

BARRETT BUSINESS SERVICES INC
Form 10-Q
August 08, 2013
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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, 2013

Commission File No. 0-21886

BARRETT BUSINESS SERVICES, INC.

(Exact name of registrant as specified in its charter)

| | |
|--|---|
| Maryland (State or other jurisdiction of | 52-0812977 (IRS Employer |
| incorporation or organization) | 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

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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 Accelerated filer

Non-accelerated filer Smaller reporting company

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 31, 2013 was 7,121,681 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, 2013 | December 31, 2012 |
|--|------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 8,847 | \$ 45,747 |
| Marketable securities | 5,349 | 16,748 |
| Trade accounts receivable, net | 80,852 | 63,921 |
| Income taxes receivable | 5,358 | 0 |
| Prepaid expenses and other | 2,985 | 4,854 |
| Restricted certificates of deposit | 63,944 | 0 |
| Deferred income taxes | 8,177 | 8,148 |
| Total current assets | 175,512 | 139,418 |
| Marketable securities | 4,389 | 9,899 |
| Property, equipment and software, net | 19,933 | 18,489 |
| Restricted marketable securities and workers compensation deposits | 10,505 | 9,726 |
| Other assets | 3,170 | 3,509 |
| Goodwill | 47,820 | 47,820 |
| | \$ 261,329 | \$ 228,861 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 220 | \$ 220 |
| Line of credit | 0 | 4,532 |
| Accounts payable | 2,810 | 1,995 |
| Accrued payroll, payroll taxes and related benefits | 86,835 | 69,568 |
| Income taxes payable | 0 | 272 |
| Other accrued liabilities | 636 | 306 |
| Workers compensation claims liabilities | 28,115 | 24,541 |
| Safety incentives liability | 10,939 | 9,842 |
| Total current liabilities | 129,555 | 111,276 |
| Long-term workers compensation claims liabilities | 56,428 | 46,023 |
| Long-term debt | 5,163 | 5,273 |
| Deferred income taxes | 10,607 | 10,607 |
| Customer deposits and other long-term liabilities | 1,470 | 1,786 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Preferred stock, \$.01 par value; 500 shares authorized; no shares issued and outstanding | 0 | 0 |
| Common stock, \$.01 par value; 20,500 shares authorized, 7,107 and 7,017 shares issued and outstanding | 71 | 70 |

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| | | |
|---|------------|------------|
| Additional paid-in capital | 3,666 | 913 |
| Accumulated other comprehensive (loss) income | (24) | 23 |
| Retained earnings | 54,393 | 52,890 |
| | 58,106 | 53,896 |
| | \$ 261,329 | \$ 228,861 |

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, | |
|--|--------------------------------|-----------------|
| | 2013 | 2012 |
| Revenues: | | |
| Professional employer service fees | \$ 93,494 | \$ 65,113 |
| Staffing services | 35,304 | 30,387 |
| Total revenues | 128,798 | 95,500 |
| Cost of revenues: | | |
| Direct payroll costs | 26,611 | 22,843 |
| Payroll taxes and benefits | 53,483 | 39,332 |
| Workers compensation | 24,978 | 16,984 |
| Total cost of revenues | 105,072 | 79,159 |
| Gross margin | 23,726 | 16,341 |
| Selling, general and administrative expenses | 14,494 | 10,549 |
| Depreciation and amortization | 506 | 357 |
| Income from operations | 8,726 | 5,435 |
| Other income (expense): | | |
| Investment income, net | 173 | 212 |
| Interest expense | (64) | (7) |
| Other | 1 | (9) |
| Other income | 110 | 196 |
| Income before income taxes | 8,836 | 5,631 |
| Provision for income taxes | 2,950 | 1,888 |
| Net Income | \$ 5,886 | \$ 3,743 |
| Basic earnings per common share | \$.83 | \$.54 |
| Weighted average number of basic common shares outstanding | 7,082 | 6,995 |
| Diluted earnings per common share | \$.80 | \$.53 |
| Weighted average number of diluted common shares outstanding | 7,374 | 7,078 |
| Cash dividends per common share | \$.13 | \$.11 |

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, | |
|--|------------------------------|-----------------|
| | 2013 | 2012 |
| Revenues: | | |
| Professional employer service fees | \$ 175,312 | \$ 121,324 |
| Staffing services | 65,037 | 56,598 |
| Total revenues | 240,349 | 177,922 |
| Cost of revenues: | | |
| Direct payroll costs | 48,907 | 42,495 |
| Payroll taxes and benefits | 112,606 | 82,324 |
| Workers compensation | 46,799 | 30,205 |
| Total cost of revenues | 208,312 | 155,024 |
| Gross margin | 32,037 | 22,898 |
| Selling, general and administrative expenses | 26,305 | 20,313 |
| Depreciation and amortization | 966 | 704 |
| Income from operations | 4,766 | 1,881 |
| Other income (expense): | | |
| Investment income, net | 345 | 441 |
| Interest expense | (143) | (13) |
| Other | (5) | (16) |
| Other income | 197 | 412 |
| Income before income taxes | 4,963 | 2,293 |
| Provision for income taxes | 1,626 | 763 |
| Net Income | \$ 3,337 | \$ 1,530 |
| Basic earnings per common share | \$.47 | \$.18 |
| Weighted average number of basic common shares outstanding | 7,052 | 8,435 |
| Diluted earnings per common share | \$.45 | \$.18 |
| Weighted average number of diluted common shares outstanding | 7,344 | 8,511 |
| Cash dividends per common share | \$.26 | \$.22 |

The accompanying notes are an integral part of these financial statements

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BARRETT BUSINESS SERVICES, INC.

Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands)

| | Three Months Ended June 30, | |
|---|--------------------------------|-----------------|
| | 2013 | 2012 |
| Net income | \$ 5,886 | \$ 3,743 |
| Unrealized (losses) gains on marketable securities, net of tax of \$(28) and \$1 in 2013 and 2012, respectively | \$ (43) | 2 |
| Comprehensive income | \$ 5,843 | \$ 3,745 |

| | Six Months Ended June 30, | |
|--|------------------------------|-----------------|
| | 2013 | 2012 |
| Net income | \$ 3,337 | \$ 1,530 |
| Unrealized (losses) gains on marketable securities, net of tax of \$(31) and \$27 in 2013 and 2012, respectively | \$ (47) | 43 |
| Comprehensive income | \$ 3,290 | \$ 1,573 |

The accompanying notes are an integral part of these financial statements

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BARRETT BUSINESS SERVICES, INC.

Consolidated Statements of Stockholders' Equity

Six Months Ended June 30, 2013 and 2012

(Unaudited)

(In thousands)

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total |
|--|--------------|--------------|----------------------------------|--|----------------------|------------------|
| | Shares | Amount | | | | |
| Balance, December 31, 2011 | 9,871 | \$ 99 | \$ 20,943 | \$ (34) | \$ 80,647 | \$ 101,655 |
| Common stock issued on exercise of options | 118 | 1 | 1,688 | 0 | 0 | 1,689 |
| Stock option compensation expense, net of tax | 0 | 0 | 285 | 0 | 0 | 285 |
| Tax benefit of stock option exercises | 0 | 0 | 264 | 0 | 0 | 264 |
| Repurchase of common stock | (2,986) | (30) | (22,864) | 0 | (37,338) | (60,232) |
| Cash dividends on common stock | 0 | 0 | 0 | 0 | (1,868) | (1,868) |
| Unrealized holding gains on marketable securities, net of tax | 0 | 0 | 0 | 43 | 0 | 43 |
| Net income | 0 | 0 | 0 | 0 | 1,530 | 1,530 |
| Balance, June 30, 2012 | 7,003 | 70 | 316 | 9 | 42,971 | 43,366 |
| Balance, December 31, 2012 | 7,017 | 70 | 913 | 23 | 52,890 | 53,896 |
| Common stock issued on exercise of options | 90 | 1 | 1,199 | 0 | 0 | 1,200 |
| Stock option compensation expense, net of tax | 0 | 0 | 367 | 0 | 0 | 367 |
| Excess tax benefits from share-based compensation | 0 | 0 | 1,187 | 0 | 0 | 1,187 |
| Cash dividends on common stock | 0 | 0 | 0 | 0 | (1,834) | (1,834) |
| Unrealized holding losses on marketable securities, net of tax | 0 | 0 | 0 | (47) | 0 | (47) |
| Net income | 0 | 0 | 0 | 0 | 3,337 | 3,337 |
| Balance, June 30, 2013 | 7,107 | \$ 71 | \$ 3,666 | \$ (24) | \$ 54,393 | \$ 58,106 |

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, | |
|--|------------------------------|-----------------|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net Income | \$ 3,337 | \$ 1,530 |
| Reconciliations of net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 966 | 704 |
| Gains recognized on marketable securities | (1) | 0 |
| Gain recognized on sale and leaseback | (61) | (61) |
| Deferred income taxes | (58) | 53 |
| Share-based compensation | 367 | 285 |
| Changes in certain assets and liabilities: | | |
| Trade accounts receivable, net | (16,931) | (16,913) |
| Income taxes receivable | (5,358) | 701 |
| Prepaid expenses and other | 1,869 | 2,983 |
| Accounts payable | 815 | 274 |
| Accrued payroll, payroll taxes and related benefits | 17,267 | 16,045 |
| Other accrued liabilities | 330 | 50 |
| Income taxes payable | (272) | 193 |
| Workers compensation claims liabilities | 13,979 | 5,939 |
| Safety incentives liability | 1,097 | 1,220 |
| Customer deposits, long-term liabilities and other assets, net | 84 | 56 |
| Net cash provided by operating activities | 17,430 | 13,059 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (2,410) | (1,527) |
| Proceeds from sales and maturities of marketable securities | 57,773 | 22,924 |
| Purchase of marketable securities | (40,881) | (22,313) |
| Purchase of restricted certificates of deposit | (63,944) | 0 |
| Proceeds from maturities of restricted marketable securities | 4,815 | 4,671 |
| Purchase of restricted marketable securities | (5,594) | (4,680) |
| Net cash used in investing activities | (50,241) | (925) |
| Cash flows from financing activities: | | |
| Proceeds from credit-line borrowings | 132,664 | 0 |
| Payments on credit-line borrowings | (137,196) | 0 |
| Payments on long-term debt | (110) | 0 |
| Repurchase of common stock | 0 | (25,432) |
| Dividends paid | (1,834) | (1,868) |
| Proceeds from exercise of stock options | 1,200 | 1,689 |
| Excess tax benefits from share-based compensation | 1,187 | 264 |
| Net cash used in financing activities | (4,089) | (25,347) |

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| | | |
|--|----------|-----------|
| Net decrease in cash and cash equivalents | (36,900) | (13,213) |
| Cash and cash equivalents, beginning of period | 45,747 | 49,571 |
| Cash and cash equivalents, end of period | \$ 8,847 | \$ 36,358 |
| Supplemental schedule of noncash financing activities: | | |
| Issuance of mandatorily redeemable preferred stock | \$ 0 | \$ 34,800 |

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 , the Company , our or we), 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 2012 Annual Report on Form 10-K at pages F1 F29. The results of operations for an interim period are not necessarily indicative of the results of operations for a full year.

Revenue recognition

We recognize revenue as services are rendered by our workforce. Professional employer services are normally used by organizations to satisfy ongoing human resource management needs and typically involve contracts with a minimum term of one year, which cover all employees at a particular work site. Our client services agreements are renewable on an annual basis and typically require 30 days written notice to cancel or terminate the contract by either party. Our client services agreements provide for immediate termination upon any default of the client regardless of when notice is given. We report professional employer services revenues on a net basis because we are not the primary obligor for the services provided by our co-employed clients to their customers pursuant to our client services agreements. Consequently, our professional employer service revenues represent the gross margin generated from our professional employer services after deducting the amounts invoiced to clients for direct payroll expenses such as salaries and wages and safety incentives. These amounts are also excluded from cost of revenues. Professional employer service revenues also include amounts invoiced to our clients for employer payroll-related taxes and workers compensation coverage. Staffing services are engaged by customers to meet short-term and long-term personnel needs.

Marketable securities

As of June 30, 2013, the Company s marketable securities consisted of certificates of deposit, tax-exempt municipal securities, U.S. treasuries and corporate bonds. The Company classifies certificates of deposit, municipal securities, U.S. treasuries, 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. Certain of the Company s corporate bonds are classified as held-to-maturity and are reported at amortized cost.

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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)

Allowance for doubtful accounts

The Company had an allowance for doubtful accounts of \$362,000 and \$381,000 at June 30, 2013 and December 31, 2012, 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.

Workers' compensation claims

The Company is a self-insured employer with respect to workers' compensation coverage for all of its employees (including employees co-employed through our client service agreements) 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, the Company operates a wholly-owned fully licensed insurance company, Ecole Insurance Company (Ecole), 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, the Company maintains 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 ACE American Insurance Company (ACE), between \$5.0 million and \$15.0 million per occurrence, except in Maryland, where coverage with ACE is between \$1.0 million and \$25.0 million per occurrence, and in Colorado, where the coverage with ACE is between \$500,000 and statutory limits per occurrence. The Company continues to evaluate the financial capacity of its insurers to assess the recoverability of the related insurer receivables.

The Company has provided a total of \$84.5 million and \$70.6 million at June 30, 2013 and December 31, 2012, respectively, as an estimated future liability for unsettled workers' compensation claims liabilities. 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. Also included in these estimates are amounts for unallocated loss adjustment expenses, including legal costs. These estimates are continually reviewed and adjustments to liabilities are reflected in current operating results as they become known.

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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)

Safety incentives liability

Safety incentives represent cash incentives paid to certain client companies under client service agreements for maintaining safe-work practices in order to minimize workplace injuries, thereby meeting agreed-upon loss objectives. The Company has provided \$10.9 million at June 30, 2013 and \$9.8 million at December 31, 2012 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, and the expected payout as determined by historical incentive payment trends. Safety incentive expense is netted against professional employer services revenue in our consolidated statements of operations.

Reclassifications

Certain prior year amounts have been reclassified to conform with the 2013 presentation. Such reclassifications had no impact on the Company's financial condition, operating results, cash flows, working capital or stockholders' equity.

Note 2 Stock Repurchase

Effective March 28, 2012, the Company repurchased 2,485,929 shares of the Company's common stock held by the Estate of William W. Sherertz and 500,000 common shares held by Nancy Sherertz. Mr. Sherertz, a founder and former president and CEO of the Company, died January 20, 2011. Nancy Sherertz is also a founder of the Company. The common shares were repurchased at a price of \$20 per share, representing total consideration of \$59.7 million. The Company used a combination of \$24.9 million in cash and issued 34,800 shares of Series A Nonconvertible, Non-Voting Redeemable Preferred Stock with a liquidation preference of \$1,000 per share. Additionally, the Company incurred professional and legal fees totaling \$514,000 related to the transaction.

Effective September 21, 2012, the Company redeemed all of the outstanding shares of its Series A Nonconvertible, Non-Voting Redeemable Preferred Stock for \$34.8 million using a combination of cash on hand and availability under a new revolving credit facility provided by its principal bank. By redeeming the preferred stock within six months of issuance, the Company was not required to pay a semi-annual dividend of approximately \$870,000 due September 28, 2012.

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

Note 3 Revolving Credit Facility

The Company maintains a credit agreement (the Agreement) with its principal bank, Wells Fargo Bank, National Association (the Bank). The Agreement, which expires October 1, 2017, provides for a revolving credit facility with initial borrowing capacity of up to \$24.0 million. The Company had no outstanding borrowings on the revolving credit facility, which had a maximum capacity of \$21.5 million, at June 30, 2013. The Agreement also provides for the continuance of existing standby letters of credit in connection with various surety deposit requirements for workers' compensation purposes, as to which the amount outstanding totaled approximately \$70.6 million at June 30, 2013.

Effective June 14, 2013, the Company increased its outstanding standby letters of credit by \$46.7 million to a total of \$70.6 million. This increase resulted from the California self-insured workers' compensation surety deposit requirement. The total letter of credit related to California workers' compensation was \$63.9 million as of June 30, 2013. As part of the increased letter of credit related to California workers' compensation, the Company posted \$63.9 million of certificates of deposit with the Bank as collateral. These certificates of deposit are classified as restricted within current assets on the Company's Consolidated Balance Sheet.

Advances under the revolving credit facility bear interest, at the Company's option, at either (a) a fixed rate for a term selected by the Company from time-to-time or (b) a fluctuating rate. In each case, the rate is calculated based on LIBOR plus 1.75%. The Agreement also provides for an unused commitment fee of 0.25% per annum on the average daily unused amount of the revolving credit facility.

The credit facility is collateralized by the Company's accounts receivable and other rights to receive payment, general intangibles, inventory and equipment. Under the Agreement, the maximum principal amount available will be reduced by \$2.5 million every six months commencing April 1, 2013.

The Agreement, as amended, requires the satisfaction of certain financial covenants as follows:

Minimum Fixed Charge Coverage ratio of no less than 1.25:1.0, measured quarterly on a rolling four-quarter basis;

Funded Debt: EBITDA of no more than 2.25:1 through September 30, 2013; 1.75:1 through September 30, 2014; 1.5:1 through September 30, 2015; and 1.25:1 thereafter, measured quarterly on a rolling four-quarter basis;

Ratio of restricted and unrestricted cash and marketable securities to workers' compensation and safety incentive liabilities of at least 1.0:1.0, measured quarterly; and

Prohibition on incurring additional indebtedness without the prior approval of the Bank, other than up to \$200,000 per year in purchase money financing.

The Agreement also contains customary events of default. If an event of default under the Agreement occurs and is continuing, the Bank may declare any outstanding obligations under the Agreement to be immediately due and payable. The Company was in compliance with all applicable financial covenants at June 30, 2013.

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

Note 4 - 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 common share reflect the potential effects of the exercise of outstanding stock options and vesting of restricted stock units. Basic and diluted common shares outstanding are summarized as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------|------------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Weighted average number of basic common shares outstanding | 7,082,007 | 6,995,066 | 7,052,139 | 8,434,962 |
| Effect of dilutive securities | 291,695 | 83,010 | 291,376 | 76,313 |
| Weighted average number of diluted common shares outstanding | 7,373,702 | 7,078,076 | 7,343,515 | 8,511,275 |

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, | |
|---|--------------------------------|-----------|------------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Beginning balance | | | | |
| Workers compensation claims liabilities | \$ 77,212 | \$ 52,794 | \$ 70,564 | \$ 51,193 |
| Add: claims expense accrual: | | | | |
| Current period | 14,752 | 8,170 | 27,429 | 16,333 |
| Prior periods | 4,234 | 3,110 | 7,686 | 3,110 |
| Total expense accrual | 18,986 | 11,280 | 35,115 | 19,443 |
| Less: claim payments related to: | | | | |
| Current period | 2,448 | 1,304 | 2,874 | 1,583 |
| Prior periods | 9,207 | 7,005 | 18,262 | 13,288 |
| Total paid | 11,655 | 8,309 | 21,136 | 14,871 |
| Ending balance | | | | |
| Workers compensation claims liabilities | \$ 84,543 | \$ 55,765 | \$ 84,543 | \$ 55,765 |
| Incurring but not reported (IBNR) | \$ 56,434 | \$ 41,000 | \$ 56,434 | \$ 41,000 |

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

Note 6 - Fair Value Measurement

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

| | June 30, 2013 | | | December 31, 2012 | | | Fair Value Category |
|-------------------------|---------------|---------------------------|----------------|-------------------|------------------------|----------------|---------------------|
| | Cost | Gross Unrealized (Losses) | Recorded Basis | Cost | Gross Unrealized Gains | Recorded Basis | |
| Current: | | | | | | | |
| Available-for-sale: | | | | | | | |
| Certificate of deposits | \$ 5,010 | \$ (12) | \$ 4,998 | \$ 0 | \$ 0 | \$ 0 | 2 |
| Municipal bonds | 95 | 0 | 95 | 409 | 1 | 410 | 2 |
| Corporate bonds | 256 | 0 | 256 | 14,764 | 16 | 14,780 | 2 |
| US treasuries | 0 | 0 | 0 | 1,555 | 3 | 1,558 | 1 |
| | \$ 5,361 | \$ (12) | \$ 5,349 | \$ 16,728 | \$ 20 | \$ 16,748 | |
| Long term: | | | | | | | |
| Available-for-sale: | | | | | | | |
| Municipal bonds | \$ 2,723 | \$ (5) | 2,718 | \$ 292 | \$ 1 | 293 | 2 |
| Corporate bonds | 1,210 | (9) | 1,201 | 9,111 | 28 | 9,139 | 2 |
| Held-to-maturity: | | | | | | | |
| Corporate bonds | 470 | 0 | 470 | 467 | 0 | 467 | 2 |
| | \$ 4,403 | \$ (14) | \$ 4,389 | \$ 9,870 | \$ 29 | \$ 9,899 | |

The Company's current restricted certificates of deposit are summarized as follows (in thousands):

| | June 30, 2013 | | | December 31, 2012 | | |
|------------------------------------|---------------|------------------------|----------------|-------------------|------------------------|----------------|
| | Cost | Gross Unrealized Gains | Recorded Basis | Cost | Gross Unrealized Gains | Recorded Basis |
| Restricted certificates of deposit | \$ 63,944 | \$ 0 | \$ 63,944 | \$ 0 | \$ 0 | \$ 0 |

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) *(Continued)***Note 6 - Fair Value Measurement (Continued)**

The Company's long term restricted marketable securities component of restricted marketable securities and workers' compensation deposits consists of the following (in thousands):

| | June 30, 2013 | | | December 31, 2012 | | | Fair Value Category |
|---------------------|---------------|------------------------|----------------|-------------------|------------------------|----------------|---------------------|
| | Cost | Gross Unrealized Gains | Recorded Basis | Cost | Gross Unrealized Gains | Recorded Basis | |
| Available-for-sale: | | | | | | | |
| Municipal bonds | \$ 4,911 | \$ 14 | \$ 4,925 | \$ 4,920 | \$ 17 | \$ 4,937 | 2 |
| Corporate bonds | 2,445 | 1 | 2,446 | 2,035 | 5 | 2,040 | 2 |
| U.S. treasuries | 2,472 | 0 | 2,472 | 1,780 | 0 | 1,780 | 1 |
| | \$ 9,828 | \$ 15 | \$ 9,843 | \$ 8,735 | \$ 22 | \$ 8,757 | |

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

Overview

Barrett Business Services, Inc. (BBSI, the Company, our or we), was incorporated in the state of Maryland in 1965. We are a leading provider of business management solutions, combining human resource outsourcing and professional management consulting to create an operational platform that differentiates us from our competitors. Our integrated platform is grounded in expertise in payroll processing, employee benefits, workers' compensation coverage, risk management and workplace safety programs, human resource administration, recruiting and permanent placement. BBSI helps small-to medium-sized businesses improve the efficiency of their operations. Our principal services assist our clients in leveraging their investment in human capital. We believe that our combination of business management solutions and expertise in human capital management enables us to provide our clients with a unique blend of services not offered by our competitors.

Our Services

Our passage from an entrepreneurially run company to a professionally managed organization has helped to form our view that all businesses experience the same success factors in their growth, as well as the same potential pitfalls. The insights gained through our own growth, along with the trends we see in working with more than 3,000 companies each day, define our approach to guiding business owners through the challenges associated with being an employer.

Through our client services agreement, the Company enters into a contract to become a co-employer of the client's existing workforce assuming responsibility for payroll, payroll taxes, workers' compensation coverage and certain other administrative functions, while the business owner/client maintains physical care, custody and control of their workforce, including the authority to hire and terminate employees. Staffing services include on-demand or short-term staffing assignments, and long or indefinite-term contract staffing. The Company's staffing services also include recruiting, which involves fee-based search efforts for specific employee candidates at the request of co-employed clients, staffing customers or other businesses.

We believe the expert knowledge of our teams combined with tools from the HR outsourcing industry helps our clients more effectively leverage their internal resources. We assist our clients by:

Delivering expertise to help our clients more effectively leverage their internal resources

Partnering with the business owner to frame a three-tiered management platform that brings predictability to their organization

Leveraging our client's investment in human capital through a unique, high-touch, results-oriented approach

Enabling business owners to focus on their core business by reducing organizational complexity and maximizing productivity

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

Our Services (Continued)

Prior to entering into a client services agreement, we perform an in-depth analysis of the potential client's operations, including evaluation of needs and objectives, risk assessment and financial review. Once the client service agreement has been signed, we pair each of our clients with a dedicated, local branch-based business unit comprised of management professionals with expertise in Human Resource Consulting, Risk Consulting, Payroll, Benefits Administration and Recruiting. We believe our hands-on model allows our clients to more quickly adopt processes to develop a more productive workforce, mitigate workplace injury and risk and encourage workplace compliance with a broad range of employment and safety regulations.

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, 2013 and 2012.

| | Percentage of Total Revenue | | Percentage of Total Revenue | |
|---|-----------------------------|--------------|-----------------------------|--------------|
| | Three Months Ended | | Six Months Ended | |
| | 2013 | 2012 | 2013 | 2012 |
| Revenues: | | | | |
| Professional employer service fees | 72.6% | 68.2% | 72.9% | 68.2% |
| Staffing services | 27.4 | 31.8 | 27.1 | 31.8 |
| Total revenues | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of revenues: | | | | |
| Direct payroll costs | 20.7 | 23.9 | 20.3 | 23.9 |
| Payroll taxes and benefits | 41.5 | 41.2 | 46.9 | 46.2 |
| Workers' compensation | 19.4 | 17.8 | 19.5 | 17.0 |
| Total cost of revenues | 81.6 | 82.9 | 86.7 | 87.1 |
| Gross margin | 18.4 | 17.1 | 13.3 | 12.9 |
| Selling, general and administrative expenses | 11.2 | 11.0 | 10.9 | 11.4 |
| Depreciation and amortization | 0.4 | 0.4 | 0.4 | 0.4 |
| Income from operations | 6.8 | 5.7 | 2.0 | 1.1 |
| Other income | 0.1 | 0.2 | 0.1 | 0.2 |
| Income before income taxes | 6.9 | 5.9 | 2.1 | 1.3 |
| Provision for income taxes | 2.3 | 2.0 | 0.7 | 0.4 |
| Net income | 4.6% | 3.9% | 1.4% | 0.9% |

We report professional employer services revenues on a net basis because we are not the primary obligor for the services provided by our co-employed clients to their customers pursuant to our client service agreements. The presentation of revenues on a net basis and the relative contributions of staffing and professional employer services revenues can create volatility in our gross margin percentage. The general impact of fluctuations in our revenue mix is described below.

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

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

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 co-employment relationships, an increase in staffing revenues and related costs presented at gross dilutes the impact of the net professional employer services revenue on gross margin percentage.

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 professional employer services on a basis comparable to our staffing services.

| (in thousands) | Unaudited | | Unaudited | |
|--------------------------------|--------------------|------------------|------------------|------------------|
| | Three Months Ended | | Six Months Ended | |
| | June 30, | | June 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| Revenues: | | | | |
| Professional employer services | \$ 639,663 | \$ 463,671 | \$ 1,201,146 | \$ 869,521 |
| Staffing services | 35,304 | 30,387 | 65,037 | 56,598 |
| Total revenues | 674,967 | 494,058 | 1,266,183 | 926,119 |
| Cost of revenues: | | | | |
| Direct payroll costs | 568,799 | 418,594 | 1,067,538 | 785,527 |
| Payroll taxes and benefits | 53,483 | 39,332 | 112,606 | 82,324 |
| Workers' compensation | 28,959 | 19,791 | 54,002 | 35,370 |
| Total cost of revenues | 651,241 | 477,717 | 1,234,146 | 903,221 |
| Gross margin | \$ 23,726 | \$ 16,341 | \$ 32,037 | \$ 22,898 |

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 professional employer services revenues to net professional employer services revenues is as follows:

| (in thousands) | Unaudited Three Months Ended June 30 | | | | | |
|--------------------------------|---|------------|------------------|--------------|---------------------------------|-----------|
| | Gross Revenue Reporting Method | | Reclassification | | Net Revenue Reporting Method | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Revenues: | | | | | | |
| Professional employer services | \$ 639,663 | \$ 463,671 | \$ (546,169) | \$ (398,558) | \$ 93,494 | \$ 65,113 |
| Staffing services | 35,304 | 30,387 | 0 | 0 | 35,304 | 30,387 |
| Total revenues | \$ 674,967 | \$ 494,058 | \$ (546,169) | \$ (398,558) | \$ 128,798 | \$ 95,500 |
| Cost of revenues | \$ 651,241 | \$ 477,717 | \$ (546,169) | \$ (398,558) | \$ 105,072 | \$ 79,159 |

| (in thousands) | Unaudited Six Months Ended June 30 | | | | | |
|--------------------------------|---------------------------------------|------------|------------------|--------------|---------------------------------|------------|
| | Gross Revenue Reporting Method | | Reclassification | | Net Revenue Reporting Method | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Revenues: | | | | | | |
| Professional employer services | \$ 1,201,146 | \$ 869,521 | \$ (1,025,834) | \$ (748,197) | \$ 175,312 | \$ 121,324 |
| Staffing services | 65,037 | 56,598 | 0 | 0 | 65,037 | 56,598 |
| Total revenues | \$ 1,266,183 | \$ 926,119 | \$ (1,025,834) | \$ (748,197) | \$ 240,349 | \$ 177,922 |
| Cost of revenues | \$ 1,234,146 | \$ 903,221 | \$ (1,025,834) | \$ (748,197) | \$ 208,312 | \$ 155,024 |

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

Three months ended June 30, 2013 and 2012

Net income for the second quarter of 2013 amounted to \$5.9 million, as compared to net income of \$3.7 million for the second quarter of 2012. Diluted income per share for the second quarter of 2013 was \$.80 compared to diluted income per share of \$.53 for the comparable 2012 period.

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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, 2013 and 2012 (Continued)

Revenues for the second quarter of 2013 totaled \$128.8 million, an increase of approximately \$33.3 million or 34.9% over the second quarter of 2012, which reflects an increase in the Company's professional employer service fee revenue of \$28.4 million or 43.6%, coupled with an increase in staffing services revenue of \$4.9 million or 16.2%. Approximately 73% and 68%, respectively, of our revenue during the three months ended June 30, 2013 and 2012 was attributable to our California operations.

Our growth in professional employer service revenues continues to be primarily attributable to new customers, resulting from continued strength in our referral channels and a high retention rate, as business from new customers during the second quarter of 2013 nearly tripled our lost business from former customers. Professional employer service revenues from continuing customers reflected a 12% increase compared to the second quarter of 2012, primarily resulting from increases in employee headcount and hours worked. The increase in staffing revenues was due primarily to an increase in revenue from the addition of new business, as the increase in business from existing customers nearly offset lost business from former customers.

Gross margin for the second quarter of 2013 totaled approximately \$23.7 million or an increase of 45.2% over the second quarter of 2012, primarily due to the 34.9% increase in revenues and a decline in direct payroll costs, as a percentage of revenues, partially offset by higher workers' compensation expense and payroll taxes and benefits, as a percentage of revenues.

The decrease in direct payroll costs, as a percentage of revenues, from 23.9% for the second quarter of 2012 to 20.7% for the second quarter of 2013 was primarily due to the increase in our mix of professional employer services in the Company's customer base compared to the second quarter of 2012 and the effect of each customer's unique mark-up percent.

Payroll taxes and benefits, as a percentage of revenues, for the second quarter of 2013 was 41.5% compared to 41.2% for the second quarter of 2012. The percentage rate increase was largely due to the effect of significant growth in professional employer services, where payroll taxes and benefits are presented at gross cost, whereas the related direct payroll costs are netted against professional employer services revenue. Management expects the trend in payroll taxes and benefits, as a percentage of revenues, to continue to increase as a result of continued growth in professional employer services on a quarter-over-quarter basis.

Workers' compensation expense, in terms of dollars and as a percentage of revenues, increased from \$17.0 million or 17.8% in the second quarter of 2012 to \$25.0 million or 19.4% in the second quarter of 2013. The percentage rate increase was primarily due to an increase in the provision for claim costs related to current year claims, increases in estimated costs to close prior year claims, and increased insurance broker commissions resulting from increased workers' compensation insurance rates.

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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, 2013 and 2012 (Continued)

Selling, general and administrative (SG&A) expenses for the second quarter of 2013 totaled approximately \$14.5 million, an increase of \$3.9 million or 37.4% over the second quarter of 2012. The increase was primarily attributable to higher branch incentive pay based upon increased branch performance and increases in management payroll and other variable expense components within SG&A to support our business growth.

The income tax rate for the 2013 second quarter was 33.4%. We expect the effective income tax rate for the balance of 2013 to remain at a similar rate to the 2013 second quarter income tax rate. The income tax rate for the 2012 second quarter was 33.5%.

Six months ended June 30, 2013 and 2012

Net income for the six months ended June 30, 2013 amounted to \$3.3 million, as compared to net income of \$1.5 million for the first six months of 2012. Diluted income per share for the first six months of 2013 was \$.45 compared to diluted income per share of \$.18 for the comparable 2012 period. The first six months of 2013 reflected approximately 1.2 million fewer diluted common shares outstanding when compared to the comparable period of 2012 primarily due to the Company's repurchase of approximately 2.5 million shares from the Estate of William W. Sherertz, as well as 500,000 shares from Nancy Sherertz, on March 28, 2012.

Revenues for the six months ended June 30, 2013 totaled \$240.3 million, an increase of approximately \$62.4 million or 35.1% over the comparable period in 2012, which reflects an increase in the Company's professional employer service fee revenue of \$54.0 million or 44.5% coupled with an increase in staffing services revenue of \$8.4 million or 14.9%. Approximately 74% and 68%, respectively, of our revenue during the six months ended June 30, 2013 and 2012 was attributable to our California operations.

Our growth in professional employer service revenues continues to be primarily attributable to new customers, resulting from continued strength in our referral channels and a high retention rate, as business from new customers during the first six months of 2013 tripled our lost business from former customers. Professional employer service revenues from continuing customers reflected a 10% increase compared to the first six months of 2012, primarily resulting from increases in employee headcount and hours worked. Staffing revenues increased primarily from an increase in revenue due to the addition of new business.

Gross margin for the six months ended June 30, 2013 totaled approximately \$32.0 million or an increase of 39.9% over the comparable period of 2012, primarily due to the 35.1% increase in revenues and a decline in direct payroll costs, as a percentage of revenues, partially offset by higher workers' compensation expense and payroll taxes and benefits, as a percentage of revenues.

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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, 2013 and 2012 (Continued)

The decrease in direct payroll costs, as a percentage of revenues, from 23.9% for the first six months of 2012 to 20.3% for the first six months of 2013 was primarily due to the increase in our mix of professional employer services in the Company's customer base over the second quarter of 2012 and the effect of each customer's unique mark-up percent.

Payroll taxes and benefits, as a percentage of revenues, for the first six months of 2013 was 46.9% compared to 46.2% for the comparable period of 2012. The percentage rate increase was largely due to the effect of significant growth in professional employer services, where payroll taxes and benefits are presented at gross cost, whereas the related direct payroll costs are netted against professional employer services revenue, and to slightly higher effective state unemployment tax rates in various states in which the Company operates as compared to the comparable period of 2012.

Workers' compensation expense, in terms of dollars and as a percentage of revenues, increased from \$30.2 million or 17.0% in the first six months of 2012 to \$46.8 million or 19.5% in the first six months of 2013. The percentage rate increase was primarily due to an increase in the provision for claim costs related to current year claims, increases in estimated costs to close prior year claims, and increased insurance broker commissions resulting from increased workers' compensation insurance rates.

SG&A expenses for the first six months of 2013 totaled approximately \$26.3 million, an increase of \$6.0 million or 29.5% over the first six months of 2012. The increase was primarily attributable to increases in branch incentive pay resulting from increased branch performance, as well as increases in management payroll and other variable expense components within SG&A to support our business growth.

The income tax rate for the first six months of 2013 was 32.8% compared to the income tax rate for the first six months of 2012 of 33.3%.

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 for the Company's services, competition, 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 co-employed 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

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

Factors Affecting Quarterly Results (Continued)

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 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, 2013 decreased \$36.9 million from December 31, 2012, which compares to a decrease of \$13.2 million for the comparable period in 2012. The decrease in cash at June 30, 2013 as compared to December 31, 2012, was primarily due to the purchase of restricted certificates of deposit and restricted marketable securities totaling \$69.5 million and an increase in trade accounts receivable of \$16.9 million, partially offset by net income of \$3.3 million, a \$17.3 million increase in accrued payroll and payroll taxes, net proceeds from the sales and maturities of marketable securities of \$16.9 million, and a \$14.0 million increase in workers' compensation claims liabilities.

Net cash provided by operating activities for the six months ended June 30, 2013 amounted to \$17.4 million compared to \$13.1 million for the comparable 2012 period. For the six months ended June 30, 2013, cash flow was principally provided by net income of \$3.3 million, increases in accrued payroll, payroll taxes and benefits of \$17.3 million and a \$14.0 million increase in workers' compensation claims liabilities, partially offset by an increase in trade accounts receivable of \$16.9 million.

Net cash used in investing activities for the six months ended June 30, 2013 was \$50.2 million as compared to \$925,000 of net cash used in investing activities for the comparable 2012 period. For the 2013 period, cash from investing activities was used to purchase restricted certificates of deposit and restricted marketable securities totaling \$69.5 million and the purchase of marketable securities of \$40.9 million, partially offset by the sales and maturities of marketable securities of \$57.8 million. The Company presently has no material long-term capital commitments.

Net cash used in financing activities for the six months ended June 30, 2013 was \$4.1 million as compared to \$25.3 million for the comparable 2012 period. For the 2013 period, the primary uses of cash for financing activities were the net payments on credit-line borrowings of \$4.5 million and the payment of regular quarterly cash dividends totaling \$1.8 million to holders of the Company's common stock, partially offset by \$1.2 million for proceeds from the exercise of stock options coupled with excess tax benefits from share-based compensation of \$1.2 million.

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 businesses, 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.

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

Liquidity and Capital Resources (Continued)

As disclosed in Note 3 to the Consolidated Financial Statements in this report, the Company maintains a credit agreement (the "Agreement") with its principal bank, Wells Fargo Bank, National Association (the "Bank"). The Agreement, which expires October 1, 2017, provides for a revolving credit facility with initial borrowing capacity of up to \$24.0 million. The Company had no outstanding borrowings on the revolving credit facility as of June 30, 2013. The Agreement also provides for the continuance of existing standby letters of credit in connection with various surety deposit requirements for workers' compensation purposes, as to which the amount outstanding totaled approximately \$70.6 million as of June 30, 2013.

Effective June 14, 2013, the Company increased its outstanding standby letters of credit by \$46.7 million to a total of \$70.6 million. This increase resulted from the California self-insured workers' compensation surety deposit requirement. The total letter of credit related to California workers' compensation was \$63.9 million as of June 30, 2013. As part of the increased letter of credit related to California workers' compensation, the Company posted \$63.9 million of certificates of deposit with the Bank as collateral. These certificates of deposit are classified as restricted within current assets on the Company's Consolidated Balance Sheet.

Advances under the revolving credit facility bear interest, at the Company's option, at either (a) a fixed rate for a term selected by the Company from time-to-time or (b) a fluctuating rate. In each case, the rate is calculated based on LIBOR plus 1.75%. The Agreement also provides for an unused commitment fee of 0.25% per annum on the average daily unused amount of the revolving credit facility.

The credit facility is collateralized by the Company's accounts receivable and other rights to receive payment, general intangibles, inventory and equipment. Under the Agreement, the maximum principal amount available will be reduced by \$2.5 million every six months commencing April 1, 2013. The maximum principal amount available at June 30, 2013 was \$21.5 million.

The Agreement, as amended, requires the satisfaction of certain financial covenants as follows:

Minimum Fixed Charge Coverage ratio of no less than 1.25:1.0, measured quarterly on a rolling four-quarter basis;

Funded Debt: EBITDA of no more than 2.25:1 through September 30, 2013; 1.75:1 through September 30, 2014; 1.5:1 through September 30, 2015; and 1.25:1 thereafter, measured quarterly on a rolling four-quarter basis;

Ratio of restricted and unrestricted cash and marketable securities to workers' compensation and safety incentive liabilities of at least 1.0:1.0, measured quarterly; and

Prohibition on incurring additional indebtedness without the prior approval of the Bank, other than up to \$200,000 per year in purchase money financing.

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

Liquidity and Capital Resources (Continued)

The Agreement also contains customary events of default. If an event of default under the Agreement occurs and is continuing, the Bank may declare any outstanding obligations under the Agreement to be immediately due and payable. The Company was in compliance with all applicable financial covenants at June 30, 2013.

Management expects that the funds anticipated to be generated from operations and availability under its revolving credit facility 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 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 and operation of two wholly owned, fully licensed captive insurance subsidiaries and becoming self-insured for certain business risks, the availability of alternatives to being self-insured as to workers' compensation liabilities in California, 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 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 clients and attract new clients, 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 effect of conditions in the global capital markets on the Company's investment portfolio, and 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, 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 and its outstanding borrowings on its line of credit and long-term debt. As of June 30, 2013, the Company's investment portfolio consisted principally of approximately \$68.9 million in certificates of deposit, \$7.7 million in tax-exempt municipal bonds, and approximately \$4.4 million in corporate bonds. The Company's outstanding borrowings on its line of credit and long-term debt totaled approximately \$5.4 million at June 30, 2013. Based on the Company's overall interest exposure at June 30, 2013, 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, its outstanding borrowings or its results of operations because of the predominantly short maturities of the securities within the investment portfolio and the relative size of the outstanding borrowings.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of June 30, 2013 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 and is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's 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 2012 Annual Report on Form 10-K.

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

There were no common stock repurchases during the quarter ended June 30, 2013. In November 2006, the Board adopted a stock repurchase program and authorized the repurchase of up to 500,000 common shares of the Company's common 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 common shares. In October 2008, the Board approved a second increase in the authorized common shares to be repurchased up to 3.0 million shares. At June 30, 2013, 1,208,200 shares could be repurchased under the program.

Item 5. Other Information

The 2013 annual meeting of stockholders of Barrett Business Services, Inc. was held on May 29, 2013.

Proposal 1. The following directors were elected at the annual meeting, each for a one-year term, by the votes indicated.

| Nominee | Shares Voted For | Shares Withheld | Broker Non-votes |
|-----------------------|------------------|-----------------|------------------|
| Thomas J. Carley | 5,310,682 | 168,977 | 1,015,373 |
| Michael L. Elich | 5,362,432 | 117,227 | 1,015,373 |
| James B. Hicks, Ph.D. | 5,314,423 | 165,236 | 1,015,373 |
| Roger L. Johnson | 5,361,292 | 118,367 | 1,015,373 |
| Jon L. Justesen | 5,315,529 | 164,130 | 1,015,373 |
| Anthony Meeker | 5,308,699 | 170,960 | 1,015,373 |

The following matters were approved by the votes indicated:

Proposal 2. Ratification of the appointment of Moss Adams LLP as the Company's independent public accountants for the year ending December 31, 2013.

| Shares Voted For | Shares Voted Against | Abstentions |
|------------------|----------------------|-------------|
| 6,463,556 | 19,100 | 12,376 |

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Item 5. Other Information (Continued)

Proposal 3. Approval, by non-binding vote, of the compensation paid to the Company's named executive officers.

| Shares Voted For | Shares Voted Against | Abstentions | Broker Non-votes |
|------------------|----------------------|-------------|------------------|
| 5,390,308 | 59,435 | 29,916 | 1,015,373 |

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.

Date: August 8, 2013

BARRETT BUSINESS SERVICES, INC.
(Registrant)

/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

- 4.1 First Amendment to Restated Credit Agreement dated as of June 14, 2013, between the Registrant and Wells Fargo Bank, National Association (Wells Fargo).
- 4.2 Security Agreement: Specific Rights to Payment dated as of June 14, 2013, between the Registrant and Wells Fargo.
- 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.
- 101. INS XBRL Instance Document *
- 101. SCH XBRL Taxonomy Extension Schema Document *
- 101. CAL XBRL Taxonomy Extension Calculation Linkbase Document *
- 101. DEF XBRL Taxonomy Extension Definition Linkbase Document *
- 101. LAB XBRL Taxonomy Extension Label Linkbase Document *
- 101. PRE XBRL Taxonomy Extension Presentation Linkbase Document *

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.