UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: September 26, 2003
or

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

Commission File Number: 001-14543

LABOR READY, INC.

(Exact name of Registrant as specified in its charter)

Washington (State or other jurisdiction of incorporation or organization)	**91-1287341** (IRS Employer Identification No.)
1015 A Street, Tacoma, Washington (Address of principal executive offices)	**98402** (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of class	Name of each exchange on which registered
Common Stock without par value	**The New York Stock Exchange**

Securities registered under Section 12(g) of the Act:

Title of class
None

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

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

As of October 17, 2003, there were 40,501,588 shares of the Registrant's common stock outstanding.

Documents incorporated by reference: None.

LABOR READY, INC.

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LABOR READY, INC.

CONSOLIDATED BALANCE SHEETS

In Thousands

ASSETS

(Unaudited)

	September 26, 2003	December 31, 2002
CURRENT ASSETS:		
Cash and cash equivalents	$ 60,205	$ 69,255
Marketable securities	29,342	21,322
Accounts receivable	10,875	4,938
Accounts receivable pledged under securitization agreement	93,992	68,540
Allowance for doubtful accounts	(3,930)	(6,491)
Prepaid expenses, deposits and other	10,706	10,538
Deferred income taxes	5,219	9,188
Total current assets	206,409	177,290
PROPERTY AND EQUIPMENT:		
Buildings and land	15,645	15,536
Computers and software	29,932	26,102
Cash dispensing machines	14,922	14,214
Furniture and equipment	1,806	1,625
	62,305	57,477
Less accumulated depreciation and amortization	32,514	26,260
Property and equipment, net	29,791	31,217
OTHER ASSETS:		
Restricted cash and other assets	93,834	95,311
Deferred income taxes	16,916	9,425
Other assets	3,503	3,957
Total other assets	114,253	108,693
Total assets	$ 350,453	$ 317,200

See accompanying notes to consolidated financial statements

LABOR READY, INC.

CONSOLIDATED BALANCE SHEETS

In Thousands (Except Par Values)

LIABILITIES AND SHAREHOLDERS' EQUITY

(Unaudited)

	September 26, 2003	December 31, 2002
CURRENT LIABILITIES:		
Accounts payable	$ 16,154	$ 10,456

Accrued wages and benefits	16,074	12,000
Income tax payable	1,703	822
Current portion of workers' compensation claims reserve	35,434	32,215
Current maturities of long-term debt	2,371	2,343
Total current liabilities	71,736	57,836
LONG-TERM LIABILITIES:		
Long-term debt, less current maturities	72,913	73,574
Workers' compensation claims reserve	61,743	53,679
Total long-term liabilities	134,656	127,253
Total liabilities	206,392	185,089
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, $0.131 par value, 20,000 shares authorized; No shares issued and outstanding	—	—
Common stock, no par value, 100,000 shares authorized; 40,490 and 40,773 shares issued and outstanding	49,219	50,854
Cumulative foreign currency translation adjustment	1,366	127
Cumulative unrealized gain on marketable securities	40	49
Retained earnings	93,436	81,081
Total shareholders' equity	144,061	132,111
Total liabilities and shareholders' equity	$ 350,453	$ 317,200

See accompanying notes to consolidated financial statements

LABOR READY, INC.

CONSOLIDATED STATEMENTS OF INCOME

In Thousands (Except Per Share Data)

(Unaudited)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 26, 2003	September 27, 2002	September 26, 2003	September 27, 2002
Revenue from services	$ 254,497	$ 250,899	$ 642,461	$ 640,107
Cost of services	177,943	177,829	450,036	455,316
Gross profit	76,554	73,070	192,425	184,791
Selling, general and administrative expenses	57,261	56,144	163,848	162,773
Depreciation and amortization	2,137	2,183	6,252	6,974
Income from operations	17,156	14,743	22,325	15,044
Interest and other expense, net	(1,202)	(1,101)	(3,284)	(1,642)
Income before tax expense	15,954	13,642	19,041	13,402
Income tax	5,605	5,161	6,686	5,067
Net income	$ 10,349	$ 8,481	$ 12,355	$ 8,335
Net income per common share:				
Basic	$ 0.26	$ 0.21	$ 0.31	$ 0.20
Diluted	$ 0.22	$ 0.18	$ 0.29	$ 0.20
Weighted average shares outstanding:				
Basic	40,335	41,228	40,263	41,027
Diluted	51,035	51,474	50,610	41,773

See accompanying notes to consolidated financial statements.

LABOR READY, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

In Thousands

(Unaudited)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 26, 2003	September 27, 2002	September 26, 2003	September 27, 2002
Net income	$ 10,349	$ 8,481	$ 12,355	$ 8,335
Other comprehensive income:				
Foreign currency translation adjustment	123	(151)	1,239	457
Unrealized gain (loss) on marketable securities	(28)	—	(9)	—
Other comprehensive income (loss) before tax	95	(151)	1,230	457
Income tax (expense) benefit related to other comprehensive income	(33)	57	(432)	(173)
Other comprehensive income (loss), net of tax	62	(94)	798	284
Comprehensive income	$ 10,411	$ 8,387	$ 13,153	$ 8,619

See accompanying notes to consolidated financial statements.

LABOR READY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In Thousands

(Unaudited)

	Thirty-nine Weeks Ended	
	September 26, 2003	September 27, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 12,355	$ 8,335
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,939	7,262
Provision for doubtful accounts	6,193	8,049
Deferred income taxes	(3,522)	(9,293)
Other operating activities	770	879
Changes in operating assets and liabilities:		
Accounts receivable	(40,143)	(36,697)
Workers' compensation claims reserve	11,283	18,259
Other current assets	(168)	(966)
Other current liabilities	11,535	8,068
Net cash provided by operating activities	5,242	3,896
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(4,378)	(1,886)
Purchases of marketable securities	(30,873)	(12,316)
Maturities of marketable securities	22,844	—
Other assets	(167)	(250)
Restricted cash and other assets	1,477	(16,102)
Net cash used in investing activities	(11,097)	(30,554)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of stock through options and employee benefit plans	2,407	2,606
Payments on debt, net	(1,751)	(1,577)
Proceeds from issuance of convertible Notes	—	70,000
Payments for offering costs	(14)	(2,866)
Purchase and retirement of common stock	(4,957)	(1,717)
Net cash provided by (used in) financing activities	(4,315)	66,446
Effect of exchange rates on cash	1,120	406
Net change in cash and cash equivalents	(9,050)	40,194
CASH AND CASH EQUIVALENTS, beginning of period	69,255	48,865
CASH AND CASH EQUIVALENTS, end of period	$ 60,205	$ 89,059

See accompanying notes to consolidated financial statement

Item 1. Notes to Consolidated Financial Statements

NOTE 1: ACCOUNTING PRINCIPLES AND PRACTICES

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures usually found in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The unaudited consolidated financial statements reflect all adjustments, including normal recurring adjustments, which in the opinion of management, are necessary to fairly state the financial position, results of operations and cash flows for the interim periods presented. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in our

annual report on Form 10-K for the year ended December 31, 2002. Certain amounts in the consolidated financial statements at September 27, 2002 have been reclassified to conform to the 2003 presentation. Operating results for the thirty-nine week period ended September 26, 2003 are not necessarily indicative of the results that may be expected for the year ending January 2, 2004.

On March 12, 2003, the Board of Directors approved a change in the Company's fiscal year end from December 31 to a 52/53-week fiscal year ending on the Friday closest to December 31. This change will be effective for fiscal year 2003, which will end on January 2, 2004. In fiscal years consisting of 53 weeks, the final quarter will consist of 14 weeks while in 52-week years all quarters will consist of 13 weeks. There will be no transition period for this change in fiscal year end.

	Fiscal Year 2003		Fiscal Year 2004	
	Ending Date	# of Days	Ending Date	# of Days
1st Quarter	March 28, 2003	87	April 2, 2004	91
2nd Quarter	June 27, 2003	91	July 2, 2004	91
3rd Quarter	September 26, 2003	91	October 1, 2004	91
4th Quarter	January 2, 2004	98	December 31, 2004	91

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

NOTE 2: MARKETABLE SECURITIES

Management determines the appropriate classification, pursuant to Statement of Financial Accounting Standards No. 115,*Accounting for Certain Investments in Debt and Equity Securities*, of our investments in debt and equity securities ("Marketable Securities") at the time of purchase and re-evaluates such determination at each balance sheet date. Marketable Securities consist of revenue bonds and other municipal obligations. The aggregate cost and fair values of our Marketable Securities was $29.3 million at September 26, 2003. At September 26, 2003, those securities are classified as available-for-sale and stated at fair value with the unrealized holding gains and losses, net of applicable deferred income taxes, reported as a separate component of shareholders' equity. There were no material unrealized holding gains or losses at September 26, 2003. The specific identification method is used for computing realized gains and losses on the sale of available-for-sale securities. For the thirty-nine weeks ended September 26, 2003, there were no sales of available-for-sale securities.

NOTE 3: RESTRICTED CASH AND OTHER ASSETS

We have cash deposits and other restricted assets with independent financial institutions for the purpose of securing our obligations in connection with our workers' compensation program and for cross collateralization of our Accounts Receivable Facility. These assets may be released as workers' compensation claims are paid or when letters of credit are released.

The following is a summary of restricted cash and other assets as of September 26, 2003 and December 31, 2002 (in millions):

	September 26, 2003	December 31, 2002
Workers' Compensation Related		
Workers' Assurance Program cash-backed instruments *	$ 65.1	$ 20.4
Secured surety bonds	8.6	6.7
Available for future commitments	14.6	29.2
Subtotal	88.3	56.3
Accounts Receivable Facility	5.5	39.0
Total Restricted Cash and Other Assets	$ 93.8	$ 95.3

*** See Item 2 - Capital Resources section for definition**

NOTE 4: LONG-TERM DEBT

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

NOTE 5: WORKERS' COMPENSATION INSURANCE

We provide workers' compensation insurance to our temporary and regular employees. For workers' compensation claims originating in the majority of states (which we refer to as self-insured states), we have purchased insurance policies from independent, third-party carriers, which cover any claims for a particular event above a $2.0 million deductible, on a "per occurrence" basis. This results in our being substantially self-insured. However, should any single occurrence exceed the deductible amount, all losses and expenses beyond the deductible amount would be reimbursable from the insurance carrier.

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

We establish a reserve for the deductible portion of our workers' compensation claims using actuarial estimates of the future cost of claims and related expenses that have been reported but not settled, and that have been incurred but not reported. Adjustments to the claims reserve are charged or credited to expense in the periods in which they occur. Included in the accompanying consolidated balance sheets as of September 26, 2003 and December 31, 2002 are workers' compensation claims reserves in the amounts of $97.2 million and $85.9 million, respectively. The claims reserves were computed using a discount rate of 5.0%. The selection of this discount rate is based on the returns of "A" grade bonds with maturities comparable to the average life of our workers' compensation claims.

Workers' compensation expense recorded as part of cost of services consists of the following components: self-insurance reserves net of changes in discount, monopolistic jurisdictions premium, insurance premium and estimates of excess claims from loss years covered by insurance companies now in liquidation. Workers' compensation expense totaling $19.0 million and $19.8 million was recorded for the thirteen weeks ended September 26, 2003 and September 27, 2002, respectively. Workers' compensation expense totaling $48.1 million and $50.4 million was recorded for the thirty-nine weeks ended September 26, 2003 and September 27, 2002, respectively.

NOTE 6: NET INCOME PER SHARE

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

	(Amounts in Thousands)			
	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 26, 2003	September 27, 2002	September 26, 2003	September 27, 2002
Stock Options	610	2,008	891	2,008
Convertible Notes	—	—	—	3,673

Anti-dilutive shares associated with our options relate to those options whose grant price is higher than the average market value of our stock during the period presented. We have anti-dilutive shares associated with our convertible Notes when net income per share would have been higher had the Notes been converted to equity (the "if-converted" calculation). The Notes are anti-dilutive in quarters when our net income per share is $.08 or lower. The number of additional shares associated with the Notes is equal to the aggregate principal amount of the Notes, $70.0 million, divided by the stated conversion price of $7.26, or 9,642 shares. Those shares were subject to a weighted average calculation in the thirteen-week and thirty-nine week periods ended September 27, 2002 because they were not outstanding for the entire periods.

Diluted net income and common shares were calculated as follows:

	Thirteen Weeks Ended	
	September 26, 2003	September 27, 2002
Net income	$ 10,349	$ 8,481
Adjustments:		
Interest on Notes	1,106	1,091
Amortization of costs for Notes issuance	162	140
Tax impact	(445)	(431)
Total adjustments	823	800
Adjusted net income	$ 11,172	$ 9,281

	Common Shares and Potential Common Shares	
Weighted average number of common shares used in basic net income per common share	40,335	41,228
Effect of dilutive securities:		
Stock options	1,058	719
Convertible Notes	9,642	9,527
Weighted average number of common shares and potential common shares used in diluted net income per common share	51,035	51,474

	Thirty-nine Weeks Ended	
	September 26, 2003	September 27, 2002
Net income	$ 12,355	$ 8,335
Adjustments:		
Interest on Notes	3,269	—
Amortization of costs for Notes issuance	460	—
Tax impact	(1,309)	—
Total adjustments	2,420	—
Adjusted net income	$ 14,775	$ 8,335

	Common Shares and Potential Common Shares	
Weighted average number of common shares used in basic net income per common share	40,263	41,027
Effect of dilutive securities:		
Stock options	705	746
Convertible Notes	9,642	—

Weighted average number of common shares and potential common shares used in diluted net income per common share	50,610	41,773

NOTE 7: COMMITMENTS AND CONTINGENCIES

Accounts Receivable Facility
In March 2001, we entered into a letter of credit facility and accounts receivable securitization facility (collectively the "Accounts Receivable Facility") with certain unaffiliated financial institutions that expires in February of 2006. The Accounts Receivable Facility provides loan advances and letters of credit through the sale of substantially all of our eligible domestic accounts receivable to a wholly-owned and consolidated subsidiary, Labor Ready Funding Corporation. The Accounts Receivable Facility includes a corporate guarantee by us and requires that we meet certain financial covenants. Among other things, these covenants require us to maintain certain liquidity, net income and net worth levels and a certain ratio of net income to fixed expenses. Subject to certain availability requirements, the Accounts Receivable Facility allows us to borrow a maximum of $80 million, all

of which may be used to obtain letters of credit. The amounts we may borrow (our borrowing capacity) under this agreement are largely a function of the levels of our accounts receivable from time to time, supplemented by pledged and restricted cash.

At September 26, 2003 we had a total available borrowing capacity of $76.0 million under the Accounts Receivable Facility comprised of $70.8 million of accounts receivable and $5.2 of restricted cash. The $70.8 million represents the available portion of our total $94.0 million of securitized accounts receivable and the $5.2 million represents the available portion of the $5.5 million of restricted cash cross collateralizing the Accounts Receivable Facility. Of that borrowing capacity available at September 26, 2003, we had $73.2 million of letters of credit issued against it leaving us with $2.8 million available for future borrowings. We currently use this facility to issue letters of credit but if we were to take a loan against this borrowing capacity, interest would be charged at 1.1% above the Commercial Paper rate. We are currently in compliance with all covenants related to the Accounts Receivable Facility.

We are required by our insurance carriers and certain state workers' compensation programs to collateralize a portion of our workers' compensation obligation with irrevocable letters of credit, cash-backed instruments, or surety bonds. The letters of credit bear fluctuating annual fees, which were approximately 0.9% of the principal amount of the letters of credit as of September 26, 2003. Our surety bonds are issued by independent insurance companies on our behalf and bear annual fees based on a percentage of the bond, which is determined by each independent surety carrier but does not exceed 2% of the bond amount.

At September 26, 2003 and December 31, 2002 we had provided our insurance carriers and certain states with commitments in the form and amounts outlined below (in millions):

	September 26, 2003	December 31, 2002
Accounts Receivable Facility letters of credit	$ 73.2	$ 79.9
Secured surety bonds	8.6	6.7
Unsecured surety bonds	5.9	19.4
Workers' Assurance Program cash-backed instruments	65.1	20.4
Total Collateral Commitments	$ 152.8	$ 126.4

Revolving Credit Facility
In January of 2002, we entered into a revolving credit facility with Wells Fargo Bank (the "Revolving Credit Facility"). As of September 26, 2003 the available borrowing amount was $9.3 million with interest at the fluctuating rate per annum of 0.75% below the Prime Rate or 1.85% above the London Inter-Bank Rate. The available borrowing amount under this facility will be reduced by $125,000 each quarter through February 2006 at which time the facility expires. The Revolving Credit Facility bears fees of 0.35% of the unused amount, and is secured by a first deed of trust on our corporate headquarters building. The Revolving Credit Facility contains a cross-default provision with respect to our Accounts Receivable Facility, which obligates us, among other things, to maintain certain liquidity, net income and net worth levels and a certain ratio of net income to fixed expenses. We currently do not have any borrowings on the Revolving Credit Facility and are in compliance with all covenants.

Legal Contingencies and Developments
From time to time we are the subject of compliance audits by federal, state and local authorities relating to a variety of regulations including wage and hour laws, taxes, workers' compensation, immigration and safety. From time to time we are also subject to legal proceedings in the ordinary course of our operations. A summary of our most significant pending litigation is set forth below. In accordance with accounting principles generally accepted in the United States, we have established reserves for contingent legal and regulatory liabilities in the amount of $4.0 million at September 26, 2003 and $2.0 million at December 31, 2002. These reserves are based on management's current best estimates and judgments of the scope and likelihood of such liabilities. We believe that none of the currently pending legal proceedings, individually or in the aggregate, will have a material adverse impact on our financial condition, results of operations or cash flows beyond amounts that have been accrued in the financial statements, although we can make no assurances in this regard.

On October 3, 2000, Willie Wilkerson, Marco Medina and Arthur Demarchis filed an action in California State Court, Santa Clara County (the "Wilkerson Litigation") alleging violations of state law in connection with the fees charged by us for optional use of our cash dispensing machines (CDMs). The plaintiffs are present or former temporary employees for us who sought unquantified damages, injunctive relief and certification of a class of workers. On June 25, 2002, the court certified a class of plaintiffs consisting of all temporary employees who used the CDMs from 1998 to present. In December 2002, we agreed to a settlement of this case in order to avoid further cost of litigation. Under the terms of the settlement, we have agreed to make a contribution to a

California charitable organization, and pay a portion of the plaintiffs' attorneys' fees. The settlement was approved by the court on October 2, 2003.

On February 14, 2001, Armando Ramirez, Phyllis Stennis, Earl Levels and Maurice Johnson filed an action in California State Court, Alameda County (the "Ramirez Litigation"), alleging violation of federal and state wage and hour laws for failing to pay temporary employees for all hours worked. The plaintiffs are present or former temporary employees for us and seek unquantified damages, injunctive relief and certification of a class of workers. On July 12, 2002, the court certified classes of plaintiffs in connection with claims relating to waiting time, travel time and equipment charges for the period of February 1998 to present. The court declined to certify classes of plaintiffs in connection with claims relating to transportation expenses and unfair competition.

On July 29, 2002, Marisol Balanderan and 55 other plaintiffs filed an action against us and one of our customers in California State Court, Los Angeles County. The plaintiffs are present or former temporary employees and job applicants who seek unquantified compensatory and punitive damages based on allegations that they were subjected to discrimination in dispatch to jobs on the basis of their female gender, throughout a period from September 2001 through January 2002. They also seek certification of a class of similarly situated temporary employees.

On February 6, 2003, Scott Romer, a former Account Representative, and Shauna Clark, a former Level III Customer Service Representative, filed an action against us in California State Court, Los Angeles County. The plaintiffs allege that they were wrongfully exempted from entitlement to overtime pay during their employment. They seek unquantified compensatory damages and certification of a class of similarly situated employees.

On July 16, 2003, Alecia Recio, Elizabeth Esquivel, Debbie Owen and Barry Selbts, each a former Labor Ready employee, jointly filed an action in United States District Court for the Central District of California, alleging failure to pay overtime under state and federal law and seeking unspecified damages and certification of a class of similarly situated employees.

In June 2002, Troy McCullock, a former Labor Ready District Manager, filed a demand for arbitration with the American Arbitration Association in California, alleging that he was discriminatorily demoted on the basis of race. On August 14, 2003, an award was issued in the arbitration, pursuant to which Mr. McCullock was awarded economic and compensatory damages. The arbitrator also awarded attorneys fees and punitive damages, the amount of which remains to be determined.

NOTE 8: SUPPLEMENTAL CASH FLOW INFORMATION

	Thirty-nine Weeks Ended	
	September 26, 2003	September 27, 2002
	(Amounts in Thousands)	
Cash paid during the period for:		
Interest	$ 3,014	$ 835
Income taxes	$ 8,503	$ 3,304
Non-cash investing and financing activities:		
Assets acquired with capital lease obligations	$ 494	$ 1,177
Contribution of common stock to 401(k) plan	$ 285	$ 277
Unrealized gain on marketable securities	$ 9	$ —

NOTE 9: EMPLOYEE STOCK PURCHASE PLAN

We have an Employee Stock Purchase Plan (the "ESPP") to provide substantially all regular employees who have completed six months of service and meet certain limited qualifications, relative to weekly total hours and calendar months worked, an opportunity to purchase shares of our common stock through payroll deductions. The ESPP permits payroll deductions up to 10% of eligible after-tax compensation. Participant account balances are used to purchase shares of common stock at the lesser of 85% of the fair market value of shares on either the first day or the last day of each month. The ESPP expires on June 30, 2006. 1.9 million shares of common stock have been reserved for purchase under the ESPP, of which 1.1 million shares have been issued and 0.8 million shares remain available for future issuance. During the thirty-nine weeks ended September 26, 2003, participants purchased 79,000 shares in the ESPP for cash proceeds of $0.4 million.

NOTE 10: STOCK OPTION PLANS

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

The fair value of option grants is estimated on the date of grant utilizing the Black-Scholes option pricing model with the following weighted average assumptions for grants in 2003: expected life of options of 3.5 years, expected volatility of 79%, risk-free interest rates of 4.0% and a 0% dividend yield.

The Company accounts for its stock-based compensation plans under Accounting Principles Board ("APB") Opinion No. 25,*Accounting for Stock Issued to Employees*. The pro forma information below is based on provisions of Statement of Financial Accounting Standard No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, issued in December 2002.

(In thousands, except per share amount):

	Thirteen Weeks Ended September 26, 2003	Thirty-nine Weeks Ended September 26, 2003
Net Income		
As Reported	$ 10,349	$ 12,355
Pro Forma	$ 10,340	$ 11,688

	Thirteen Weeks Ended September 26, 2003	Thirty-nine Weeks Ended September 26, 2003
Net Income Per Share– As Reported		
Basic	$ 0.26	$ 0.31
Diluted	$ 0.22	$ 0.29
Net Income Per Share– Pro Forma		
Basic	$ 0.26	$ 0.29
Diluted	$ 0.22	$ 0.28

The following table summarizes stock option activity:

	Thirteen Weeks Ended September 26, 2003		Thirty-nine Weeks Ended September 26, 2003	
	Shares	(1) Price	Shares	(1) Price
Outstanding at beginning of period	5,018	$ 6.33	5,397	$ 6.52
Granted	68	$ 8.24	325	$ 6.62

Exercised	(254)	$ 4.85	(443)	$ 4.49
Canceled	(219)	$ 7.93	(666)	$ 8.98
Outstanding at the end of the period	4,613	$ 6.36	$ 4,613	6.36
Exercisable at the end of the period	1,915	$ 7.78	1,915	$ 7.78
Weighted average fair value of options granted during the period		$ 2.50		$ 2.61

(1) Weighted average exercise price.

At September 26, 2003, 1,672 shares of common stock were available for future grant under our stock option plans.

Information relating to stock options outstanding and exercisable at September 26, 2003 is as follows (in thousands, except per share amounts):

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Shares	Weighted Remaining Life	Weighted Average Price	Shares	Weighted Average Price
$ 3.05 - $ 3.80	1,535	2.64	$ 3.48	758	$ 3.51
$ 3.81 - $ 6.00	1,315	3.31	$ 5.24	326	$ 5.09
$ 6.01 - $ 14.00	1,367	3.38	$ 7.57	435	$ 8.85
$ 14.01 - $ 21.00	396	.55	$ 17.00	396	$ 17.00
$ 3.05 - $ 21.00	4,613	2.87	$ 6.36	1,915	$ 7.78

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

This Form 10-Q contains forward-looking statements. These statements relate to our expectations for future events and future financial performance. Generally, the words "anticipate," "expect," "intend" and similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements. These statements are only predictions. Actual events or results may differ materially. Factors which could affect our financial results are described in Item 3, Item 7 and Item 7A of Part 1 of our Form 10-K for the year ended December 31, 2002 and in the "Risk Factors" included in this Form 10-Q. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We assume no duty to update any of the forward-looking statements after the date of this report to conform such statements to actual results or to changes in our expectations.

Overview

Labor Ready is a national provider of temporary employees for manual labor jobs. Our customers are primarily in transportation, warehousing, hospitality, landscaping, construction, light manufacturing, retail, wholesale, sanitation and printing industries. During 2002, we put approximately 600,000 people to work through our dispatch offices in all 50 of the United States, in Puerto Rico, in five provinces of Canada and in the United Kingdom. We served more than 275,000 customers in 2002 and are not dependent on any individual customer for more than 2% of our annual revenue. Our annual revenue was $862.7 million in 2002, and was $642.5 million and $640.1 million for the thirty-nine weeks ended September 26, 2003 and September 27, 2002, respectively.

We had 788 operating branches as of September 26, 2003 after opening 1 branch office and closing 3 during the quarter. We see opportunities for growth of our business, including additional opportunities to expand operations overseas, although we have completed all our anticipated expansion for 2003. Revenue from international operations for the thirty-nine weeks ended September 26, 2003 was approximately 6.3% of our total revenue. We are focusing on increasing the revenue and profitability in each dispatch office through the implementation of measures designed to control costs and improve customer satisfaction, marketing effectiveness and retention and training of our dispatch office staff.

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

Gross profit reflects the difference between our revenue from services and the cost of services. Cost of services includes the wages and related payroll taxes of temporary employees, workers' compensation expense, and transportation. Gross profit has historically been affected by numerous factors, including competitive pressures on billing rates, wage rate increases, increases in state unemployment insurance and increases in workers' compensation charges. Pressure on our margins has been intense since 2002. However, we have implemented policies, procedures and training focused on pay rates and other components of cost of services. We have been successful in producing stronger margins thus far in 2003, although we may still experience fluctuations in our margins in the future.

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

Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of our consolidated financial statements.

Workers' Compensation Reserves. We maintain reserves for workers' compensation claims using actuarial estimates of the future cost of claims and related expenses that have been reported but not settled, and that have been incurred but not reported. This reserve, which reflects potential liabilities to be paid in future periods based on estimated payment patterns, is discounted to net present value. We are currently using a discount rate of 5%. The selection of the discount rate is based on the returns of "A" grade bonds with maturities comparable to the average life of our workers' compensation claims. We evaluate the reserve regularly throughout the year and make adjustments as needed.

If the actual cost of such claims and related expenses exceeds the amounts estimated, or if the discount rate must be lowered, additional reserves may be required.

Allowance for Doubtful Accounts. We establish an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We evaluate this allowance regularly throughout the year and make adjustments as needed. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Reserves for Contingent Legal and Regulatory Liabilities. We have established reserves for contingent legal and regulatory liabilities, based on management's estimates and judgments of the scope and likelihood of such liabilities. We evaluate this reserve regularly throughout the year and make adjustments as needed. If the actual outcome of these matters is less favorable than expected, an adjustment would be charged to expense in the period the outcome occurs or the period in which our estimate changes.

Liquidity and Capital Resources

Cash Flow Summary

Net cash provided by operating activities was $5.2 million for the thirty-nine week period ended September 26, 2003 compared to $3.9 million for the same period ended September 27, 2002. The increase in cash flows from operations in 2003 as compared to 2002 is largely due to higher net income resulting from increased gross margins. In addition, our deferred income tax assets grew more slowly during 2003 than in 2002. Those positive impacts were partially offset by the net change in our operating assets and liabilities driven by slower growth in our workers' compensation claims reserve due to stabilization in prior years' reserve balances.

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

Net cash used in investing activities was ($11,097) for the thirty-nine week period ended September 26, 2003 compared to ($30,554) for the same period ended September 27, 2002. This change is mostly due to changes in our restricted cash, which is used primarily to collateralize our workers' compensation program and our Accounts Receivable Facility. We reduced our restricted cash and other assets by $1.5 million during the thirty-nine week period ended September 26, 2003. During the thirty-nine week period ended September 27, 2002 we had increased these accounts by $16.1 million, $12.0 million of which was for cross-collateralization of our Accounts Receivable Facility. We expect to post approximately $15.0 million additional restricted cash related to our Accounts Receivable Facility during the fourth quarter as our accounts receivable balance declines consistent with the seasonality of our sales. In addition, our cash used in investing activities decreased because we had net investments in marketable securities of $8.0 million in the period ended September 26, 2003 compared to $12.3 million in the period ended September 27, 2002.

Net cash provided by (used in) financing activities was ($4.3) million for the thirty-nine weeks ended September 26, 2003 and $66.4 million for the thirty-nine weeks ended September 27, 2002. The cash provided by financing activities in 2002 was largely the result of proceeds received from the issuance of the convertible Notes. The cash used in financing activities in 2003 is primarily the result of common stock repurchases of approximately 839,000 shares for $5.0 million. Our Board of Directors has authorized repurchases of up to an additional 1.4 million shares.

The following table provides a summary of our contractual obligations as of September 26, 2003 by due date:

	Payments Due By Year (In Thousands)				
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Long-term debt (a)	$ 70,000	—	—	70,000	—
Capital lease obligations (b)	4,917	2,609	2,079	213	16
Operating leases (c)	2,648	1,382	992	127	147
Other long-term obligations (d)	5,053	3,661	1,392	—	—
Total Contractual Cash Obligations	$ 82,618	$ 7,652	$ 4,463	$ 70,340	163

(a) Convertible Subordinated Notes further described in Note 4 of Notes to Consolidated Financial Statements Found in Item 1 of Part I of this Form 10-Q.
(b) Primarily payments on leases of the Cash Dispensing Machines (CDMs), which include interest and tax amounts.
(c) Excludes all payments related to leases cancelable within ninety days.
(d) Voice and data service contracts.

The following table provides a summary, by period of expiration, of commercial commitments and other commitment capacity available to us as of September 26, 2003:

	Amount of Commitment Expiration Per Period (in thousands)				
	Total	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Other Commercial Commitments					
Accounts Receivable Facility (e)	$ 80,000	—	$ 80,000	—	—
Line of credit (f)	9,250	500	8,750	—	—
Secured surety bonds	8,629	8,629	—	—	—
Unsecured surety bonds	7,500	7,500	—	—	—
Total Commercial Commitments	$ 105,379	$ 16,629	$ 88,750	—	—
Other Commitment Capacity					
Workers' Assurance Program (g)	79,695				
Total Commercial Commitments and other Collateral Capacity	185,074				
Total Collateral Commitments Outstanding At September 26, 2003	(152,800)				
Available Commitment Capacity	$ 32,274				

(e) See Note 7 of Notes to Consolidated Financial Statements found in Item 1 of Part I of this Form 10-Q.
(f) No balance outstanding. See description of Revolving Credit Facility below.

(g) See description below in Capital Resources.

Capital Resources

In March 2001, we entered into a letter of credit facility and an accounts receivable securitization facility (collectively the "Accounts Receivable Facility") with certain unaffiliated financial institutions that expires in February of 2006. The Accounts Receivable Facility provides loan advances and letters of credit through the sale of substantially all of our eligible domestic accounts receivable to a wholly-owned and consolidated subsidiary, Labor Ready Funding Corporation. The Accounts Receivable Facility includes a corporate guarantee by us and requires that we meet certain financial covenants. Among other things, these covenants require us to maintain certain liquidity, net income and net worth levels and a certain ratio of net income to fixed expenses. Subject to certain availability requirements, the Accounts Receivable Facility allows us to borrow a maximum of $80 million, all of which may be used to obtain letters of credit. The amounts we may borrow (our borrowing capacity) under this agreement are largely a function of the levels of our accounts receivable from time to time, supplemented by pledged and restricted cash. We currently use this facility to issue letters of credit but if we were to take a loan against this borrowing capacity, interest would be charged at 1.1% above the Commercial Paper rate. We are currently in compliance with all covenants related to the Accounts Receivable Facility.

We have agreements with certain financial institutions through our wholly-owned and consolidated subsidiary, Workers' Assurance of Hawaii, Inc. (our "Workers' Assurance Program"), that allow us to restrict cash for the purpose of providing cash-backed instruments for our workers' compensation collateral. At September 26, 2003 we had restricted cash in our Workers' Assurance Program totaling $79.7 million. Of this cash, $65.1 million was committed to insurance carriers leaving $14.6 million available for future needs.

In January of 2002, we entered into a revolving credit facility with Wells Fargo Bank (the "Revolving Credit Facility"). As of September 26, 2003 the available borrowing amount was $9.3 million with interest at the fluctuating rate per annum of .75% below the Prime Rate or 1.85% above the London Inter-Bank Rate. The available borrowing amount under this facility will be reduced by $125,000 each quarter through February 2006 at which time the facility expires. The Revolving Credit Facility bears fees of 0.35% of the unused amount, and is secured by a first deed of trust on our corporate headquarters building. The Revolving Credit Facility contains a cross-default provision with respect to our Accounts Receivable Facility, which obligates us, among other things, to maintain certain liquidity, net income and net worth levels and a certain ratio of net income to fixed expenses. We currently do not have any borrowings on the Revolving Credit Facility and are in compliance with all covenants.

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

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

Workers' Compensation Collateral and Claims Reserves

We provide workers' compensation insurance to our temporary and regular employees. For workers' compensation claims originating in the majority of states (which we refer to as self-insured states), we have purchased insurance policies from independent, third-party carriers, which cover any claims for a particular event above a $2.0 million deductible, on a "per occurrence" basis. This results in our being substantially self-insured. However, should any single occurrence exceed the deductible amount, all losses and expenses beyond the deductible amount would be the responsibility of the insurance carrier.

We are required by our insurance carriers and certain state workers' compensation programs to collateralize a portion of our workers' compensation obligation with irrevocable letters of credit, cash-backed instruments, or surety bonds. Our insurance carriers annually assess the amount of collateral they will require from us relative to our workers' compensation obligation for which they are responsible. Such amounts can increase or decrease independent of our assessments and reserves. At September 26, 2003 and December 31, 2002 we had provided our insurance carriers and certain states with commitments in the form and amounts outlined below (in millions):

	September 26, 2003	December 31, 2002
Accounts Receivable Facility letters of credit	$ 73.2	$ 79.9
Secured surety bonds	8.6	6.7
Unsecured surety bonds	5.9	19.4
Workers' Assurance Program cash-backed instruments	65.1	20.4
Total Collateral Commitments	$ 152.8	$ 126.4

Our total collateral commitments exceed our workers' compensation reserve due to several factors including, (a) our claims reserves are discounted to net present value and our collateral commitments are based on the gross, undiscounted reserve, (b) a lag in the timing of the release of collateral related to claims that have been previously paid and, therefore, are no longer reflected in the reserve, and (c) the obligation to post commitments prior to incurring the liability associated with our reserve.

The letters of credit bear fluctuating annual fees, which were approximately 0.9% of the principal amount of the letters of credit as of September 26, 2003. Our surety bonds are issued by independent insurance companies on our behalf and bear annual fees based on a percentage of the bond, which is determined by each independent surety carrier, but does not exceed 2.0% of the bond amount. The terms of these bonds are subject to annual review and renewal and the bonds can be canceled by the sureties with as little as 60 days notice.

Our workers' compensation reserve for estimated claims increases as temporary labor services are provided and decreases as payments are made on these claims. Although the estimated claims are expensed as incurred, the claim payments are made over a period of several years. Collateral for our workers' compensation program is posted with various state workers' compensation programs and insurance carriers based upon their assessments of our potential liabilities. Due to the timing difference between the recognition of expense and claim payments as described above, we generally anticipate that both our reserves and our collateral obligations will continue to grow.

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

(Amounts in Thousands)			
Thirteen Weeks Ended		Thirty-nine Weeks Ended	
September 26, 2003	September 27, 2002	September 26, 2003	September 27, 2002

Beginning Balance	$ 90,461	$ 70,361	$ 85,894	$ 61,615
Self-Insurance Reserve Expenses				
Expenses related to current period (net of discount)	16,177	14,485	38,444	35,371
Expenses related to prior years	(1,942)	2,337	(1,528)	6,994
Total	14,235	16,822	36,916	42,365
Amortization of prior year discount	1,508	584	3,569	2,058
Payments				
Payments related to current period	(2,814)	(1,977)	(4,521)	(3,662)
Payments related to prior years	(6,213)	(6,001)	(24,681)	(22,587)
Total	(9,027)	(7,978)	(29,202)	(26,249)
Ending Balance	$ 97,177	$ 79,789	$ 97,177	$ 79,789

Our workers compensation reserve is established using estimates of the future cost of claims and related expenses that have been reported but not settled, as well as those that have been incurred but not reported. Throughout the year, management regularly reviews and evaluates the adequacy of reserves for prior periods, and establishes rates for future accruals. Adjustments to prior period reserves are charged or credited to expense in the periods in which the estimate changes. Our claims reserves are computed using a discount rate of 5.0%.

Factors we consider in establishing and adjusting these reserves include, among other things, (a) the estimates provided by our independent actuaries, (b) our mix of business by state and by type of work performed, (c) industry and nationwide trends in benefit costs, (d) the impact of the loss of insurance coverage for excess claims insured by insurance companies which have become insolvent, (e) appropriate discount rates and estimated payment patterns, and (f) future savings related to claims management and other cost containment measures. Factors that have caused our estimated losses for prior years to change include, among other things, (i) inflation of medical and indemnity costs at a rate higher than originally anticipated, (ii) regulatory and legislative developments that have increased benefits and settlement requirements in several states, (iii) a different mix of business than previously anticipated, (iv) the impact of the loss of insurance coverage for excess claims insured by insurance companies which have become insolvent, and (v) adjustments to the discount rate.

Recent Development Related to Workers' Compensation Collateral and Insurance Coverage.

We recently secured new workers' compensation insurance. Effective July 1, 2003, we selected American International Group, Inc. (AIG) as our provider of workers' compensation insurance replacing Kemper Insurance Company (Kemper). The terms and conditions in the AIG agreement are substantially equivalent to the terms and conditions of our prior agreement with Kemper, including a $2.0 million "per occurrence" deductible.

Two of the insurance companies with which we formerly did business are currently in liquidation and have failed to pay a number of covered claims that exceed our deductible limits ("excess claims"). We have presented these excess claims to the guarantee funds of the states in which the claims originated. Certain of these excess claims have been rejected by the state guarantee funds due to statutory eligibility limitations. As a result, we will retain the obligation for payment of these excess claims. Although it is possible that we may ultimately recover at least some portion of these excess claim amounts in the liquidation process, we have concluded that a material recovery is unlikely. As a result, we have estimated and recorded the liability for those claims to be approximately $1.3 million, net of discount.

Other

Included in cash and cash equivalents at September 26, 2003 is cash held within dispatch office CDMs for payment of temporary payrolls in the amount of approximately $15.0 million as compared to $15.7 million at September 27, 2002.

Our capital expenditures for the thirty-nine weeks ended September 26, 2003 and September 27, 2002 were $4.9 million and $3.1 million, respectively. We anticipate that our capital expenditures will be approximately $1 million for the remainder of 2003.

Results of Operations

Thirteen Weeks Ended September 26, 2003 Compared to Thirteen Weeks Ended September 27, 2002

The following table compares the operating results for the thirteen weeks ended September 26, 2003 and September 27, 2002 (in thousands):

	Thirteen Weeks Ended		
	September 26, 2003	September 27, 2002	Percent Change
Revenue from services	$ 254,497	$ 250,899	1.4
Cost of services	177,943	177,829	0.1
Selling, general and administrative expenses	57,261	56,144	2.0
Depreciation and amortization	2,137	2,183	(2.1)
Interest and other expense, net	(1,202)	(1,101)	9.2
Income before tax expense	15,954	13,642	16.9
Net income	$ 10,349	$ 8,481	22.0

Dispatch Offices and Revenue from Services. The number of offices increased to 788 at September 26, 2003 from 749 locations at September 27, 2002. Revenue in the third quarter increased slightly by 1.4% as compared to the same quarter a year earlier. The change in revenue was made up of the following three components: (a) a 0.6% increase in same store branch revenue, defined as those branches opened one year or longer, (b) a 1.5% growth in revenue from new branches opened this year and (c) a 0.7% decline in revenue related to closed branches. Revenues from our international operations for the thirteen weeks ended September 26, 2003 were approximately 6.7% of our total revenues compared to 6.3% for the same period last year.

Cost of Services and Gross Margin. Cost of services as a percent of revenue decreased to 69.9% for the thirteen weeks ended September 26, 2003 compared to 70.9% for the thirteen weeks ended September 27, 2002. The decrease in cost of services as a percent of revenue is due to the fact that our average bill rate increased by nearly 1.6% this quarter over a year earlier while our average pay rate increased 0.1%. Wages paid to workers were 56.2% of revenue for the thirteen weeks ended September 26, 2003

compared to 57.0% of revenue for the thirteen weeks ended September 27, 2002. Additionally, workers' compensation expense as a percent of revenue declined to 7.5% from 7.9% a year earlier, as prior years' reserve balances stabilized. As a result, our gross margins were 30.1% for the thirteen weeks ended September 26, 2003 compared to 29.1% for the thirteen weeks ended September 27, 2002.

Selling, General, and Administrative Expenses. Selling, general and administrative ("SG&A") expenses have remained fairly consistent as we continue to make a company-wide, concerted effort to maintain and control costs. SG&A expenses were 22.5% of revenue for the thirteen weeks ended September 26, 2003 compared to 22.4% of revenue for the thirteen weeks ended September 27, 2002.

Depreciation and Amortization Expense. Depreciation and amortization expenses have remained consistent decreasing slightly to $2.1 million for the thirteen weeks ended September 26, 2003 from $2.2 million for the same period in 2002.

Interest and Other Expense, Net. We recorded interest and other expense, net of interest income, of ($1.2) million for the thirteen weeks ended September 26, 2003 as compared to ($1.1) million for the thirteen weeks ended September 27, 2002.

Taxes On Income. Our effective tax rate was 35.1% for the thirteen weeks ended September 26, 2003 compared to 37.8% for the thirteen weeks ended September 27, 2002. The decrease in 2003 as compared to 2002 is largely a result of increased utilization of Work Opportunity, Welfare to Work and Empowerment Zone tax credits. The principal difference between the statutory federal income tax rate and our effective income tax rate results from state income taxes, federal credits, certain non-deductible expenses and the valuation allowance discussed below.

We have a net deferred tax asset of approximately $22.1 million at September 26, 2003 resulting primarily from workers' compensation reserves and allowance for doubtful accounts. We have assessed our past earnings history and trends, projected sales, expiration dates of loss carry-forwards, and our ability to implement tax planning strategies which are designed to accelerate or increase taxable income. Based on the results of this analysis and the uncertainty of the realization of certain tax planning measures, we have established a valuation allowance against our carryforward benefits in the amount of $3.7 million at September 26, 2003 and $3.0 million at September 27, 2002.

Thirty-nine Weeks Ended September 26, 2003 Compared to Thirty-nine Weeks Ended September 27, 2002

The following table compares the operating results for the thirty-nine weeks ended September 26, 2003 and September 27, 2002 (in thousands):

	Thirty-nine Weeks Ended		
	September 26, 2003	September 27, 2002	Percent Change
Revenue from services	$ 642,461	$ 640,107	0.4
Cost of services	450,036	455,316	(1.2)
Selling, general and administrative expenses	163,848	162,773	0.7
Depreciation and amortization	6,252	6,974	(10.4)
Interest and other expense, net	(3,284)	(1,642)	100.0
Income before tax expense	19,041	13,402	42.1
Net income	$ 12,355	$ 8,335	48.2

Dispatch Offices and Revenue from Services. The number of offices increased to 788 at September 26, 2003 from 749 locations at September 27, 2002. Revenue for the nine months ended September 2003 increased slightly by 0.4% as compared to the same period a year earlier. The change in revenue was made up of the following three components: (a) a 0.4% increase in same store branch revenue, defined as those branches opened one year or longer, (b) a 0.9% growth in revenue from new branches opened this year and (c) a 0.9% decline in revenue related to closed branches. Revenues from our international operations for the thirty-nine weeks ended September 26, 2003 were approximately 6.3% of our total revenues compared to 5.7% for the same period last year.

Cost of Services and Gross Margin. Cost of services as a percent of revenue decreased to 70.0% for the thirty-nine weeks ended September 26, 2003 compared to 71.1% for the thirty-nine weeks ended September 27, 2002. The decrease in cost of services as a percent of revenue is due to the fact that our average bill rate increased by nearly 2.2% during the thirty-nine weeks ended September 26, 2003 over a year earlier while our average pay rate increased 0.4%. Wages paid to workers were 56.3% of revenue for the thirty-nine weeks ended September 26, 2003 compared to 57.2% of revenue for the thirty-nine weeks ended September 27, 2002. Additionally, workers' compensation expense as a percent of revenue declined to 7.5% from 7.9% a year earlier, as prior years' reserve balances stabilized. As a result, our gross margins were 30.0% for the thirty-nine weeks ended September 26, 2003 compared to 28.9% for the thirty-nine weeks ended September 27, 2002.

Selling, General, and Administrative Expenses. Selling, general and administrative ("SG&A") expenses have remained fairly consistent as we continue to make a company-wide concerted effort to maintain and control costs. SG&A expenses were 25.5% of revenue for the thirty-nine weeks ended September 26, 2003 and 25.4% of revenue for the thirty-nine weeks ended September 27, 2002.

Depreciation and Amortization Expense. Depreciation and amortization expenses have decreased to $6.3 million for the three quarters ended September 2003 from $7.0 million for the same period in 2002. The decrease is largely the result of a one-time adjustment for a change in the estimated useful lives of certain assets during the second quarter of 2002.

Interest and Other Expense, Net. We recorded interest and other expense, net of interest income, of ($3.3) million for the thirty-nine weeks ended September 26, 2003 as compared to ($1.6) million for the thirty-nine weeks ended September 27, 2002. The increase in interest expense in 2003 is a result of the interest on the 6.25% Convertible Subordinated Notes due 2007 (the "Notes") that were issued in June 2002.

Taxes On Income. Our effective tax rate was 35.1% for the thirty-nine weeks ended September 26, 2003 compared to 37.8% for the thirty-nine weeks ended September 27, 2002. The decrease in 2003 as compared to 2002 is largely a result of increased utilization of Work Opportunity, Welfare to Work and Empowerment Zone tax credits. The principal difference between the statutory federal income tax rate and our effective income tax rate results from state income taxes, federal credits, certain non-deductible expenses and the valuation allowance discussed above within the thirteen-week comparison.

Risk Factors: Issues and Uncertainties

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

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

The short-term, light industrial niche of the temporary services industry is highly competitive, with limited barriers to entry. Several very large full-service and specialized

temporary labor companies, as well as small local operations, compete with us in the staffing industry. Competition in some markets is intense, particularly for provision of light industrial personnel, and these competitive forces limit our ability to raise prices to our customers. For example, competitive forces have historically limited our ability to raise our prices to immediately and fully offset increased costs of doing business, including increased labor costs, costs for workers' compensation and state unemployment insurance. As a result of these forces, we have in the past faced pressure on our operating margins. Pressure on our margins has been intense since 2002. We cannot assure you that we will

not continue to face pressures on our margins. If we are not able to effectively compete in our targeted markets, our operating margins and other financial results will be harmed and the price of our securities could decline.

We have recently experienced a decline in annual revenue, and, despite recent revenue growth, this trend may continue, which could cause the price of our securities to decline.
We had revenue of $862.7 million in 2002 compared to $917.0 million in 2001 and $976.6 million in 2000. The decline in revenue in 2001 and 2002 was primarily due to our consolidation of dispatch offices and a decrease in average revenue per dispatch office during the recent economic downturn. While we have achieved modest growth in revenue during the nine months ended September 26, 2003, we cannot assure you that we won't see a return to declining revenue or that our revenue and profits will not continue to be adversely affected by unfavorable economic conditions. Any continuation of these trends could cause the price of our securities to decline.

If we are not able to obtain workers' compensation insurance on commercially reasonable terms, our financial condition or results of operations would suffer.
We are required to pay workers' compensation benefits for our temporary and regular employees. The insurance markets have undergone dramatic changes in recent periods and several insurers are experiencing financial difficulties. These changes have resulted in significantly increased insurance costs and higher deductibles, including those applicable to our workers' compensation insurance coverages. Under our workers' compensation insurance program, we maintain "per occurrence" insurance, which covers any claims for a particular event above a $2.0 million deductible, and we do not maintain an aggregate stop-loss limit other than on a per-occurrence basis. While we have recently secured coverage with American International Group, Inc. (AIG) for occurances in the period from July 2003 through June 2004, our insurance policies must be renewed annually, and we cannot guarantee that we will be able to successfully renew such policies for any period after June 2004. In the event we are not able to obtain workers' compensation insurance on commercially reasonable terms, our ability to operate our business would be significantly impacted and our financial condition and results of operations would suffer.

We expect that the amount of collateral that we are required to post to support our workers' compensation obligations will increase, which will reduce the capital we have available to grow and support our operations.
We are required to maintain commitments such as irrevocable letters of credit, cash-backed instruments, or surety bonds to secure repayment to our insurance companies (or in some instances, the state) of the deductible portion of all open workers' compensation claims. We pledge cash or other assets in order to secure these commitments. We sometimes face difficulties in recovering our collateral from insurers, particularly when those insurers are in financial distress, and we cannot guarantee that our collateral for past claims will be released in a timely manner as we pay down claims. As a result, we expect that the amount of collateral required to secure our commitments to our insurance carriers will increase. We believe that our current sources of liquidity will satisfy our immediate needs for these obligations; however, our currently available sources of collateral for these commitments are limited and we could be required to seek additional sources of capital in the future. These additional sources of financing may not be available on commercially reasonable terms. Even if they are available, these financings could result in dilution to our existing shareholders.

Our reserves for workers' compensation claims, allowance for doubtful accounts, and other liabilities may be inadequate, and we may incur additional charges if the actual costs of these claims exceed the amounts estimated.
We maintain a reserve for workers' compensation claims using actuarial estimates of the future cost of claims and related expenses that have been reported but not settled, and that have been incurred but not reported. This reserve, which reflects potential liabilities that span several years, is discounted to its net present value using a discount rate of 5%. We evaluate the accrual rates for our reserves regularly throughout the year and make adjustments as needed. If the actual cost of such claims and related expenses exceed the amounts estimated, or if the discount rate represents an inflated estimate of our return on capital over time, actual losses for these claims may exceed reserves and/or additional reserves may be required. We also establish an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. We have also established reserves for contingent legal and regulatory liabilities, based on management's estimates and judgments of the scope and likelihood of these liabilities. We cannot assure you that our reserves are adequate. If the actual outcome of these matters is less favorable than expected, an adjustment would be charged to expense in the period in which the outcome occurs or the period in which our estimate changes.

Some insurance companies with which we have previously done business are in financial distress. If our insurers do not fulfill their obligations, we could experience significant losses.
Prior to our current policy with AIG, we purchased annual insurance policies in connection with our workers' compensation obligations from three primary carriers. Kemper Insurance Company (Kemper) provided coverage for occurrences commencing in 2001 through June 30, 2003. Prior to 2001, Legion Insurance Company (Legion) and Reliance Insurance Company (Reliance)

provided coverage to us. These former insurance carriers are experiencing unfavorable claims experience and loss of their own reinsurance coverage. Legion and Reliance are currently in liquidation and have failed to pay a number of covered claims that exceed our deductible limits ("excess claims"). We have presented these excess claims to the guarantee funds of the states in which the claims originated. Certain of these excess claims have been rejected by the state guarantee funds due to statutory eligibility limitations. As a result, we will retain the obligation for payment of these excess claims. To the extent we experience additional claims that exceed our deductible limits and our insurers do not satisfy their coverage obligations, we may continue to be forced to satisfy some or all of those claims directly; this in turn could harm our financial condition or results of operations.

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

We may be exposed to employment-related claims and costs that could harm our business, financial condition or results of operations.
We are in the business of employing people and placing them in the workplaces of other businesses. As a result, we are subject to a large number of federal and state regulations relating to employment. This creates a risk of potential claims of discrimination and harassment, violations of health and safety and wage and hour laws, criminal activity and other claims. From time to time we are subject to audit by various state and governmental authorities to determine our compliance with a variety of these regulations. We have in the past been found, and may in the future be found, to have violated regulations or other regulatory requirements applicable to our operations. We

may, from time to time, incur fines and other losses or negative publicity with respect to any such violation. In addition, some or all of these claims may give rise to litigation, which could be time-consuming for our management team, costly and could harm our business. We currently maintain insurance for certain types of employer liability with coverage above a $2.5 million deductible per occurrence. We cannot assure you that we will not experience these problems in the future or that our insurance will be sufficient in amount or scope to cover any of these types of liabilities or that we will be able to continue to secure insurance coverage for such events on terms that we find commercially resasonable.

A significant portion of our revenue is derived from operations in a limited number of markets. Recessions in these markets have harmed and could continue to harm our operations.
A significant portion of our revenue is derived from our operations in a limited number of states. Revenue generated from operations in California, Texas and Florida, in the aggregate, accounted for approximately 34.9% and 35.2% of our overall revenue in 2002 and 2001, respectively. The California economy has been particularly hard-hit by the most recent economic recession. California is our largest market and continued economic weakness in this region or our other key markets could harm our business.

Any significant economic downturn could result in our clients using fewer temporary employees, which could harm our business.
During 2001 and 2002 and so far in 2003, the slowdown in the U.S. economy significantly impacted the light industrial labor markets and has reduced our revenue. Because demand for personnel services and recruitment services is sensitive to changes in the level of economic activity, our business may suffer during economic downturns. As economic activity slows down, companies tend to reduce their use of temporary employees and recruitment services before undertaking layoffs of their regular employees, resulting in decreased demand for our personnel. As a result, any significant economic downturn could harm our business, financial condition or results of operations.

Establishment and expansion of our international operations will burden our resources and may fail to generate a substantial increase in revenue.
As of September 26, 2003, we had 46 dispatch offices in the United Kingdom and 36 in Canada. Establishing, maintaining and expanding our international operations expose us to a number of risks and expenses, including:

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

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

We are continually subject to the risk of new regulation, which could harm our business.
In 2003 and the past two years, a number of bills were introduced in Congress and various state legislatures which, if enacted, would impose conditions which could harm our business. This proposed legislation, much of which is backed by labor unions, has included provisions such as a requirement that our temporary employees receive the same pay and benefits as our customers' regular employees, prohibition on fees charged in connection with our CDMs and a requirement that our customers provide workers' compensation insurance for our temporary employees. We take a very active role and incur expense in opposing proposed legislation adverse to our business and in informing policy makers as to the social and economic benefits of our business. However, we cannot guarantee that any of these bills will not be enacted, in which event demand for our service may suffer.

Organized labor has been particularly active in sponsoring legislation in the State of California, our largest market. Adverse legislation in California or our other large markets could significantly increase our costs of doing business or decrease the value of our services to our customers. Either result could harm our results of operations.

The cost of compliance with government regulations is significant and could harm our operating results.
We incur significant costs to comply with all applicable federal and state laws and regulations relating to employment, including occupational safety and health provisions, wage and hour requirements (including minimum wages), workers' compensation and unemployment insurance. We cannot assure you that we will be able to increase fees charged to our customers to offset increased costs relating to these laws and regulations. If we incur additional costs to comply with these regulations and we are not able to increase the rates we charge our customers to fully cover any such increase, our margins and operating results will be harmed.

Our operations expose us to the risk of litigation, which we try to manage but could lead to significant potential liability.
From time to time we are party to litigation in the ordinary course of our business. Moreover, certain labor unions have coordinated legal actions directed at us designed to further their own interests. The claimants in two current proceedings have aggregated claims as class actions. The costs of defense and the risk of loss in connection with class action suits are greater than in standard commercial litigation. We cannot assure you that such litigation will not disrupt our business or impact our financial results, due to the costs of defending against such litigation, any judgments that may be awarded against us and the loss of significant management time devoted to such litigation.

Our business depends extensively on recruiting and retaining qualified dispatch office managers. If we are not able to attract a sufficient number of qualified dispatch office managers, our future growth and financial performance may suffer.
We rely heavily on the performance and productivity of our dispatch office managers, who manage the operation of the dispatch offices, including recruitment and daily dispatch of temporary employees, marketing and providing quality customer service. We have historically experienced a high degree of turnover among our branch managers. As a result, we must continue to recruit a sufficient number of managers to staff new offices and to replace managers lost through attrition or termination. Our future growth and financial performance depend on our ability to hire, train and retain qualified managers from a limited pool of qualified candidates who frequently have no prior experience in the temporary employment industry.

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

financing to satisfy our liquidity needs, including the issuance of additional equity or debt securities. Any such issuances could result in dilution to existing shareholders.

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

The loss of any of our key personnel could harm our business.
Our future financial performance will depend to a significant extent on our ability to motivate and retain key management personnel. Competition for qualified management personnel is intense and in the event we experience further turnover in our senior management positions, we cannot assure you that we will be able to recruit suitable replacements. We must also successfully integrate all new management and other key positions within our organization in order to achieve our operating objectives. Even if we are successful, turnover in key management positions will temporarily harm our financial performance and results of operations as new management becomes familiar with our business. We do not maintain key person life insurance on any of our executive officers.

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

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

Labor unions have attempted to harm our business.
Various labor unions and activist groups have attempted to disrupt our business. For example, these groups have backed legislation designed to adversely impact our business, coordinated legal actions directed at our activities and engaged in a public relations campaign to discredit members of our management team and influence our customers. We cannot assure you that these activities will not harm our business or the price of our securities.

Our dismissal of Arthur Andersen LLP could impair our ability to make timely SEC filings.
Arthur Andersen LLP served as our independent auditor from 1997 until May 3, 2002, when our board of directors dismissed Andersen due to events that had cast doubt on Andersen's future. As a result of our termination of Andersen, we have retained the accounting firm of PricewaterhouseCoopers LLP to serve as our new independent accountants. Andersen can no longer provide us with representations relating to our historical financial statements for the year ending on December 31, 2001 and prior years.

We cannot predict the impact of Andersen's failure to make the required representations and cannot assure you that our ability to make timely SEC filings will not be impaired. Furthermore, relief that may be available to investors under the federal securities laws against auditing firms may not be available as a practical matter against Andersen.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk related to changes in interest rates, and to a minor extent, foreign currency exchange rates, each of which could adversely affect the value of our investments. We do not currently use derivative financial instruments. At September 26, 2003, our purchased investments included in cash and cash equivalents had maturities of less than 90 days. Therefore, an increase in interest rates immediately and uniformly by 10% from levels at September 26, 2003 would not have a material effect upon our cash and cash equivalent balances, operating results or cash flows.

At September 26, 2003, our marketable securities consist of revenue bonds and other municipal obligations, the vast majority of which have maturity dates of less than one year. Therefore, an increase in interest rates immediately and uniformly by 10% from levels at September 26, 2003 would not have a material effect upon our marketable securities balances, operating results or cash flows.

We have a minor amount of assets and liabilities denominated in certain foreign currencies related to our international operations. We have not hedged our translation risk on these currencies and we have the ability to hold our foreign-currency denominated assets indefinitely and do not expect that a sudden or significant change in foreign exchange rates will have a material impact on future net income or cash flows.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer (CEO) and our Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our CEO and our CFO concluded that, as of September 26, 2003, our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC reports. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Changes in Internal Control Over Financial Reporting. During the quarter ended September 26, 2003, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

See Note 7 of Notes to Consolidated Financial Statements found in Item 1 of Part I of this Form 10-Q.

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

No matters were submitted to a vote of security holders during the quarter ended September 26, 2003.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits.

Exhibit 31.1	Certification of Joseph P. Sambataro, Jr., Chief Executive Officer of Labor Ready, Inc., Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Steven C. Cooper, Chief Financial Officer of Labor Ready, Inc., Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certification of Joseph P. Sambataro, Jr., Chief Executive Officer of Labor Ready, Inc., Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of Steven C. Cooper, Chief Financial Officer of Labor Ready, Inc., Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 99.1	Separation Agreement and General Release dated October 9, 2003.

b) **Reports on Form 8-K.**

We filed a current report on Form 8-K on July 3, 2003, reporting under Item 9 - Regulation FD Disclosure, that we had selected The Insurance Company of the State of Pennsylvania and National Union Fire Insurance Company of Pittsburgh, PA both member companies of American International Group, Inc. to provide the Company's workers' compensation insurance.

We filed a current report on Form 8-K on July 15, 2003, reporting under Item 9 - Regulation FD Disclosure, our financial results for the quarter ended June 27, 2003.

We filed a current report on Form 8-K on September 15, 2003, updating under Item 9 - Regulation FD Disclosure, our previously released guidance for the third quarter of 2003.

We filed a current report on Form 8-K on September 17, 2003, disclosing under Item 9 - - Regulation FD Disclosure, our copies of slide presentations, which we presented at the Labor Ready 2003 Analyst Presentation held at the Marriott Marquis Hotel in New York City on September 17, 2003 and generally to members of the financial and investment community from time to time.

SIGNATURES

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

LABOR READY, INC.

/s/ Joseph P. Sambataro, Jr. 10/24/03
Signature Date
By: Joseph P. Sambataro, Jr., Director, Chief Executive Officer and President

/s/ Steven C. Cooper 10/24/03
Signature Date
By: Steven C. Cooper, Chief Financial Officer and Executive Vice President

Exhibit 31.1

CERTIFICATIONS

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

1. I have reviewed this quarterly report on Form 10-Q of Labor Ready, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

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

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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

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

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

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

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

Date: October 24, 2003

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

Exhibit 31.2

CERTIFICATIONS

I, Steven C. Cooper, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Labor Ready, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

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

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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

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

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

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

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

Date: October 24, 2003

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

Exhibit 32.1

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Labor Ready, Inc. (the "Company") on Form 10-Q for the period ending September 26, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph P. Sambataro, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

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

/s/ Joseph P. Sambataro, Jr.
Joseph P. Sambataro, Jr.
Chief Executive Officer
October 24, 2003

Exhibit 32.2

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Labor Ready, Inc. (the "Company") on Form 10-Q for the period ending September 26, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven C. Cooper, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

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

/s/ Steven C. Cooper
Steven C. Cooper
Chief Financial Officer
October 24, 2003

Exhibit 99.1

SEPARATION AGREEMENT
AND GENERAL RELEASE

This Agreement is entered into as of October 9, 2003 between Matthew J. Rodgers ("Rodgers") and Labor Ready, Inc. (the "Company") in order to memorialize the severance of their relationship and mutually agreed cancellation of the Executive Employment Agreement between Rodgers and the Company dated February 21, 2001 (the "Employment Contract"), and to resolve any disputes between the parties. In consideration of the mutual promises below, the Company and Rodgers agree as follows:

1. Separation. Rodgers resigned as Executive Vice President and Chief Operating Officer of the Company, and as a director of Labor Ready Temporary Services UK Limited, effective June 9, 2003 (the "Termination Date").

2. Compensation.

a) Subject to Rodgers's compliance with all of the terms and conditions of this Agreement and in consideration for the cancellation of the Employment Contract, the Company will pay Rodgers the amount of Twenty Five Thousand Dollars ($25,000.00) per month from July 6, 2003 until February 21, 2006. Payment for any partial month shall be prorated. Within five (5) business days after expiration of the Revocation Period described in Section 10 below, the Company shall pay Rodgers the amount accrued from July 6, 2003 to expiration of the Revocation Period. Thereafter, the payments shall be paid monthly in accordance with the schedule of payments attached hereto as Exhibit "A." None of these payments shall be characterized as "wages." Labor Ready shall issue a Form 1099 for these payments. Rodgers shall be solely responsible for the tax consequences of these payments and shall indemnify Labor Ready with respect to any such tax consequences.

(b) In addition, if Rodgers elects COBRA coverage, the Company will bear a pro rata portion of the cost of that coverage (in the same ratio as was paid while an employee) for up to a maximum of twelve (12) months. If Rodgers becomes eligible at any time for family health insurance with a new employer, the Company's obligation to pay for coverage shall cease.

(c) The parties acknowledge that Rodgers was originally granted stock options for 300,000 shares under the terms of the Employment Contract, and that Rodgers previously exercised 150,000 of these options, leaving options for 150,000 shares remaining unexercised under the Employment Contract. All 150,000 of these remaining options shall be deemed fully vested as of June 9, 2003, and shall expire on June 9, 2008 if not sooner exercised. These options will become exercisable upon expiration of the Revocation Period; however, Rodgers agrees that he will not exercise more than 10,000 options in any single day without the

prior written consent of the Company's chief executive officer. With respect to stock options granted outside the Employment Contract, there shall be no further vesting after the Termination Date and all such options have expired.

(d) All business expenses incurred by Rodgers have been reimbursed. No further reimbursements for expenses will be made to Rodgers.

(e) Rodgers agrees that he is not entitled to any compensation or benefit from the Company not expressly provided in this Agreement, including without limitation any bonus, any vehicle or other allowance, any vacation benefits, or participation in 401(k), ESPP or other employee benefit plan.

3. Confidential Information. For purposes hereof, "Confidential Information" includes:

(a) The ideas, methods, techniques, formats, specifications, procedures, designs, systems, processes, data and software products which are unique to the Company;

(b) All customer, marketing, pricing and financial information pertaining to the business of the Company;

(c) All of the Company's operations, sales and training manuals;

(d) All other information 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.

Rodgers recognizes the importance of protecting the confidentiality and secrecy of Confidential Information and, therefore, agrees to use his best efforts to protect Confidential Information from unauthorized disclosure to other persons. Rodgers understands that protecting Confidential Information from unauthorized disclosure is critically important to the success and competitive advantage of the Company and that the unauthorized disclosure of Confidential Information would greatly damage the Company.

Rodgers agrees not to disclose any Confidential Information to others or use any Confidential Information for his own benefit. Rodgers further warrants that he has returned all Confidential Information and other Company property in his possession, whether in paper, electronic or other form.

4. Covenants Against Competition. Rodgers agrees that, until February 21, 2008, Rodgers 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 the Company;

(b) Divulge the names and addresses or any information concerning any customer of the Company;

(c) Solicit, induce or otherwise influence or attempt to solicit, induce or otherwise influence any employee of the Company to leave his or her employment; or

(d) Own, manage, operate, control, be employed by, participate in, invest in or be connected in any manner with the ownership, management, operation or control of the same, similar, or related line of business as that carried on by the Company as of the date hereof.

The parties acknowledge and agree that Rodgers's participation or employment in the fields of medical, health care, mental health, rehabilitative, convalescence, nursing home, home health care and similar health care related staffing shall not be deemed a violation of this covenant not to compete.

The time period applicable to the covenants contained herein shall not include any period(s) of violation of any covenant or any period(s) of time required for any successful litigation to enforce any covenant.

Rodgers acknowledges that irreparable damage will result to the Company in the event of the breach of any covenant contained herein and Rodgers agrees that in the event of

any such breach, the 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 Rodgers.

Rodgers and the Company acknowledge that a material portion of the payments provided for in Section 2 above represents consideration for the ongoing covenants set forth in this Section 4. Rodgers and the Company further agree and acknowledge that said covenants are reasonably necessary to protect the Company's legitimate business interests, that the imposition upon Rodgers is reasonable, and that Rodgers's skills are not limited to the business in which the Company is engaged. If the provisions set forth above are nonetheless adjudged by an arbitrator or court to be too broad to be enforceable, then the area and/or length of time shall be reduced to such area and time as shall be enforceable, and Rodgers's right to continue receiving payments and benefits under Section 2 above shall immediately terminate.

5. Additional Terms and Conditions. The Company and Rodgers expressly agree to all of the following terms and conditions:

(a) Rodgers shall not issue or make any written or verbal statement to anyone which addresses the Company or his employment with the Company in a negative or derogatory manner. Nothing in this provision shall limit the rights of Rodgers to

comply with any legal obligations or to testify truthfully in response to subpoena or legitimate governmental investigation, or any arbitration or litigation arising out of a breach of this Agreement, or to advise counsel in preparation for such legal proceedings. Nothing in this provision is intended to prevent Rodgers from confiding in legal counsel in order to obtain legal advice or take legal action which Rodgers deems appropriate in case of a breach of this Agreement.

(b) The Company shall limit the information it divulges to prospective employers seeking employment references for Rodgers to (i) period of employment, (ii) job title and responsibilities at time of separation, and (iii) salary at time of separation.

(c) Rodgers shall not discuss the Company in any public forum including without limitation with any member of the press, before any group or in any Internet posting.

(d) Except to the extent required in SEC filings or otherwise by law, the Company shall not discuss Rodgers in any public forum including without limitation with any member of the press, before any group or in any Internet posting.

(e) For two (2) years after the Termination Date, Rodgers shall cooperate with the Company on an as-requested basis in any matters which in management's reasonable judgment require Rodgers's involvement. It is intended that such involvement shall be occasional (*e.g*., providing testimony in legal proceedings in which Rodgers may have factual knowledge), and the Company shall use good faith efforts to schedule any such involvement so as to minimize the burden and disruption on Rodgers. Rodgers agrees that he shall ensure that the Company is furnished with sufficient details to enable the Company to contact Rodgers.

6. Default. In the event either party shall breach its obligations hereunder, which breach is not cured within thirty (30) days after written notice to the other party, the breaching party shall be deemed in default.

7. Remedies. Rodgers expressly acknowledges that all of the payments and benefits to be made by the Company hereunder are specifically conditioned upon Rodgers's strict compliance with all of the terms and conditions of this Agreement. In the event of Rodgers's default hereunder, and if Rodgers is still then receiving payments and benefits from the Company, his right to continue receiving such payments and benefits will immediately be suspended. The Company shall not thereby be deemed to have elected its remedies and the Company shall be entitled to exercise all remedies available at law or in equity to enforce this Agreement and to recover its damages; provided, however, that the Company shall not be entitled to consequential damages.

The Company expressly acknowledges that all of the covenants and obligations to be complied with by Rodgers hereunder are specifically conditioned upon the

Company's strict compliance with all of the terms and conditions of this Agreement. In the event of the Company's default hereunder, the Company's right to compel Rodgers's performance hereunder will immediately be suspended. Rodgers shall not thereby be deemed to have elected his remedies and Rodgers shall be entitled to exercise all remedies available at law or in equity to enforce this Agreement and to recover his damages; provided, however that Rodgers shall not be entitled to consequential damages.

8. Mutual Release. To the fullest extent of the law, Rodgers, on behalf of himself and his marital community, heirs, executors, administrators and assigns, and Company, on behalf of its officers, directors, shareholders and assigns, expressly waive, release and acknowledge satisfaction of all claims of any kind against the other party, its affiliates, subsidiaries and related entities, their predecessors, successors and assigns, and their present and former directors, officers, employees and agents, in their individual and representative capacities (collectively "Released Parties"). This release is comprehensive and includes all claims (including claims to attorneys' fees), damages, causes of action or disputes, whether known or unknown, based upon acts or omissions occurring or that could be alleged to have occurred on or prior to the execution of this Agreement. This release includes, but is not limited to, any action arising under common law or under any federal, state, or local statute or ordinance, or in connection with the Employment Contract. This release includes, but is not limited to, tort claims, claims for wrongful discharge, contract breach, violation of the Age Discrimination in Employment Act (as amended by the Older Workers Benefit Protection Act), the Americans with Disabilities Act, Title VII of the Civil Rights Act, or the Washington Law Against Discrimination.

The foregoing notwithstanding, Rodgers does not relinquish any rights he may have with respect to stock option grants previously made to Rodgers, any indemnification rights pursuant to the Company's Articles of Incorporation or Bylaws or the Washington Business Corporation Act, or claims Rodgers may have with regard to vested benefits under ERISA.

9. Representation Concerning Claims. Rodgers represents that he has not filed any complaint, charge or action against the Company or the other Released Parties with any local, state or federal agency or court arising from this employment relationship with the Company and that he will not do so at any time hereafter.

10. Opportunity to Review. In compliance with the terms of the Age Discrimination in Employment Act, as amended by the Older Workers Benefit Protection Act ("ADEA"), Rodgers is advised to consult an attorney regarding the terms and legal effect of this Agreement prior to signing this document. Rodgers also understands that Rodgers has twenty-one (21) days after receipt hereof to review this Agreement and to consider the terms of this Agreement and to determine whether or not to sign this Agreement. If Rodgers does not sign and deliver this Agreement within said 21 days, any offer represented hereby shall be deemed revoked and of no further force or effect. Signature by Rodgers prior to the expiration of this period is agreed by Rodgers to constitute a

waiver of the remaining consideration period. Should Rodgers decide to sign this Agreement, Rodgers also understands that he has seven (7) days from the date Rodgers executes this Agreement to revoke the waiver of his claims, if any, under the ADEA (the "Revocation Period"). If Rodgers does not revoke this Agreement within the Revocation Period, this Agreement shall become fully effective and the payment referred to herein shall become payable as stated herein. If Rodgers does revoke this

Agreement, the Company's obligations hereunder shall be null and void.

11. Knowing and Voluntary. This Agreement represents the compromise of uncertain claims pursuant to arms-length negotiation. Rodgers expressly acknowledges that he understands all of the provisions of this Agreement, and that he is knowingly and voluntarily entering into this Agreement after having the opportunity to seek the advice of counsel.

12. Agreement to Arbitrate. Any claim by either party arising out of or relating to this Agreement, the breach of this Agreement or Rodgers's employment, must be submitted to and resolved by binding arbitration; except that any claim by the Company for injunctive relief for violations of obligations in Section 3, Section 4, and Section 5 above shall not first have to be submitted to arbitration. Any arbitration between the parties will be administered by the American Arbitration Association under its Employment Arbitration Rules at the American Arbitration Association Office nearest Rodgers's place of employment with Company. The award entered by the arbitrator will be final and binding in all respects, and judgment on the award may be entered in any Court having jurisdiction. Where required by law, Company will pay for the expense of arbitration that Rodgers would not be required to bear, if the action was brought in court.

13. Notices. Any notice required or appropriate hereunder shall be sent by certified mail, postage prepaid, return receipt requested, to the appropriate address as set forth below. Any such notice shall be deemed received on the earlier of (a) actual receipt, or (b) two business days after deposited in the U.S. mail.

Company:	Rodgers:
Labor Ready, Inc. P.O. Box 2910 Tacoma, WA 98401 Attn: General Counsel	Matthew J. Rodgers

14. Governing Law. This Agreement is made and entered into in the State of Washington and shall in all respects be interpreted, enforced and governed under the laws of the State of Washington. Venue for any legal action in connection with claims for injunctive relief will be limited exclusively to the State of Washington Superior Court for Pierce County or the U.S. District Court for the Western District of Washington at Tacoma. Rodgers agrees to submit to the personal jurisdiction of the

State of Washington and agrees to waive any objection to personal jurisdiction in these courts.

15. Effect of Invalidity. Should any provision of this Agreement be declared or be determined by any court of competent jurisdiction to be illegal, invalid, void or unenforceable, the legality, validity and enforceability of the remaining parts, terms or provisions shall not be effected thereby and any said illegal, unenforceable or invalid part, term or provision shall be deemed to be revised in the legal, enforceable and valid manner which most closely reflects the intention of the parties.

16. Entire Agreement. This Agreement sets forth the entire agreement between the parties and fully supersedes any and all prior agreements or understandings between these parties pertaining to this subject matter. The Employment Contract shall be deemed terminated and of no force and effect upon mutual execution hereof.

IN WITNESS WHEREOF the parties have executed this Agreement as of the date first set forth above.

COMPANY:	RODGERS:
LABOR READY, INC., a Washington corporation	
By: /s/ Joseph P. Sambataro, Jr. Joseph P. Sambataro, Jr. President and Chief Executive Officer	/s/ Matthew J. Rodgers MATTHEW J. RODGERS

EXHIBIT "A"

Matt Rodgers Future Payments:		**Pay Date**	**Thru Date**
1	25,000	TBD per contract	8/6/2003
2	25,000	TBD per contract	9/6/2003
3	25,000	TBD per contract	10/6/2003
4	25,000	11/6/2003	11/6/2003
5	25,000	12/6/2003	12/6/2003
6	25,000	1/6/2004	1/6/2004
7	25,000	2/6/2004	2/6/2004
8	25,000	3/6/2004	3/6/2004
9	25,000	4/6/2004	4/6/2004
10	25,000	5/6/2004	5/6/2004
11	25,000	6/6/2004	6/6/2004
12	25,000	7/6/2004	7/6/2004
13	25,000	8/6/2004	8/6/2004
14	25,000	9/6/2004	9/6/2004
15	25,000	10/6/2004	10/6/2004
16	25,000	11/6/2004	11/6/2004
17	25,000	12/6/2004	12/6/2004
18	25,000	1/6/2005	1/6/2005
19	25,000	2/6/2005	2/6/2005
20	25,000	3/6/2005	3/6/2005

21	25,000	4/6/2005	4/6/2005
22	25,000	5/6/2005	5/6/2005
23	25,000	6/6/2005	6/6/2005
24	25,000	7/6/2005	7/6/2005
25	25,000	8/6/2005	8/6/2005
26	25,000	9/6/2005	9/6/2005
27	25,000	10/6/2005	10/6/2005
28	25,000	11/6/2005	11/6/2005
29	25,000	12/6/2005	12/6/2005
30	25,000	1/6/2006	1/6/2006
31	25,000	2/6/2006	2/6/2006
32	12,500	2/21/2003	2/21/2003
	787,500		