

BARRETT BUSINESS SERVICES INC

Form 10-Q

August 09, 2010

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2010

Commission File No. 0-21886

BARRETT BUSINESS SERVICES, INC.

(Exact name of registrant as specified in its charter)

Maryland

52-0812977

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| | |
|---|--------------------------------------|
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |
| 8100 NE Parkway Drive, Suite 200 Vancouver, Washington (Address of principal executive offices) | 98662 (Zip Code) |
| (360) 828-0700 (Registrant's telephone number, including area code) | |

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

| | |
|--|---|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> | Smaller reporting company <input type="checkbox"/> |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Number of shares of common stock, \$.01 par value, outstanding at July 30, 2010 was 10,216,212 shares.

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Part I - Financial Information

Item 1. Financial Statements

BARRETT BUSINESS SERVICES, INC.

Consolidated Balance Sheets

(Unaudited)

(In thousands, except per share amounts)

| | June 30, 2010 | December 31, 2009 |
|--|------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 17,444 | \$ 36,671 |
| Marketable securities | 23,914 | 13,766 |
| Trade accounts receivable, net | 50,301 | 33,070 |
| Income taxes receivable | 3,887 | 4,274 |
| Prepaid expenses and other | 2,265 | 979 |
| Deferred income taxes | 4,283 | 4,071 |
| Total current assets | 102,094 | 92,831 |
| Marketable securities | 7,012 | 7,473 |
| Property, equipment and software, net | 14,861 | 14,795 |
| Restricted marketable securities and workers' compensation deposits | 8,933 | 2,666 |
| Other assets | 3,103 | 3,104 |
| Workers' compensation receivables for insured losses and recoveries | 3,639 | 3,865 |
| Goodwill, net | 47,820 | 47,338 |
| | \$ 187,462 | \$ 172,072 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 702 | \$ 1,117 |
| Accrued payroll, payroll taxes and related benefits | 47,853 | 30,244 |
| Other accrued liabilities | 649 | 499 |
| Workers' compensation claims liabilities | 10,484 | 10,509 |
| Safety incentives liability | 4,241 | 4,437 |
| Total current liabilities | 63,929 | 46,806 |
| Long-term workers' compensation claims liabilities | 16,106 | 14,560 |
| Long-term workers' compensation claims liabilities for insured claims | 2,684 | 2,729 |
| Deferred income taxes | 6,323 | 6,323 |
| Customer deposits and other long-term liabilities | 1,488 | 1,527 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$.01 par value; 500 shares authorized; no shares issued and outstanding | | |
| Common stock, \$.01 par value; 20,500 shares authorized, 10,303 and 10,466 shares issued and outstanding | 103 | 105 |

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| | | |
|--|------------|------------|
| Additional paid-in capital | 26,344 | 28,358 |
| Accumulated other comprehensive income | 159 | 256 |
| Retained earnings | 70,326 | 71,408 |
| | 96,932 | 100,127 |
| | \$ 187,462 | \$ 172,072 |

The accompanying notes are an integral part of these financial statements

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BARRETT BUSINESS SERVICES, INC.

Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share amounts)

| | Three Months Ended June 30, | |
|---|--|-------------|
| | 2010 | 2009 |
| Revenues: | | |
| Staffing services | \$ 31,975 | \$ 28,002 |
| Professional employer service fees | 35,457 | 29,263 |
| Total revenues | 67,432 | 57,265 |
| Cost of revenues: | | |
| Direct payroll costs | 24,237 | 21,127 |
| Payroll taxes and benefits | 22,861 | 19,434 |
| Workers compensation | 8,589 | 18,927 |
| Total cost of revenues | 55,687 | 59,488 |
| Gross margin | 11,745 | (2,223) |
| Selling, general and administrative expenses | 8,407 | 8,336 |
| Depreciation and amortization | 333 | 410 |
| Income (loss) from operations | 3,005 | (10,969) |
| Other income: | | |
| Investment income, net | 217 | 239 |
| Other | 163 | 54 |
| Other income | 380 | 293 |
| Income (loss) before income taxes | 3,385 | (10,676) |
| Provision for (benefit from) income taxes | 1,107 | (3,944) |
| Net income (loss) | \$ 2,278 | \$ (6,732) |
| Basic earnings (loss) per share | \$.22 | \$ (.65) |
| Weighted average number of basic shares outstanding | 10,446 | 10,355 |
| Diluted earnings (loss) per share | \$.22 | \$ (.65) |

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| | | |
|---|--------|--------|
| Weighted average number of diluted shares outstanding | 10,485 | 10,355 |
|---|--------|--------|

The accompanying notes are an integral part of these financial statements

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BARRETT BUSINESS SERVICES, INC.

Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share amounts)

| | Six Months Ended June 30, | |
|---|------------------------------|------------|
| | 2010 | 2009 |
| Revenues: | | |
| Staffing services | \$ 59,037 | \$ 52,044 |
| Professional employer service fees | 66,655 | 56,293 |
| Total revenues | 125,692 | 108,337 |
| Cost of revenues: | | |
| Direct payroll costs | 44,673 | 39,196 |
| Payroll taxes and benefits | 47,489 | 42,061 |
| Workers compensation | 16,408 | 25,614 |
| Total cost of revenues | 108,570 | 106,871 |
| Gross margin | 17,122 | 1,466 |
| Selling, general and administrative expenses | 16,631 | 16,376 |
| Depreciation and amortization | 710 | 796 |
| Loss from operations | (219) | (15,706) |
| Other income: | | |
| Investment income, net | 401 | 489 |
| Other | 264 | (81) |
| Other income | 665 | 408 |
| Income (loss) before income taxes | 446 | (15,298) |
| Benefit from income taxes | (146) | (5,392) |
| Net income (loss) | \$ 592 | \$ (9,906) |
| Basic earnings (loss) per share | \$.06 | \$ (.95) |
| Weighted average number of basic shares outstanding | 10,456 | 10,426 |
| Diluted earnings (loss) per share | \$.06 | \$ (.95) |

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| | | |
|---|--------|--------|
| Weighted average number of diluted shares outstanding | 10,490 | 10,426 |
|---|--------|--------|

The accompanying notes are an integral part of these financial statements

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BARRETT BUSINESS SERVICES, INC.

Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

| | Six Months Ended June 30, | |
|--|------------------------------|------------|
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 592 | \$ (9,906) |
| Reconciliations of net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 710 | 796 |
| (Gains) losses recognized on marketable securities | (207) | 80 |
| Gain recognized on sale and leaseback | (61) | (61) |
| Deferred income taxes | (148) | (2,911) |
| Share based compensation | 84 | 50 |
| Changes in certain assets and liabilities, net of amounts purchased in acquisitions: | | |
| Trade accounts receivable, net | (17,231) | (7,077) |
| Income taxes receivable | 387 | (2,555) |
| Prepaid expenses and other | (1,286) | (1,356) |
| Accounts payable | (415) | (5) |
| Accrued payroll, payroll taxes and related benefits | 17,609 | 6,555 |
| Other accrued liabilities | 25 | (449) |
| Workers' compensation claims liabilities | 1,702 | 12,684 |
| Safety incentives liability | (196) | (33) |
| Customer deposits, long-term liabilities and other assets, net | 19 | (100) |
| Net cash provided by (used in) operating activities | 1,584 | (4,288) |
| Cash flows from investing activities: | | |
| Cash paid for acquisitions | (375) | |
| Purchase of property and equipment, net of amounts purchased in acquisitions | (754) | (532) |
| Proceeds from sales and maturities of marketable securities | 6,741 | 8,169 |
| Purchase of marketable securities | (19,694) | (14,009) |
| Proceeds from maturities of restricted marketable securities | 1,421 | 1,982 |
| Purchase of restricted marketable securities | (4,376) | (2,564) |
| Net cash used in investing activities | (17,037) | (6,954) |
| Cash flows from financing activities: | | |
| Proceeds from credit-line borrowings | | 323 |
| Payments on credit-line borrowings | | (323) |
| Proceeds from exercise of stock options | | 19 |
| Dividends paid | (1,674) | (1,673) |
| Repurchase of common stock | (2,100) | (2,194) |
| Tax benefit of stock option exercises | | 13 |
| Net cash used in financing activities | (3,774) | (3,835) |
| Net decrease in cash and cash equivalents | (19,227) | (15,077) |
| Cash and cash equivalents, beginning of period | 36,671 | 42,214 |

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| | | |
|--|-----------|-----------|
| Cash and cash equivalents, end of period | \$ 17,444 | \$ 27,137 |
|--|-----------|-----------|

Supplemental schedule of noncash investing activities:

Acquisitions of other businesses:

| | | |
|--|--------|----|
| Cost of acquisitions in excess of fair market value of net assets acquired | \$ 357 | \$ |
|--|--------|----|

| | | |
|----------------------------|----|--|
| Intangible assets acquired | 15 | |
|----------------------------|----|--|

| | | |
|--------------------------|---|--|
| Tangible assets acquired | 3 | |
|--------------------------|---|--|

| | | |
|--------------------------------|--------|----|
| Net cash paid for acquisitions | \$ 375 | \$ |
|--------------------------------|--------|----|

The accompanying notes are an integral part of these financial statements

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited)

Note 1 - Basis of Presentation of Interim Period Statements

The accompanying consolidated financial statements are unaudited and have been prepared by Barrett Business Services, Inc. (Barrett , BBSI or the Company), pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures typically included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from such estimates and assumptions. The consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company s 2009 Annual Report on Form 10-K at pages F1 - F28. The results of operations for an interim period are not necessarily indicative of the results of operations for a full year. Certain prior year amounts have been reclassified to conform with the current year presentation. Such reclassifications had no impact on net income or stockholders equity.

Effective January 5, 2010, the Company formed a wholly owned insurance company, Ecole Insurance Company (Ecole). Ecole is a fully licensed insurance company holding a certificate of authority from the Arizona Department of Insurance. Ecole provides workers compensation coverage to the Company s employees working in Arizona for claims occurring on or after March 1, 2010. The cost to capitalize the insurance company was approximately \$6.1 million and is included in restricted marketable securities and workers compensation deposits in the consolidated balance sheet.

Marketable securities

As of June 30, 2010, the Company s marketable securities consisted of tax-exempt municipal securities, variable rate demand notes (VRDN), closed-end bond funds, equity securities and corporate bonds. The Company classifies municipal securities, VRDN, the closed-end bond funds and certain of its corporate bonds as available for sale; they are reported at fair value with unrealized gains and losses, net of taxes, shown as a component of accumulated other comprehensive income (loss) in stockholders equity. In the event a loss is determined to be other-than-temporary, the loss will be recognized in the statement of operations. The equity securities are classified as trading and are reported at fair value with unrealized gains and losses shown as a component of net income. Certain of the Company s corporate bonds are classified as held-to-maturity and are reported at amortized cost.

Allowance for doubtful accounts

The Company had an allowance for doubtful accounts of \$464,000 and \$516,000 at June 30, 2010 and December 31, 2009, respectively. The Company must make estimates of the collectibility of accounts receivable. Management analyzes historical bad debts, customer concentrations, customer creditworthiness, current economic conditions and changes in customers payment trends when evaluating the adequacy of the allowance for doubtful accounts. The Company deems an account balance uncollectible only after it has pursued all available assets of the customer and, where applicable, the assets of the personal guarantor.

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) *(Continued)*

Note 1 - Basis of Presentation of Interim Period Statements (Continued)

Workers' compensation claims

The Company is a self-insured employer with respect to workers' compensation coverage for all of its employees (including employees subject to Professional Employer Organization (PEO) contracts) working in California, Oregon, Maryland, Delaware and Colorado. In the state of Washington, state law allows only the Company's staffing services and internal management employees to be covered under the Company's self-insured workers' compensation program. Additionally, effective January 5, 2010, we incorporated a wholly-owned fully licensed insurance company in Arizona to provide workers' compensation coverage to our employees in Arizona.

To manage our financial exposure, in the event of catastrophic injuries or fatalities, we maintain excess workers' compensation insurance through our wholly owned captive insurance company, Associated Insurance Company for Excess (AICE), with a per occurrence retention of \$5.0 million, except in Maryland and Colorado, where our per occurrence retention is \$1.0 million and \$500,000, respectively. AICE maintains excess workers' compensation insurance coverage with AIG between \$5.0 million and \$15.0 million per occurrence, except in Maryland, where coverage with AIG is between \$1.0 million and \$25.0 million per occurrence, and in Colorado, where the coverage with AIG is between \$500,000 and statutory limits per occurrence. We continue to evaluate the financial capacity of our insurers to assess the recoverability of the related insurer receivables.

The Company has provided a total of \$29.3 million and \$27.8 million at June 30, 2010 and December 31, 2009, respectively, as an estimated future liability for unsettled workers' compensation claims liabilities. Included in the foregoing liabilities are insured claims that will be paid by the Company's former excess workers' compensation insurer and for which the Company has reported a receivable from the insurer for the insured claims liability. Insured claims totaled \$2.7 million at June 30, 2010 and December 31, 2009. The estimated liability for unsettled workers' compensation claims represents management's best estimate based upon an actuarial valuation provided by a third party 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 and anticipated increases in case reserve estimates. These estimates are continually reviewed and adjustments to liabilities are reflected in current operating results as they become known.

Safety incentives liability

Safety incentives represent cash incentives paid to certain PEO client companies for maintaining safe-work practices in order to minimize workplace injuries, thereby meeting certain established loss objectives. The Company has provided \$4.2 million at June 30, 2010 and \$4.4 million at December 31, 2009 as an estimate of the liability for unpaid safety incentives. The incentive is based on a percentage of annual payroll and is paid annually to customers who meet predetermined workers' compensation claims cost objectives. Safety incentive payments are made only after closure of all workers' compensation claims incurred during the customer's contract period. The liability is estimated and accrued each month based upon the incentive earned less the then-current amount of the customer's estimated workers' compensation claims reserves as established by the Company's internal and third-party claims administrators, adjusted for expected future development of claims reserves.

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) (*Continued*)

Note 1 - Basis of Presentation of Interim Period Statements (Continued)

Comprehensive income (loss)

Comprehensive income (loss) includes all changes in equity during a period except those that resulted from investments by or distributions to a company's stockholders. Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under GAAP are included in comprehensive income (loss), but are excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity. The Company's other comprehensive income (loss) is comprised of unrealized holding gains and losses on its publicly traded marketable securities designated as available-for-sale, net of realized gains or losses included in net income.

Note 2 - Recent Accounting Pronouncements

Variable Interest Entities - In June 2009, the FASB amended previously issued authoritative guidance on the consolidation of variable interest entities. The amended guidance is effective for reporting periods beginning after November 15, 2009. The new guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of the primary beneficiary who exercises control over such entities and is required to consolidate the variable interest entity and additional disclosure when the reporting entity holds a variable interest in a variable interest entity but is not the primary beneficiary. Determinations of whether the Company holds a variable interest in a variable interest entity and the determination of who was the primary beneficiary that were made previously are not allowed to be carried forward. The adoption of the new authoritative guidance effective January 1, 2010 has not had a material effect on our consolidated financial statements.

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) *(Continued)***Note 3 - Basic and Diluted Earnings Per Share**

Basic earnings per share are computed based on the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the potential effects of the exercise of outstanding stock options. Basic and diluted shares outstanding are summarized as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|-------------|--------------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Weighted average number of basic shares outstanding | 10,446,350 | 10,354,765 | 10,456,006 | 10,425,643 |
| Stock option plan shares to be issued at prices ranging from \$2.00 to \$17.50 per share | 390,506 | | 352,912 | |
| 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 | (351,626) | | (319,331) | |
| Weighted average number of diluted shares outstanding | 10,485,230 | 10,354,765 | 10,489,587 | 10,425,643 |

As a result of the net loss reported for the three months and six months ended June 30, 2009 191,856 and 191,656 potential common shares have been excluded from the calculation of diluted loss per share, respectively, because their effect would be anti-dilutive.

Note 4 - Stock Incentive Plans and Stock-Based Compensation

The Company's 2009 Stock Incentive Plan (the "2009 Plan"), which provides for stock-based awards to Company employees, non-employee directors and outside consultants or advisors, was approved by shareholders on May 13, 2009. No options have been issued to outside consultants or advisors. The number of shares of common stock reserved for issuance under the 2009 Plan is 1,000,000, of which the aggregate number of shares for which incentive stock options may be granted under the Plan is 900,000. No new grants of stock options may be made under the Company's 2003 Stock Incentive Plan (the "2003 Plan"). At June 30, 2010, there were option awards covering 315,319 shares outstanding under the 2003 Plan and its predecessor, the 1993 Stock Incentive Plan. Outstanding options under both plans generally expire ten years after the date of grant. Options are generally exercisable in four equal annual installments beginning one year after the date of grant.

In accordance with the current accounting guidance for share-based payments, the Company recognizes compensation expense for options awarded under its stock incentive plans. Current accounting guidance requires the grant-date fair value of all share-based payment awards, including employee stock options, to be recognized as employee compensation expense over the requisite service period.

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

Note 4 - Stock Incentive Plans and Stock-Based Compensation (Continued)

The following table summarizes options activity in 2010:

| | Number of Options | Grant Prices |
|--------------------------------------|------------------------------|---------------------|
| Outstanding at December 31, 2009 | 315,319 | \$2.00 to \$17.50 |
| Options granted | 77,000 | \$13.38 to \$13.75 |
| Options exercised | | |
| Options cancelled or expired | | |
| Outstanding at June 30, 2010 | 392,319 | \$2.00 to \$17.50 |
| Exercisable at June 30, 2010 | 250,694 | |
| Available for grant at June 30, 2010 | 923,000 | |

The following table presents information on stock options outstanding for the periods shown:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|-------------|--------------------------------------|-------------|
| (\$ in thousands, except per share data) | 2010 | 2009 | 2010 | 2009 |
| Intrinsic value of options exercised in the period | \$ | \$ 35 | \$ | \$ 68 |

| | As of June 30, | |
|--|-----------------------|-------------|
| | 2010 | 2009 |
| Stock options: | | |
| Number of options | 392,319 | 571,319 |
| Options fully vested and currently exercisable | 250,694 | 484,319 |
| Weighted average exercise price | \$ 13.59 | \$ 7.65 |
| Aggregate intrinsic value | \$ 258 | \$ 2,294 |
| Weighted average contractual term of options | 6.55 years | 5.25 years |

The aggregate intrinsic value of stock options represents the difference between the Company's closing stock price at the end of the period and the relevant exercise price multiplied by the number of options outstanding at the end of the period at each such price.

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) *(Continued)***Note 4 - Stock Incentive Plans and Stock-Based Compensation (Continued)**

The fair value of the stock-based awards, as determined under the Black-Scholes model, granted in the six months ended June 30, 2010 and 2009 were \$430,000 and \$349,000 or \$5.59 and \$4.39 per share, respectively, estimated with the following weighted-average assumptions:

| | Six Months Ended June 30, 2010 | Six Months Ended June 30, 2009 |
|-------------------------|-----------------------------------|-----------------------------------|
| Stock options: | | |
| Risk-free interest rate | 3.00% | 1.36% |
| Expected dividend yield | 2.39% | 2.93% |
| Expected term | 7.0 years | 7.1 years |
| Expected volatility | 58.83% | 61.94% |

The following table summarizes stock-based compensation expense related to stock option awards for the three months and six months ended June 30, 2010 and 2009 (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-------|------------------------------|-------|
| | 2010 | 2009 | 2010 | 2009 |
| Stock-based compensation expense included in selling, general and administrative expenses | \$ 52 | \$ 25 | \$ 84 | \$ 50 |
| Income tax benefit related to stock-based compensation | 21 | 10 | 34 | 20 |
| Stock-based compensation expense related to stock options, net of tax | \$ 31 | \$ 15 | \$ 50 | \$ 30 |

As of June 30, 2010 unamortized compensation expense related to stock options was \$639,000.

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

Note 5 - Workers Compensation

The following table summarizes the aggregate workers compensation reserve activity (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-----------|------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Beginning balance | | | | |
| Workers compensation claims liabilities | \$ 28,595 | \$ 15,739 | \$ 27,798 | \$ 15,084 |
| Add: claims expense accrual: | | | | |
| Current year | 3,958 | 3,441 | 7,646 | 6,490 |
| Prior years | 44 | 11,795 | 191 | 12,165 |
| Total expense accrual | 4,002 | 15,236 | 7,837 | 18,655 |
| Less: claim payments related to: | | | | |
| Current year | 668 | 611 | 855 | 711 |
| Prior years | 2,655 | 2,807 | 5,506 | 5,471 |
| Total paid | 3,323 | 3,418 | 6,361 | 6,182 |
| Ending balance | | | | |
| Workers compensation claims liabilities | \$ 29,274 | \$ 27,557 | \$ 29,274 | \$ 27,557 |
| Incurred but not reported (IBNR) | \$ 17,753 | \$ 17,011 | \$ 17,753 | \$ 17,011 |

During the second quarter of 2009, the Company engaged a new actuary to review its workers compensation liabilities. While the Company historically obtained an actuarial study, management determined the study was not the best estimate of the workers compensation liability. Based upon discussions with the new actuary and a thorough review of the Company's reserving process and consideration of recent developments, management determined the actuarial estimate as of June 30, 2009 was the best estimate of the ultimate cost to settle open claims. Our primary considerations included the significant erosion in the economy, the increasing complexity and uncertainty surrounding healthcare costs, unexpected development in open claims and growth in our business. The change in estimate resulted in the Company increasing its workers compensation claims liabilities by approximately \$11.8 million at June 30, 2009.

Note 6 - Fair Value Measurement

The Company has determined that its marketable securities should be presented at their fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Factors used in determining the fair value of our financial assets and liabilities are summarized into three broad categories:

Level 1 - quoted prices in active markets for identical securities;

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

Note 6 - Fair Value Measurement (Continued)

Level 2 - other significant observable inputs, including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.; and

Level 3 - significant unobservable inputs, including our own assumptions in determining fair value.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The Company has determined that its closed-end bond funds and equity securities components of its marketable securities fall into the Level 1 category. The Company has also determined that its municipal bonds, VRDN and corporate bonds components fall into the Level 2 category. There were no assets or liabilities where Level 3 valuation techniques were used and there were no assets and liabilities measured at fair value on a non-recurring basis.

Marketable securities consist of the following investments (in thousands):

| | June 30, 2010 | | | December 31, 2009 | | |
|----------------------------|---------------|----------|-----------|-------------------|----------|-----------|
| | Gross | | | Gross | | |
| | Unrealized | | | Unrealized | | |
| | Cost | Gains | Recorded | Cost | Gains | Recorded |
| | Basis | (Losses) | Basis | Basis | (Losses) | Basis |
| Current: | | | | | | |
| Trading: | | | | | | |
| Equity securities | \$ 349 | \$ (121) | \$ 228 | \$ 349 | \$ (24) | \$ 325 |
| Available-for-sale: | | | | | | |
| Municipal bonds | 21,626 | (9) | 21,617 | 11,637 | | 11,637 |
| Corporate bonds | 1,359 | (8) | 1,351 | | | |
| Variable rate demand notes | 400 | | 400 | 400 | | 400 |
| Closed-end bond funds | 142 | 176 | 318 | 491 | 402 | 893 |
| U.S. treasuries | | | | 511 | | 511 |
| | \$ 23,876 | \$ 38 | \$ 23,914 | \$ 13,388 | \$ 378 | \$ 13,766 |
| Long term: | | | | | | |
| Available-for-sale: | | | | | | |
| Corporate bonds | \$ 6,408 | \$ 162 | \$ 6,570 | \$ 6,947 | \$ 89 | \$ 7,036 |
| Held-to-maturity: | | | | | | |
| Corporate bonds | 442 | | 442 | 437 | | 437 |
| | \$ 6,850 | \$ 162 | \$ 7,012 | \$ 7,384 | \$ 89 | \$ 7,473 |

During the second quarter ended June 30, 2010, the Company realized a \$200,000 gain on the sale of certain closed-end bond funds. During the six months ended June 30, 2010, the Company realized a total of \$303,000 in gains on the sales of certain closed-end bond funds.

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

Overview

Barrett Business Services, Inc. ("Barrett", the "Company" or "we"), a Maryland corporation, offers a comprehensive range of human resource management services to help small and medium-sized businesses manage the increasing costs and complexities of a broad array of employment-related issues. The Company's principal services, professional employer organization ("PEO") services and staffing services, assist its clients in leveraging their investment in human capital. The Company believes that the combination of these two principal services enables it to provide clients with a unique blend of services not offered by the Company's competition. Barrett's platform of outsourced human resource management services is built upon expertise in payroll processing, employee benefits and administration, workers' compensation coverage, effective risk management and workplace safety programs, and human resource administration.

To provide PEO services to a client, the Company enters into a contract to become a co-employer of the client's existing workforce and Barrett assumes responsibility for some or all of the client's human resource management responsibilities. PEO services are normally used by organizations to satisfy ongoing human resource management needs and typically involve contracts with a minimum term of one year, renewable annually, which cover all employees at a particular work site. Staffing services include on-demand or short-term staffing assignments, long-term or indefinite-term contract staffing and comprehensive on-site management. The Company's staffing services also include direct placement services, which involve fee-based search efforts for specific employee candidates at the request of PEO clients, staffing customers or other companies.

The Company's ability to offer clients a broad mix of services allows Barrett to effectively become the human resource department and a strategic business partner for its clients. The Company believes its approach to human resource management services is designed to positively affect its clients' business results by:

allowing clients to focus on core business activities instead of human resource matters;

increasing clients' productivity by improving employee satisfaction and generating greater employee retention;

reducing overall payroll expenses due to lower workers' compensation and health insurance costs; and

assisting clients in complying with complex and evolving human resource-related regulatory and tax issues.

The Company serves a growing and diverse client base of small and medium-sized businesses in a wide variety of industries through a network of branch offices in California, Oregon, Washington, Idaho, Arizona, Utah, Colorado, Maryland, Delaware and North Carolina. Barrett also has several smaller recruiting offices in its general market areas, which are under the direction of a branch office.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)****Results of Operations**

The following table sets forth percentages of total revenues represented by selected items in the Company's Consolidated Statements of Operations for the three and six months ended June 30, 2010 and 2009.

| | Percentage of Total Revenues | | | |
|--|------------------------------|---------|------------------|--------|
| | Three Months Ended | | Six Months Ended | |
| | June 30, 2010 | 2009 | June 30, 2010 | 2009 |
| Revenues: | | | | |
| Staffing services | 47.4% | 48.9% | 47.0% | 48.0% |
| Professional employer service fees | 52.6 | 51.1 | 53.0 | 52.0 |
| Total revenues | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of revenues: | | | | |
| Direct payroll costs | 36.0 | 36.9 | 35.5 | 36.2 |
| Payroll taxes and benefits | 33.9 | 33.9 | 37.8 | 38.8 |
| Workers' compensation | 12.7 | 33.1 | 13.1 | 23.6 |
| Total cost of revenues | 82.6 | 103.9 | 86.4 | 98.6 |
| Gross margin | 17.4 | (3.9) | 13.6 | 1.4 |
| Selling, general and administrative expenses | 12.5 | 14.6 | 13.2 | 15.1 |
| Depreciation and amortization | 0.5 | 0.7 | 0.5 | 0.7 |
| Income (loss) from operations | 4.4 | (19.2) | (0.1) | (14.4) |
| Other income | 0.6 | 0.5 | 0.5 | 0.3 |
| Income (loss) before income taxes | 5.0 | (18.7) | 0.4 | (14.1) |
| Provision for (benefit from) income taxes | 1.6 | (6.9) | (0.1) | (5.0) |
| Net income (loss) | 3.4% | (11.8)% | 0.5% | (9.1)% |

We report PEO revenues in accordance with the current accounting guidance for revenue recognition, which requires us to report such revenues on a net basis because we are not the primary obligor for the services provided by our PEO clients to their customers pursuant to our PEO contracts. We present for comparison purposes the gross revenues and cost of revenues information set forth in the table below. Although not in accordance with GAAP, management believes this information is more informative as to the level of our business activity and more illustrative of how we manage our operations, including the preparation of our internal operating forecasts, because it presents our PEO services on a basis comparable to our staffing services.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)****Results of Operations (Continued)**

The presentation of revenues on a net basis and the relative contributions of staffing and PEO revenues can create volatility in our gross margin percentage. The general impact of fluctuations in our revenue mix is described below.

A relative increase in staffing revenues will typically result in a lower gross margin percentage. Staffing revenues are presented at gross with the related direct costs reported in cost of sales. While staffing relationships typically have higher margins than PEO relationships, an increase in staffing revenues and related costs presented at gross dilutes the impact of the net PEO revenue on gross margin percentage.

A relative increase in PEO revenue will result in a higher gross margin percentage. Improvement in gross margin percentage occurs because incremental PEO revenue dollars are reported as revenue net of all related direct costs.

| (in thousands) | Unaudited | | Unaudited | |
|--------------------------------|--------------------|------------|------------------|-----------|
| | Three Months Ended | | Six Months Ended | |
| | June 30, | June 30, | June 30, | June 30, |
| | 2010 | 2009 | 2010 | 2009 |
| Revenues: | | | | |
| Staffing services | \$ 31,975 | \$ 28,002 | \$ 59,037 | \$ 52,044 |
| Professional employer services | 265,121 | 220,150 | 500,616 | 423,975 |
| Total revenues | 297,096 | 248,152 | 559,653 | 476,019 |
| Cost of revenues: | | | | |
| Direct payroll costs | 252,722 | 210,720 | 476,269 | 404,276 |
| Payroll taxes and benefits | 22,861 | 19,434 | 47,489 | 42,061 |
| Workers' compensation | 9,768 | 20,221 | 18,773 | 28,216 |
| Total cost of revenues | 285,351 | 250,375 | 542,531 | 474,553 |
| Gross margin | \$ 11,745 | \$ (2,223) | \$ 17,122 | \$ 1,466 |

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)****Results of Operations (Continued)**

A reconciliation of non-GAAP gross PEO revenues to net PEO revenues is as follows:

| (in thousands) | Unaudited Three Months Ended June 30, | | | | | |
|--------------------------------|--|------------|------------------|--------------|--------------------------|-----------|
| | Gross Revenue | | Reclassification | | Net Revenue | |
| | Reporting Method 2010 | 2009 | 2010 | 2009 | Reporting Method 2010 | 2009 |
| Revenues: | | | | | | |
| Staffing services | \$ 31,975 | \$ 28,002 | \$ | \$ | \$ 31,975 | \$ 28,002 |
| Professional employer services | 265,121 | 220,150 | (229,664) | (190,887) | 35,457 | 29,263 |
| Total revenues | \$ 297,096 | \$ 248,152 | \$ (229,664) | \$ (190,887) | \$ 67,432 | \$ 57,265 |
| Cost of revenues | \$ 285,351 | \$ 250,375 | \$ (229,664) | \$ (190,887) | \$ 55,687 | \$ 59,488 |

| (in thousands) | Unaudited Six Months Ended June 30, | | | | | |
|--------------------------------|--|------------|------------------|--------------|--------------------------|------------|
| | Gross Revenue | | Reclassification | | Net Revenue | |
| | Reporting Method 2010 | 2009 | 2010 | 2009 | Reporting Method 2010 | 2009 |
| Revenues: | | | | | | |
| Staffing services | \$ 59,037 | \$ 52,044 | \$ | \$ | \$ 59,037 | \$ 52,044 |
| Professional employer services | 500,616 | 423,975 | (433,961) | (367,682) | 66,655 | 56,293 |
| Total revenues | \$ 559,653 | \$ 476,019 | \$ (433,961) | \$ (367,682) | \$ 125,692 | \$ 108,337 |
| Cost of revenues | \$ 542,531 | \$ 474,553 | \$ (433,961) | \$ (367,682) | \$ 108,570 | \$ 106,871 |

The amount of the reclassification is comprised of direct payroll costs and safety incentives attributable to our PEO client companies.

Three months ended June 30, 2010 and 2009

Net income for the second quarter of 2010 amounted to \$2.3 million, an improvement of \$9.0 million over the net loss of \$6.7 million for the second quarter of 2009. The improvement for the second quarter of 2010 was primarily due to a 17.6% increase in revenues and the inclusion in the second quarter of 2009 of a \$11.8 million increase in workers' compensation expense resulting from the Company's change in estimate of its workers' compensation reserves. Diluted earnings per share for the second quarter of 2010 was \$.22 compared to diluted loss per share of \$.65 for the comparable 2009 period.

Revenues for the second quarter of 2010 totaled \$67.4 million, an increase of approximately \$10.1 million or 17.6%, which reflects an increase in the Company's PEO service fee revenue of \$6.2 million or 21.2% and an increase in staffing services revenue of

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

Results of Operations (Continued)

Three months ended June 30, 2010 and 2009 (Continued)

\$4.0 million or 14.2%. Our growth in PEO revenues was primarily attributable to new customers as PEO business from new customers during the second quarter of 2010 exceeded our lost PEO business from the second quarter of 2009 from former customers. PEO revenues from existing customers reflected a small increase on a quarter over quarter basis. Staffing revenues increased as result of an increased demand for our staffing services from existing customers in our northwest and intermountain markets. Our new staffing business during the quarter slightly exceeded the loss of business from former customers. Management expects demand for the Company's staffing services will continue to reflect overall economic conditions in its market areas.

Gross margin for the second quarter of 2010 totaled approximately \$11.7 million or an increase of \$14.0 million over the second quarter of 2009, primarily due to a 17.6% increase in revenues and to the inclusion of the \$11.8 million workers' compensation adjustment in the second quarter of 2009 and a decline in direct payroll costs, as a percentage of revenues.

Workers' compensation expense, as a percent of revenues, decreased from 33.1% in the second quarter of 2009 to 12.7% in the second quarter of 2010. Workers' compensation expense for the second quarter of 2010 totaled \$8.6 million, compared to \$18.9 million for the second quarter of 2009. The decrease in dollars was primarily due to the inclusion of the \$11.8 million workers' compensation adjustment in the second quarter of 2009, partially offset by an increase in the number of injury claims incurred during the 2010 quarter.

The decrease in direct payroll costs, as a percentage of revenues, from 36.9% for the second quarter of 2009 to 36.0% for the second quarter of 2010 was primarily due to the increase in our mix of PEO services over the second quarter of 2009 where PEO service fee revenue is reflected net of direct payroll costs.

Payroll taxes and benefits, as a percentage of revenues, for the second quarter of 2010 was 33.9%, the same percentage as the second quarter of 2009. The percentage rate remained the same due to similar overall effective payroll tax rates in the states in which the Company does business during both quarters.

Selling, general and administrative (SG&A) expenses for the second quarter of 2010 amounted to approximately \$8.4 million, an increase of \$71,000 or 0.9% over the second quarter of 2009. The slight increase over the second quarter of 2009 was primarily attributable to an increased level of business activity.

Other income for the second quarter of 2010 was \$380,000 compared to other income of \$293,000 for the second quarter of 2009. The increase in other income for the second quarter of 2010 was primarily attributable to a gain of \$200,000 on the sale of certain closed-end bond funds, partially offset by a small decline in investment income.

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

Results of Operations (Continued)

Six months ended June 30, 2010 and 2009

Net income for the six months ended June 30, 2010 amounted to \$592,000, an improvement of \$10.5 million over the net loss of \$9.9 million for the second quarter of 2009. The improvement for the 2010 period was primarily due to a 16.0% increase in revenues and the inclusion of a \$11.8 million increase in workers' compensation expense resulting from the Company's change in estimate of its workers' compensation reserves in the six months ended June 30, 2009. Diluted earnings per share for the first six months of 2010 was \$.06 compared to diluted loss per share of \$.95 for the comparable 2009 period.

Revenues for the six months ended June 30, 2010 totaled \$125.7 million, an increase of approximately \$17.4 million or 16.0%, which reflects an increase in the Company's PEO service fee revenue of \$10.4 million or 18.4% and an increase in staffing services revenue of \$7.0 million or 13.4%. Our growth in PEO revenues was attributable to new customers as PEO business from new customers during the first six months of 2010 exceeded the sum of our lost PEO business from the comparable 2009 period from former customers and the decline in revenue from existing PEO customers. Staffing revenues increased as a result of an increased demand for our staffing services from existing customers in our northwest and intermountain markets as our new staffing business during the period slightly exceeded the loss of business from former customers.

Gross margin for the six months ended June 30, 2010 totaled approximately \$17.1 million or an increase of \$15.7 million over the comparable period of 2009, primarily due to a 16.0% increase in revenues and the inclusion of the \$11.8 million in workers' compensation adjustment in the six months ended June 30, 2009, and to declines in payroll taxes and benefits and direct payroll costs, as a percentage of revenues.

Workers' compensation expense, as a percent of revenues, decreased from 23.6% in the first six months of 2009 to 13.1% in the first six months of 2010. Workers' compensation expense for the first six months of 2010 totaled \$16.4 million, compared to \$25.6 million for the first six months of 2009. The decrease in dollars was primarily due to the inclusion of the \$11.8 million workers' compensation adjustment in 2009, partially offset by an increase in the number of injury claims incurred during the comparable period of 2010.

Payroll taxes and benefits for the six months of 2010, as a percentage of revenues, decreased from 38.8% to 37.8%, primarily resulting from the Company's changing to client specific state unemployment wage reporting in California for all our PEO clients. The change resulted in a decline in the Company's overall average effective California state unemployment rate. This decrease was partially offset by higher state unemployment rates in various other states the Company does business in.

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

Results of Operations (Continued)

Six months ended June 30, 2010 and 2009 (Continued)

The decrease in direct payroll costs, as a percentage of revenues, from 36.2% for the first six months of 2009 to 35.5% for the first six months of 2010 was primarily due to the increase in our mix of PEO services over the first six months of 2009 as PEO service fee revenue is reflected net of direct payroll costs.

SG&A expenses for the first six months of 2010 amounted to approximately \$16.6 million, an increase of \$255,000 or 1.6% over the first six months of 2009. The slight increase over the first six months of 2009 was primarily attributable to an increased level of business activity.

Other income for the first six months of 2010 was \$665,000 compared to other income of \$408,000 for the first six months of 2009. The increase in other income for the first six months of 2010 was primarily attributable to gains of \$303,000 on the sales of certain closed-end bond funds.

The benefit from income taxes for the first six months of 2010 included a benefit of \$248,000 primarily from a reduction to a deferred tax asset allowance as sales of certain closed-end bond funds during the 2010 period allowed the Company to apply current year capital losses to 2009 capital gains.

Factors Affecting Quarterly Results

The Company has historically experienced significant fluctuations in its quarterly operating results and expects such fluctuations to continue in the future. The Company's operating results may fluctuate due to a number of factors such as seasonality, wage limits on statutory payroll taxes, claims experience for workers' compensation, demand and competition for the Company's services and the effect of acquisitions. The Company's revenue levels may fluctuate from quarter to quarter primarily due to the impact of seasonality on its staffing services business and on certain of its PEO clients in the agriculture, food processing and construction-related industries. As a result, the Company may have greater revenues and net income in the third quarter of its fiscal year. Revenue levels in the fourth quarter may be affected by many customers' practice of operating on holiday-shortened schedules. Payroll taxes and benefits fluctuate with the level of direct payroll costs, but tend to represent a smaller percentage of revenues and direct payroll later in the Company's fiscal year as federal and state statutory wage limits for unemployment and social security taxes are exceeded on a per employee basis. Workers' compensation expense varies with both the frequency and severity of workplace injury claims reported during a quarter and the estimated future costs of such claims. Adverse loss development of prior period claims during a subsequent quarter may also contribute to the volatility in the Company's estimated workers' compensation expense.

Liquidity and Capital Resources

The Company's cash position for the six months ended June 30, 2010 decreased \$19.2 million from December 31, 2009, which compares to an decrease of \$15.1 million for the comparable period in 2009. The decrease in cash at June 30, 2010 as compared to

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

Liquidity and Capital Resources (Continued)

December 31, 2009, was primarily due to net purchases of marketable securities of \$13.0 million, net purchases of restricted marketable securities of \$2.9 million, Company common stock repurchases of \$2.1 million and cash dividends paid of \$1.7 million.

Net cash provided by operating activities for the six months ended June 30, 2010 amounted to \$1.6 million compared to \$4.3 million of net cash used in operations for the comparable 2009 period. For the six months ended June 30, 2010, cash flow was principally provided by net income of \$592,000 and an increase in accrued payroll, payroll taxes and related benefits of \$17.6 million, partially offset by an increase in trade accounts receivable of \$17.2 million.

Net cash used in investing activities for the six months ended June 30, 2010 was \$17.0 million as compared to \$7.0 million for the similar 2009 period. For the 2010 period, cash from investing activities was principally used in the purchase of marketable securities totaling \$19.7 million and the purchases of restricted marketable securities of \$4.4 million, partially offset by the proceeds from the sales and maturities of marketable securities of \$6.7 million. Approximately \$2.8 million of the purchases of restricted marketable securities coupled with \$3.3 million of existing marketable securities were used to capitalize the Company's wholly-owned fully licensed insurance company in Arizona. The remaining transactions related to restricted marketable securities were scheduled maturities and the related replacement of such securities held for workers compensation surety deposit purposes. The Company presently has no material long-term capital commitments.

Net cash used in financing activities for the six months ended June 30, 2010 and June 30, 2009 was \$3.8 million. For the 2010 period, the principal use of cash for financing activities was the \$2.1 million used to repurchase approximately 163,000 shares of the Company's common stock and payment of regular quarterly cash dividends totaling \$1.7 million to holders of the Company's common stock.

The Company's business strategy continues to focus on growth through the expansion of operations at existing offices, together with the selective acquisition of additional personnel-related business, both in its existing markets and other strategic geographic markets. The Company periodically evaluates proposals for various acquisition opportunities, but there can be no assurance that any additional transactions will be consummated.

The Company is a party to a Standby Letter of Credit Agreement dated as of June 30, 2009 (the "Credit Agreement") with its principal bank. The Credit Agreement provides for standby letters of credit as to which there were \$6.7 million outstanding at June 30, 2010 in connection with various surety deposit requirements for workers' compensation purposes.

Pursuant to the Credit Agreement, the Company is required to maintain compliance with the following covenants: (1) to maintain net income after taxes not less than \$1.00 (one dollar) on an annual basis, determined as of each fiscal year end; (2) to maintain liquid assets (defined as unencumbered cash, cash equivalents, and publicly traded and quoted marketable securities) having an aggregate fair market value at all times not less than \$10.0 million, determined as of the end of each fiscal quarter; and (3) to not borrow or permit to exist

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

Liquidity and Capital Resources (Continued)

indebtedness (other than from or to the bank), or mortgage, pledge, grant, or permit to exist a security interest in, or a lien upon, all or any portion of the Company's assets now owned or hereafter acquired, except for purchase money indebtedness (and related security interests) which does not at any time exceed \$500,000. The Company was in compliance with all covenants at June 30, 2010.

Management expects that current liquid assets and the funds anticipated to be generated from operations will be sufficient in the aggregate to fund the Company's working capital needs for the next twelve months.

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.

Forward-Looking Information

Statements in this report which are not historical in nature, including discussion of economic conditions in the Company's market areas and effect on revenue levels, the potential for and effect of past and future acquisitions, the effect of changes in the Company's mix of services on gross margin, the adequacy of the Company's workers' compensation reserves and the effect of changes in estimate of its claims liabilities, the adequacy of the Company's allowance for doubtful accounts, the effect of the Company's formation of a wholly owned, fully licensed captive insurance subsidiary and becoming self-insured for certain business risks, the financial viability of the Company's excess insurance carriers, the effectiveness of the Company's management information systems, payment of future dividends, and the availability of financing and working capital to meet the Company's funding requirements, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors with respect to the Company include the ability to retain current customers, difficulties associated with integrating acquired businesses and clients into the Company's operations, economic trends in the Company's service areas, material deviations from expected future workers' compensation claims experience, the effect of changes in the workers' compensation regulatory environment in one or more of the Company's primary markets, collectibility of accounts receivable, the carrying values of deferred income tax assets and goodwill, which may be affected by the Company's future operating results, the availability of capital or letters of credit necessary to meet state-mandated surety deposit requirements for maintaining the Company's status as a qualified self-insured employer for workers' compensation coverage, and the use of \$41.4 million in cash and current marketable securities, among others. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk for changes in interest rates primarily relates to its investment portfolio of liquid assets. As of June 30, 2010, the Company's investment portfolio consisted principally of approximately \$14.4 million in tax-exempt money market funds, \$21.6 million in tax-exempt municipal bonds with an average maturity of 231 days, and approximately \$7.3 million in bond funds and corporate bonds. Based on the Company's overall interest exposure at June 30, 2010, a 100 basis point increase in market interest rates would not have a material effect on the fair value of the Company's investment portfolio of liquid assets or its results of operations because of the predominantly short maturities of the securities within the investment portfolio.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of June 30, 2010, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on the evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended June 30, 2010 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

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Part II Other Information

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our 2009 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes information related to stock repurchases during the quarter ended June 30, 2010.

| Month | Total Number of Shares Repurchased | Average Price Paid Per Share | Total Number of Shares Repurchased as Part of Publicly Announced Plan (1) | Maximum Number of Shares that May Yet Be Repurchased Under the Plan (1) |
|-------|---|---------------------------------------|---|--|
| April | | \$ | | |
| May | | | | |
| June | 157,842 | 12.89 | 157,842 | 1,651,400 |
| Total | 157,842 | | 157,842 | |

- (1) In November 2006, the Board adopted a stock repurchase program and authorized the repurchase of up to 500,000 shares of the Company's stock from time to time in open market purchases. In November 2007, the Board approved an increase in the authorized shares to be repurchased up to 1.0 million shares. In October 2008, the Board approved a second increase in the authorized shares to be repurchased up to 3.0 million shares.

Item 6. Exhibits

The exhibits filed with this report are listed in the Exhibit Index following the signature page of this report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BARRETT BUSINESS SERVICES, INC.

(Registrant)

Date: August 9, 2010

/s/ James D. Miller
James D. Miller
Vice President-Finance, Treasurer and Secretary
(Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit

| | |
|------|--|
| 31.1 | Certification of the Chief Executive Officer under Rule 13a-14(a). |
| 31.2 | Certification of the Chief Financial Officer under Rule 13a-14(a). |
| 32 | Certification pursuant to 18 U.S.C. Section 1350. |

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