

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-K

[X]Annual Report Pursuant to Section 13 or 15(d) of  
The Securities Exchange Act of 1934

For the fiscal year ended December 31, 1995

Commission File Number 0-21886

BARRETT BUSINESS SERVICES, INC.  
(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of  
incorporation or organization)

52-0812977  
(I.R.S. Employer  
Identification No.)

4724 S.W. Macadam Avenue  
Portland, Oregon  
(Address of principal  
executive offices)

97201  
(Zip Code)

Registrant's telephone number, including area code:

(503) 220-0988

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, Par Value \$.01 Per Share

(Title of class)

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

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.

State the aggregate market value of the voting stock held by non-affiliates of  
the Registrant.

\$ 74,236,995 at February 1, 1996

Indicate the number of shares outstanding of each of the Registrant's classes  
of common stock, as of the latest practicable date.

Class	Outstanding at February 1, 1996
- - - - -	-----
Common Stock, Par Value \$.01 Per Share	6,554,310 Shares

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

Item 1. BUSINESS

General

Barrett Business Services, Inc. ("Barrett" or the "Company"), was incorporated in the state of Maryland in 1965. Barrett, a professional employer organization, provides light industrial, clerical and technical employees to a wide range of businesses through staff leasing, contract staffing, site management and temporary staffing arrangements. The Company's staff leasing and staffing services are provided through a network of 14 branch offices, eight of which are located throughout Oregon, two in northern California, two in Maryland, and two in Washington. The Company also operates 19 smaller recruiting and placement offices in its general market areas which are managed by a branch office. The Company provides employees to a diverse set of customers, including among others, forest products and agriculture-based companies, electronics manufacturers, transportation and shipping enterprises, professional firms and general contractors. See Item 6 of this report for information regarding the Company's revenues from staffing services

and staff leasing services.

#### Growth Strategy

Barrett's strategic plan continues to include (1) acquisition of additional personnel-related businesses, both in its existing markets and in other strategic geographic areas, (2) the further expansion of its business at existing branch offices primarily through its ongoing marketing and sales program and (3) accelerating the growth of professional employer services through innovative products and cost-effective services.

#### Recent Acquisitions

On July 17, 1995, the Company purchased certain assets of Mid-Del Employment Service, Inc.; Sussex Employment Services, Inc.; PPI (Prestige Personnel) - Salisbury, Inc.; and Del-Mar-Va Nurses-On-Call Inc. (collectively, the "Maryland and Delaware companies") for \$950,000 in cash. These companies, with combined 1994 revenues of approximately \$4.1 million, were engaged in the temporary staffing business in eastern Maryland and Delaware.

Effective December 11, 1995, the Company purchased certain assets of Stregé & Associates, Inc., a company, with 1994 revenues of approximately \$2.4 million, specializing in providing highly skilled tradesmen to various industries for maintenance and supplemental labor purposes in Portland, Oregon. Of the \$1,141,000 purchase price (inclusive of acquisition-related costs of \$4,000), the Company paid \$230,000 in cash and issued 67,443 shares of its common stock with a then-fair market value of \$911,000.

The Company reviews acquisition opportunities on an ongoing basis. While growth through acquisition is a major element of the Company's overall strategic growth plan, there can be no assurance that any additional acquisitions will be completed in the foreseeable future.

#### Staffing Services

General. Staffing services enable businesses to meet peak or extraordinary demands caused by such factors as seasonality, increased customer demand, vacations, illnesses, parental leave and special projects without incurring the ongoing expense and administrative responsibilities associated with recruiting, hiring and retaining additional permanent employees. The use of staffing services allows businesses to utilize the "just-in-time" approach to their personnel needs. By maintaining a core of permanent employees to satisfy minimum requirements and managing increased demand through greater use of a flexible workforce, companies are able to convert a portion of their fixed personnel expense to variable expense, in addition to reducing costs related to recruiting, training, payroll, benefits, severance compensation, recordkeeping and other personnel matters.

The Company's Staffing Services. The Company provides light industrial, clerical and technical workers through a variety of arrangements to a broad range of businesses, including forest products and agriculture-based companies, electronics manufacturers, transportation and shipping companies, professional firms, and construction contractors.

Customers utilize the Company's staffing services, which accounted for approximately 55% of total 1995 revenues, through a number of arrangements, including contract staffing, site management and temporary staffing. Contract staffing typically involves employee placements for an indefinite period. A site management arrangement locates Barrett management personnel on site at a customer's place of business. Barrett then conducts all recruiting, screening, interviewing, testing, hiring and employee placement functions at the customer's facility. The Company has full responsibility for all personnel matters of the customer. Temporary staffing is defined as employee assignments which are typically less than three months in duration.

Light industrial workers perform such tasks as operation of machinery, loading and shipping, site preparation for special events, construction-site cleanup and janitorial services. The light industrial category generated approximately 63% of the Company's 1995 staffing services revenues. Clerical workers, which accounted for approximately 11% of 1995 staffing services revenues, include primarily secretaries, receptionists and office clerks. Technical personnel include electronic parts assembly workers and designers and drafters of electronic parts; these workers represented approximately 26% of the Company's 1995 staffing services revenues.

The Company's staffing services customers range in size from small local firms to large national companies which use Barrett's services on a local basis. None of the Company's staffing services customers individually accounted for more than 10% of its total annual revenues for 1995.

**Business Strategy.** The Company emphasizes prompt, personalized service in assigning quality, trained, drug-free personnel at competitive rates to users of its staffing services. Since 1980, the Company has relied on internally developed computer databases of employee skills and availability to match customer needs with available qualified employees. As a local company operating in selected market areas, Barrett believes it has an understanding of the unique requirements of its clientele that allows it to offer a "money-back" guarantee to the customer if it is not satisfied with the employees Barrett places through its staffing services.

Barrett provides training to its branch office managers and sales personnel to develop and maintain a high level of customer service. The Company's ongoing training program includes Barrett University (an intensive one-week in-house training program), various seminars and video instruction. The Company's sales staff is compensated through a combination of base salary and an incentive sales commission. Sales commissions are earned by new business development and the retention of existing customers. Sales commissions may represent one-third to two-thirds of a salesperson's total compensation. In addition, branch office staff participate in the Company's non-qualified profit-sharing program. See "Employees and Employee Benefits," below.

**Recruiting.** The Company utilizes a variety of methods to recruit its workforce for staff services, including among others, newspaper advertising and marketing brochures distributed at colleges and vocational schools. In addition, a substantial number of new employees are hired through referrals by Barrett's existing employees. The Company believes it is easier to recruit and retain qualified personnel during periods of higher unemployment and therefore must devote more resources to recruiting and training new employees during periods of lower unemployment in its market areas. The Company may be unable to pass on the full amount of such increased recruiting and personnel costs in the form of higher prices for staffing services, which in turn could result in lower profit margins.

The employee application process includes an interview, skills assessment test, reference verification and drug test. The skills test and reference verification determine level of ability and an insight into prior job performance. Following hire and placement, performance is reviewed with customers to assure their satisfaction.

The Company believes that its employee wage and benefit package, customer base, and opportunities for part-time and flexible scheduling have contributed significantly to its success in recruiting and retaining quality, trained, drug-free personnel in numbers sufficient to meet customer demand. See "Employees and Employee Benefits," below.

**Sales and Marketing.** The Company markets its staffing services primarily through direct sales presentations by its branch office managers and trained sales staff and, to a lesser extent, through advertising in various publications, including local newspapers and the Yellow Pages. Barrett also benefits from referrals by existing staffing services customers and from the periodic needs of the Company's staff leasing clients.

Following the development of a preliminary profile of a prospective customer's needs, a Company salesperson typically schedules a meeting with the customer's personnel manager to explain Barrett's services. Based on this information, Barrett develops a market-competitive hourly charge for its staffing services. The actual cost to the customer for staffing services may range from 135% to 150% of the base wage rate. This composite rate includes all payroll taxes, employee benefits, workers' compensation coverage, and administrative costs, and takes into account the number and availability of employees and length of the service agreement.

The Company believes it has been able to maintain a price advantage due to the lower costs associated with its self-insured workers' compensation program when compared to the cost of workers' compensation insurance. The Company's marketing and sales efforts have generally increased during periods of economic decline, when demand for staffing services decreases. As a result of this reduced demand, the higher costs associated with marketing, sales and training typically cannot be recovered through price increases, which may result in lower profitability.

**Billing.** The Company prepares weekly customer invoices immediately following the preparation of each payroll through the centralized payroll and billing operations at the Company's corporate headquarters. Barrett has not experienced significant problems in collecting its accounts receivable, which the Company attributes to customer satisfaction, a thorough analysis of a customer's credit history prior to agreeing to provide services and the weekly monitoring of account aging by each branch manager.

#### Professional Employer (Staff Leasing) Services

**General.** Many businesses, particularly those with a limited number of employees, find personnel administration requirements to be unduly complex and time consuming. These businesses often cannot justify the expense of a full-time human resources staff. In addition, the escalating costs of health and workers' compensation insurance in recent years, coupled with the increased complexity of laws and regulations affecting the workplace, have created a compelling alternative for small to mid-sized businesses to outsource these managerial burdens through staff leasing. The increasing trend of outsourcing numerous business functions enables management to fully devote the enterprise's resources to its core competencies.

**The Company's Staff Leasing Services.** In a staff leasing arrangement, Barrett enters into a contract to become a co-employer of the client company's existing workforce. Pursuant to this contract, Barrett assumes responsibility for some or all of the personnel-related matters, including payroll and payroll taxes, employee benefits, health insurance, workers' compensation coverage, employee risk management and related administrative responsibilities. Barrett also hires and fires leased employees, although the client company remains responsible for day-to-day assignments, supervision and training and, in most cases, recruiting.

The Company began offering staff leasing services to Oregon customers in 1990 and expanded these services to Maryland and Washington in the first and third quarters, respectively, of 1994, and to Delaware and California in the second quarter of 1995. The Company has entered into staff leasing arrangements with a wide variety of clients, including companies involved in reforestation, moving and shipping, professional firms, construction, retail, manufacturing and distribution businesses. Staff leasing clients are typically small to mid-sized businesses with up to 50 employees. None of the Company's staff leasing clients individually accounted for more than 5% of its total annual revenues during 1995.

The number of Barrett's staff leasing clients increased from approximately 520 at December 31, 1994, to approximately 531 at year-end 1995. Due to management's concerns regarding several worksite risk management issues, the Company terminated or did not renew approximately 140 staff leasing contracts during 1995, which resulted in slower growth in the overall number of client companies, but also resulted in a noticeable reduction in

workers' compensation claims and related expenses.

Business Strategy. The Company believes that it has attracted significant numbers of new staff leasing clients since 1990 by demonstrating the potential for cost reductions offered by the Company's self-insured workers' compensation program. Equally important, Barrett also offers a variety of employee benefits and services, which it can generally provide on a cost-effective basis due to its substantially larger employee base as compared to its clients. The employee benefits and human resource management services offered by the Company include a full range of health, life and disability insurance, a Section 125 cafeteria plan, a Section 401(k) savings plan, credit union participation, direct deposit for payroll or preferred payroll checks, mandatory drug testing, and advisory services related to hiring, employee evaluations and termination guidelines, among others. See "Regulatory and Legislative Issues -- Employee Benefit Plans." The Company believes these benefits and services are cost effective and reduce employee turnover, thereby increasing the appeal of staff leasing arrangements to most small to mid-sized business owners. The overall cost to the client for its leased employees is typically at or below the cost per employee that the client would otherwise incur if it was the sole employer of its workforce.

The Company's standard staff leasing agreement provides for services indefinitely, until notice of termination is given by either party. The agreement permits cancellation by either party upon 35 days' prior written notice. In addition, the Company may terminate the agreement at any time for specified reasons, including nonpayment or failure to follow Barrett's workplace safety program. The agreement also provides for indemnification of the Company by the client against losses arising out of any default by the client under the agreement, including failure to comply with any employment-related, health and safety or immigration laws or regulations.

Sales and Marketing. The Company markets its staff leasing services through its branch office sales staff. Coincident with the Company's self-insured employer status for workers' compensation purposes in California, the Company commenced its marketing of staff leasing services in California during the second quarter of 1995. The Company also obtains referrals from existing clients and other third parties, and places advertisements in the Yellow Pages. Prior to entering into a staff leasing arrangement, the Company performs an analysis of the potential client's actual personnel and workers' compensation costs based on information provided by the customer. Barrett also introduces its workplace safety program and makes recommendations as to improvements in procedures and equipment following a safety inspection of the customer's facilities. Once the client has agreed to implement the Company's safety program, the Company proposes a staff leasing arrangement at a price which is typically at or below the client's current overall personnel costs. Barrett also offers significant financial incentives to clients to maintain a safe work environment, thus enabling clients to achieve additional savings. Barrett strongly advocates that its client companies share these safe-work incentives with their leased employees.

Billing. Through centralized operations at the Company's headquarters in Portland, Oregon, payroll checks are prepared for each staff leasing client on a frequency consistent with their typical payperiods, weekly or bi-weekly, and delivered by courier. The Company invoices its clients following the end of each payroll period. Such invoices are due upon receipt and are generally paid within five business days. The costs of health insurance coverage and Barrett's cafeteria plan are passed through to its staff leasing clients based on the number of participating employees. The Company often requires a deposit from its staff leasing clients to cover a portion of the anticipated billing for one payroll period. The Company has had generally favorable results with collecting accounts receivable, which it attributes to customer satisfaction, the prompt payment of receivables, its analysis of potential clients' credit histories, and weekly monitoring of account aging by each branch manager.

Self-Insured Workers' Compensation Program

The Company believes that its self-insured workers' compensation program is an important contributor to its growth in revenue and profitability. Significant elements contributing to the success of the workers' compensation program include the regulatory climate surrounding workers' compensation, the Company's workplace safety program and the aggressive claims management approach taken by the Company and its third-party administrators, all of which are described in detail below.

**Elements of Workers' Compensation System.** State law generally mandates that an employer reimburse its employees for the costs of medical care and other specified benefits for injuries or illnesses incurred in the course and scope of employment. The benefits payable for various categories of claims are determined by state regulation and vary with the severity and nature of the injury or illness and other specified factors. In return for this guaranteed protection, workers' compensation is an exclusive remedy and employees are generally precluded from seeking other damages from their employer for workplace injuries. Most states require employers to maintain workers' compensation insurance or otherwise demonstrate financial responsibility to meet workers' compensation obligations to employees. In many states, employers who meet certain financial and other requirements are permitted to self-insure.

**Self-Insurance for Workers' Compensation.** In August 1987, the Company became a self-insured employer for workers' compensation coverage in Oregon. The Company subsequently obtained self-insured employer status for workers' compensation in four additional states, Maryland in November 1993, Washington in July 1994, Delaware in January 1995 and California in March 1995. In addition, in May 1995, the Company became self-insured by the United States Department of Labor for longshore and harbor ("USL&H") workers coverage. Regulations governing self-insured employers in each state typically require the employer to maintain surety deposits of cash, government securities or other financial instruments to cover workers' claims in the event the employer is unable to pay for such claims.

Pursuant to its self-insured status, the Company's workers' compensation expense is tied directly to the incidence and severity of workplace injuries to its employees. Barrett also maintains excess workers' compensation insurance for individual claims exceeding \$350,000 (except for \$300,000 in Maryland and \$500,000 for USL&H coverage) in an unlimited amount pursuant to annual policies with major insurance companies. The excess-insurance policies contain standard exclusions from coverage, including punitive damages, fines or penalties in connection with violation of any statute or regulation and losses covered by other insurance or indemnity provisions.

**Workplace Safety Program.** In the late 1980's, the Company identified an opportunity to market to small and mid-sized Oregon employers its safety program designed to assist clients in managing workplace injuries and reducing workers' compensation claims. The Company's program begins with an on-site safety inspection by one of its risk managers. Barrett then designs a safety program for the client, including employee and supervisor safety training and regular meetings between management and employees to discuss safety issues and precautionary actions. Among other safety measures, the Company encourages clients to provide on-site first aid care and to make improvements in workplace procedures and equipment to further reduce the risk of injury. The Company's third-party administrators for workers' compensation claims also assist the Company in performing safety inspections of client worksites and provide technical advice regarding workplace safety measures.

A key factor to the success of the Company's safety program is its system of financial incentives to reward safe-work practices which result in reductions in the number and severity of work-related injuries. If the annual cost of claims is less than agreed upon amounts, the Company pays an annual cash incentive based on a percentage of the staff leasing client's payroll. Barrett's business philosophy strongly encourages its client companies to share these incentives with their employees. Staff leasing clients and their leased employees are thus provided an economic incentive to maintain a safer work environment and to reduce the frequency of fraudulent claims for work-related injuries. Barrett also maintains a mandatory corporate-wide pre-

employment drug testing program. Results of the program are believed to include a reduction in the frequency of fraudulent claims and in accidents in which the use of illegal drugs appears to have been a contributing factor.

Claims Management. The Company also seeks to contain its workers' compensation costs through an aggressive approach to claims management. Barrett uses managed-care systems to reduce medical costs and keeps time-loss costs to a minimum by assigning injured workers, whenever possible, to temporary assignments which accommodate the worker's physical limitations. The Company believes that these temporary assignments minimize both time actually lost from work and covered time-loss costs. Barrett has also engaged third-party administrators to provide additional claims management expertise. Typical management procedures include performing thorough and prompt on-site investigations of claims filed by employees, working with physicians to encourage efficient medical management of cases, denying questionable claims and negotiating early settlements to eliminate future case development and costs.

Elements of Self-Insurance Costs. The costs associated with the Company's self-insured workers' compensation program include loss and loss adjustment expense payments with respect to claims made by employees, fees payable to the Company's third-party administrators, assessments payable to state workers' compensation regulatory agencies, premiums for excess workers' compensation insurance and safety incentive payments. Although not directly related to the size of the Company's payroll, the number of claims and correlative loss payments may be expected to increase with growth in the total number of employees. Third-party administrator fees also vary with the number of claims administered. The state assessments are typically based on payroll amounts and to a limited extent, the amount of permanent disability awards during the previous year. Excess insurance premiums are also based in part on the size of the Company's payroll. Safety incentives expense may increase as the number of the Company's staff leasing employees rises, although increases will only occur for any given client company if such client's claims costs are below agreed upon amounts.

#### Workers' Compensation Claims Experience and Reserves

In connection with its workers' compensation self-insurance program, the Company is liable for loss and loss adjustment expense payments under the workers' compensation laws of Oregon, Washington, Maryland, and most recently, Delaware and California. Several months may elapse between the occurrence of a workers' compensation loss, the reporting of the claim to the Company and the Company's payment of that claim. The Company recognizes its liability for the ultimate payment of all incurred claims and claims adjustment expenses by accruing liabilities which represent estimates of future amounts necessary to pay claims and related expenses with respect to covered events that have occurred.

When a claim involving a probable loss is reported, the Company's third-party administrator establishes a case reserve for the estimated amount of its ultimate loss. The estimate reflects an informed judgment based on established case reserving practices and the experience and knowledge of Barrett's third-party administrators regarding the nature and expected value of the claim, as well as the estimated expense of settling the claim, including legal and other fees and expenses of administering claims. Additionally, on an aggregate basis, the Company has established a provision for losses incurred but not reported and future development in excess of case reserves on existing reported claims ("IBNR").

As part of the case reserving process, historical data is reviewed and consideration is given to the anticipated effect of various factors, including known and anticipated legal developments, inflation and economic conditions. Reserve amounts are necessarily based on management's estimates, and as other data becomes available, these estimates are revised, which may result in increases or decreases to existing case reserves. As of December 31, 1995, the Company's total accrued workers' compensation claims liabilities totaled \$2,705,000, compared to \$2,522,000 at year-end 1994. The total number of

self-insured claims reported in 1995 was 1,132, compared to 1,080 for 1994. Barrett has engaged a nationally-recognized, independent actuary to periodically review the Company's total workers' compensation claims liability and reserving practices. Based in part on such review, the Company believes its total accrued workers' compensation claims liabilities are adequate. There can, however, be no assurance that the Company's actual future workers' compensation obligations will not exceed the amount of its accrued liabilities, with a corresponding negative effect on future earnings, due to such factors as unanticipated loss development of known claims and incurred but not reported claims.

#### Employees and Employee Benefits

At December 31, 1995, the Company had approximately 13,325 employees, including approximately 8,800 staffing services employees, approximately 4,300 leased employees and approximately 225 managerial, sales and administrative employees. The number of employees at any given time can vary significantly due to business conditions at customer or client companies. Less than 0.1% of the Company's employees are covered by a collective bargaining agreement. Each of Barrett's managerial, sales and administrative employees has entered into a standard form of employment agreement which, among other things, contains covenants not to engage in certain activities in competition with the Company for 18 months following termination of employment and to maintain the confidentiality of certain proprietary information. Barrett believes its employee relations are good.

Benefits offered to Barrett's staffing services employees include group health insurance, a Section 125 cafeteria plan which permits employees to use pre-tax earnings to fund various services, including medical, dental and child care, and a Section 401(k) savings plan pursuant to which employees may begin making contributions upon reaching 21 years of age and completing 1,000 hours of service in any consecutive 12-month period. The Company may also make contributions to the savings plan, which vest over seven years and are subject to certain legal limits, at the sole discretion of the Company's board of directors. Leased employees may participate in the Company's benefit plans, provided that the group health insurance premiums may, at the client's option, be paid by payroll deduction. Barrett also maintains a nonqualified profit-sharing plan for its managerial and administrative personnel. See "Regulatory and Legislative Issues -- Employee Benefit Plans" below.

#### Regulatory and Legislative Issues

##### Business Operations

The Company is subject to the laws and regulations governing self-insured employers under the workers' compensation systems in Oregon, Washington and Maryland and, beginning in 1995, Delaware, California, and the United States Department of Labor for longshore and harbor workers. In addition, legislation was adopted in Oregon in 1993 requiring a staff leasing company, such as Barrett, to be licensed by the Workers' Compensation Division of the Oregon Department of Consumer and Business Services. Temporary staffing companies are expressly exempt from the legislation. Oregon staff leasing companies are also required to ensure that each leasing client provides adequate training and supervision for its employees to comply with statutory requirements for workplace safety and to give 30 days' written notice in the event of a termination of its obligation to provide workers' compensation coverage for leased employees and other subject employees of a leasing client. Although compliance with the legislation has caused Barrett to make certain changes in its staff leasing operations and contracts in Oregon, which has resulted in additional financial risk, particularly with respect to those clients who breach their payment obligations to the Company, compliance with the legislation has not had a material impact on its business operations, financial condition or operating results.

While it is impossible to predict if, when and in what form any health care reform will be enacted on a state or national level, elements of such

reform may have a material adverse effect on the Company's operations and its self-insured workers' compensation program.

#### Employee Benefit Plans

The Company's operations are affected by numerous federal and state laws relating to labor, tax and employment matters. By entering into a co-employer relationship with employees who are assigned to work at client company locations (sometimes referred to as "worksites employees"), the Company assumes certain obligations and responsibilities of an employer under these federal and state laws. Because many of these federal and state laws were enacted prior to the development of nontraditional employment relationships, such as professional employer, temporary employment, and outsourcing arrangements, many of these laws do not specifically address the obligations and responsibilities of nontraditional employers. In addition, the definition of "employer" under these laws is not uniform.

As an employer, the Company is subject to all federal statutes and regulations governing its employer-employee relationships. Subject to the issues discussed below, the Company believes that its operations are in compliance in all material respects with all applicable federal statutes and regulations.

The Company offers various employee benefit plans to its employees, including its worksite employees. These employee benefit plans include a savings plan under Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"), a cafeteria plan under Code Section 125, a group health plan, a group life insurance plan, a group disability insurance plan and an employee assistance plan. Generally, employee benefit plans are subject to provisions of both the Code and the Employee Retirement Income Security Act ("ERISA"). In order to qualify for favorable tax treatment under the Code, qualified plans must be established and maintained by an employer for the exclusive benefit of its employees. For a discussion of the current status of the Company's plans, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- "Results of Operations."

#### Competition

The staff leasing and staffing services businesses are characterized by rapid growth and intense competition. The staffing services market includes competitors of all sizes, including several, such as Manpower, Inc., Kelly Services, Inc., The Olsten Corporation, Interim Services, Inc., and Adia Services, Inc., which are national in scope and have substantially greater financial and marketing resources than the Company. In addition to national companies, Barrett competes with numerous regional and local firms for both customers and employees. The Company estimates that at least 100 firms provide staffing services in Oregon. There are relatively few barriers to entry into the staffing services business. The principal competitive factors in the staffing services industry are price, the ability to provide qualified workers in a timely manner and the monitoring of job performance. The Company attributes its growth in staffing services revenues to the cost-efficiency of its operations, which permits the Company to price its services competitively, and to its ability through its branch office network to understand and satisfy the needs of its customers with competent personnel.

Although there are believed to be approximately 2,000 staff leasing companies currently operating in the United States, many of these potential competitors are located in states in which the Company presently does not operate. Barrett believes that at least 30 staff leasing firms are operating in Oregon, but that the Company has the largest presence in the State. The Company may face additional competition in the future from new entrants to the field, including other staffing services companies, payroll processing companies and insurance companies. Certain staff leasing companies operating in areas in which Barrett does not now, but may in the future, offer its services have greater financial and marketing resources than the Company. Competition in the staff leasing industry is based largely on price, although

service and quality are also important. Barrett believes that its growth in staff leasing revenues is attributable to its ability to provide small and mid-sized companies with the opportunity to provide enhanced benefits to their employees with a concomitant reduction in the clients' overall personnel administration and workers' compensation costs. The Company's competitive advantage may be adversely affected by a substantial increase in the costs of maintaining its self-insured workers' compensation program or by a general market decrease in the level of workers' compensation insurance premiums.

Item 2. PROPERTIES

The Company provides staffing services and staff leasing through all 14 of its branch offices. The following table shows the locations of the Company's branch offices and the year in which each branch was opened or acquired. The Company's Oregon branches accounted for 68% of its total revenues in 1995. The Company also leases office space in 19 other locations in its market areas which it uses to recruit and place employees.

Oregon Locations -----	Year Opened or Acquired -----	Other Locations -----	Year Opened or Acquired -----
Portland (Industrial)	1984	Sacramento, California	1988
Portland (Bridgeport)	1988	Santa Clara, California	1994
Bend	1990	Lutherville, Maryland	1951
Medford	1990	Easton, Maryland	1994
Salem	1990	Seattle, Washington	1981
Albany	1991	Spokane, Washington	1994
Eugene	1991		
Portland (Leasing)	1993		

In May 1993, Barrett purchased an office building in Portland, Oregon, with approximately 9,200 square feet of office space, for a total purchase price of \$925,000. The Company's corporate headquarters were relocated to the new building in June 1993. The building is subject to a mortgage loan with a principal balance of approximately \$629,000 at December 31, 1995.

The Company also owns another office building in Portland, Oregon, in which its headquarters were previously located. The building is subject to a mortgage loan with a principal balance at December 31, 1995, of approximately \$279,000 and has approximately 7,000 square feet of office space. Barrett moved its Portland (Bridgeport) branch office to this building in September 1993.

Barrett leases office space for its other branch offices. At December 31, 1995, such leases had expiration dates ranging from less than one year to eight years, with total minimum payments through 1999 of approximately \$1,360,000.

Item 3. LEGAL PROCEEDINGS

There were no legal proceedings requiring disclosure pursuant to this item pending at December 31, 1995, or at the date of this report.

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

No matters were submitted to a vote of the Company's stockholders during the fourth quarter of 1995.

Information regarding Barrett's executive officers appears in Item 10 of this report.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol "BBSI." At February 1, 1996, there were 67 stockholders of record and approximately 1,700 beneficial owners of the Company's common stock. The Company has not declared or paid any cash dividends since the closing of its initial public offering of its common stock on June 18, 1993, and has no present plan to pay any cash dividends in the foreseeable future. The following table presents the high and low sales prices of the Company's common stock for each quarterly period during the last two fiscal years, as reported by The Nasdaq Stock Market:

1994	High	Low
- - - - -	-----	-----
First Quarter	\$ 16.00	\$ 6.875
Second Quarter(1)	14.75	8.25
Third Quarter	12.25	8.00
Fourth Quarter	16.25	11.00
1995		
- - - - -		
First Quarter	\$ 19.50	\$ 13.50
Second Quarter	15.00	10.50
Third Quarter	15.75	13.50
Fourth Quarter	15.50	12.25

(1) All per share prices prior to the second quarter of 1994 have been restated to reflect a 2-for-1 stock split effective May 23, 1994.

Item 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the Company's financial statements and the accompanying notes presented in Item 8 of this report.

	Years Ended December 31,				
	1995	1994	1993	1992	1991
	-----	-----	-----	-----	-----
	(In thousands, except per share data)				
Statement of Operations Data: . . .					
Revenues: . . . . .					
Staffing services . . . . .	\$ 99,233	\$ 71,148	\$ 41,755	\$ 34,681	\$ 31,041
Professional employer services.	80,572	69,404	58,512	45,444	16,949
	-----	-----	-----	-----	-----
Total . . . . .	179,805	140,552	100,267	80,125	47,990
	-----	-----	-----	-----	-----
Cost of revenues:					
Direct payroll costs . . . . .	136,174	105,515	75,171	59,820	35,486
Payroll taxes and benefits . . .	16,088	12,758	9,911	7,826	4,309
Workers' compensation . . . . .	6,073	5,069	4,591	3,233	1,958
Safety incentives . . . . .	981	1,103	598	651	270
	-----	-----	-----	-----	-----
Total . . . . .	159,316	124,445	90,271	71,530	42,023

Gross margin . . . . .	20,489	16,107	9,996	8,595	5,967
Selling, general and administrative expenses . . . . .	14,221	10,732	6,820	6,339	5,054
Income from operations . . . . .	6,268	5,375	3,176	2,256	913
Other (expense) income:					
Litigation settlement . . . . .	--	--	--	--	(600)
Interest expense . . . . .	(75)	(106)	(86)	(77)	(175)
Interest income . . . . .	400	224	161	70	58
Other, net . . . . .	32	78	133	26	(31)
Total . . . . .	357	196	208	19	(748)
Income before provision for income taxes . . . . .	6,625	5,571	3,384	2,275	165
Provision for income taxes(1) . . . . .	2,507	2,105	437	--	--
Net income . . . . .	\$ 4,118	\$ 3,466	\$ 2,947	\$ 2,275	\$ 165
Net income per share . . . . .	\$ .62	\$ .53			
Unaudited pro forma data(1):					
Net income . . . . .			\$ 2,060	\$ 1,385	\$ 98
Net income per share(2) . . . . .			\$ .39	\$ .35	\$ .02
Weighted average common shares outstanding(2) . . . . .	6,680	6,591	5,260	4,000	3,988

As of December 31,

	1995	1994	1993	1992	1991
	----	----	----	----	----
	(In thousands)				
Selected Balance Sheet Data: . . . . .					
Working capital (deficit) . . . . .	\$ 8,417	\$ 4,889	\$ 7,017	\$ (678)	\$ (589)
Total assets . . . . .	31,273	24,665	18,425	7,219	5,980
Long-term debt, net of current portion . . . . .	875	908	946	292	446
Stockholders' equity . . . . .	20,034	14,455	10,480	1,574	962

(1) Effective July 1, 1987, the Company elected to be treated as a corporation subject to taxation under Subchapter S of the Internal Revenue Code, pursuant to which the net earnings of the Company were taxed directly to the Company's stockholders rather than to the Company. The Company terminated its election on April 30, 1993, and recognized a cumulative net deferred tax asset of \$505,000. The amounts shown reflect a pro forma tax provision as if the Company had been a Subchapter C corporation subject to income taxes for all periods presented.

(2) All share and per share amounts have been restated to reflect the 2-for-1 stock split effective May 23, 1994.

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

Results of Operations

The following table sets forth the percentages of total revenues

represented by selected items in the Company's Statements of Operations for the years ended December 31, 1995, 1994 and 1993, included in Item 8 of this report. References to the Notes to Financial Statements appearing below are to the notes to the Company's financial statements included in Item 8 of this report.

	Percentage of Total		
	-----		
	Years Ended December 31,		
	1995	1994	1993
	----	----	----
Revenues: . . . . .			
Staffing services . . . . .	55.2%	50.6%	41.6%
Professional employer services . . . . .	44.8	49.4	58.4
	-----	-----	-----
Total revenues . . . . .	100.0	100.0	100.0
	-----	-----	-----
Cost of revenues:			
Direct payroll costs . . . . .	75.7	75.1	74.9
Payroll taxes and benefits . . . . .	8.9	9.1	9.9
Workers' compensation . . . . .	3.4	3.6	4.6
Safety incentives . . . . .	.6	.8	.6
	-----	-----	-----
Total cost of revenues . . . . .	88.6	88.6	90.0
	-----	-----	-----
Gross margin . . . . .	11.4	11.4	10.0
Selling, general and administrative expenses . . . . .	7.9	7.6	6.8
	-----	-----	-----
Income from operations . . . . .	3.5	3.8	3.2
Other income (expense) . . . . .	.2	.2	.2
	-----	-----	-----
Pretax income . . . . .	3.7	4.0	3.4
Provision for income taxes . . . . .	1.4	1.5	.4
	-----	-----	-----
Net income . . . . .	2.3	2.5	3.0
	=====	=====	=====
Pro forma provision for income taxes . . . . .			1.3
			-----
Pro forma net income . . . . .			2.1
			=====

Years Ended December 31, 1995 and 1994

Net income for 1995 amounted to \$4,118,000, an increase of \$652,000 or 18.8% over 1994 net income of \$3,466,000. The increase in 1995 net income over 1994 was primarily due to continued growth in revenues and gross margin, which was offset in part by increased selling, general and administrative expenses. Net income per share for 1995 was \$.62 as compared to net income per share of \$.53 for 1994.

Total 1995 revenues were \$179,805,000, which represented an increase of \$39,253,000 or 27.9% over 1994 revenues of \$140,552,000. The increase in revenues over 1994 was primarily due to a 1995 internal growth rate of 20.3%, coupled with the acquisition of four temporary staffing businesses made during the 1995 third quarter. These four acquisitions and continued growth of staffing services in Northern California were the principal factors which contributed to the increased mix of staffing services for 1995 to 55.2% of total revenues, up from 50.6% of total revenues for 1994. Revenues from professional employer (staff leasing) services, as a percent of total revenues, declined in 1995 to 44.8% as compared to 49.4% of total revenues in 1994, despite a 16.1% growth rate over 1994.

Although staff leasing revenues declined as a percent of total revenues, the Company believes the continued growth of its staff leasing services is due in part to its ability to assume personnel administration functions while providing employees to clients at an overall cost that is generally less than the clients would have to pay if they carried such employees on their

payrolls. The Company's services are cost-effective because of (i) the economies of scale and, in some cases, additional benefits available to it as a professional employer organization handling a significantly larger volume of payroll, payroll taxes and employee benefits, as compared to a customer's typical administrative staff necessary to support its workforce and (ii) the lower cost per employee of the Company's self-insured workers' compensation program, as compared to the third-party insurance coverage its clients typically would otherwise be required to maintain.

Gross margin for 1995 totaled \$20,489,000, representing an increase of \$4,382,000 or 27.2% over 1994. The gross margin rate of 11.4% of revenues, however, remained unchanged from 1994 due to a slight increase in direct payroll costs, offset by decreases in payroll taxes and benefits, workers' compensation and safety incentive expenses, as a percent of revenues.

Workers' compensation expense includes the cost of self-insurance (which incorporates among other elements, case reserves for reported claims, reserves for claims incurred but not reported, additional claims administration expenses, reinsurance premiums, third-party administrator fees and state assessments) for the Company's employees in Oregon, Maryland (since November 1993), Washington (since July 1994), Delaware (since January 1995) and California (since March 1995). Effective May 1, 1995, the Company became self-insured by the United States Department of Labor for longshore and harbor ("USL&H") workers coverage. In addition, the Company is currently exploring an insured large-deductible program which will allow it to become insured for workers' compensation coverage in nearly all states where the extent of the Company's operations does not yet warrant the investment to become a self-insured employer. Management believes that the rates of such a program may be significantly less than they would otherwise be if the Company were to obtain a more traditional form of coverage through a private insurance carrier or a state insurance fund. There can be, however, no assurances that such a multi-state arrangement can be obtained on such terms and at a cost that are acceptable to the Company in the foreseeable future.

The following table summarizes certain indicators of performance regarding the Company's self-insured workers' compensation program by quarter for 1995 and 1994.

Self-Insured Workers' Compensation Profile

	No. of Injury Claims		Total Workers' Comp Expense (in thousands)		Total Workers' Comp Expense as a % of Total Payroll		"Reserve" (1) as a % of "At Risk Claims" (2)	
	1995	1994	1995	1994	1995	1994	1995	1994
Q1	266	219	\$2,307	\$ 884	7.8%	4.3%	33.0%	39.2%
Q2	309	259	1,707	1,511	5.1	5.8	40.6	32.0
Q3	287	339	1,160	1,308	3.1	4.2	40.9	32.9
Q4	270	263	899	1,366	2.5	4.9	41.0	37.0
For the Year	1,132	1,080	\$6,073	\$5,069	4.5	4.8		

(1) "Reserve" in this context is defined as an additional expense provision for the unexpected future adverse development of claims expense (commonly referred to as "IBNR").

(2) "At Risk Claims" are defined as the dollar amount of all injury claims submitted under self-insured payroll less amounts covered by excess reinsurance.

The preceding table illustrates the improvement since the 1995 first quarter in the Company's total workers' compensation expense both in terms of

total dollars and, more importantly, as a percent of total payroll dollars. The Company believes the improvement is primarily due to management's enhanced monitoring of safe-work practices and the termination of its staff leasing relationship with client companies that did not conform to Barrett's business philosophies and operating standards. Concurrent with the improved expense level and percentage of workers' compensation expense, expressed as a percent of total payroll, the Company has increased its reserves for future adverse claim development to 41.0% of "at risk claims" as of December 31, 1995.

Selling, general and administrative expenses consist of compensation and other expenses incident to the operation of the Company's headquarters and branch offices and marketing of its services. These expenses (including the amortization of intangibles) amounted to \$14,221,000 or 7.9% of revenues for 1995, as compared to \$10,732,000 or 7.6% of revenues for 1994. The increase for 1995 was primarily due to additional branch office staff added to support the increased business activity and additional workers' compensation loss control branch personnel to enhance the administration of the Company's self-insured workers' compensation programs.

The Company offers various employee benefit plans, including a savings plan pursuant to Code Section 401(k) and a cafeteria plan pursuant to Code Section 125, to its employees, including its worksite employees. In order to qualify for favorable tax treatment under the Code, such plans must be established and maintained by an employer for the exclusive benefit of its employees.

The Internal Revenue Service (the "IRS") has established a Market Segment Study Group regarding Employee Leasing for the stated purpose of examining whether Professional Employer Organizations ("PEOs"), such as the Company, are the employers of worksite employees under the Code provisions applicable to employee benefit plans and are, therefore, able to offer to worksite employees benefit plans that qualify for favorable tax treatment. The Market Segment Study Group is also examining whether the owners of client companies are employees of PEOs under Code provisions applicable to employee benefit plans. Preliminary indications are that the Market Segment Study Group may adopt the position that only a common-law employer may sponsor tax qualified benefit plans. It is not clear whether this position will adversely affect the type of co-employer relationship the Company maintains with its client companies. The Company is unable to predict the ultimate findings of the Market Segment Study Group and the ultimate effect of such conclusions or findings.

A definitive judicial interpretation of "employer" in the context of a PEO or employee leasing arrangement has not been established. The tax-exempt status of the Company's plans is subject to continuing scrutiny and approval by the IRS and depends upon the Company's ability to establish the Company's employer-employee relationship with leased employees.

The Company is aware of an audit of a PEO company which includes an audit of the tax qualified plans sponsored by the company. As part of the PEO company's audit, the IRS District Office reportedly asked the IRS National Office to issue a Technical Advice Memorandum ("TAM") regarding whether the PEO is the employer for benefit plan purposes.

Generally, a TAM may be requested by either the IRS District Office or the taxpayer. The stated purpose of TAMs is to help IRS personnel close cases and establish and maintain consistent holdings. The stated position of the IRS is that TAMs are not precedential; that is, they are limited to the particular taxpayer involved and that taxpayer's set of facts. TAMs are published approximately three months after they are issued to the District Office and the taxpayer.

The TAM regarding the PEO company has apparently been issued, but has not yet been published. The Company has learned that the TAM apparently holds that the pension plan involved violates the exclusive benefit rule (which requires that plans benefit only employees) as the PEO is not the employer for ERISA purposes. The TAM apparently disqualifies the plan retroactively to its inception.

Since the TAM has not yet been published, the Company cannot determine if

the facts involved in the PEO company's situation are comparable to those of the Company. If the facts are comparable and the IRS applied the holding to the Company as a result of an audit or requalification of the Company's benefit plans, disqualification of the plans could result, as it apparently has for the PEO company.

It is not clear at this time whether the IRS will apply the conclusion of this TAM, namely, that an exclusive benefit rule violation has occurred, to all PEO situations. Such action could potentially disqualify from favorable tax treatment all the employee benefit plans of all PEOs. It is, therefore, possible that the IRS may propose some form of administrative relief to avoid this result, but it is unclear at this time whether it will do so. It is also possible that any IRS action in this area could be reversed or modified through judicial proceedings or Congressional action.

In the event the tax-exempt status of the Company's benefit plans were to be discontinued and the benefit plans were to be disqualified, there could be a material adverse effect on the operations of the Company. The Company has not recorded any provision for this potential contingency, as neither the likelihood of disqualification nor the resulting range of loss, if any, is currently estimable, in light of the Company's current inability to properly analyze the TAM regarding the PEO company and the lack of public direction from the IRS Market Segment Study Group.

#### Years Ended December 31, 1994 and 1993

Net income for 1994 amounted to \$3,466,000, an increase of \$1,406,000 or 68.3% over 1993 pro forma net income of \$2,060,000. The increase in 1994 net income over 1993 was primarily due to substantial increases in revenues and gross margin. Net income per share for 1994 was \$.53 as compared to pro forma net income per share of \$.39 for 1993.

Total 1994 revenues were \$140,552,000, which represented an increase of \$40,285,000 or 40.2% over 1993. The increase in revenues over 1993 was due in part to a 1994 internal growth rate of 18.3%, coupled with two acquisitions during the 1994 first quarter. See Note 2 of the Notes to Financial Statements. 1994 revenues from staffing services increased \$29,393,000 or 70.4% over 1993, while 1994 staff leasing revenues rose \$10,892,000 or 18.6% over 1993. The disproportionate growth rate of staffing services as compared to staff leasing services was principally due to the acquisition of Golden West Temporary Services in March 1994, which provided only staffing services.

Gross margin for 1994 totaled \$16,107,000 or 11.4% of revenues, which represented an increase of \$6,111,000 or 61.1% over 1993. The improvement in gross margin for 1994 of approximately 140 basis points over 1993 was due in large part to a decrease in workers' compensation expense (expressed as a percent of revenues) and to a reduction in the Oregon unemployment payroll tax rate.

Workers' compensation and safety incentives expense, expressed as a percentage of revenues, decreased to 4.4% in 1994 from 5.2% in 1993. This overall decrease was attributable in part to a reduction in the number of injury claims and a small increase in claim reserves, despite substantial increases in the number of covered workers, as reflected by the Company's increased revenues.

Selling, general and administrative expenses for 1994 amounted to 7.6% of revenues compared to 6.8% of revenues in 1993. The increase for 1994 over 1993 was primarily due to (i) the acquisition of two temporary staffing businesses in the first quarter of 1994, which have higher administrative overhead requirements as compared to staff leasing services and (ii) additional management staff to support increased business activity, together with higher profit sharing and bonuses based on improved Company performance.

The Company was exempt from taxation as a Subchapter S corporation until its S corporation election was terminated on April 30, 1993. A one-time tax benefit arising from net cumulative temporary differences in the timing of reporting certain deductible items for financial statement and income tax

purposes was recognized by the Company as a reduction in its provision for income taxes for the year ended December 31, 1993 in the amount of \$505,000. The pro forma effective tax rate of 39.1% was the effective tax rate that would have been recorded if the Company had been a Subchapter C corporation. See Note 12 of the Notes to Financial Statements.

#### Seasonal Fluctuations

The Company's revenues historically have been subject to some seasonal fluctuation, particularly in its staffing services business. Demand for the Company's staffing services and certain staff leasing clients decline during the year-end holiday season and periods of inclement weather. Correspondingly, demand for staffing services and the operations of some staff leasing clients, particularly agricultural and forest products-related companies, increase during the second and third quarters.

#### Liquidity and Capital Resources

The Company's net cash position of \$3,218,000 at December 31, 1995 increased \$1,004,000 from year-end 1994. The increase was primarily due to cash provided by operating activities and proceeds from the exercise of warrants to purchase common stock, offset in part by funds used to acquire two temporary staffing businesses and funds used for net purchases of restricted marketable securities.

Net cash provided by operating activities for 1995 amounted to \$2,496,000 compared to \$1,315,000 for 1994. For 1995, the cash flow generated by net income and increases in accrued payroll and related benefits was offset in part by a \$3,482,000 increase in accounts receivable. The increase in the 1995 year-end accounts receivable over 1994 was the result of higher sales levels, the acquisition of four businesses in Maryland and Delaware and an increase in the number of days' sales in receivables from 24 days in 1994 to 28 days at December 31, 1995. The increase in this ratio is primarily attributable to the increase in the sales mix of staffing services which have longer credit terms than professional employer (staff leasing) services.

Net cash used by investing activities totaled \$2,011,000 for 1995, which compares to \$139,000 for 1994. During 1995, the Company paid \$1,199,000 in cash in connection with two acquisitions and had net purchases of \$443,000 of restricted marketable securities to satisfy various state and federal self-insured workers' compensation surety deposit requirements. During 1994 the Company paid \$4,737,000 in cash in connection with four acquisitions and purchased \$3,713,000 in marketable securities. These activities were primarily funded by the sale of \$8,619,000 of marketable securities. Capital expenditures for 1995, consisting principally of office equipment, totaled \$369,000. The Company presently has no material long-term capital commitments.

Net cash provided by financing activities for 1995 totaled \$519,000 which compares to net cash used by financing activities for 1994 of \$89,000. The principal source of cash provided by financing activities arose from the exercise of warrants by underwriters to purchase 110,000 shares of the Company's common stock at \$4.20 per share. Such warrants were received by the Company's underwriters in connection with its June 1993 initial public offering of common stock. As of the date of this filing, an underwriter continues to hold warrants to purchase 90,000 shares of common stock at \$4.20 per share. The remainder of the increase was due to the exercise of employee incentive stock options.

The Company's business strategy continues to be focused on the acquisition of additional personnel-related businesses, both in its existing markets and other strategic geographic areas and growth through the expansion of operations at existing offices. The Company actively explores proposals for various acquisition opportunities on an ongoing basis, but there can be no assurance that any additional transactions will be consummated.

The Company has an unsecured \$4.0 million revolving credit facility of which there was no outstanding balance at December 31, 1995. See Note 7 of

the Notes to Financial Statements. Management believes that the available credit facility and other sources of financing, together with anticipated funds generated from operations, will be sufficient in the aggregate to fund the Company's working capital needs for the foreseeable future.

#### Inflation

Inflation generally has not been a significant factor in the Company's operations during the periods discussed above. The Company has taken into account the impact of escalating medical and other costs in establishing reserves for future expenses for self-insured workers' compensation claims.

#### Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(a) The following audited financial statements of Barrett Business Services, Inc., and related documents are set forth herein on the pages indicated:

	Page
Report of Independent Accountants. . . . .	22
Balance Sheets at December 31, 1995 and 1994 . . . . .	23
Statements of Operations for the years ended December 31, 1995, 1994, and 1993. . . . .	24
Statements of Stockholders' Equity for the years ended December 31, 1995, 1994, and 1993. . . . .	25
Statements of Cash Flows for the years ended December 31, 1995, 1994, and 1993. . . . .	26
Notes to Financial Statements . . . . .	27

Other financial statement schedules are omitted because they are not applicable or not required.

#### Report of Independent Accountants

February 9, 1996

To the Stockholders and Board of Directors of  
Barrett Business Services, Inc.

In our opinion, the accompanying balance sheets and the related statements of operations, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Barrett Business Services, Inc. at December 31, 1995 and 1994, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP  
Portland, Oregon

Barrett Business Services, Inc.  
Balance Sheets  
(In thousands)

	December 31,	
	1995	1994
	----	----
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,218	\$ 2,214
Trade accounts receivable, net	13,151	9,631
Prepaid expenses and other	478	599
Deferred tax assets (Note 13)	937	914
	-----	-----
Total current assets	17,784	13,358
Intangibles, net (Note 4)	6,452	4,936
Property and equipment, net (Notes 5 and 8)	2,261	2,110
Restricted marketable securities and workers' compensation deposits (Note 6)	4,681	4,196
Other assets	95	65
	-----	-----
	\$ 31,273	\$ 24,665
	=====	=====
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt (Notes 8 and 11)	\$ 33	\$ 31
Accounts payable	378	218
Accrued payroll, payroll taxes and related benefits	5,797	5,057
Accrued workers' compensation claim liabilities (Note 6)	2,383	2,358
Customer safety incentives payable	776	805
	-----	-----
Total current liabilities	9,367	8,469
Long-term debt, net of current portion (Notes 8 and 11)	875	908
Customer deposits	675	669
Long-term workers' compensation liabilities (Note 6)	322	164
	-----	-----
	11,239	10,210
	-----	-----
Commitments and contingencies (Notes 9, 10 and 15)		
Stockholders' equity:		
Common stock, \$.01 par value; 20,500 shares authorized, 6,551 and 6,367 shares issued and outstanding (Notes 12 and 14)	66	64
Additional paid-in capital	10,437	8,978
Retained earnings	9,531	5,413
	-----	-----
	20,034	14,455
	-----	-----
	\$ 31,273	\$ 24,665
	=====	=====

The accompanying notes are an integral part of these financial statements.

Barrett Business Services, Inc.  
Statements of Operations  
(In thousands, except per share amounts)

Year ended December 31,

	1995	1994	1993
	----	----	----
Revenues:			
Staffing services	\$ 99,233	\$ 71,148	\$ 41,755
Professional employer services	80,572	69,404	58,512
	-----	-----	-----
	179,805	140,552	100,267
	-----	-----	-----
Cost of revenues:			
Direct payroll costs	136,174	105,515	75,171
Payroll taxes and benefits	16,088	12,758	9,911
Workers' compensation (Note 6)	6,073	5,069	4,591
Safety incentives	981	1,103	598
	-----	-----	-----
	159,316	124,445	90,271
	-----	-----	-----
Gross margin	20,489	16,107	9,996
Selling, general and administrative expenses	13,657	10,302	6,450
Amortization of intangibles (Note 4)	564	430	370
	-----	-----	-----
Income from operations	6,268	5,375	3,176
	-----	-----	-----
Other (expense) income:			
Interest expense	(75)	(106)	(86)
Interest income	400	224	161
Other, net	32	78	133
	-----	-----	-----
	357	196	208
	-----	-----	-----
Income before provision for taxes	6,625	5,571	3,384
Provision for income taxes (Note 13)	2,507	2,105	437
	-----	-----	-----
Net income	\$ 4,118	\$ 3,466	\$ 2,947
	=====	=====	=====
Net income per share	\$ .62	\$ .53	\$ -
	=====	=====	=====
Unaudited pro forma information (Note 13):			
Income before provision for income taxes			\$ 3,384
Pro forma provision for income taxes			1,324
			-----
Pro forma net income			\$ 2,060
			=====
Pro forma net income per share			\$ .39
			=====
Weighted average number of shares outstanding	6,680	6,591	5,260
	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

Barrett Business Services, Inc.  
Statements of Stockholders' Equity  
(In thousands)

	Common stock		Additional paid-in capital	Retained earnings	Total
	Shares	Amount			
Balance, December 31, 1992	2,000	\$ 20	\$ 190	\$ 1,364	\$ 1,574
Common stock issued	1,152	12	6,816		6,828
Net income				2,947	2,947
Distributions to stockholders			(869)		(869)
Reclassification of retained earnings on issuance of common stock			2,332	(2,332)	-
Balance, December 31, 1993	3,152	32	8,469	1,979	10,480
Common stock issued for acquisitions	29		468		468
Common stock issued on exercise of options	22		41		41
Net income				3,466	3,466
Reclassification of retained earnings for stock split	3,164	32		(32)	-
Balance, December 31, 1994	6,367	64	8,978	5,413	14,455
Common stock issued for acquisitions	67	1	910		911
Common stock issued on exercise of options and warrants	124	1	549		550
Net income				4,118	4,118
Contribution of common stock (Note 11)	(7)				-
Balance, December 31, 1995	6,551	\$ 66	\$10,437	\$ 9,531	\$20,034

The accompanying notes are an integral part of these financial statements.

Barrett Business Services, Inc.  
Statements of Cash Flows  
(In thousands)

	Year ended December 31,		
	1995	1994	1993
Cash flows from operating activities:			
Net income	\$ 4,118	\$ 3,466	\$ 2,947
Reconciliation of net income to net cash provided by operating activities:			
Depreciation and amortization	812	637	530
Gain on sales of marketable securities	(42)	-	(112)
Provision for doubtful accounts	(38)	136	160
Deferred taxes	(23)	(20)	(894)
Changes in certain assets and liabilities:			
Trade accounts receivable	(3,482)	(4,813)	(969)
Prepaid expenses and other	121	(454)	2
Income taxes payable	-	(79)	79
Accounts payable	160	127	(135)
Accrued payroll, payroll taxes and related benefits	740	1,834	658
Accrued workers' compensation claim liabilities	183	88	1,097

Customer safety incentives payable	(29)	278	(8)
Customer deposits, other liabilities and other assets, net	(24)	115	60
Net cash provided by operating activities	2,496	1,315	3,415
Cash flows from investing activities:			
Cash paid for acquisitions, including other direct costs	(1,199)	(4,737)	(10)
Purchases of fixed assets, net of amounts purchased in acquisitions	(369)	(308)	(1,280)
Proceeds from sales of marketable securities	1,862	8,619	8,413
Purchases of marketable securities	(2,305)	(3,713)	(15,938)
Net cash used by investing activities	(2,011)	(139)	(8,815)
Cash flows from financing activities:			
Distributions to stockholders	-	-	(869)
Proceeds from debt issued	-	-	752
Payments on long-term debt	(31)	(130)	(196)
Proceeds from issuance of common stock	-	-	6,828
Proceeds from the exercise of stock options and warrants	550	41	-
Net cash provided (used) by financing activities	519	(89)	6,515
Net increase in cash and cash equivalents	1,004	1,087	1,115
Cash and cash equivalents, beginning of year	2,214	1,127	12
Cash and cash equivalents, end of year	\$ 3,218	\$ 2,214	\$ 1,127

The accompanying notes are an integral part of these financial statements.

Barrett Business Services, Inc.  
Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Nature of operations

Barrett Business Services, Inc. ("Barrett" or the "Company"), a Maryland corporation, is engaged in providing staffing and professional employer services to a diversified group of customers through a network of branch offices throughout Oregon, Washington, northern California, Maryland and Delaware. Approximately 68%, 78% and 92%, respectively, of the Company's revenues during 1995, 1994 and 1993 was attributable to its Oregon operations.

Revenue recognition

The Company recognizes revenue as the services are rendered by its work force. Staffing services are engaged by customers to meet short-term fluctuations in personnel needs. Professional employer services are normally used by organizations to satisfy ongoing personnel needs and typically involve contracts with a minimum term of one year, renewable annually, which cover all employees at a particular work site.

Cash and cash equivalents

The Company considers nonrestricted short-term investments which are highly liquid, readily convertible into cash and have original maturities of less than three months to be cash equivalents for purposes

of the statements of cash flows.

#### Allowance for doubtful accounts

The Company had an allowance for doubtful accounts of \$25,000 and \$62,500 at December 31, 1995 and 1994, respectively.

#### Marketable securities

The Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," effective December 31, 1994. At December 31, 1995 and 1994, marketable securities consisted primarily of governmental debt instruments with maturities generally from 90 days to 30 years (see Note 6). Marketable equity and debt securities have been categorized as held-to-maturity and, as a result, are stated at amortized cost. Realized gains and losses on sales of marketable securities are included in other, net on the Company's statements of operations.

#### Intangibles

Intangible assets consist primarily of identifiable intangible assets acquired and the cost of acquisition in excess of the fair value of net assets acquired (goodwill). Intangible assets acquired are recorded at their estimated fair value at the acquisition date.

The Company uses a fifteen-year estimate as the useful life of goodwill. This life is based on an analysis of industry practice and the factors influencing the acquisition decision. Other intangible assets are amortized on the straight-line method over their estimated useful lives, ranging from two to fifteen years. (See Note 4.)

### 1. Summary of Operations and Significant Accounting Policies (Continued)

#### Intangibles (continued)

The Company reviews for asset impairment at the end of each quarter or more frequently when events or changes in circumstances indicate that the carrying amount of intangible assets may not be recoverable. To perform that review, the Company estimates the sum of expected future undiscounted net cash flows from the intangible assets. If the estimated net cash flows are less than the carrying amount of the intangible asset, the Company recognizes an impairment loss in an amount necessary to write down the intangible asset to a fair value as determined from expected future cash flows. No write-down for impairment loss was recorded for the years ended December 31, 1995, 1994 and 1993.

#### Property and equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to operating expense as incurred and expenditures for additions and betterments are capitalized. The cost of assets sold or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is reflected in the statements of operations.

Depreciation of property and equipment is calculated using either straight-line or accelerated methods over estimated useful lives which range from 3 years to 31.5 years.

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The Company will adopt the statement in 1996; however, the adoption is not expected to have a significant impact on the Company's financial statements.

#### Customer safety incentives payable

Safety incentives are paid annually to professional employer services clients if the cost of workers' compensation claims is less than agreed upon amounts; amounts paid are based on a percentage of payroll. The Company accrues the amounts payable under this program on a monthly

basis.

#### Income taxes

Effective July 1, 1987, the Company elected to be treated as an S Corporation under certain provisions of the Internal Revenue Code. As such, the income or losses of the Company were attributable to its stockholders in their individual tax returns. Effective April 30, 1993, the Company terminated its S Corporation status. A pro forma provision for income taxes that would have been recorded if the Company had been a C Corporation for the year ended December 31, 1993 is provided for comparative purposes in the statements of operations.

#### Customer deposits

The Company requires deposits from certain professional employer services customers to cover a portion of its accounts receivable due from such customers in event of default of payment.

### 1. Summary of Operations and Significant Accounting Policies (Continued)

#### Common stock split and change in authorized shares

The Company's stockholders approved a 7,968-for-1 split of its common stock, an increase in authorized common shares and the authorization of preferred stock which became effective March 25, 1993. Additionally, the par value of common stock was changed to \$.01 from \$10 per share. Common stock and additional paid-in capital as of December 31, 1992 have been adjusted to reflect this change. On April 20, 1994, the Company's board of directors approved a 2-for-1 stock split in the form of a stock dividend, paid May 23, 1994, to holders of record of its common stock at the close of business on May 2, 1994 (the "Record Date"), at the rate of one new share for each share outstanding on the Record Date.

#### Common stock split and change in authorized shares (continued)

All earnings per share amounts have been adjusted to reflect these transactions for all periods presented.

A special meeting of stockholders was held on August 10, 1994, pursuant to which the stockholders approved an amendment to the Company's charter to increase the number of authorized shares of common stock from 7,500,000 shares to 20,500,000 shares.

#### Statements of cash flows

The Company has recorded the following non-cash transactions:

During 1994, the Company issued common stock with an aggregate fair market value of \$468,000 in connection with the acquisition of certain assets of Personnel Management & Consulting, Inc. and Construction Workforce (see Note 2).

During 1995, the Company issued 67,443 shares of common stock with an aggregate fair market value of \$911,000 in connection with the acquisition of certain assets of Strege & Associates, Inc. (see Note 2).

During 1995, the President and Chief Executive Officer of the Company contributed 7,400 shares of common stock of the Company with a then-fair market value of \$111,000 to the Company in settlement of a personal guarantee of a receivable from an insolvent customer (see Note 11).

Interest paid during 1995, 1994 and 1993 did not materially differ from interest expense.

Income taxes paid by the Company in 1995 and 1994 totaled \$2,510,700 and \$2,144,800, respectively.

#### Net income per share

Net income per share for the years ended December 31, 1995 and 1994 are computed based on the weighted average number of common stock and common stock equivalents outstanding during the periods. For the year ended December 31, 1993, such pro forma computation was made without giving

effect to securities that would otherwise be considered to be common stock equivalents, because such securities aggregated less than 3% of shares outstanding and thus were not considered dilutive. Outstanding stock options and warrants, net of assumed buy-back, are considered common stock equivalents.

## 1. Summary of Operations and Significant Accounting Policies (Continued)

### Accounting estimates

The preparation of the Company's financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods.

## 2. Acquisitions

### Personnel Management & Consulting, Inc.

On February 27, 1994 the Company purchased substantially all of the assets of Personnel Management & Consulting, Inc., a company engaged in the temporary staffing business in Maryland and Delaware. Of the \$270,000 purchase price, the Company paid \$42,000 in cash and issued 12,000 shares of its common stock with a then-fair market value of \$228,000. The acquisition was accounted for under the purchase method of accounting which resulted in approximately \$241,000 of intangible assets and \$29,000 of fixed assets.

### Golden West Temporary Services

On March 7, 1994, the Company purchased certain assets of Golden West Temporary Services (Golden West), a company in the temporary staffing business with four offices in northern California. The cash purchase price of \$4,514,000 was paid by liquidating a portion of the Company's short-term marketable securities. The Company accounted for the acquisition under the purchase method of accounting which resulted in approximately \$4,425,000 of intangible assets and \$89,000 of fixed assets.

### Construction Workforce

On December 26, 1994, the Company purchased certain assets of Max Johnson Enterprises, Inc., operating as Construction Workforce, a company located in Spokane, Washington which specializes in providing highly skilled temporary craftsmen to the commercial construction industry. Of the \$300,000 purchase price, the Company paid \$60,000 in cash and issued 17,142 shares of its common stock with a then-fair market value of \$240,000. The acquisition was accounted for under the purchase method of accounting which resulted in \$285,000 of intangible assets and \$15,000 of fixed assets.

### Advanced Temporary Systems, Inc.

On December 29, 1994, the Company purchased, for \$51,000 in cash, certain assets of Advanced Temporary Systems, Inc., a company engaged in the temporary staffing business in Kent, Washington. The Company accounted for the acquisition under the purchase method of accounting which resulted in \$51,000 of intangible assets.

Mid-Del Employment Service, Inc.; Sussex Employment Services, Inc.; PPI (Prestige Personnel) - Salisbury, Inc.; and Del-Mar-Va Nurses-On-Call Inc.

## 2. Acquisitions (Continued)

On July 17, 1995, the Company purchased certain assets of Mid-Del Employment Service, Inc.; Sussex Employment Services, Inc.; PPI (Prestige

Personnel) - Salisbury, Inc.; and Del-Mar-Va Nurses-On-Call Inc. (collectively, the Maryland and Delaware companies). These companies are engaged in the temporary staffing business in eastern Maryland and Delaware. The all-cash purchase price of \$969,000 (inclusive of acquisition-related costs of \$19,000) was accounted for under the purchase method of accounting which resulted in \$944,000 of intangible assets and \$25,000 of fixed assets.

Strege & Associates, Inc.

Effective December 11, 1995, the Company purchased certain assets of Strege & Associates, Inc., a company specializing in providing highly skilled tradesmen to various industries for maintenance and supplemental labor purposes in Portland, Oregon. Of the \$1,141,000 purchase price (inclusive of acquisition-related costs of \$4,000), the Company paid \$230,000 in cash and issued 67,443 shares of its common stock with a then-fair market value of \$911,000. The acquisition was accounted for under the purchase method of accounting which resulted in \$1,136,000 of intangible assets and \$5,000 of fixed assets.

Pro forma results of operations (unaudited)

The operating results of each of the above acquisitions are included in the Company's results of operations from the respective date of acquisition. The following unaudited pro forma summary presents the combined results of operations as if the Personnel Management & Consulting, Golden West, Maryland and Delaware companies, and Strege & Associates acquisitions had occurred at the beginning of 1994, after giving effect to certain adjustments for the amortization of intangible assets, taxation and cost of capital.

The other acquisitions are not included in the pro forma information as their effect is not material.

	Year ended December 31,	
	1995	1994
	----	----
	(in thousands, except per share amounts)	
Revenue	\$ 183,776	\$ 151,861
	=====	=====
Net income	\$ 4,314	\$ 3,725
	=====	=====
Net income per share	\$ .64	\$ .56
	=====	=====

The unaudited pro forma results above have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisitions been made as of that date or of results which may occur in the future.

### 3. Fair Value of Financial Instruments and Concentration of Credit Risk

All of the Company's significant financial instruments are recognized in its balance sheet. Carrying values approximate fair market value of most financial assets and liabilities. The fair market value of certain financial instruments was estimated as follows:

- Marketable securities - Marketable securities primarily consist of U.S. Treasury bills and municipal bonds. The interest rate on the Company's marketable security investments approximate current market rates for these types of investments; therefore, the recorded value of the marketable securities approximates fair market value.
- Long-term debt - The estimated fair market value of the Company's long-term debt, based upon interest rates at December 31, 1995 for similar obligations with like maturities, was approximately \$1,022,000 and was carried at \$875,000.

Financial instruments that potentially subject the Company to

concentration of credit risk consist primarily of temporary cash investments, marketable securities and trade accounts receivables. The Company restricts investment of temporary cash investments and marketable securities to financial institutions with high credit ratings and to investments in governmental debt instruments. Credit risk on trade receivables is minimized as a result of the large and diverse nature of the Company's customer base. At December 31, 1995, the Company had significant concentrations of credit risks as follows:

- Trade receivables - \$2,276,000 of trade receivables were with one customer at December 31, 1995 (17% of trade receivables outstanding at December 31, 1995);
- Marketable securities - \$2,210,000 of marketable securities at December 31, 1995 consisted of Oregon State Housing & Community Service Bonds.

#### 4. Intangibles

Intangibles consist of the following (in thousands):

	December 31,	
	1995	1994
	----	----
Covenants not to compete	\$ 1,614	\$ 1,490
Goodwill	6,826	4,870
Customer lists	358	358
	-----	-----
	8,798	6,718
Less accumulated amortization	2,346	1,782
	-----	-----
	\$ 6,452	\$ 4,936
	=====	=====

#### 5. Property and Equipment

Property and equipment consist of the following (in thousands):

	December 31,	
	1995	1994
	----	----
Office furniture and fixtures	\$ 1,908	\$ 1,509
Buildings	1,175	1,175
Vehicles	41	41
	-----	-----
	3,124	2,725
Less accumulated depreciation	1,171	923
	-----	-----
	1,953	1,802
Land	308	308
	-----	-----
	\$ 2,261	\$ 2,110
	=====	=====

#### 6. Accrued Workers' Compensation Claim Liabilities

In August 1987, the Company became a self-insured employer with respect to workers' compensation coverage for all its employees working or living in Oregon. The Company also became a self-insured employer for workers' compensation coverage in the states of Maryland effective November 1993, Washington effective July 1994, Delaware effective January 1995, and California effective March 1995. Effective May 1995, the Company also became self-insured for workers' compensation purposes by the United States Department of Labor for longshore and harbor (USL&H) workers' coverage.

The Company has provided \$2,705,000 and \$2,522,000 at December 31, 1995 and 1994, respectively, as an estimated liability for unsettled workers' compensation claims. This estimated liability represents management's best estimate which includes, in part, an evaluation of information provided by the Company's third-party administrators and its independent actuary. Included in the claims liabilities are case reserve estimates for reported losses, plus additional amounts based on projections for incurred but not reported claims, anticipated increases in case reserve estimates and additional claims administration expenses. These estimates are continually reviewed and adjustments to liabilities are reflected in current operations as they become known. The Company believes that the difference between amounts recorded at December 31, 1995 for its estimated liability and the possible range of costs of settling related claims is not material to results of operations; nevertheless, it is reasonably possible that adjustments required in future periods may be material to results of operations.

The United States Department of Labor and the states of Oregon, Maryland, Washington, and California require the Company to maintain specified investment balances or other financial instruments, totaling \$5,974,000 at December 31, 1995 and \$3,802,000 at December 31, 1994, to cover potential claims losses. In partial satisfaction of these requirements, at

#### 6. Accrued Workers' Compensation Claim Liabilities (Continued)

December 31, 1995, the Company has provided a letter of credit in the amount of \$1,572,000 and a \$300,000 surety bond guaranteed by an irrevocable standby letter of credit. The investments are included in restricted marketable securities and workers' compensation deposits in the accompanying balance sheets.

Liabilities incurred for work-related employee fatalities are recorded either at an agreed lump-sum settlement amount or the net present value of future fixed and determinable payments over the actuarially determined remaining life of the beneficiary, discounted at a rate that approximates a long-term high quality corporate bond rate. The Company has obtained excess workers' compensation insurance to limit its self-insurance exposure to \$350,000 per occurrence (\$300,000 for claims before December 31, 1993) in all states, except for \$300,000 in Maryland, and \$500,000 per occurrence for USL&H exposure. The excess insurance provides coverage up to \$10 million per occurrence for claims through December 31, 1993 and unlimited excess coverage after that date. At December 31, 1995, the Company has recorded \$322,000 for work-related fatalities in long-term workers' compensation liabilities in the accompanying balance sheet.

The workers' compensation expense in the accompanying statement of operations consists of \$5,802,000, \$4,254,000 and \$4,075,000 for self-insurance expense for 1995, 1994 and 1993, respectively. Premiums in the insured states were \$271,000, \$815,000 and \$516,000 for 1995, 1994 and 1993, respectively.

#### 7. Credit Facility

On August 12, 1993, the Company entered into a loan agreement (the "Agreement") with a major bank, which provides for (a) an unsecured revolving credit facility for working capital purposes and (b) a term real estate loan (Note 8). The Agreement, as amended, expires on May 30, 1996 and currently permits total borrowings of up to \$4,000,000 under the revolving credit facility. The interest rates available on outstanding balances under the revolving credit facility include Prime Rate, Federal Funds Rate plus 1.75%, or Adjusted Eurodollar Rate plus 1.25%. Under the amended loan agreement, the Company is required to maintain (i) a ratio of total liabilities to tangible net worth of not more than 2.0 to 1.0, (ii) positive quarterly income before taxes, (iii) tangible net worth of not less than \$6,000,000, (iv) a minimum debt coverage ratio of 1.20 to 1.00 at the end of each fiscal year, and (v) a zero outstanding balance against the revolving credit facility for a minimum of 60 consecutive days

during each year. The Company is also prohibited from pledging any of its assets other than existing mortgages on its real property. There were no borrowings outstanding under the revolving credit facility at December 31, 1995 or 1994.

There were no borrowings on the revolving credit facility during 1995. During the years ended December 31, 1994 and 1993, the maximum balances outstanding under the revolving credit facility were \$1,500,069 and

7. Credit Facility (Continued)

\$1,189,000, respectively; the average balances outstanding were \$165,000 and \$59,000, respectively; and the weighted average interest rates during the period were 6.9% and 6.6%, respectively. The weighted average interest rate during the periods was calculated using daily weighted averages.

8. Long-Term Debt

Long-term debt consists of the following:

	December 31,	
	1995	1994
	----	----
	(in thousands)	
Mortgage note payable in monthly installments of \$2,784, including interest at 11% per annum through 1998, with a principal payment of \$269,485 due in 1998, secured by land and building	\$ 279	\$ 281
Mortgage note payable in monthly installments of \$6,730, including interest at 8.15% per annum through 2003, with a principal payment of \$366,900 due in 2003, secured by land and building (Note 7)	629	658
	908	939
Less portion due within one year	33	31
	\$ 875	\$ 908
	=====	=====

Maturities on long-term debt are summarized as follows at December 31, 1995 (in thousands):

Year ending December 31, -----	
1996	\$ 33
1997	36
1998	308
1999	36
2000	40
Thereafter	455
	-----
	\$ 908
	=====

9. Savings Plan

On April 1, 1990, the Company established a Section 401(k) employee savings plan for the benefit of its eligible employees. All employees 21

years of age or older, except those covered under a co-employer (leasing) contract, become eligible to participate in the savings plan upon completion of 1,000 hours of service in any consecutive 12-month period following the initial date of employment. Employees covered under a co-employer (leasing) contract are eligible to participate in the savings plan beginning with their respective dates of employment. The determination of Company contributions to the plan, if any, is subject to the sole discretion of the Company. Participants' interests in Company contributions to the plan vest over a 7-year period. Company contributions to the plan were \$142,000, \$103,000 and \$44,000 for the years ended December 31, 1995, 1994 and 1993, respectively.

Recent attention has been placed by the Internal Revenue Service (the IRS) and the staff leasing industry on IRC Section 401(k) plans sponsored by staff leasing companies. As such, the tax-exempt status of the Company's plan is subject to continuing scrutiny and approval by the IRS and to the Company's ability to support to the IRS the Company's employer-employee relationship with leased employees. In the event the tax-exempt status were to be discontinued and the plan were to be disqualified, the operations of the Company could be adversely affected. The Company has not recorded any provision for this potential contingency, as neither the likelihood of disqualification nor the resulting range of loss, if any, is currently estimable.

#### 10. Commitments

##### Lease commitments

The Company leases its branch offices under operating lease agreements which require minimum annual payments as follows (in thousands):

Year ending  
December 31,  
-----

1996	\$	466
1997		402
1998		257
1999		171
2000		64
		-----
Total minimum payments	\$	1,360
		=====

Rent expense for the years ended December 31, 1995, 1994 and 1993 was approximately \$607,000, \$423,000 and \$295,000, respectively.

#### 11. Related Party Transactions

During 1995, 1994 and 1993, the Company recorded revenues of \$3,753,000, \$3,261,000 and \$2,404,000, respectively, and cost of revenues of \$3,661,000, \$3,112,000 and \$2,316,000, respectively, for providing services to a company of which a director of the Company is president and majority stockholder. At December 31, 1995 and 1994, Barrett had trade receivables from this company of \$160,000 and \$140,000, respectively.

During 1994 and 1993, the Company recorded revenues of \$119,000 and \$480,000, respectively, and cost of revenues of \$110,000 and \$475,000, respectively, for providing professional employer services to a company owned by Barrett's President and Chief Executive Officer. At December 31, 1993, Barrett had recorded a receivable of \$35,000 from this company.

At December 31, 1993, the President and Chief Executive Officer of the Company, pursuant to the approval of a majority of the disinterested outside directors, agreed to personally guarantee, at no cost to the Company, the repayment of a \$111,000 receivable from an unrelated, insolvent customer. During 1995, pursuant to this agreement, the Company

exercised its right to the personal guarantee provided by the Company's Chief Executive Officer. Accordingly, the Chief Executive Officer surrendered to the Company 7,400 shares of common stock of Barrett Business Services, Inc. with a then-fair market value of \$111,000 or \$15.00 per share in satisfaction of the guarantee. The Company subsequently retired the shares, and the par value of the shares was reclassified to additional paid-in capital. The uncollectible account was included in the Company's provisions for doubtful accounts during 1993 and 1994.

Through June 1995, a director of the Company was Vice Chairman of the board of directors of the bank that provides the Company's unsecured revolving credit facility and certain mortgage financing. In addition to providing other banking services, the bank serves as the transfer agent for the Company's common stock. See Notes 7 and 8.

## 12. Public Stock Offering

In June 1993, the Company completed an initial public offering of 1,000,000 shares of common stock at \$7.00 per share. In July 1993, the underwriters exercised an option to purchase 150,000 additional shares at \$7.00 per share to cover over-allotments. Total net proceeds to the Company were \$6,828,000 after deducting the underwriting discount and offering expenses.

## 13. Income Taxes

In conjunction with the Company's public offering, the Company terminated its S Corporation status effective April 30, 1993. Accordingly, unaudited pro forma income tax information is presented below, which would have been recorded if the Company had been a C Corporation during all periods presented, based on tax laws in effect during those periods, as calculated under Statement of Financial Accounting Standards No. 109 ("SFAS 109"), "Accounting for Income Taxes."

## 13. Income Taxes (Continued)

The provisions for income taxes are as follows (in thousands):

	Year ended December 31,		
	1995	1994	1993
	----	----	----
			(unaudited pro forma)
Current:			
Federal	\$ 2,067	\$ 1,750	\$ 1,439
State	463	375	284
	-----	-----	-----
	2,530	2,125	1,723
	-----	-----	-----
Deferred:			
Federal	(19)	(17)	(338)
State	(4)	(3)	(61)
	-----	-----	-----
	(23)	(20)	(399)
	-----	-----	-----
Total provision	\$ 2,507	\$ 2,105	\$ 1,324
	=====	=====	=====

The actual provision for income taxes for the first eight months of

operation as a C Corporation (May 1, 1993 to December 31, 1993) is as follows (in thousands):

Current:		
Federal		\$ 1,110
State		221
		-----
		1,331
		-----
Deferred:		
Federal		(327)
State		(62)
		-----
		(389)
		-----
Provision before recognition of cumulative deferred tax asset		942
Recognition of cumulative deferred tax asset		(505)
		-----
		\$ 437
		=====

The provision for income taxes for the year ended December 31, 1993 is partially offset by recognition of a cumulative net deferred tax asset of \$505,000 associated with the termination of the Company's S Corporation status on April 30, 1993, in accordance with SFAS 109.

### 13. Income Taxes (Continued)

Deferred tax assets (liabilities) are comprised of the following components (in thousands):

	December 31,	
	1995	1994
	----	----
Accrued workers' compensation claim liabilities	\$1,053	\$ 982
Allowance for doubtful accounts	10	25
Tax depreciation in excess of book depreciation	(126)	(93)
	-----	-----
	\$ 937	\$ 914
	=====	=====

The effective tax rate differed from the U.S. statutory federal tax rate due to the following:

	Year ended December 31,		
	1995	1994	1993
	----	----	----
			(unaudited pro forma)
Statutory federal tax rate	34.0 %	34.0%	34.0%
State taxes, net of federal benefit	4.6	4.4	4.3
Goodwill amortization	.1	.2	.5
Federal tax-exempt interest income	(1.3)	(1.1)	--
Other, net	.6	.3	.3
	----	----	----
	38.0 %	37.8 %	39.1 %
	=====	=====	=====

14. Stockholders' Equity

As of March 1, 1993, the Company adopted the 1993 Stock Incentive Plan (the "Plan") which provides for stock-based awards to the Company's employees, non-employee directors, and outside consultants or advisers. As of April 20, 1994, the Company increased the number of shares of common stock reserved for issuance under the Plan from 500,000 to 800,000.

14. Stockholders' Equity (continued)

The following table summarizes option activity under the Plan:

	Options -----	Range of prices -----
Outstanding at March 1, 1993	-	
Options granted	166,500	\$ 3.50 to \$ 4.69
Options exercised	-	
Options canceled or expired	(6,000)	
	-----	
Outstanding at December 31, 1993	160,500	
Options granted	233,500	\$ 9.50 to \$ 13.56
Options exercised	(22,175)	\$ 3.50
Options canceled or expired	(65,250)	
	-----	
Outstanding at December 31, 1994	306,575	
Options granted	221,500	\$ 11.50 to \$ 16.36
Options exercised	(13,950)	\$ 3.50 to \$ 9.50
Options canceled or expired	(17,500)	
	-----	
Outstanding at December 31, 1995	496,625	
	=====	
Exercisable at December 31, 1995	94,375	
	=====	
Available for grant at December 31, 1995	263,250	
	=====	

14. Stockholders' Equity (Continued)

The options listed in the table generally become exercisable in four equal annual instalments beginning one year after the date of grant. The number of options and the price per share have been restated to reflect the 2-for-1 stock split effective May 23, 1994.

In connection with the initial public offering, the Company issued 200,000 warrants to its underwriters and related parties for the purchase of shares of the Company's common stock exercisable in whole at any time or in part from time to time commencing June 11, 1994 at \$4.20 per share, after giving effect for the 2-for-1 stock split. A total of 110,000 warrants was exercised in January 1995 for proceeds of \$462,000.

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, which allows companies to choose whether to account for stock-based compensation under the current intrinsic value method as prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees, or under the fair value method permitted by the new pronouncement, effective for years beginning after December 15, 1995. The new pronouncement will also require additional disclosures regarding the pro forma effect of fair value accounting for stock options on net income and net income per share. The Company plans to continue to follow the provisions of APB Opinion No. 25. As a result, management does not believe the implementation of this pronouncement in 1996 will have a material impact on future earnings.

15. Litigation

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to currently pending or threatened actions will not materially affect the financial position or results of operations of the Company.

16. Quarterly Financial Information (Unaudited)

	First quarter -----	Second quarter -----	Third quarter -----	Fourth quarter -----
	(in thousands, except per share amounts)			
Year ended December 31, 1993:				
Revenues	\$ 20,535	\$ 25,386	\$ 28,076	\$26,270
Cost of revenues	18,501	22,931	25,147	23,692
Pro forma net income	389	488		
Pro forma net income per share	.09	.11		
Net income			702	481
Net income per share			.11	.08
Year ended December 31, 1994:				
Revenues	27,067	35,136	41,149	37,200
Cost of revenues	24,096	31,217	36,107	33,025
Net income	608	765	1,235	858
Net income per share	.09	.12	.19	.13
Year ended December 31, 1995:				
Revenues	39,298	44,564	49,636	46,306
Cost of revenues	35,819	39,645	43,378	40,474
Net income	344	1,039	1,513	1,223
Net income per share	.05	.16	.23	.18

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table identifies, as of February 1, 1996, each director and executive officer of the Company. Directors serve until the next annual meeting of stockholders, or until their successors are elected and qualified. Executive officers serve at the discretion of the Board of Directors.

Name	Age	Principal Positions and Business Experience	Director since	Officer since
William W. Sherertz	49	President; Chief Executive Officer; Acting Chairman of the Board of Directors	1980	1980
Robert R. Ames	55	Director; retired Vice Chairman of First Interstate Bank of Oregon, N.A.	1993	
Jeffrey L. Beaudoin	41	Director; President of Rose City Moving and Storage Co.	1993	
Stephen A. Gregg	51	Director; Principal, The Alternare Group	1995	
Anthony Meeker	56	Director; Vice President of Spears Benzak Salomon & Farrell	1993	
Stanley G. Renecker	41	Director; Vice President-Acquisitions of The Campbell Group	1993	
Michael D. Mulholland	43	Vice President-Finance and Secretary; Chief Financial Officer		1994
Christopher J. McLaughlin	40	Vice President-Operations		1994
Michael K. Barrett	32	Vice President-Business Development		1995
James D. Miller	32	Controller; Principal Accounting Officer		1994

William W. Sherertz has acted as Chief Executive Officer of the Company since 1980. He has also been a director of the Company since 1980, and was appointed President of the Company in March 1993. Mr. Sherertz also serves as Acting Chairman of the Board of Directors.

Robert R. Ames has served as a director of the Company since 1993. Mr. Ames currently is actively engaged in numerous real estate development ventures. From 1992 to 1995, he was the Vice Chairman of the Board of Directors of First Interstate Bank of Oregon, N.A. From 1983 to 1991, Mr. Ames served as President of the Bank.

Jeffrey L. Beaudoin has served as a director of the Company since 1993. He is presently the President and a director of Rose City Moving and Storage Co., of Portland, Oregon, a staff leasing client of the Company.

Stephen A. Gregg was elected to the Company's Board of Directors in February 1995. He is currently a principal in The Alternare Group, a national provider of alternative medicine services. From 1985 to 1994, Mr. Gregg was Chairman and Chief Executive Officer of The Ethix Corporation, a national provider of health care programs headquartered in Portland, Oregon.

Anthony Meeker has served as a director of the Company since 1993. He has been a Vice President with Spears Benzak Salomon & Farrell, Portland, Oregon, an investment research firm, since 1993. From 1987 to 1993, Mr. Meeker was Treasurer of the State of Oregon. He has also been President and Chief Executive Officer and a director of Meeker Seed & Grain Co. since 1975.

Stanley G. Renecker has been a director of the Company since 1993. Mr. Renecker is currently Vice President-Acquisitions of The Campbell Group, a timberland management firm, where he has been employed since 1989.

Michael D. Mulholland joined the Company in August 1994 as Vice President-Finance and Secretary. From 1988 to 1994, Mr. Mulholland was employed by Sprouse-Reitz Stores Inc., a former Nasdaq-listed retail company, serving as its Executive Vice President, Chief Financial Officer and Secretary. In November 1991, Sprouse-Reitz filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code. Its plan of reorganization was confirmed by the Bankruptcy Court in June 1992. Subsequently, Mr. Mulholland was appointed to the additional position of Acting Chief Executive Officer prior to Sprouse's filing of a voluntary petition in connection with a prepackaged liquidating Chapter 11 in November 1993.

Christopher J. McLaughlin joined the Company in May 1993 and was appointed Corporate Operations Manager in December 1993. Mr. McLaughlin is currently Vice President - Operations, a position held since July 1994. Prior to joining the Company, Mr. McLaughlin owned and operated an organizational development consulting firm.

Michael K. Barrett joined the Company as Vice President-Business Development in December 1995. Prior to joining the Company, Mr. Barrett was Vice President of Marketing for Your Staff, Inc., a wholly-owned staff leasing subsidiary of Kelly Services, Inc., from May 1994 to December 1995. From November 1989 to May 1994, Mr. Barrett owned and operated an advertising firm.

James D. Miller joined the Company in January 1994 as Controller. From 1991 to 1994, he was the Corporate Accounting Manager for Christensen Motor Yacht Corporation. Mr. Miller, a certified public accountant, was employed by Price Waterhouse from 1987 to 1991.

Section 16 of the Securities Exchange Act of 1934 ("Section 16") requires that reports of beneficial ownership of Barrett common stock and changes in such ownership be filed with the Securities and Exchange Commission ("SEC") by Section 16 "reporting persons," including directors, executive officers, and certain holders of more than 10% of the outstanding common stock or trusts of which reporting persons are trustees. To the Company's knowledge, all Section 16 reporting requirements applicable to known reporting persons were complied with for transactions and stock holdings during 1995, except that William W. Sherertz, who is an executive officer of the Company, filed a report of the grant of a stock option two days after the filing deadline.

Item 11. EXECUTIVE COMPENSATION

The following Summary Compensation Table sets forth for the years indicated the compensation awarded or paid to, or earned by, the Company's chief executive officer and the Company's other executive officers whose salary level and bonus in 1995 exceeded \$100,000:

SUMMARY COMPENSATION TABLE

	Long-Term Compensation Awards ----- Securities
Annual Compensation	

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Underlying Options (2) (#)
William W. Sherertz President and Chief Executive Officer	1995	\$144,000	--	70,000
	1994	144,000	--	77,000
	1993	144,000	--	70,000
Michael D. Mulholland Vice President-Finance and Secretary; Chief Financial Officer	1995	115,000	\$42,550	30,000
	1994	42,486(1)	--	20,000
	1993	--	--	--
Christopher J. McLaughlin Vice President-Operations	1995	90,000	33,300	26,000
	1994(3)	79,583	39,300	20,000
	1993	--	--	--

- (1) Mr. Mulholland's annual salary of \$115,000 became effective with his date of employment, August 17, 1994.
- (2) Option grants do not include stock appreciation rights ("SARs").
- (3) Mr. McLaughlin became an executive officer during 1994; the amounts shown are for the full fiscal year.

#### Stock Option Data

The following table provides information as to options to purchase Barrett common stock granted to Messrs. Sherertz, Mulholland and McLaughlin during 1995.

	Number of Securities Underlying Options Granted (1) (#)	% of Total Options Granted to Employees in Fiscal Year	Exer-cise Price (\$/Share)	Expira-tion Date	Grant Date Present Value (\$)(2)
William W. Sherertz	18,654	9.3%	\$16.3625	9/17/2000	\$133,376
	51,346	25.7%	14.8750	9/17/2005	528,864
Michael D. Mulholland	10,000	5.0%	14.8750	9/17/2005	103,000
	20,000	10.0%	14.6250	11/9/2005	201,400
Christopher J. McLaughlin	5,000	2.5%	14.8750	9/17/2005	51,500
	21,000	10.5%	14.6250	11/9/2005	211,470

- (1) Options become exercisable cumulatively in four equal annual installments beginning one year after the date of grant; provided that the option will become exercisable in full upon the officer's death, disability or retirement, or in the event of a change in control of the Company. A change in control is defined in the option agreements to include (i) any occurrence which would be required to be reported as such by the proxy disclosure rules of the Securities and Exchange Commission, (ii) the acquisition by a person or group (other than the Company or one of its employee benefit plans) of 30% or more of the combined voting power of its voting securities, (iii) with certain

exceptions, the existing directors' ceasing to constitute a majority of the Board of Directors, (iv) certain transactions involving the merger, or sale or transfer of a majority of the assets, of the Company, or (v) approval by the stockholders of a plan of liquidation or dissolution of the Company. The options include a feature which entitles an optionee who tenders previously-acquired shares of common stock to pay all or part of the exercise price of the option, to receive a replacement option (a "reload option") to purchase a number of shares equal to the number of shares tendered at an exercise price equal to the fair market value of the common stock on the date of exercise. No SARs were granted to Messrs. Sherertz, Mulholland or McLaughlin during 1995.

- (2) The values shown have been calculated based on the Black-Scholes option pricing model and do not reflect the effect of restrictions on transferability or vesting. The values were calculated based on the following assumptions: (i) expectations regarding volatility of 50% were based on monthly stock price data for the Company; (ii) the risk-free rate of return was assumed to be the Treasury Bond rate whose maturity corresponds to the maturity of the option granted; and (iii) no dividends on the Barrett common stock will be paid during the option term. The values which may ultimately be realized will depend on the market value of the common stock during the periods during which the options are exercisable, which may vary significantly from the assumptions underlying the Black-Scholes model.

Information concerning each exercise of stock options and the fiscal year-end value of unexercised options held by Messrs. Sherertz, Mulholland and McLaughlin as of December 31, 1995 is summarized in the table below.

Aggregated Option Exercises in Last Fiscal Year  
and Fiscal Year-End Option Values (1)

Name	Shares Acquired on Exer- cise (#)	Value Realized (\$)	Number of Securities Underlying Unexer- cised Options at Fiscal Year-End		Value of Unexercised In-the- Money Options at Fiscal Year-End (2)	
			Exer- cisable	Unexer- cisable	Exer- cisable	Unexer- cisable
William W. Sherertz	--	--	42,000	157,500	\$330,750	\$669,375
Michael D. Mulholland	--	--	5,000	45,000	20,000	62,500
Christopher J. McLaughlin	--	--	7,000	43,000	48,750	103,875

(1) Messrs. Sherertz, Mulholland and McLaughlin did not exercise any SARs during 1995 and did not hold any SARs at December 31, 1995.

(2) The values shown have been calculated based on the difference between \$14.75, which was the closing sale price of Barrett common stock reported on The Nasdaq Stock Market on December 29, 1995, and the per share exercise price of unexercised options.

Directors' Compensation

Under the standard arrangement in effect at the end of 1995, directors (other than directors who are full-time employees of the Company, who do not receive directors' fees) are entitled to receive a fee of \$500 for each Board meeting attended and each meeting of a committee of the Board attended other

than a committee meeting held on the same day as a Board meeting.

In June 1993, concurrent with the closing of the Company's initial public offering, each person who was then a non-employee director of the Company received a nonqualified option, as adjusted for the May 1994 two-for-one stock split, to purchase 3,000 shares of the Company's common stock at an exercise price of \$3.50. Also, a nonqualified option for 1,000 shares of common stock (adjusted for the stock split) is granted automatically to each non-employee director whose term begins on or continues after the date of each annual meeting of stockholders at an exercise price equal to the fair market value of the common stock on the date of the meeting. Accordingly, on May 18, 1995, Messrs. Ames, Beaudoin, Gregg, Meeker and Renecker each received an option for 1,000 shares at an exercise price of \$11.50 per share.

Payment of the exercise price of options granted to non-employee directors may be in cash or in previously-acquired shares of Barrett common stock. Each option includes a reload option feature to the extent that previously-acquired shares are used to pay the exercise price. Non-employee director options (other than reload options) become exercisable in four equal annual installments beginning one year after the date of grant. Reload options become exercisable six months following the date of grant. All options granted to a non-employee director will be exercisable in full upon the director's death, disability or retirement, or in the event of a change in control of the Company. The option term will expire three months following the date upon which the holder ceases to be a director other than by reason of death, disability or retirement; in the event of death or disability, the option will expire one year thereafter, while non-employee director options will expire five years after retirement.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table gives certain information regarding the beneficial ownership of Barrett common stock as of February 1, 1996, by each director, by each executive officer named in Item 11 above, and by all directors and executive officers of the Company as a group. In addition, it gives information about each person or group known to the Company to own beneficially more than 5% of the outstanding shares of its common stock. Information as to beneficial stock ownership is based on data furnished by the persons concerning whom such information is given. Unless otherwise indicated, all shares listed as beneficially owned are held with sole voting and dispositive power.

Name and Address of Beneficial Owner -----	Amount and Nature of Beneficial Ownership -----	Percent of Class -----
Robert R. Ames	2,000 (1)	*
Jeffrey L. Beaudoin	6,900 (1) (2)	*
Stephen A. Gregg	1,000	*
Christopher J. McLaughlin	14,400 (1)	*
Anthony Meeker	2,450 (1)	*
Michael D. Mulholland	5,000 (1)	*
Stanley G. Renecker	2,000 (1)	*
Nancy B. Sherertz 27023 Rigby Lot Road		

Easton, Maryland 21601	1,659,000	25.3%
William W. Sherertz 4724 S.W. Macadam Avenue Portland, Oregon 97201	1,841,600 (1)	27.8%
Wasatch Advisors, Inc. 68 South Main Street Suite 400 Salt Lake City, Utah 84101	548,675 (3)	8.4%
All directors and executive officers as a group (10 persons)	1,880,350 (1)	28.3%

\* Less than 1% of the outstanding shares of Common Stock.

- (1) Includes options to purchase Barrett common stock which are presently exercisable as follows: Mr. Ames, 2,000 shares; Mr. Beaudoin, 2,000 shares; Mr. McLaughlin, 12,000 shares; Mr. Meeker, 2,000 shares; Mr. Mulholland, 5,000 shares; Mr. Renecker, 2,000 shares; Mr. Sherertz, 59,500 shares; and all directors and executive officers as a group, 89,500 shares.
- (2) Includes 400 shares owned by Mr. Beaudoin's wife as to which he shares voting and dispositive powers.
- (3) A registered investment advisor who has filed a report of beneficial ownership on Schedule 13G reporting sole voting and dispositive power as to the indicated shares.

#### Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

William W. Sherertz agreed, at December 31, 1993, to personally guarantee, at no cost to the Company and pursuant to the approval of a majority of the disinterested outside directors, the repayment of a \$111,000 account receivable from an unrelated, insolvent customer. The Company exercised its right to the personal guarantee during 1995 and accordingly, Mr. Sherertz surrendered to the Company 7,400 shares of the Company's common stock with a then-fair market value of \$111,000 or \$15.00 per share in satisfaction of the guarantee.

Robert R. Ames, a director of the Company, was Vice Chairman of the board of directors of First Interstate Bank of Oregon, N.A. through June 1995, which bank has provided an unsecured revolving credit facility in the amount of \$4,000,000 and mortgage financing totaling approximately \$629,000 to the Company.

#### Compensation Committee Interlocks and Insider Participation

The members of the compensation committee of the board of directors of the Company during 1995 were Jeffrey L. Beaudoin, Stephen A. Gregg and Anthony Meeker. During 1995, the Company provided services to Rose City Moving & Storage Co., of which Mr. Beaudoin, a Barrett director and a member of its compensation committee, is President and a majority stockholder. Barrett recorded revenues and cost of revenues during 1995 related to such services of \$3,753,000 and \$3,661,000, respectively. At December 31, 1995, the Company's assets included trade accounts receivable totaling \$160,000 with respect to the above services; the highest amount of such receivables outstanding at any time during 1995 was \$187,000 as of September 30, 1995.



\* Director  
Jeffrey L. Beaudoin

\* Director  
Stephen A. Gregg

\* Director  
Anthony Meeker

\* Director  
Stanley G. Renecker

\* By /s/Michael D. Mulholland  
Michael D. Mulholland  
Attorney-in-fact

#### EXHIBIT INDEX

#### Exhibits

- 3.1 Charter of the registrant, as amended. Incorporated by reference to Exhibit 3 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994.
- 3.2 Bylaws of the registrant, as amended. Incorporated by reference to Exhibit 3.2 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1994.
- 4.1 Loan Agreement between the registrant and First Interstate Bank of Oregon, N.A., dated August 12, 1993 ("Loan Agreement"). Incorporated by reference to Exhibit 10 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- 4.2 First Amendment to Loan Agreement dated March 29, 1994. Incorporated by reference to Exhibit 4 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994.
- 4.3 Second Amendment to Loan Agreement dated May 31, 1994, together with Optional Advance Note dated May 31, 1994. Incorporated by reference to Exhibit 4 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994.
- 4.4 Third Amendment to Loan Agreement dated January 3, 1995, together with Optional Advance Note dated January 3, 1995. Incorporated by reference to Exhibit 4.4 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1994.
- 4.5 Fourth Amendment to Loan Agreement dated June 1, 1995, together with Optional Advance Note dated June 1, 1995 and Interest Rate Option Agreement dated June 1, 1995. Incorporated by reference to Exhibit 4.4 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995.

The registrant has incurred other long-term indebtedness as to which the amount involved is less than 10 percent of the registrant's total assets. The registrant agrees to furnish copies of the instruments relating to such indebtedness to the Commission upon request.

- 10 Executive Compensation Plans and Arrangements and Other Management Contracts.

- 10.1 1993 Stock Incentive Plan of the registrant as amended March 8, 1994. Incorporated by reference to Exhibit 10.1 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1993.
  - 10.2 Form of Indemnification Agreement with each director of the registrant. Incorporated by reference to Exhibit 10.8 to the registrant's Registration Statement on Form S-1 (No.33-61804).
  - 11 Statement of Calculation of Average Common Shares Outstanding.
  - 23 Consent of Price Waterhouse LLP, independent accountants.
  - 24 Power of attorney of certain officers and directors.
  - 27 Financial Data Schedule.
- Other exhibits listed in Item 601 of Regulation S-K are not applicable.

BARRETT BUSINESS SERVICES, INC.  
 STATEMENT OF CALCULATION OF AVERAGE  
 COMMON SHARES OUTSTANDING

	Three Months Ended Dec. 31, 1995 -----	Year Ended Dec. 31, 1995 -----
Primary Earnings Per Share:		
Weighted average number of shares	6,490,411	6,474,055
Stock option plan shares to be issued at prices ranging from \$3.50 to \$16.363 per share	448,360	349,078
Warrant issues at a price of \$4.20 per share	90,000	98,611
Less: Assumed purchase at average market price during the period using proceeds received upon exercise of options and purchase of stock, and using tax benefits of compensation due to premature dispositions	(339,360)	(242,137)
Total Primary Shares	6,689,411 =====	6,679,607 =====
Fully Diluted Earnings Per Share:		
Weighted average number of shares	6,490,411	6,474,055
Stock option plan shares to be issued at prices ranging from \$3.50 to \$16.363 per share	448,360	349,078
Warrant issues at a price of \$4.20 per share	90,000	98,611
Less: Assumed purchase at the higher of ending or average market price during the period using proceeds received upon exercise of options and purchase of stock, and using tax benefits of compensation due to premature dispositions	(332,367)	(232,254)
Total Diluted Shares	6,696,404 =====	6,689,490 =====

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-71792, 33-55117, and 33-52871) and on Form S-3 (No. 33-62979) of Barrett Business Services, Inc. of our report dated February 9, 1996 appearing on page 22 of this Annual Report on Form 10-K.

Price Waterhouse LLP

Portland, Oregon  
March 26, 1996

## POWER OF ATTORNEY

Each person whose signature appears below designates and appoints WILLIAM W. SHERERTZ and MICHAEL D. MULHOLLAND, and either of them, true and lawful attorneys-in-fact and agents to sign the annual report on Form 10-K of Barrett Business Services, Inc., a Maryland corporation, for the year ended December 31, 1995, and to file said report, with all exhibits thereto, with the Securities and Exchange Commission under the Securities Exchange Act of 1934. Each person whose signature appears below also grants full power and authority to these attorneys-in-fact and agents to perform every act and execute any instruments that they deem necessary or desirable in connection with said report, as fully as he could do in person, hereby ratifying and confirming all that the attorneys-in-fact and agents or their substitutes may lawfully do or cause to be done.

IN WITNESS WHEREOF, this power of attorney has been executed by each of the undersigned as of the 7th day of March, 1996.

SIGNATURE	TITLE
/s/William W. Sherertz William W. Sherertz	President and Chief Executive Officer and Director (Principal Executive Officer)
/s/Michael D. Mulholland Michael D. Mulholland	Vice President - Finance (Principal Financial Officer)
/s/James D. Miller James D. Miller	Controller (Principal Accounting Officer)
/s/Robert R. Ames Robert R. Ames	Director
/s/Jeffrey L. Beaudoin Jeffrey L. Beaudoin	Director
/s/Stephen A. Gregg Stephen A. Gregg	Director
/s/Anthony Meeker Anthony Meeker	Director
/s/Stanley G. Renecker Stanley G. Renecker	Director

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This schedule contains summary financial information extracted from the company's balance sheets and related statements of operations for the period ended December 31, 1995, and is qualified in its entirety by reference to such financial statements.

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