABOR READY, INC.

By: _____
John R. Coghlan, Secretary
EXECUTIVE: GLENN WELSTAD

INDEPENDENT CONTRACTOR AGREEMENT

This Independent Contractor Agreement (the "Agreement"), is entered into by and between Labor Ready, Inc., (the "Company") and John R. Coghlan ("Contractor"). In consideration of the promises set forth in this Agreement, Contractor and the Company hereby agree as follows:

AGREEMENTS:

1. Engagement of Contractor. Commencing on November 1, 1995, the Company engages Contractor to consult on such projects as are assigned to Contractor, from time to time by the Company's Chief Executive Officer. This Agreement shall terminate on December 31, 1998, unless renewed by agreement of the Company and Contractor.

2. Responsibilities of Contractor. Contractor agrees to provide the services described in paragraph 1. Contractor agrees that during the term of this Agreement, Contractor shall not engage in any activity that conflicts with the Company's business interests or interferes with the independent exercise of Contractor's judgment in the Company's best interests; provided that nothing in this provision is intended to preclude Contractor from providing services to other entities and individuals during the term of this Agreement. Notwithstanding this right to perform services for others, Contractor agrees to devote as much of his time and attention to Company matters as shall be necessary to accomplish the tasks assigned in an efficient and timely manner.

3. Independent Contractor Status. Contractor acknowledges and agrees that Contractor is an independent contractor and not an agent or an employee of the Company. The amount of time and effort devoted by Contractor to the services provided under this Agreement shall be within the sole discretion and control of Contractor. Furthermore, Contractor shall be free to determine, in his sole discretion, the methods and techniques, that in Contractor's opinion, will best accomplish the services; provided, however, that such methods and techniques shall be in accordance with good and reputable business practices. Contractor acknowledges that Contractor is responsible to pay and agrees to pay any and all applicable federal and state self-employment taxes and/or fees, in connection with his activities under this Agreement, and that Contractor will abide by all applicable federal, state, and local laws in connection with the services provided.

4. No Agency. Contractor is authorized to represent himself or herself as an independent contractor of the Company, but shall have no authority to and shall not represent that he has authority to bind the Company in any manner.

Payment. Contractor shall be compensated on an as billed basis for services performed pursuant to this Agreement. Contractor may bill an amount not in excess of \$12,500 per month, and invoices may be submitted no more frequently than two times per month, with such invoice periods falling on the 15th day and the last days of each month. The maximum dollar amount limitation set forth herein shall be increased 10% on January 1 of 1997, and by an additional 10% for each subsequent calendar year over the preceding years billing limitation.

As additional compensation under this Agreement, Contractor shall be entitled to such stock options, cash bonuses, or other compensation, as the Company's Board of Directors shall, in their sole discretion, from time to time determine. Such additional compensation shall be considered on a project by project basis taking into account the value of the services performed in completing a project pursuant to this Agreement. If granted, it shall be a condition of any stock options that they expire if not exercised within six months of termination of this Agreement.

This Agreement shall be further subject to the terms of a Conditional Promissory Note of even date between the Company and Contractor, which Conditional Promissory Note is attached hereto as Exhibit A and incorporated herein by this reference.

6. Expenses of Contractor. Contractor shall maintain separate and independent offices in his Home, at his expense for performing the services hereunder. In addition, Company agrees to make an office available at the Company's Headquarters building, 2156 Pacific Avenue, Tacoma, Washington, on an as needed basis in order to allow the efficient use of Contractor's time when working on site. Contractor shall be liable and responsible for the payment of any and all expenses incurred under this Agreement, except for expenses incurred at the request of and in connection with the specific projects being undertaken by Contractor.

7. Support Services. The Company agrees that it shall provide Contractor with certain administrative support services, including secretarial services for invoicing and dispatching, and pager and voice mail systems, to assist Contractor in accomplishing the services required by this Agreement.

8. Insurance. Contractor agrees to maintain liability insurance covering any liabilities resulting or arising from the performance or failure of Contractor to perform any activities undertaken pursuant to this Agreement.

9. Indemnification. Contractor agrees to indemnify and hold the Company harmless from any and all claims, judgments, costs, suits, debts or liabilities, including attorney's fees, resulting from Contractor's performance or failure to perform any activities hereunder or in relation to this Agreement. In addition thereto, Contractor shall hold the Company harmless from any workmen's compensation claim or unemployment insurance claim made by Contractor or made on Contractor's behalf.

10. Confidential Information. Contractor hereby covenants and agrees that at any time following execution of this Agreement, Contractor shall not use or disclose, directly or indirectly for any reason whatsoever or in any way, other than at the direction of the Company, any confidential information or trade secrets of the Company, including but not limited to, information with respect to the Company as follows: (i) the identity, list and/or descriptions of any customers of the Company; (ii) financial statements of the Company or of its customers; (iii) cost reports, proposals, sales, and bidding information; (iv) rate and fee structure information; (v) policies and procedure developed by the Company; and (vi) management systems and procedures, including manuals and supplements thereto (collectively, the "Confidential Information"). The obligation not to use or disclose any of the Confidential Information shall not apply to any information that is or becomes public knowledge in the industry, through no fault of the Contractor, and that may be utilized by the public without any direct or indirect obligation to the Company, but the termination of the obligation for non-use or non-disclosure by reason of such information becoming public shall be only from the date such information becomes public knowledge. Furthermore, Contractor agrees that upon termination of Contractor's relationship with the Company, he shall surrender and deliver to the Company all records, files or other documents, or copies thereof relating to the business of the Company or the Confidential Information.

11. Noncompetition. Contractor agrees that due to the nature of his engagement under this Agreement, Contractor may have access to, may acquire, and may assist in developing confidential information relating to the business and operations of the Company. Contractor acknowledges that such information is and will continue to be of central importance to the business of the Company and that disclosure of such confidential information to others or the unauthorized use of such information by others would cause substantial loss and harm to the Company. Contractor therefore agrees that during the terms of Contractor's engagement and for a period of twenty-four months following the termination of this Agreement, regardless of reason Contractor will (a) refrain from contacting any of the Company's suppliers and customers for the purpose of soliciting orders or establishing relationships for any business enterprise that directly or indirectly competes with the Company's business; (b) refrain from any public or private statements to such parties that would be injurious to the Company's business or reputation or in any way interfere, directly or indirectly, with the business of the Company; and (c) refrain from developing, marketing and distributing any products that compete in the United States, Canada, and Foreign Jurisdictions with products or services being developed and/or sold by the Company or otherwise be engaged in any activity that competes with the Company. If the noncompetition provisions set forth are determined to be too broad to be enforceable at law, then the area and/or length of time shall be reduced to such area and time that shall be enforceable.

12. Company's Remedy for Breach and Right to Injunction. Contractor agrees that the rights covered by this Agreement are unique and special in nature and that the Company would not have an adequate remedy at law in the event of Contractor's breach of this Agreement, and money damages will not compensate the Company for such injury. Contractor agrees, therefore, that the Company, in addition to and without limiting any other remedy or right it may have, shall have the right to an immediate injunction or other equitable relief enjoining any such threatened or actual breach.

13. Termination. This Agreement may be terminated by either party at any time, with or without cause, upon thirty (30) day's written notice to the other party. Upon termination of this Agreement, all rights and obligations under this Agreement shall cease except for the rights and obligations of the parties under Sections 9, 10, 11, and 12 and all procedural and remedial provisions of this Agreement. In the event of a termination for cause, Company shall be obligated to pay Contractor only for amounts invoiced or accrued through the date of such termination. The obligations of Company to Contractor under the Conditional Promissory Note attached hereto as Exhibit A, shall also terminate in the event of termination for cause. Cause shall exist if the Company's Board of Directors determines, in good faith, that Contractor has been dishonest, has grossly neglected his duties hereunder, or has committed some other act or omission which substantially impairs Company's ability to conduct its ordinary business in its usual manner. Cause shall also exist in the event Contractor challenges that certain Employment Termination and General Release Agreement between Labor Ready, Inc. and Contractor of even date, which is attached hereto as Exhibit B and incorporated herein by reference.

In the event of termination resulting from death or disability of Contractor, Company shall be obligated to pay Contractor only for amounts invoiced or accrued through the date of such termination, plus a lump sum payment of \$30,000 as consideration for the value of services rendered on projects started but incomplete at the time of such termination, which are anticipated to have ongoing value to Company. The obligations of Company to Contractor under the Conditional Promissory Note attached hereto as Exhibit A, shall also terminate in the event of termination for resulting from death or disability.

Assignments. This Agreement constitutes a personal contract that may not be assigned by Contractor without the prior written consent of Company.

Governing Law. This Agreement and all issues relating to the validity, interpretation, and performance shall be governed by and interpreted under the laws of the State of Washington.

16. Severability. If any provision of this Agreement is held to be illegal, invalid, or unenforceable, such provision shall be fully severable and the remainder of this Agreement shall remain in full force and effect.

17. Binding Affect. This Agreement shall be binding upon and shall inure to the benefit of each party hereto and each party's respective successors, heirs, assigns, and legal representatives.

18. Entire Agreement. This Agreement embodies the entire agreement and understanding between the parties hereto with respect to its subject matter and supersedes all prior agreements and understanding, whether written or oral, relating to its subject matter. No amendments, modification, or termination of this Agreement shall be valid unless made in writing and signed by each of the parties.

Executed on the ____ day of _____, 1995

COMPANY: LABOR READY, INC.

CONTRACTOR: JOHN R. COGHLAN

Glenn Welstad, President

John R. Coghlan

PNLF, INC.

EMPLOYMENT CONTRACT

THIS EMPLOYMENT CONTRACT made this 19th day of December, 1994, by and between PNLF, INC., (hereinafter referred to as "Company") and Scott Sabo (hereinafter referred to as "Employee").

RECITALS

WHEREAS, Company is a Washington corporation engaged in the business of providing temporary labor to various business, and

WHEREAS, Employee desires to either be or continue as an employee of Company.

NOW, THEREFORE, in consideration of the mutual covenants herein, it is agreed as follows:

1. Company hereby employs Employee in the capacity of Regional Director or such other capacity as Company shall direct; and Employee hereby accepts such employment upon the terms and conditions hereinafter set forth.

2. Employee agrees during the working hours to devote his full and undivided time, energy, knowledge, skill and ability exclusively to the operation, transaction and development of Company's business to the exclusion of all other business interests unless otherwise agreed to in writing. Employee will conscientiously and diligently perform all required acts and duties to the best of his ability and in the manner satisfactory to Company. Employee will faithfully discharge all responsibilities and duties entrusted to him.

3. Employee will perform his duties in a careful and workmanlike manner. Employee agrees to abide by the rules of Company. Employee will so conduct himself at all times so as to maintain and improve the credit, reputation and interest of Company. Upon request, Employee agrees to submit to a physical examination by a physician selected by Company.

4. Employee will truthfully make and maintain such reports as Company may require. Employee will make available to Company any and all information which will be of benefits to Company.

5. It is understood that Employee has no authority to impose any obligation upon Company or to bind Company to the performance of any acts whatsoever without the prior permission of Company.

6. In consideration of the services to be rendered by Employee, Company shall pay Employee \$_____ semi-monthly, plus commission, if applicable, to be computed as follows:

This compensation may be altered and revised by Company without affecting the remainder of the covenants contained herein, all of which shall remain in full force and effect until termination as provided by this Employment Contract.

7. Employee hereby agrees and understands that commission, if applicable, paid on Employee's sales are paid normally in advance of the actual payment by the customer. In the event a customer does not pay its invoice after ninety (90) days, then the commissions paid to Employee are considered unearned and commissions paid will be deducted from Employee's next commission check. Once the customer pays invoices that were charges back to Employee, then they are considered earned and paid on Employee's next commission check.

8. All funds in Employee's possession belonging to Company shall be delivered or transmitted daily to Company's main or home office unless Employee is otherwise directed in writing.

9. Employee recognizes that the services to be rendered by Employee under this contract require special training, skills and experience and this contract is entered into for the purpose of obtaining such services for Company.

10. As the result of his duties, Employee will necessarily have access to some or all of the confidential information pertaining to Company's business. It is agreed that "Confidential Information" of Company includes:

(a) The ideas, methods, techniques, formats, specifications, procedures, designs, systems, processes, data and software products which are unique to Company;

(b) All customer, marketing, pricing, and financial information pertaining to the business of Company;

(c) All operations, sales and training manuals;

(d) All other information now in existence or later developed which is similar to the foregoing; and

(e) All information which is marked as confidential or explained to be confidential or which, by its nature is confidential.

11. Employee understands that he will necessarily have access to some or all of the Confidential Information. Employee recognizes the importance of protecting the confidentiality and secrecy of the Confidential Information and, therefore, agrees to use his best efforts to protect the Confidential Information from unauthorized disclosure to other persons. Employee understands that protecting the Confidential Information from unauthorized disclosure is critically important to the success and competitive advantage of Company and that the unauthorized disclosure of the Confidential Information would greatly damage Company.

12. Employee agrees not to disclose any confidential Information to others, use any Confidential Information for his own benefit or make copies of any Confidential Information without the express written consent of the an officer of Company. Employee further agrees that upon request of an officer of Company, he shall immediately return all Confidential Information, including any copies of Confidential Information in his possession.

13. If at any time Employee has reason to believe that any person, whether employed by Company or otherwise, has received or disclosed or intends to receive or disclose Confidential Information without the consent of Company, he shall immediately notify an officer of Company.

14. It is understood and agreed that the nature of the methods employed in Company's business is such that Employee will be placed in a close business and personal relationship with the customers of Company. Thus, during the terms of this Employment Contract and for a period of (1) one year immediately following the termination of Employee's employment, for any cause whatsoever, so long as Company continues to carry on the same business, said Employee shall not, for any reason whatsoever, directly or indirectly, for himself or on behalf of, or in conjunction with, any other person, persons, company, partnership, corporation or business entity:

(a) Call upon, divert, influence, or solicit or attempt to call, divert, influence or solicit any customer of Company;

(b) Divulge the names and addresses or any information concerning any customer of Company;

(c) Own, manage, operate, control, be employed by, participate in or be connected in any manner with the ownership, management, operation or control of the same, similar, or related line of business as that carries on now by Company within a radius of ten (10) miles from Company's office at which Employee was last employed; and

(d) Make any public statement or announcement, or permit anyone else to make any public statement or announcement that Employee was formerly employed by or connected with Company.

The time period covered by the covenants contained herein shall not include any period(s) of violation of any covenant or any period(s) of time required for litigation to enforce any covenant. If the provisions set forth are determined to be too broad to be enforceable at law, then the area and/or length of time shall be reduced to such area and time and that shall be enforceable.

15. The covenants set forth herein on the part of Employee shall be construed as an agreement independent of any other provision in this Employment Contract and the existence of any claim or cause of action of Employee against Company, whether predicted on this Employment Contract or otherwise, shall not constitute a defense to the enforcement by Company of the covenants contained herein.

16. Employee acknowledges that irreparable damage will result to Company in the event of the breach of any covenant contained herein and Employee agrees that in the event of any such breach, Company shall be entitled, in addition to any and all other legal or equitable remedies and damages, to a temporary and/or permanent injunction to restrain the violation thereof by Employee and all of the persons acting for or with Employee.

17. In the event of the termination of this Employment Contract, Employee agrees to immediately deliver to Company all correspondence, letters, manuals, contracts, call reports, price lists, mailing lists, customer lists, advertising materials, ledgers, supplies, equipment, checks, petty cash, and all other material and records of any kind that may be in the hands of Employee.

18. Company reserves the right to assign this Employment Contract to an affiliated Company or to any successor in interest to its business without notice to Employee and all the terms and conditions of this Employment Contract shall remain in full force and effect thereafter.

19. A waiver of any condition or term in the Employment Contract by Company shall not be construed to have any effect on the remaining terms and condition, nor shall any waiver be permanent or binding for the future.

20. This Employment Contract shall be governed and construed in accordance with the laws of the State of Washington.

21. The parties agree that in the event it becomes necessary for Company to seek judicial remedies for the breach or threatened breach of this Employment Contract, Company shall be entitled to, in addition to all other remedies, recover from Employee the costs of such judicial action including reasonable attorneys' fees.

22. EMPLOYMENT WITH LABOR READY IS ON AN "AT WILL" BASIS. EMPLOYEE MAY TERMINATE HIS OR HER EMPLOYMENT AND THIS EMPLOYMENT CONTRACT AT ANY TIME. SIMILARLY, LABOR READY MAY TERMINATE THE EMPLOYMENT RELATIONSHIP AND THIS EMPLOYMENT CONTRACT AT ANY TIME WHEN IN ITS SOLE DISCRETION IT BELIEVES TERMINATION IS IN THE COMPANY'S BEST INTEREST. Neither this Employment Contract nor any communication by a managerial representative is intended in any way to promise employment for any specific period of time.

23. No promises or other communications made by either Employee or by any representatives of Company are intended to be binding unless they are set forth in this Employment Contract. his Employment Contract contains the entire agreement between the parties and replaces and supersedes all prior agreements. This Contract may not be changes, modified, released or otherwise terminated except by an instrument in writing signed by an officer of Company. This Contract shall be binding upon Employee's heirs, executors, administrators and other legal representatives.,

24. Paragraphs 10 through 18 shall survive termination of the remainder of this Employment Contract.

IN WITNESS WHEREOF, the parties hereto have executed this Employment Contract as of the day and month first set forth,

COMPANY:

EMPLOYEE:

PNLF, INC.

By: Glenn Welstad
Its: President

J. Scott Sabo

Labor Ready, Inc.
December 31, 1995

Computation of Earnings Per Share

	1995	1994	1993
	----	----	----
Primary earnings per share			
Common stock equivalents			
Options and warrants			
granted and unexercised (note 3)	335,928	232,998	
Total weighted average (Note 1)			
shares issued	5,525,572	4,221,885	3,668,585
	-----	-----	-----
Weighted average shares outstanding	5,861,500	4,454,883	3,668,585
	-----	-----	-----
Net Income Reported	2,061,807	851,805	269,008
Less Preferred Dividends	(42,704)	(42,705)	(50,154)
	-----	-----	-----
Net income after preferred dividends	2,019,103	809,100	218,854
	-----	-----	-----
Primary earnings per share	\$ 0.34	\$ 0.18	\$ 0.06
	=====	=====	=====

Fully diluted earnings per share			
Common stock equivalents			
Options and warrants			
granted and unexercised (note 3)	335,928	232,998	
Total weighted average (Note 2)			
shares issued	5,525,572	4,221,885	3,668,585
	-----	-----	-----
Weighted average shares outstanding	5,861,500	4,454,883	3,668,585
	-----	-----	-----
Net Income Reported	2,061,807	851,805	269,008
Less Preferred Dividends	(42,704)	(42,705)	(50,154)
	-----	-----	-----
Net income after preferred dividends	2,019,103	809,100	218,854
	-----	-----	-----
Fully diluted earnings per share	\$ 0.34	\$ 0.18	\$ 0.06
	=====	=====	=====

Note 1:

Total weighted average shares issued			
Shares outstanding at			
beginning of year	4,972,094	3,904,311	2,524,902
Total weighted average shares			
issued (retired) during the year	553,479	317,574	1,143,683
	-----	-----	-----
Total weighted average shares issued			
- primary EPS	5,525,572	4,221,885	3,668,585
	=====	=====	=====

Note 2:

The amount of weighted average shares outstanding is calculated in the same manner as the primary earnings per share. No other potentially dilutive securities exist (3% test is not met which would require both presentations in the financial statements).

Note 3:

Total weighted average options and warrants granted and unexercised			
Options outstanding at beginning			
of the year	226,500	--	--
Total weighted average shares			
issued (retired) during the year	109,428	232,998	--
	-----	-----	-----
Total weighted average options/warrants granted	335,928	232,998	--
	=====	=====	=====

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S AUDITED FINANCIAL STATEMENTS, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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