SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 1996

Commission File number 0-23828

Labor Ready, Inc.

(Exact Name of Registrant as specified in its charter)

Washington	91-1287341
(State of Incorporation)	(Federal I.R.S. No.)

1016 South 28th Street, Tacoma, Washington	98409
(Address of principal executive offices)	(Zip Code)

Registrant's Telephone Number 206-383-9101

Securities registered pursuant to Section 12(b) or 12(g) of the Act:
Common Stock, No Par Value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes (X) No ( )

The aggregate market value of the voting stock held by non-affiliates of the registrant, on October 30, 1996 was $137,069,287.

As of October 30, 1996, the Registrant had 12,373,426 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report may include forward looking statements or information that involve risks and uncertainties. The Company's actual results could differ materially from the results identified in any forward-looking statements. Factors that could cause such a difference include, but are not limited to, those set forth in the section entitled Risk Factors and elsewhere in the Company's prospectus dated June 12, 1996.

OVERVIEW

Labor Ready is a leading, national provider of temporary workers for manual labor jobs. The Company's customers are primarily in construction, freight handling, warehousing, landscaping, light manufacturing, and other light industrial businesses. The Company has rapidly grown from eight dispatch offices in 1991 to 194 dispatch offices at September 30, 1996. Substantially all of the growth in dispatch offices was achieved by opening

Company-owned locations rather than through acquisitions.

In 1995, the Company opened 57 new dispatch offices at an average cost of approximately $35,000 per dispatch office. The average cost of opening new dispatch offices has increased due to more extensive management training and the installation of more sophisticated computer and other office systems. Once open, the Company invests significant amounts of additional cash into the operations of new dispatch offices until they begin to generate sufficient revenue to cover their operating costs, generally in two to six months. The Company pays its temporary workers on a daily basis, and bills its customers on a weekly basis. Consequently, the Company experiences negative cash flow from operations and investment activities during periods of high growth, which also adversely impacts the Company's overall profitability. The Company expects to continue to experience periods of negative cash flow from operations and investment activities while it rapidly opens dispatch offices and expects to require additional sources of working capital in order to continue to grow.

Many of the Company's customers are construction and landscaping businesses, which are significantly affected by the weather. Construction and landscaping businesses and, to a lesser degree, other customer businesses typically increase activity in spring, summer and early fall months and decrease activity in late fall and winter months. Inclement weather can slow construction and landscaping activities in such periods. As a result, the Company has generally experienced a significant increase in temporary labor demand in the spring, summer and early fall months, and lower demand in the late fall and winter months.

Depending on location, new dispatch offices initially target the construction industry for potential customers. As dispatch offices mature, the customer base broadens and the mix of work diversifies. The Company may discount its rates when it enters a new market to attract customers. From time to time during peak periods, the Company experiences shortages of available temporary workers.

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Cost of services primarily includes wages and related payroll expenses of temporary workers and dispatch office employees, general managers, district managers and area directors, including workers' compensation insurance, medicare and social security taxes, but does not include dispatch offices lease expenses. The Company's cost of services as a percentage of revenues has fluctuated significantly in recent periods and it expects significant fluctuations to continue in future periods as the Company continues its rapid growth. Cost of services as a percentage of revenues is affected by numerous factors, including salaries of new supervisory personnel hired under new management organizational structures, the hiring of large numbers of general managers prior to dispatch office openings, the use of lower introductory rates to attract new customers at new dispatch offices, and the relatively lower revenues generated by new dispatch offices prior to reaching maturity.

Temporary workers assigned to customers remain Labor Ready employees. Labor Ready is responsible for employee-related expenses of its temporary workers, including workers' compensation, unemployment compensation insurance, medicare and social security taxes and general payroll expenses. The Company does not provide health, dental, disability or life insurance to its temporary workers. Generally, the Company bills its customers for the hours worked by the temporary workers assigned to the customer. Because the Company pays its temporary workers only for the hours actually worked, wages for the Company's temporary workers are a variable cost that increases or decreases directly in proportion to revenue.

The Company has one franchisee which operates five dispatch offices. The Company does not intend to grant additional franchises. Royalty revenues from the franchised dispatch offices are included in revenues from services and were not material during any period presented herein.

NINE MONTHS AND THREE MONTHS ENDED SEPTEMBER 30, 1996 COMPARED TO NINE MONTHS AND THREE MONTHS ENDED SEPTEMBER 30, 1995

DISPATCH OFFICES. The Company grew from 106 locations at December 31, 1995 to 194 locations at September 30, 1996, an increase of 88 locations for the nine month period. The Company opened 25 dispatch offices during the third quarter of 1996 compared to 4 dispatch offices during the third quarter of 1995.

REVENUES FROM SERVICES. The Company's revenues from services increased to $109.4 and $47.2 million for the nine months and three months ended September 30, 1996 compared to $63.2 and $30.9 million for the nine months and three months ended September 30, 1995, an increase of $46.2 million (73.1%) and $16.3 million (52.8%), respectively. This increase resulted primarily from increases in revenues from dispatch offices open for the full period.

COST OF SERVICES. Cost of services increased to $89.0 and $37.6 million for the nine months and three months ended September 30, 1996 compared to $51.1 and $24.7 million for the nine months and three months ended September 30, 1995, an increase of $37.9 million (74.2%) and $12.9 million (52.2%), respectively, reflecting the additional wages and salaries paid to

temporary workers, additional management personnel, and related payroll and operating expenses. As a percentage of revenues, cost of services increased to 81.4% for the nine months ended September 30, 1996 from 80.7% for the nine months ended September 30, 1995. Cost of services decreased to 79.6% for the three months ended September 30, 1996 from 80.0% for the same period a year ago. The increase of .7% in cost of services for the nine months resulted from higher workers' compensation costs, increased salary costs for branch managers in training, longer training periods for new management personnel and for additional supervisory personnel hired under new management organizational structures partially offset by productivity gains. The Company expects significant continuing fluctuations in cost of services as the Company pursues further aggressive growth.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general, and administrative expenses increased to $17.0 million and $7.2 million for the nine months and three months ended September 30, 1996 compared to $9.2 and $3.5 million for the year earlier period, an increase of $7.8 million (85.3%) and $3.7 million (106%), respectively. As a percentage of revenues from services, selling, general, and administrative expenses increased to 15.5% and 15.2% for the nine months and three months ended September 30, 1996 from 14.5% and 11.4% for the nine months and three months ended September 30, 1995, an increase of 1.0% and 3.8%, respectively. This increase is primarily the result of the Company continuing to build its infrastructure in the selling, general and administrative expense area in order to support the rapid expansion of dispatch offices and the growth in revenues.

INTEREST AND OTHER EXPENSES. Interest and other expenses decreased to approximately $633,000 for the nine months ended September 30, 1996, with income of approximately $129,000 for the three months ended September 30, 1996, compared to approximately $659,000 and $368,000 for the nine month and three month periods ended September 30, 1995, a decrease of approximately $26,000 and $497,000, respectively. This decrease resulted primarily from payment of the Company's $10 million 13% Senior Subordinated Notes (the "Subordinated Notes") in the third quarter and interest income earned on the short term investments of approximately $20 million of surplus cash available from the proceeds of the Company's public offering completed June 18, 1996.

TAXES ON INCOME. The Company recorded taxes on income of approximately $1,020,000 and $960,000 for the nine months and three months ended September 30, 1996 compared to taxes on income of approximately $848,000 and $829,000 for the nine months and three months ended September 30, 1995. The Company's effective tax rate increased to 37% for the nine months and three months ended September 30, 1996 as compared to 36% for the comparable periods last year. The increase was primarily due to higher state tax rates combined with higher pre-tax income.

NET INCOME. The Company recorded net income of approximately $542,000 and $441,000 for the nine months and three months ended September 30, 1996 compared to approximately $1,508,000 and $1,471,000 for the nine months and three months ended September 30, 1995, a decrease of approximately $966,000 (64%) and $1,030,000 (70%), respectively. The decrease

resulted primarily from an extraordinary loss of $1.2 million (net of income tax benefit of approximately $703,000) from the early extinguishment of the subordinated notes.

LIQUIDITY AND CAPITAL RESOURCES. In June 1996 the Company completed a common stock offering of 2,242,500 shares resulting in net proceeds to the Company of approximately $33.6 million. The Company used approximately $5.0 million to pay off the revolving credit facility, $863,000 to pay long-term debt, and $1.4 million to purchase an office building in Tacoma. The Company used approximately $8 million received from the exercise of outstanding warrants along with approximately $2 million to prepay the $10 million 13% Senior Subordinated Notes. The Company also used part of the offering proceeds to fund working capital needs. The balance will be used to fund the Company's expansion plans through 1998.

In the nine months of 1996, the Company utilized significant amounts of cash to open 88 dispatch offices. During the nine months of 1996 and 1995, the Company used net cash in operating and investing activities of approximately $15.1 million and $6.1 million, respectively, reflecting primarily increases in workers' compensation deposits, accounts receivable, and capital expenditures. Management anticipates that cash flow deficits from operating and investing activities will continue while the Company adds substantial numbers of new dispatch offices. Management expects to finance such cash flow deficits with the proceeds from its recent common stock offering.

In October 1995, the Company completed a private financing of the Subordinated Notes. Under the terms of the Subordinated Notes, the Company pledged its remaining assets as collateral and issued warrants to the purchasers of the notes. The Subordinated Notes were paid on September 5, 1996. Simultaneously, the holders of the Subordinated Notes exercised outstanding warrants to purchase 1,023,552 shares of common stock. The Company applied the approximately $8,000,000 exercise price of the warrants, plus approximately $2 million cash, to pay the Subordinated Notes.

In August 1996, the Company obtained a new revolving credit facility from U.S. Bank of Washington, NA which provides for borrowing of up to $20.0 million secured by eligible accounts receivable. The U.S. Bank revolving credit facility bears interest below market rates. The Company currently has no outstanding borrowings against this credit facility.

In 1995, the Company opened 57 new dispatch offices at an average cost of approximately $35,000. Once opened, the Company invests significant amounts of additional cash into the operations of new dispatch offices until they begin to generate sufficient revenue to cover their operating costs, generally two to six months. Since December 31, 1995, the Company opened 88 new dispatch offices at an estimated cost of $4.8 million, of which $1.4 million was incurred in connection with opening 25 new locations in the third quarter. Further, the Company pays its temporary personnel on a daily basis, and bills its customers on a weekly basis. Since the Company plans to open a total of 94 dispatch offices in 1996, and 100 dispatch offices in 1997, the Company expects to experience cash flow deficits from operations and investment activities in 1996 and 1997. The Company intends to finance opening and operating costs of new dispatch offices with the proceeds from its recent common stock offering and debt

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financings. With such funds, and depending on its results of operations and other factors, the Company expects to have the financial resources necessary to reach its goal of operating 300 dispatch offices by the end of 1997. To the extent that the Company's resources are not sufficient to finance new dispatch offices, or are not sufficient to open all currently targeted dispatch offices, the Company would either seek additional capital through debt financings or slow down its expansion plans.

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SIGNATURES

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

REGISTRANT: LABOR READY, INC.

By: /s/ Glenn A. Welstad — December 3, 1996

Glenn A. Welstad, Principal Executive Officer — Date

By: /s/ Charles B. Russell — December 3, 1996

Charles B. Russell, Principal Financial Officer — Date