LABOR READY INC
Form 10-K
February 20, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 29, 2006

or

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

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

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

Title of each 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: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 x No o

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act). Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark if the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value (based on the NYSE quoted closing price) of the common stock held by non-affiliates of the Registrant as of the last business day of the second fiscal quarter, June 30, 2006, was approximately $1,171 million.

As of February 12, 2007, there were 50,690,227 shares of the Registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this report is incorporated by reference from the Registrant s definitive proxy statement, relating to the Annual Meeting of Shareholders scheduled to be held May 16, 2007, which definitive proxy statement will be filed not later than 120 days after the end of the fiscal year to which this report relates.

LABOR READY, INC.

FORM 10-K

PART I.

This Form 10-K 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 1A below and in Item 7 of Part II of this Form 10-K. 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 assume responsibility for the accuracy and completeness of the forward-looking statements. We undertake no duty to update any of the forward-looking statements after the date of this report to conform such statements to actual results or to changes in our expectations.

Comment regarding our fiscal year end*: Effective fiscal 2006, the Company changed its fiscal year from one ending on the Friday closest to December 31st to the last Friday in December. The purpose for the change is to improve comparability of fiscal years. As a result of the change, New Year s Day (the Holiday) will occur once in each fiscal year, whereas under the prior policy the Holiday periodically fell twice in the same fiscal year. The Company s consolidated financial statements will continue to be presented on a 52/53-week fiscal year end basis. 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. Fiscal years 2006, 2005 and 2004 were 52-week years. The current year-end of Friday, December 29, 2006 is the same as it would have been under the prior policy.*

Labor Ready, the Company, we, us, our and similar references refer to Labor Ready, Inc. and our subsidiaries.

Item 1. BUSINESS

a) Introduction and General Developments

We were incorporated in 1985 under the laws of the State of Washington and began operations in 1989. We are an international provider of temporary employees for manual labor, light industrial, and skilled construction trades, operating under the brand names of Labor Ready, Labour Ready, Workforce, Spartan Staffing, and CLP Resources. Annually, we serve more than 300,000 customers and put approximately 600,000 people to work through our 912 branches located in all 50 of the United States, Canada, Puerto Rico and the United Kingdom.

Our customers are primarily small- to mid-sized businesses in the construction, warehousing, hospitality, landscaping, transportation, light manufacturing, retail, wholesale, facilities and sanitation industries. These businesses typically require temporary employees for various types of manual work. We locate our branches in areas easily accessible to temporary employees, and within convenient commuting distances to customers needing manual labor. We believe our ability to provide a large number of temporary employees on short notice, usually the same day as requested, provides us with a competitive advantage.

The following table lists the number of branches in each country open at the end of each of the last five years.

Labor Ready Branches by Country

	Year End				
	2006	**2005**	**2004**	**2003**	**2002**
United States (including Puerto Rico)	825	801	733	698	686
Canada	40	36	35	36	31
United Kingdom	47	50	47	45	31
Total	912	887	815	779	748

A key element of our business model is flexibility and scalability which allows us to respond to changes in the economy and other business opportunities. We plan to open approximately 20 new branch locations in 2007, including 10 CLP Resources branches, 5 Labor Ready branches and 5 Spartan Staffing branches in the United States. We may alter the pace of our expansion based on future branch performance, market conditions, and acquisitions, should they occur. We continually analyze individual branch results, and may close branches in 2007 which do not meet specific performance standards. We will continue to evaluate acquisition opportunities within and complementary to the markets we currently serve.

b) Financial Information about Business Segments

Our operations qualify to be reported as one reportable segment. Our operations are all in the industrial staffing sector which serve similar customers, provide similar services, and have similar expected operating margins. Please see Item 8 of Part II of this Form 10-K for our consolidated financial information.

c) Narrative Description of Our Business

TEMPORARY STAFFING INDUSTRY

The temporary staffing industry evolved out of the need to minimize the inconvenience and expense of hiring and administering permanent employees in response to temporary changes in business conditions. The demand for temporary employees has been driven primarily by the need to satisfy peak production requirements and to temporarily replace full-time employees absent due to illness, vacation or abrupt termination. Competitive pressures have forced businesses to focus on reducing costs, including converting fixed, permanent labor costs to variable or flexible costs.

The temporary staffing industry includes a number of sectors focusing on business needs that vary widely in duration of assignment and level of technical specialization. We operate primarily within the short-term, industrial area of the temporary staffing industry. We feel this sector is highly fragmented and presents opportunities for larger, well-capitalized companies to compete effectively. Our competitive advantages include worker safety programs and risk management, proprietary systems and automation that efficiently process a high volume of transactions and coordinate multi-location activities, management and employee development programs, multi-location servicing of regional and national customers, and leverage of infrastructure support of multi-location activities.

Industry factors that impact our working capital include the fact that we generally pay our temporary employees on a daily basis, bill our customers weekly and, on average, collect monthly. Additionally, we are substantially self-insured for workers compensation claims originating in the majority of the states in which we do business. As such, we are required by our insurance carriers and certain state workers compensation programs to collateralize our potential workers compensation obligation before the work is performed using cash and cash-backed instruments, irrevocable letters of credit, or surety bonds. More detailed discussion of the impact of those collateral requirements on our working capital can be found in Item 7 of Part II of this Form 10-K - Management s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

OUR STRATEGY

Our strategy is to grow our position as one of the leading providers of manual labor, light industrial and skilled construction trades (Blue collar) staffing. The focus of our strategy is as follows:

- ***Grow same branch revenues and profits***. Our strategy is to increase revenue and operating margin in each branch by expanding our services to existing customers and by aggressively expanding the number and mix of customers served. We are committed to only opening branches that can quickly reach or exceed performance standards, and closing branches that are under-performing. This strategy improves profitability by increasing average revenue per branch and the average revenue per employee. We are focused on improving our branch manager tenure through effective compensation programs, enhanced and targeted training and meaningful mentoring and development. We are continually working to improve all aspects of customer service and we are diligently monitoring and controlling our pricing and costs. A key area of focus has been and will continue to be reducing overall workers compensation expense through our safety and risk management programs. Same branch revenue growth for 2006 was 4.0% bringing average revenue per branch to approximately $1.5 million. We believe our branches, on average, can manage average annual sales volume in excess of $2.5 million per year without a significant increase in fixed costs. In support of this strategy, we invested in sales training and management in 2006 and believe continued focus in this area is crucial to successfully increasing our average branch revenue in the future.

- ***Expand into new markets***. We continue to seek opportunities to expand the reach of our brands into new markets. We intend to establish a presence, where appropriate, in small- to medium-sized domestic markets, generally with populations that average about 50,000 people or more. These new markets typically are no closer than 25 miles to our nearest branch. During 2006, we opened 50 new branches with a little over half of these openings occurring in the CLP Resources and Spartan Staffing brands. At the end of 2006, CLP Resources had 68 branches, Spartan Staffing had 28 branches and Workforce had 20 branches. We will continue to grow all brands through new branch openings in 2007. New branch openings will focus on growing a national presence for our Spartan Staffing and CLP Resources brands by opening approximately 5 new Spartan Staffing branches and 10 new CLP Resources branches in 2007. We also plan to open 5 new Labor Ready branches to meet the growing demand for on demand manual labor.

- ***Expand our service offerings.*** We plan to continue our efforts in expanding our services and brands. At the end of 2006 we were operating 68 CLP Resources branches, 28 Spartan Staffing branches and 20 Workforce branches resulting from our acquisitions. We will continue to evaluate acquisition opportunities within and complementary to the markets we currently serve.

OUR OPERATIONS

Branches. Branch locations are generally staffed with a branch manager and one or more customer service representatives. Larger branches are staffed with more employees. Branches generally open by 5:30 a.m. local time and remain open until the last temporary employee is paid. Typically, temporary employees come to the branch in the morning to indicate their availability for assignment. During the early morning hours, branch staff coordinate incoming customer work orders and assign the available temporary employees to the job openings for the day. Most of the job openings are requested on short notice, many the same day as the temporary employees are needed at the job site. Work assignments are filled by the branch manager who strives to match the customer needs with the skills and experience of the temporary worker.

We believe that one of the most critical factors determining the success of a branch is identifying and retaining an effective branch manager. Each branch manager has the responsibility for satisfying existing customers and marketing and sales efforts to attract new customers. Each branch manager has the responsibility for managing the operations of the branch which include the recruiting, daily dispatch and payment of temporary employees. Other key responsibilities include accident prevention, collection of accounts receivable and cost control. We commit substantial resources to the training, development, and operational support of our branch managers.

Our Customers**.** The majority of our customers require temporary employees for short-term projects such as lifting, hauling, cleaning, assembling, digging, painting and other types of manual or unskilled work. We currently derive our revenue from a large number of customers and we are not dependent on any individual customer for more than 2% of our annual revenue. During 2006, we served over 300,000 customers. Our ten largest customers accounted for approximately 4% of total revenue in 2006 and approximately 4% and 5% of total revenue in 2005 and 2004, respectively. While a single branch may derive a substantial percentage of its revenue from an individual customer, the loss of that customer would not have a significant impact on our overall revenue.

Many customers use us to screen prospective employees for future permanent hires. Because we typically do not charge a fee if a customer hires our temporary employee, customers have the opportunity to observe the prospective employee in an actual working situation, minimizing the expense of employee turnover and recruiting fees. We recruit temporary employees daily so that we can be responsive to the planned as well as unplanned needs of the customers we serve. Our customers know we can respond quickly to their labor needs. Under our satisfaction guaranteed policy, temporary employees unsatisfactory to our customer are promptly replaced and the customer is not charged for their time if the customer notifies us within the first two hours of work. Adjustments related to all customer credits, including those related to our satisfaction guarantee, totaled 0.5%, 0.5% and 0.4% of revenue for 2006, 2005 and 2004, respectively.

Our Temporary Employees. During 2006, we put approximately 600,000 people to work. Most temporary employees find our Work Today, Paid Today policy appealing and arrive at the branch early in the morning motivated to put in a day s work and receive their pay at the end of the day. Our temporary employees are aware that we typically do not charge a fee if a customer decides to offer them a full-time position. The possibility of locating a full-time position serves as an added incentive to our temporary employees. We attract our pool of temporary employees through flyers, newspaper advertisements, branch displays and word of mouth. We believe our focus on locating branches in areas convenient for our temporary employees, with ready access to public transportation, is particularly important in attracting temporary employees.

Management, Employees and Training**.** At the end of 2006, we had approximately 3,500 permanent employees. We are committed to retaining our employees with effective compensation programs, on-going training, development and career growth opportunities.

New branch managers typically undergo four weeks of on-the-job training at a branch and one week of training at our corporate offices in Tacoma, Washington. Training professionals have developed a curriculum, training manuals, and on-line instruction modules, which include topics such as sales, marketing, recruiting and personnel policies, compliance policies, safety, workers compensation administration and credit and collections. Customer service representatives receive on-the-job training at the branch where they work, supplemented by a computerized training program.

Branch managers report to district managers who in turn report to area directors. We have a formalized leadership development and selection process for all district manager positions and above designed to identify and promote as many possible candidates from within the Company before looking to potential external candidates.

Sales and Marketing. Each branch manager is responsible for their own sales, customer service and marketing efforts in their local market area in coordination with our corporate National Sales Department and Marketing Department. All branch employees are involved in sales and customer relations. We have a National Sales Department focused on generating and cultivating relationships with large customers who concurrently use multiple branches. Local branch marketing programs include telemarketing, direct-mail campaigns, yellow-page advertising, word of mouth, and radio and billboard advertising.

Worker Safety. We are committed to our temporary employees safety and reducing workplace injuries:

- Branch employees are responsible for screening new and existing customers and terminating those relationships if necessary. They are trained to discuss job safety parameters with customers on incoming work order requests. Branch managers conduct job site visits for customer job orders and periodic spot checks of existing customers to review safety conditions at job sites. Temporary employees are encouraged to report unsafe working conditions to us.

- We have processes to qualify temporary employees for dispatch and match these employees to suitable jobs.

- We maintain an inventory of basic safety equipment at our branches. Standard equipment includes hard hats, metal-toed boots, gloves, back braces, earplugs, and safety goggles. Appropriate equipment is checked out to temporary employees based on the type of work to be performed. For example, most construction jobs require steel-toed boots and a hard hat.

- We employ a group of safety professionals who serve as a technical resource to our branch personnel, temporary employees, and customers in recommending changes to our operating and work practices to reduce the frequency of

injuries and reinforce our culture of safety first . We will continue to assess the need for additional safety professionals and anticipate adding additional personnel in various operating areas in 2007.

- We have developed additional reporting and accountability practices to monitor accident trends in our operations.

Workers Compensation Program. We provide workers compensation insurance for our temporary and permanent employees. Our workers compensation insurance policies must be renewed annually. We renewed our coverage with American International Group, Inc. (AIG) for occurences during the period from July 2006 through June 2007. While we have primary responsibility for all claims, our insurance coverage provides reimbursement for certain losses and expenses beyond the deductible limits. For workers compensation claims originating in self-insured states, the majority of our current workers compensation insurance policies cover claims for a particular event above a $2.0 million deductible, on a per occurrence basis. This results in our being substantially self-insured. See Item 7 of Part II and the notes to our consolidated financial statements under Item 8 of Part II of this Form 10-K, for additional discussion regarding the impact of collateral requirements on workers compensation.

Information Technology Systems. We have developed our own proprietary front-end software system to process all required credit, billing, collection and temporary worker payroll, together with other information and reporting systems necessary for the management of hundreds of thousands of temporary employees and operations in multiple locations. The system maintains all of our key databases, from the tracking of work orders to payroll processing to maintaining worker records. The current system regularly exchanges all point of sale information between the corporate headquarters and the branches, including customer credit information and outstanding receivable balances. Branch staff can run a variety of reports on demand, such as receivables aging, margin reports and customer activity reports. Area directors and district managers are able to monitor their territories from remote locations.

Our system also provides us with key internal controls. Work order tickets are entered into the system at the branch level. Payroll checks cannot be issued at a branch without a corresponding work ticket on the computer system. When a temporary employee is paid, the customer s weekly invoice and the branch receivables ledger are automatically updated. Printed checks have watermarks and computer-generated signatures that are difficult to duplicate. Most cash receipts are received in lockbox accounts and are matched to customers receivable records using an automated data capture system.

Cash Dispensing Machines (CDMs). Temporary employees are paid their wages by payroll check unless they specifically request a voucher that can be redeemed immediately for cash from a CDM in exchange for a transaction fee. For those employees who elect to receive a voucher instead of a check, the CDM dispenses their net pay less the change and a $1 transaction fee for the use of the CDM. Revenue from the CDMs are substantially offset by the direct costs of the CDM program, which include depreciation, taxes, cash delivery and servicing, maintenance, supplies, insurance and other cash handling support costs. However, the primary purpose of the CDM program is to provide an additional service to our temporary employees which most of our competitors do not offer and which we believe enhances our ability to attract temporary employees.

New Branch Openings. We identify desirable areas for locating new branches using a demographic model that analyzes the potential supply of temporary employees and customer demand based on a zip code resolution of employment figures, demographics and the relative distance to our nearest existing branch. In addition, we locate branches in areas convenient for our temporary employees, which are near public transportation, and have parking available. After establishing a branch in a metropolitan area, we have often clustered additional locations within the same area if demand for our services was strong enough. Multiple locations in a market reduce both opening costs and operating risk for new branches because direct mail and other advertising costs are spread among more branches and because the

new branch benefits from existing customer relationships and established Labor Ready brand recognition.

We have standardized the process of opening new branches. When we open a new branch, we invest in recruiting and training new permanent employees, equipping the branch, and funding losses during its start-up growth period. On average, we incurred start-up costs, including net operating losses, of approximately $90,000 per branch opened in 2006. New branches are expected to generate revenue sufficient to cover their operating costs within one to two years. The volume necessary for profitable operations ranges from $450,000 to $750,000 per year, depending on the brand. Branches in operation at the end of the year and open for at least one full year generated average annual revenue of approximately $1.5 million per branch in 2006.

SEASONALITY

Our business experiences seasonal fluctuation. Construction and construction related 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. Additionally, our gross profit has generally fluctuated as our mix of business changes from quarter to quarter.

COMPETITION

The short-term, manual labor sector of the temporary services industry is highly competitive with limited barriers to entry. Several very large full-service and specialized temporary staffing companies, as well as small local companies, compete with us in the staffing industry. A large percentage of temporary staffing companies serving the manual labor sector of the industry are local operations with fewer than five branches. Within local or regional markets, these firms actively compete with us for business. In most areas, no single company has a dominant share of the market. One or more of these competitors may decide at any time to enter or expand their existing activities in the short-term labor market and provide new and increased competition to us. While entry to the market has limited barriers, lack of working capital frequently limits the growth of smaller competitors.

We believe that the primary competitive factors in obtaining and retaining customers are the cost of temporary labor, the quality of the temporary employees provided, the responsiveness of the temporary staffing company to provide the requested amount of temporary employees on time, and the number and location of branches. Competition in some markets is intense, particularly with regard to recruiting workers, 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. See Item 1A below of this Form 10-K - Risk Factors.

GOVERNMENT REGULATIONS

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 number of federal, state and local laws and regulations regulating our industry. Some of the most important areas of regulation are listed below.

Wage and Hour Regulation. We are required to comply with applicable state and federal wage and hour laws. These laws require us to pay our employees minimum wage and overtime at applicable rates. When our temporary employees are employed on public works projects we are generally required to pay prevailing wages and to comply with additional reporting obligations.

Regulation Concerning Equal Opportunity. We are required to comply with applicable state and federal laws prohibiting harassment and discrimination on the basis of race, gender and other legally-protected factors in the employment of our temporary and permanent employees.

Workplace Safety. We are subject to a number of state and federal statutes and administrative regulations pertaining to the safety of our employees. These laws generally require us to provide general safety awareness and basic safety equipment to our temporary employees.

Proposed New Regulations. See Risk Factors in Item 1A below. We are continually subject to the risk of new regulations which could harm our business.

PATENTS AND TRADEMARKS

Our business is not presently dependent on any patents, licenses, franchises or concessions. Labor Ready, Spartan Staffing, CLP Resources and service marks such as Work Today, Paid Today and Work Today, Cash Today are registered with the U.S. Patent and Trademark Office. We have also been granted a patent by the U.S. Patent and Trademark authorities for the system of controlling a network of CDMs for the disbursement of temporary employee payroll.

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d) Financial Information About Geographic Areas

The following table depicts our revenue derived from within the United States and that derived from other countries for the past three years (in thousands).

	2006		2005		2004	
United States (including Puerto Rico)	$ 1,263,642	93.7 %	$ 1,155,494	93.5 %	$ 965,454	92.5 %
Canada and the United Kingdom	85,476	6.3 %	80,576	6.5 %	78,782	7.5 %
Total revenue from services	$ 1,349,118	100 %	$ 1,236,070	100 %	$ 1,044,236	100 %

The following table depicts our net property and equipment located in the United States and the net property and equipment located in other countries for the past three years (in thousands).

	2006		2005		2004	
United States (including Puerto Rico)	$ 29,982	93.8 %	$ 24,689	92.8 %	$ 22,680	90.1 %
Canada and the United Kingdom	1,967	6.2 %	1,926	7.2 %	2,494	9.9 %
Total property and equipment, net	$ 31,949	100 %	$ 26,615	100 %	$ 25,174	100 %

e) Available Information

Our Internet website address is www.laborready.com. We make available at this address, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Information available on our website is not incorporated by reference in and is not deemed a part of this Form 10-K.

Item 1A. RISK FACTORS

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 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 with regard to recruiting workers, and these competitive forces limit our ability to raise prices to our customers. For example, competitive forces have historically limited our ability to raise our prices to immediately and fully offset increased costs of doing business, including increased labor costs, costs for workers compensation and state unemployment insurance. As a result of these forces, we have in the past faced pressure

on our operating margins. Pressure on our margins remains intense, and we cannot assure you that it will not continue. If we are not able to effectively compete in our targeted markets, our operating margins and other financial results will be harmed and the price of our securities could decline.

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

We maintain various types of insurance coverage to help offset the costs associated with certain risks to which we are exposed. We have previously experienced, and could again experience, changes in the insurance markets that result in significantly increased insurance costs and higher deductibles. For example, we are required to pay workers compensation benefits for our temporary and permanent employees. Under our workers compensation insurance program, we maintain per occurrence

insurance, which covers claims for a particular event above a $2.0 million deductible, and we do not maintain an aggregate stop-loss limit other than on a per-occurrence basis. While we have secured coverage with American International Group, Inc. (AIG) for occurrences during the period from July 2006 through June 2007, 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 2007. In the event we are not able to obtain workers compensation insurance, or any of our other insurance coverages, on commercially reasonable terms, our ability to operate our business would be significantly impacted and our financial condition and results of operations could suffer.

We also maintain employment practice liability insurance (EPLI) for certain types of claims that may arise out of the course of employment. We currently maintain a policy with a $1.0 million deductible for single-party claims and a $2.5 million deductible for multiple-party claims with a maximum aggregate coverage of $10.0 million per claim and per policy year which is applicable to the coverage period of July 2006 through June 2007. The EPLI market has historically experienced increased losses creating increases in insurance premiums, increases in deductible limits, and decreases in overall coverage. In the event we are unable to retain EPLI coverage on commercially reasonable terms, our financial condition and results of operations could suffer.

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

We are required to maintain commitments such as cash and cash-backed instruments, irrevocable letters of credit, and/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 and there are a number of factors that cause the size of our collateral commitments to grow over time. First, as our business grows so does our workers compensation reserve and the collateral needed to support it. Second, we sometimes face difficulties in recovering our collateral from insurers, particularly when those insurers are in financial distress, and we cannot guarantee that our collateral for past claims will be released in a timely manner as we pay down claims. As a result, we expect that the amount of collateral required to secure our commitments to our insurance carriers will continue to increase. We believe that our current sources of liquidity will satisfy our immediate needs for these obligations; however, our currently available sources of capital for these commitments are limited and we could be required to seek additional sources of capital in the future. These additional sources of financing may not be available on commercially reasonable terms. Even if they are available, these financings could result in dilution of earnings to our existing shareholders.

Our reserves for workers compensation claims and other liabilities and our allowance for doubtful accounts may be inadequate, and we may incur additional charges if the actual amounts exceed the estimated amounts.

We maintain reserves for workers compensation claims, including the excess claims portion above our deductible, using actuarial estimates of the future cost of claims and related expenses. These estimates are impacted by items that have been reported but not settled and items 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 its estimated net present value using discount rates based on average returns of risk-free U.S. Treasury instruments with maturities comparable to the weighted average lives of our workers compensation claims. We evaluate the reserve regularly throughout the year and make adjustments accordingly. If the actual costs of such claims and related expenses exceed the amounts estimated, or if the discount rates represent 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 believe our judgements and estimates are adequate; however if the actual outcome of these matters is less favorable than expected, an adjustment would be charged to expense in the period in which the outcome occurs or the period in which our estimate changes.

Some insurance companies with which we have previously done business are in financial distress, and one has been relieved of its insurance obligations to us. If our insurers do not fulfill their obligations, we could experience significant losses.

Prior to our current policies with AIG, we purchased annual insurance policies in connection with our workers compensation obligations from three primary carriers. Prior to 2001, Legion Insurance Company (Legion) and Reliance Insurance Company (Reliance) provided coverage to us. Legion and Reliance are in liquidation and have failed to pay a number of covered claims that exceed our deductible limits (excess claims). We have presented these excess claims to the guarantee funds of the states in which the claims originated. Certain of these excess claims have been rejected by the state guarantee funds due to statutory eligibility limitations. As a result, we have concluded it is likely that we will be unable to obtain reimbursement for at least a portion of these excess claims. To the extent we experience additional claims that exceed our

deductible limits and our insurers do not satisfy their coverage obligations, we may be forced to satisfy some or all of those claims directly; this in turn could harm our financial condition or results of operations.

Our workers compensation reserves include not only estimated expenses for claims within our deductible layer but also estimated expenses related to claims in excess of the deductible. We record a receivable for the insurance coverage on excess claims. We have also recorded a valuation allowance against the insurance receivables from Legion and Reliance to reflect our best estimates of amounts we may not realize as a result of the liquidations of those insurers. The outcome of those liquidations is inherently uncertain; we may realize significantly less than currently estimated, in which case an adjustment would be charged to expense in the period in which the outcome occurs or the period in which our estimate changes.

Kemper Insurance Company (Kemper) provided coverage for occurrences commencing in 2001 through June 30, 2003. In December 2004, we executed a Novation agreement pursuant to which we relinquished insurance coverage and assumed all further liability for all claims originating in the Kemper policy years. These claims are reserved for in the consolidated financial statements. Although we believe our judgements and estimates are adequate, we cannot assure you that claims originating in the Kemper policy years will not experience unexpected adverse developments.

Our operations expose us to the risk of litigation which could lead to significant potential liability 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 laws and 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, personal injury and other claims. We are also subject to other types of claims in the ordinary course of our business. Some or all of these claims may give rise to litigation, which could be time-consuming for our management team, costly and harmful to our business.

In addition, we are exposed to class action litigation. The costs of defense and the risk of loss in connection with class action suits are greater than in single-party claims. 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, we cannot assure you that such litigation will not disrupt our business or impact our financial results.

With regard to employment claims, we currently maintain a policy with a $1.0 million deductible for single-party claims and a $2.5 million deductible for multiple-party claims with a maximum aggregate coverage of $10.0 million per claim and per policy year which is applicable to the coverage period of July 2006 through June 2007. With regard to general liability claims, we currently maintain a policy with a $1.0 million self-insured retention for all claims with a maximum coverage of $500,000 per claim and a $5.0 million aggregate per policy year which is applicable to the coverage period of July 2006 through June 2007.

We cannot assure you 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 liabilities on terms that we find commercially reasonable.

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

A significant portion of our revenue is derived from our operations in a limited number of states. Total revenue generated from operations in California, Texas and Florida, accounted for 38% of our overall revenue in 2006 and approximately 35% of our overall revenue in 2005 and 2004.

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

Because demand for personnel services and recruitment services is sensitive to changes in the level of economic activity, our business may suffer during economic downturns. As economic activity slows down, companies tend to reduce their use of temporary employees and recruitment services before undertaking layoffs of their permanent employees, resulting in decreased demand for our personnel. In addition, as a result of our acquisition of CLP Resources, an increasing portion of our revenue is generated from work in the construction industry, so downturns in the construction industry may have a disproportionate impact on us. As interest rates rise, the amount of construction could decline, which will cause a reduction in the demand for the use of temporary employees in the construction industry. As a result, any significant economic downturn or increase in interest rates could harm our business, financial condition or results of operations, or cause the price of our

securities to decline.

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

Our international branch operations expose us to certain risks. If we are not able to effectively manage those risks, our financial results could be harmed. As of December 29, 2006, we had 87 branches outside the United States in the United Kingdom and Canada. Risks not already discussed in connection with our domestic branch operations include: fluctuations in the value of foreign currencies and the additional expense and risks inherent in operations in geographically and culturally diverse locations.

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

In recent years, a number of bills have been introduced in Congress and various state legislatures any one of 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 permanent employees, a requirement that we spend a certain portion of our revenues on employee health care, a prohibition on fees charged in connection with our CDMs and a requirement that our customers provide workers compensation insurance for our temporary employees. We take a very active role and incur expense in opposing proposed legislation adverse to our business and in informing policy makers as to the social and economic benefits of our business. However, we cannot guarantee that any of this legislation will not be enacted, in which event demand for our service may suffer.

Organized labor has, in the past and could again in the future, been active in sponsoring legislation which could significantly increase our costs of doing business or decrease the value of our services to our customers, either of which could harm our results of operations.

The cost of compliance with government laws and 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. In addition, from time to time we are subject to audit by various state and governmental authorities to determine our compliance with a variety of these laws and regulations. We have in the past been found, and may in the future be found, to have violated such laws or regulations. We may, from time to time, incur fines and other losses or negative publicity with respect to any such violation. If we incur additional costs to comply with these laws and regulations or as a result of fines or other losses and we are not able to increase the rates we charge our customers to fully cover any such increase, our margins and operating results may be harmed.

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

We rely heavily on the performance and productivity of our branch managers, who manage the operation of the branches, 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 branches 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.

Our credit facility requires 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.

We have an $80.0 million credit agreement with certain unaffiliated financial institutions (the Revolving Credit Facility) that expires in November 2008. The Revolving Credit Facility requires that we comply with certain financial covenants. Among other things, these covenants require us to maintain certain leverage and coverage ratios. In the past we have negotiated amendments to these covenants to ensure our continued compliance with their restrictions. We cannot assure you that our lender would consent to such amendments on commercially reasonable terms in the future if we once again required such relief. In the event that we do not comply with the covenants and the lender does not waive such non-compliance, we will be in default of our credit agreement, which could subject us to penalty rates of interest and accelerate the maturity of the outstanding balances. Accordingly, in the event of a default under our credit facility, we could be required to seek additional sources of capital to satisfy our liquidity needs. These additional sources of financing may not be available on commercially reasonable terms. Even if they are available, these financings could result in dilution to our existing shareholders.

Our acquisitions or acquisition efforts may not be successful, which may limit our growth or adversely affect our results of operations and financial condition.

As part of our business strategy, we have made acquisitions of other temporary staffing businesses and we may continue to pursue such acquisitions in the future. Unsuccessful acquisition efforts may result in significant additional expenses that would not otherwise be incurred. Following an acquisition, we cannot assure you that we will be able to integrate the operations of the acquired business without significant

difficulties, including unanticipated costs, difficulty in retaining customers, failure to retain key employees and the diversion of management attention. In addition, we may not realize the revenues and cost savings that we expect to achieve or that would justify the acquisition investment, and we may incur costs in excess of what we anticipate. These circumstances could adversely affect our results of operations or financial condition.

We have significant working capital requirements.

We require significant working capital in order to operate our business. We may experience periods of negative cash flow from operations and investment activities, especially during seasonal peaks in revenue experienced in the second and third quarter of the year. We invest significant cash into the opening and operations of new branches until they begin to generate revenue sufficient to cover their operating costs. We also pay our temporary employees on a daily basis and bill our customers on a weekly basis, and, on average, collect monthly. As a result, we must maintain cash reserves to pay our temporary employees prior to receiving payment from our customers. In addition, we are required to pledge certain short-term assets to secure letters of credit and to pledge other assets to collateralize our workers compensation obligations. These collateral requirements may increase in future periods, which would decrease amounts available for working capital purposes. As a result of these factors, if our available cash balances and borrowing base under our existing credit facility do not grow commensurate with the growth in our working capital requirements, we could be required to explore alternative sources of financing to satisfy our liquidity needs, including the issuance of additional equity or debt securities. Any such issuances could result in dilution to existing shareholders.

Our information and computer processing systems are critical to the operations of our business and any failure could cause significant problems.

Our information technology systems, located at our headquarters, are essential for data exchange and operational communications with branches 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 turnover in our key management positions, we cannot assure you that we will be able to recruit suitable replacements. We must also successfully assimilate new key management personnel into our organization 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 until new management becomes familiar with our business. We do not maintain key person life insurance on any of our executive officers.

Our business would suffer if we could not attract enough temporary employees or skilled trade workers.

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

Determinations that we have misclassified the jobs performed by our temporary employees for workers compensation insurance purposes in our monopolistic states, even if the misclassifications are inadvertent, could result in us owing penalties to government regulators and/or having to record additional expense.

In four states (Washington, West Virginia, North Dakota, Wyoming), Canada and Puerto Rico, (our monopolistic states) we pay workers compensation insurance premiums directly to the government in amounts based in part on the classification of jobs performed by our employees. From time to time, we are subject to audits by various state regulators regarding our classifications of jobs performed by our employees. If it is determined that we have materially misclassified a significant number of our employees, we could be required to pay significant amounts of additional premium as well as penalites and interest.

Labor unions have attempted to harm our business.

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

Item 2. PROPERTIES

We lease the building space at virtually all of our branches. Under the majority of these leases, both parties to the agreement have the right to terminate the lease on 90 days notice and upon payment of an early termination penalty equivalent to three months rent. A small percentage of leases provide for a minimum lease term in excess of one year. We own a 157,000 square foot office building with an attached parking garage in downtown Tacoma, Washington, which serves as our headquarters. We also own two branches

in Florida. Management believes all of our facilities are currently suitable for their intended use. See Note 13 of Notes to Consolidated Financial Statements found in Item 8 of Part II of this Form 10-K.

Item 3. LEGAL PROCEEDINGS

See Note 13 to the Notes to Consolidated Financial Statements found in Item 8 of Part II of this Form 10-K (listed under Legal Contingencies and Developments, below).

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter ended December 29, 2006.

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PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the New York Stock Exchange. The following table sets forth, for the periods indicated, the high and low sales prices for our common stock as reported by the New York Stock Exchange:

Quarter Ended	High	Low
April 1, 2005	$ 19.46	$ 15.14
July 1, 2005	$ 23.60	$ 16.27
September 30, 2005	$ 26.45	$ 20.90
December 30, 2005	$ 26.50	$ 20.62
March 31, 2006	$ 26.05	$ 20.50
June 30, 2006	$ 27.75	$ 20.79
September 29, 2006	$ 22.75	$ 14.94
December 29, 2006	$ 19.82	$ 15.45

Holders of the Corporation s Capital Stock

We had approximately 734 shareholders of record as of February 12, 2007.

Dividends

No cash dividends have been declared on our common stock to date nor have any decisions been made to pay a dividend in the future. Payment of dividends is evaluated on a periodic basis and if a dividend were paid, it would be subject to the covenants of our lending facility, which may have the effect of restricting our ability to pay dividends.

Issuer Purchases of Equity Securities

Under our authorized share repurchase program, we purchased and retired 4.2 million shares of common stock at a weighted average price of $20.88, excluding commissions, during 2006. The total amount purchased during 2006 was $88.7 million, including commissions.

The table below includes repurchases of our common stock pursuant to publicly announced plans or programs and those not made pursuant to publicly announced plans or programs during the thirteen weeks ended December 29, 2006.

On July 25, 2006, we announced that our Board of Directors authorized the future repurchase of our common stock in either open market or private transactions at a total cost of up to $50.0 million. As of December 29, 2006, $13.1 million of the authorization remained available for future purchases of our common stock.

Subsequent to December 29, 2006, we announced that our Board of Directors authorized additional repurchases of our common stock up to $75.0 million. This authorization when combined with the existing $13.1 million authorization provides for the future repurchase of up to $88.1 million worth of our common stock.

The table below includes repurchases of our common stock pursuant to publicly announced plans or programs and

Period	Total number of shares purchased (1)	Weighted average price paid per share (2)	Total number of shares purchased as part of publicly announced plans for programs (1)	Maximum number of shares (or approximate dollar value) that may yet be purchased under plans or programs
9/30/06 through 10/27/06	152,476	$ 17.34	152,100	$39.3 million
10/28/06 through 11/24/06	929,150	$ 18.00	928,400	$22.6 million
11/25/06 through 12/29/06	500,856	$ 18.98	500,000	$13.1 million
Total	1,582,482	$ 18.24	1,580,500	$13.1 million

(1) During the thirteen weeks ended December 29, 2006, we purchased 1,982 shares in order to satisfy tax withholding obligations upon the vesting of restricted stock. These shares were not acquired pursuant to any repurchase plan or program.

(2) Weighted average price paid per share does not include any adjustments for commissions.

The table below includes repurchases of our common stock pursuant to publicly announced plans or programs and

Item 6. SELECTED FINANCIAL INFORMATION

The following selected consolidated financial information has been derived from our audited Consolidated Financial Statements. The data should be read in conjunction with our Consolidated Financial Statements and the notes thereto, and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

Summary Consolidated Financial And Operating Data

(in thousands, except per share data and number of branches)

	2006	**2005 (2)**	**2004 (2)**	**2003**	**2002**
Statement of Income Data:					
Revenue from services	$ 1,349,118	$ 1,236,070	$ 1,044,236	$ 891,191	$ 862,733
Gross profit	433,345	391,622	317,177	266,313	250,072
Selling, general and administrative expenses	318,681	286,460	244,606	226,019	220,216
Income before tax expense	116,173	100,195	59,845	27,567	17,902
Net income	$ 76,472	$ 62,021	$ 36,313	$ 17,531	$ 11,586
Net income per common share:					
Basic	$ 1.46	$ 1.28	$ 0.87	$ 0.43	$ 0.28
Diluted	$ 1.45	$ 1.18	$ 0.75	$ 0.41	$ 0.28
Weighted average shares outstanding (1):					
Basic	52,418	48,421	41,674	40,387	41,017
Diluted	52,853	53,793	52,289	50,916	41,771
Operating Data (unaudited):					
Revenue from branches open for full year	$ 1,325,902	$ 1,136,617	$ 980,672	$ 875,848	$ 855,591
Revenue from branches opened or acquired during year	22,236	96,530	59,717	11,561	4,724
Revenue from branches closed during year	980	2,923	3,847	3,782	2,418
Total	$ 1,349,118	$ 1,236,070	$ 1,044,236	$ 891,191	$ 862,733
Branches open at period end	912	887	815	779	748

	At Year End, 2006	**2005 (2)**	**2004 (2)**	**2003**	**2002**
Balance Sheet Data:					
Current assets	$ 339,758	$ 318,663	$ 261,058	$ 206,749	$ 177,290
Total assets	592,306	572,076	444,107	373,717	328,559
Current liabilities	101,385	100,014	76,508	70,830	57,836
Long-term liabilities	138,403	123,464	165,205	148,748	138,612
Total liabilities	239,788	223,478	241,713	219,578	196,448
Shareholders equity	352,518	348,598	202,394	154,139	132,111
Working capital	$ 238,373	$ 218,649	$ 184,550	$ 135,919	$ 119,454

(1) Weighted average shares outstanding are described in Note 12 to the Consolidated Financial Statements found in Item 8 of Part II of this Form 10-K.

(2) On April 5, 2004, we acquired substantially all of the assets of Spartan Staffing and on May 27, 2005, we acquired 100% of the common stock of CLP Holdings Corp. The operations of these entities are included subsequent to these dates. See Note 2 to the Consolidated Financial Statements for further information.

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in connection with our Consolidated Financial Statements and the notes thereto and other financial information included elsewhere in this document.

Executive Overview

Labor Ready is an international provider of temporary employees for manual labor, light industrial, and skilled construction trades, operating under the brand names of Labor Ready, Labour Ready, Workforce, Spartan Staffing, and CLP Resources. Our customers are primarily small- to mid-sized businesses in various industries. Annually we serve more than 300,000 customers and put approximately 600,000 people to work. At the end of December 29, 2006 we had 912 branches located in all 50 of the United States, Canada, Puerto Rico and the United Kingdom. We believe our ability to provide a large number of temporary employees on short notice, usually the same day as requested, provides us with a competitive advantage.

Net income grew by 23.3% in 2006 in comparison with 2005. The growth in net income resulted from an increase in revenue and gross margin partially offset by an increase in Selling, General and Administrative (SG&A) expense as a percentage of revenue. Also contributing to the increase in net income was an increase in net interest income and a lower effective tax rate.

Revenue for 2006 was $1.35 billion, an increase of 9.1% over the prior year. Net income improved 23.3% to $76.5 million, or $1.45 per diluted share. The 2006 revenues were higher primarily as a result of a full year of revenues from CLP Resources, which we acquired in May 2005, and an increase in same store sales for the year. Towards the end of 2006, we experienced a decline in same branch revenue which we expect to continue through the first half of 2007. This decline can be attributed to certain geographic areas experiencing negative trends in residential construction as well as other industries providing products or services to residential construction. Although we expect a decline in revenue during the first half of 2007, we believe that the fundamental demand for our services is sound, and the recent decline in demand for our services is a cyclical adjustment in the economy.

Gross margin improved during 2006 as a result of continued success in controlling the costs of workers compensation by reducing work-related injuries. Our bill rate to pay rate ratio also remained fairly steady during 2006 as compared to 2005. SG&A expenses increased to 23.6% for 2006 compared to 23.2% during 2005. SG&A expense was higher during 2006 due to increased incremental stock compensation due to the adoption of a new accounting standard, a change in the mixture of branches in our brands with a higher cost structure and investments in sales and safety teams during 2006.

Net interest and other income improved to 0.9% of revenue for 2006 compared to 0.4% for 2005. The increase in net interest and other income is largely due to a reduction in interest expense related to the elimination of $70.0 million of debt in June 2005, as well as higher average cash and restricted cash balances and yields on those balances.

We continued to make progress on our strategies during 2006. Same branch revenue growth for 2006 was approximately 4.0% bringing the average revenue per branch to approximately $1.5 million. We believe our branches, on average, can manage average annual sales in excess of $2.5 million per year without a significant increase in fixed costs. In support of this strategy, we invested in sales training and management in 2006 and believe continued focus in this area is crucial to successfully increasing our average branch revenue in the future. In regard to our strategy of expanding into new markets, we opened 50 new locations during 2006 with a little over half of these openings occurring in the CLP Resources and Spartan Staffing brands. We plan to grow both of these brands through new branch openings and complementary acquisitions with the intent of establishing national footprints.

We undertook a significant share repurchase effort in 2006 by repurchasing $88.7 million of our common stock, including commissions. On January 31, 2007, our Board of Directors authorized the repurchase of an additional $75.0 million of company stock in addition to the $13.1 million remaining from a previous authorization for a total of $88.1 million. During 2007, we plan to repurchase $88.1 million of our common

stock. We also plan to focus on expanding our service offerings by evaluating acquisitions that complement our current brands in Blue collar staffing.

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 of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated 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, goodwill and intangible assets, contingencies and litigation and income taxes. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

Workers Compensation Reserve. We maintain a reserve for workers compensation claims, including the excess claims portion above our deductible, using actuarial estimates of the future cost of claims and related expenses. These estimates are impacted by items that have been reported but not settled and items that have been incurred but not reported. The reserve, which reflects potential liabilities to be paid in future periods based on estimated payment patterns, is discounted to estimated net present value using discount rates based on average returns on risk-free U.S. Treasury instruments with maturities comparable to the weighted average lives of our workers compensation claims. We evaluate the reserve regularly throughout the year and make adjustments accordingly. If the actual cost of such claims and related expenses exceeds the amounts estimated, additional reserves may be required.

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

***Goodwill and Indefinite-lived Intangible Assets*.** As a result of our acquisitions, we have recorded goodwill and various intangible assets at their estimated fair values. The estimated fair values of the acquired indefinite-lived intangible assets are based on our expectations regarding future operating results and cash flows. The purchase price in excess of the fair value of the acquired tangible and intangible assets is classified as goodwill and is tested for impairment in the fourth quarter of each fiscal year and whenever events or circumstances indicate that an impairment may have occurred. Fair value for purposes of our impairment test is determined based on discounted cash flows, market multiples or appraised values as appropriate. Such analysis requires the use of certain future market assumptions and

discount factors, which are subjective in nature. Estimated values can be affected by many factors beyond the company s control such as business and economic trends and government regulation. Management believes that the assumptions used to determine fair value are appropriate and reasonable. However, changes in circumstances or conditions affecting these assumptions could have a significant impact on the fair value determination, which could then result in a material impairment charge to the company s results of operations.

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

Income Taxes and Related Valuation Allowances. We account for income taxes by recording taxes payable or refundable for the current year and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in our financial statements or tax returns. As required under Statement of Financial Accounting Standard No. 109, *Accounting for Income Taxes* (SFAS No. 109), we measure these expected future tax consequences based upon the provisions of tax law as currently enacted; the effects of future changes in tax laws are not anticipated. Future tax law changes, such as a change in the corporate tax rate, could have a material impact on our financial condition or results of operations. When appropriate, we record a valuation allowance against deferred tax assets to offset future tax benefits that we may not realize when we believe it is more likely than not that we may not realize all or some portion of our deferred tax assets based upon our judgments regarding future events and past operating results. We also provide a reserve for tax contingencies when we believe a probable and estimable exposure exists.

Liquidity and Capital Resources

Cash Flow Summary (This summary should be read in conjunction with the Consolidated Statements of Cash Flows in Item 8 of Part II in this Form 10-K.)

Cash Flows from Operating Activities

Net cash provided by operating activities was $108.2 million during 2006 and was due primarily to our net income and increases in our workers compensation claims reserve.

Our net income for 2006 was $76.5 million. The workers   compensation claims reserve increased $21.6 million during 2006 compared to an $18.3 million increase during the same period a year ago. Overall, the growth in our workers   compensation claims reserve is the result of an increased exposure base which is related to increased revenue. The reserve is increased in relation to temporary payroll hours billed and reduced as we pay claims over a weighted average period of approximately six years.

Cash Flows From Investing Activities

Net cash used in investing activities was $1.8 million in 2006. Cash used in investing activities primarily related to the increase in capital expenditures due to technology upgrades, an upgrade of security systems and leasehold improvements. Cash used in investing activities was partially offset by an increase in restricted cash associated with the collaterialization of our workers   compensation program.

Cash Flows from Financing Activities

Net cash used in financing activities was $81.1 million in 2006. Under our authorized share repurchase program, we purchased and retired 4.2 million shares of common stock for a total of $88.7 million, including commissions. The 2006 share repurchases were funded through cash and cash equivalents. Cash provided by financing activities related primarily to net proceeds from the sale of stock through our options and employee benefit plans and the excess tax benefits from stock-based compensation.

Subsequent to December 29, 2006, we announced that our Board of Directors authorized additional repurchases of our common stock up to $75.0 million. The new $75.0 million authorization combined with the $13.1 million remaining from a previous authorization provides for the future repurchase of up to $88.1 million of our common stock.

Capital Resources

We have an $80.0 million credit agreement with certain unaffiliated financial institutions (the   Revolving Credit Facility) that expires in November 2008. The Revolving Credit Facility, which is secured by substantially all our assets except our real estate, provides us with access to loan advances and 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 collateral. Under the terms of the Revolving Credit Facility, we pay a variable rate of interest based on a margin above LIBOR for borrowings and a variable unused commitment fee, both based on a consolidated leverage ratio of consolidated total debt to consolidated EBITDA. Fees for letters of credit are based on the margin in effect plus a fee of 0.05%. As of December 29, 2006, our margin was 0.50% and our unused capacity fee was 0.15%. At December 29, 2006 we had $45.5 million of letters of credit issued against that borrowing capacity leaving us with $34.5 million available for future borrowings. The Revolving Credit Facility requires that we comply with certain financial covenants. Among other things, these covenants require us to maintain certain leverage and coverage ratios. We are currently in compliance with all covenants related to the Revolving Credit Facility.

We have agreements with certain financial institutions through our wholly-owned and consolidated subsidiary, Workers   Assurance of Hawaii, Inc. (our   Workers   Assurance Program), that allow us to restrict cash for the purpose of providing cash-backed instruments for our workers compensation collateral. These instruments include cash-backed letters of credit, cash held in trusts as well as cash deposits held by our insurance carriers. At December 29, 2006 we had restricted cash in our Workers   Assurance Program totaling $139.2 million. Of this cash, $138.7 million was committed to insurance carriers leaving $0.5 million available for future needs.

Reserves for Contingent Legal and Regulatory Liabilities. We have established reserves for contingent legal and re

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

Reserves for Contingent Legal and Regulatory Liabilities. We have established reserves for contingent legal and re

Workers Compensation Collateral and Claims Reserves

We provide workers compensation insurance for our temporary and permanent employees. Our workers compensation insurance policies must be renewed annually. We have coverage with American International Group, Inc. (AIG) for occurences during the period from July 2006 through June 2007. While we have primary responsibility for all claims, our insurance coverage provides reimbursement for certain losses and expenses beyond the deductible limits. For workers compensation claims originating in self-insured states, the majority of our current workers compensation insurance policies cover claims for a particular event above a $2.0 million deductible, on a per occurrence basis. This results in our being substantially self-insured. Furthermore, we have full liability for all further payments on claims which originated between January 2001 and June 2003, without recourse to any third party insurer as the result of a novation agreement we entered into with Kemper Insurance Company in December 2004.

We are required by our insurance carriers and certain state workers compensation programs to collateralize a portion of our workers compensation obligation with cash and cash-backed instruments, irrevocable letters of credit, or surety bonds. Our insurance carriers annually assess the amount of collateral they will require from us relative to our workers compensation obligation for which they become responsible should we become insolvent. Such amounts can increase or decrease independent of our assessments and reserves.

At December 29, 2006 and December 30, 2005 we had provided our insurance carriers and certain states with commitments in the form and amounts outlined below (in millions):

	Workers Compensation Commitments as of:	
	December 29, 2006	**December 30, 2005**
Workers Assurance Program - committed collateral (1)	$ 138.7	$ 138.8
Letters of credit	45.5	51.6
Surety bonds (2)	17.6	17.2
Other cash backed instruments	0.6	--
Total Collateral Commitments	$ 202.4	$ 207.6

(1) 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.

(2) We had $3.8 million and $9.7 million of restricted cash collateralizing our surety bonds at December 29, 2006 and December 30, 2005, respectively. While our workers compensation reserve increased, the need to post additional collateral has been largely offset by favorable trends from our insurance company in the amount of collateral they require for prior years. Likewise, some of our surety bonds are no longer required to be backed 100% by cash.

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, subject to a minimum charge. The terms of these bonds are subject to review and renewal every one to four years and most bonds can be canceled by the sureties with as little as 60 days notice.

Our Workers Assurance Program cash and cash-backed instruments include cash-backed letters of credit, cash held in trusts and cash deposits held by our insurance carriers. The fees related to those instruments subject to an annual fee were approximately 0.45% as of December 29, 2006.

Reserves for Contingent Legal and Regulatory Liabilities. We have established reserves for contingent legal and re

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

	December 29, 2006	December 30, 2005
Ending workers compensation reserve:	$ 189.4	$ 167.9
a) Discount on reserves	41.3	35.7
b) Timing of collateral release with prior providers	13.0	15.1
c) Collateral posted with current provider in comparison to obligation incurred	(19.4)	8.8
d) Reserves for claims above our deductible (excess claims), net of discount	(21.9)	(19.9)
Total Collateral Commitments	$ 202.4	$ 207.6

Our total collateral commitments differ from our workers compensation reserve due to several factors including the following which are reconciled above: (a) our claims reserves are discounted to their estimated net present value while our collateral commitments are based on the gross, undiscounted reserve; (b) a delay in the release of collateral posted with prior insurance companies for claims that have been previously paid and, therefore, are no longer reflected in the reserve; (c) collateral posted with the current insurance carrier in comparison to the estimated balance of unpaid claims; and (d) discounted reserves for claims above our deductible.

Generally, our workers compensation reserve for estimated claims increases as temporary labor services are provided and decreases as payments are made on these claims. Although the estimated claims are expensed as incurred, the claim payments are made over a weighted average period of approximately six 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.

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. We maintain reserves for workers compensation claims, including the excess claims portion above our deductible, using actuarial estimates of the future cost of claims and related expenses. Adjustments to prior period reserves are charged or credited to expense in the periods in which the estimate changes. Our claims reserves are discounted to their estimated net present value using discount rates based on average returns of risk-free U.S. Treasury instruments with maturities comparable to the weighted average lives of our workers compensation claims. At December 29, 2006 our reserves are discounted at rates ranging from 4.27% to 5.52%.

Factors we consider in establishing and adjusting these reserves include the estimates provided by our independent actuaries, appropriate discount rates and estimated payment patterns. Factors that have caused our estimated losses for prior years to change include, among other things, (i) inflation of medical and indemnity costs at a rate higher than originally anticipated, (ii) regulatory and legislative developments that have increased benefits and settlement requirements in several states, (iii) a different mix of business than previously anticipated, (iv) the impact of safety initiatives implemented, and (v) positive or adverse development of claim reserves.

Reserves for Contingent Legal and Regulatory Liabilities. We have established reserves for contingent legal and re

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

	2006	2005	2004
Beginning balance	$ 167,859	$ 135,612	$ 112,158
Self-insurance reserve expenses			
Expenses related to current year (net of discount)	64,211	69,413	60,978
Changes related to prior years	(8,702)	(13,189)	(7,691)
Total	55,509	56,224	53,287
Amortization of prior year discount	2,903	783	5,313
Payments			
Payments related to current year claims	(9,048)	(11,500)	(10,236)
Payments related to claims from prior years	(29,550)	(29,492)	(25,429)
Total	(38,598)	(40,992)	(35,665)
Net change in excess claims reserve	1,762	3,128	519
CLP liability assumed, net of discount	--	13,104	--
Ending balance	189,435	167,859	135,612
Less current portion	52,229	46,211	41,683
Long-term portion	$ 137,206	$ 121,648	$ 93,929

Other

Included in cash and cash equivalents at December 29, 2006 and December 30, 2005 is cash held within branch CDMs for payment of temporary payrolls in the amount of approximately $19.6 million and $18.1 million, respectively.

Our capital expenditures for 2006, 2005 and 2004, including assets acquired via capital leases, were $13.3 million, $7.3 million and $5.6 million, respectively. The increase in 2006 in comparison with 2005 is primarily due to upgrade of security systems, leasehold improvements and work associated in upgrading our proprietary front end software system. Work associated in upgrading our proprietary front end software system will continue in 2007. We anticipate that our capital expenditures will be approximately $12 million to $15 million in 2007.

Contractual Obligations and Commitments

We have various contractual obligations that are recorded as liabilities in our consolidated financial statements. Certain contractual obligations, such as operating lease obligations, are not recognized as liabilities in our consolidated financial statements, but are required to be disclosed. There were no material changes outside the ordinary course of business in our contractual obligations during 2006.

The following table provides a summary of our contractual obligations as of the end of 2006:

	Payments Due By Period (in thousands)				
Contractual Obligations	**Total**	**2007**	**2008 through 2009**	**2010 through 2011**	**2012 and later**
Capital lease obligations (a)	$ 1,138	$ 940	$ 198	$ --	$ --
Operating leases (b)	14,006	4,591	5,485	2,769	1,161
Purchase obligations (c)	5,496	3,805	1,691	--	--
Other long-term obligations (d)	2,245	2,245	--	--	--
Other cash obligations (e)	14,675	14,675	--	--	--

Reserves for Contingent Legal and Regulatory Liabilities. We have established reserves for contingent legal and re