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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003
Commission File Number 0-21886

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

Maryland
(State or other jurisdiction of
incorporation or organization)

52-0812977
(IRS Employer
Identification No.)

4724 SW Macadam Avenue
Portland, Oregon
(Address of principal executive offices)

97239
(Zip Code)

(503) 220-0988
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, Par Value \$.01 Per Share
(Title of class)

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as indicated by Exchange Act Rule 12 b-2). Yes _ No X

State the aggregate market value of the common equity held by non-affiliates of the Registrant: \$7,360,437 at June 30, 2003.

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

Class	Outstanding at February 27, 2004
Common Stock, Par Value \$.01 Per Share	5,705,050 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2004 Annual Meeting of Stockholders are hereby incorporated by reference into Part III of Form 10-K.

BARRETT BUSINESS SERVICES, INC.
2003 ANNUAL REPORT ON FORM 10-K
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PART I

Item 1. BUSINESS

General

Barrett Business Services, Inc. ("Barrett" or the "Company"), was incorporated in the state of Maryland in 1965. Barrett is a leading human resource management company. The Company provides comprehensive outsourced solutions addressing the costs and complexities of a broad array of employment-related issues for businesses of all sizes. Employers are faced with

increasing complexities in employment laws and regulations, employee benefits and administration, federal, state and local payroll tax compliance and mandatory workers' compensation coverage, as well as the recruitment and retention of quality employees. The Company believes that outsourcing the management of various employer and human resource responsibilities, which are typically considered non-core functions, enables organizations to focus on their core competencies, thereby improving operating efficiencies.

Barrett's range of services and expertise in human resource management encompasses five major categories: payroll processing, employee benefits and administration, workers' compensation coverage, effective risk management and workplace safety programs, and human resource administration, which includes functions such as recruiting, interviewing, drug testing, hiring, placement, training and regulatory compliance. These services are typically provided through a variety of contractual arrangements, as part of either a traditional staffing service or a professional employer organization ("PEO") service. Staffing services include on-demand or short-term staffing assignments, long-term or indefinite-term contract staffing, and comprehensive on-site personnel management responsibilities. In a PEO arrangement, the Company enters into a contract to become a co-employer of the client company's existing workforce and assumes responsibility for some or all of the human resource management responsibilities. The Company's target PEO clients typically have limited resources available to effectively manage these matters. The Company believes that its ability to offer clients a broad mix of staffing and PEO services differentiates it from its competitors and benefits its clients through (i) lower recruiting and personnel administration costs, (ii) decreases in payroll expenses due to lower workers' compensation and health insurance costs, (iii) improvements in workplace safety and employee benefits, (iv) lower employee turnover and (v) reductions in management resources expended in employment-related regulatory compliance. For 2003, Barrett's staffing services revenues represented 76.2% of total net revenues, compared to 23.8% for PEO services revenues, as compared to 88.5% and 11.5%, respectively, for 2002.

Barrett provides services to a diverse array of customers, including, among others, electronics manufacturers, various light-manufacturing industries, forest products and agriculture-based companies, transportation and shipping enterprises, food processing, telecommunications, public utilities, general contractors in numerous construction-related fields and various professional services firms. During 2003, the Company provided staffing services to approximately 2,700 customers, down from 2,900 in 2002. Although a majority of the Company's staffing customers are small to mid-sized businesses, during 2003 approximately 30 of the Company's customers each utilized Barrett employees in a number ranging from at least 200 employees to as many as 975 employees through various staffing services arrangements. In addition, Barrett had approximately 500 PEO clients at December 31, 2003, compared to 300 at December 31, 2002 and Barrett employed approximately 11,800 and 3,100 employees pursuant to PEO contracts at December 31, 2003 and 2002, respectively. The increase in the number of PEO customers during 2003 was primarily due to PEO growth in California attributable to the business opportunities available to the Company as a qualified self-insured employer for workers' compensation coverage resulting from adverse market conditions for workers' compensation insurance in the state.

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The Company operates through a network of 28 branch offices in Washington, Oregon, Idaho, California, Arizona, Maryland, Delaware and North Carolina. Barrett also has several smaller recruiting offices in its general market areas under the direction of a branch office.

See Part II, Item 7, under the heading "Forward-Looking Information" for a discussion of risks and other factors that may cause the Company's operating results or financial condition to vary significantly from those implied by statements in this Item or in Item 7 that are forward-looking rather than historical in nature. Additional specific risks are discussed in conjunction with forward-looking statements included in this Item and in Item 7.

Operating Strategies

The Company's principal operating strategies are to: (i) provide effective human resource management services through a blend of staffing and PEO arrangements, (ii) promote a decentralized and autonomous management philosophy and structure, (iii) leverage branch office economies of scale, (iv) motivate employees through regular profit sharing and (v) control workers' compensation costs through effective risk management.

Growth Strategies

The Company's principal growth strategies are to: (i) support, strengthen and expand branch office operations, (ii) enhance management information systems to support continued growth and to improve customer services and (iii) expand through selective acquisitions of human resource-related businesses in new and existing geographic markets.

Acquisitions

The Company reviews acquisition opportunities on a periodic basis. While growth through acquisition has historically been a major element of the Company's overall strategic growth plan, there can be no assurance that any additional acquisitions will be completed in the foreseeable future, or that any future acquisitions will have a positive effect on the Company's performance. Acquisitions involve a number of potential risks, including the diversion of management's attention to the assimilation of the operations and personnel of the acquired companies, exposure to workers' compensation and other costs in differing regulatory environments, adverse short-term effects on the Company's operating results and operational challenges arising out of integration of management information systems.

Effective January 1, 2004, the Company acquired certain assets of Skills Resource Training Center ("SRTC"), a staffing services company with nine offices in Central Washington, Eastern Oregon and Southern Idaho. The Company paid \$3,000,000 in cash for the assets of SRTC and the selling shareholders' noncompete agreements and agreed to issue up to 135,731 shares of its common stock ("Earnout Shares"), with the actual number of Earnout Shares to be issued based upon the level of financial performance achieved by the SRTC offices during calendar 2004.

The Company's Services

Overview of Services. Barrett's services are typically provided through a variety of contractual arrangements, as part of either a traditional staffing service or a PEO service. These contractual arrangements also provide a continuum of human resource management services. While some services are more frequently associated with Barrett's co-employer arrangements, the Company's expertise in such areas as safety services and personnel-related regulatory compliance may also be utilized by its staffing services customers through the Company's human resource management services. The Company's range of services and expertise in human resource management encompasses five major categories:

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- o Payroll Processing. For both the Company's staffing services and PEO employees, the Company performs all functions associated with payroll administration, including preparing and delivering paychecks, computing tax withholding and payroll deductions, handling garnishments, computing vacation and sick pay, and preparing W-2 forms and accounting reports through centralized operations at its headquarters in Portland, Oregon.
- o Employee Benefits and Administration. As a result of its size, Barrett is able to offer employee benefits which are typically not available at an affordable cost to many of its customers, particularly those with fewer than 100 employees. These benefits include health care insurance, a 401(k) savings plan, a Section 125 cafeteria plan, life and disability insurance and claims administration.

- o Safety Services. Barrett offers safety services to both its staffing services and PEO customers in keeping with its corporate philosophy of "making the workplace safer." The Company has at least one risk manager available at each branch office to perform workplace safety assessments for each of its customers and to recommend actions to achieve safer operations. The Company's services include safety training and safety manuals for both workers and supervisors, job-site visits and meetings, improvements in workplace procedures and equipment to further reduce the risk of injury, compliance with OSHA requirements, environmental regulations, workplace regulation by the U.S. Department of Labor and state agencies and accident investigations. As discussed under "Self-Insured Workers' Compensation Program" below, the Company also pays safety incentives to its customers who achieve improvements in workplace safety.
- o Workers' Compensation Coverage. Beginning in 1987, the Company obtained self-insured employer status for workers' compensation coverage in Oregon and is currently a qualified self-insured employer in many of the states in which it operates, including California beginning in March, 1995. Through its third-party administrators, Barrett provides claims management services to its PEO customers. As discussed under "Self-Insured Workers' Compensation Program" below, the Company works aggressively at managing job injury claims, including identifying fraudulent claims and utilizing its staffing services to return workers to active employment earlier. As a result of its efforts to manage workers' compensation costs, the Company is often able to reduce its clients' overall expenses arising out of job-related injuries and insurance.
- o Human Resource Administration. Barrett offers its clients the opportunity to leverage the Company's experience in personnel-related regulatory compliance. For both its staffing services employees and PEO clients, the Company handles the burdens of advertising, recruitment, skills testing, evaluating job applications and references, drug screening, criminal and motor vehicle records reviews, hiring, and compliance with such employment regulatory areas as immigration, the Americans with Disabilities Act, and federal and state labor regulations.

Staffing Services. Barrett's staffing services include on-demand or short-term staffing assignments, contract staffing, long-term or indefinite-term on-site management and human resource administration. Short-term staffing involves employee demands caused by such factors as seasonality, fluctuations in customer demand, vacations, illnesses, parental leave, and special projects without incurring the ongoing expense and administrative responsibilities associated with recruiting, hiring and retaining additional permanent employees.

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As more and more companies focus on effectively managing variable costs and reducing fixed overhead, the use of employees on a short-term basis allows firms to utilize the "just-in-time" approach for their personnel needs, thereby converting a portion of their fixed personnel costs to a variable expense.

Contract staffing refers to the Company's responsibilities for the placement of employees for a period of more than three months or an indefinite period. This type of arrangement often involves outsourcing an entire department in a large corporation or providing the workforce for a large project.

In an on-site management arrangement, Barrett places an experienced manager on site at a customer's place of business. The manager is responsible for conducting all recruiting, screening, interviewing, testing, hiring and employee placement functions at the customer's facility for a long-term or

indefinite period.

The Company's staffing services customers operate in a broad range of businesses, including forest products and agriculture-based companies, electronic manufacturers, transportation and shipping companies, food processors, professional firms and construction contractors. Such customers range in size from small local firms to companies with international operations, which use Barrett's services on a domestic basis. None of the Company's staffing services customers individually accounted for more than 4% of its total 2003 revenues.

In 2003, the light industrial sector generated approximately 75% of the Company's staffing services revenues, while clerical office staff accounted for 19% of such revenues and technical personnel represented the balance of 6%. Light industrial workers in the Company's employ perform such tasks as operation of machinery, manufacturing, loading and shipping, site preparation for special events, construction-site cleanup and janitorial services. Technical personnel include electronic parts assembly workers and designers and drafters of electronic parts.

Barrett emphasizes prompt, personalized service in assigning quality, trained, drug-free personnel at competitive rates to its staffing services customers. The Company uses internally developed computer databases of employee skills and availability at each of its branches to match customer needs with available qualified employees. The Company emphasizes the development of an understanding of the unique requirements of its clientele by its account managers. Customers are offered a "money-back" guarantee if dissatisfied with staffing employees placed by Barrett.

The Company utilizes a variety of methods to recruit its work force for staffing services, including among others, referrals by existing employees, newspaper advertising and marketing brochures distributed at colleges and vocational schools. The employee application process includes an interview, skills assessment test, reference verification and drug screening. The recruiting of qualified employees requires more effort when unemployment rates are low. In mid-2000, the Company implemented a new, comprehensive pre-employment screening test to further ensure that applicants are appropriately qualified for employment.

Barrett's staffing services employees are not under its direct control while working at a customer's business. Barrett has not experienced any significant liability due to claims arising out of negligent acts or misconduct by its staffing services employees. The possibility exists, however, of claims being asserted against the Company which may exceed the Company's liability insurance coverage, with a resulting negative effect on the Company's financial condition.

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PEO Services. Many businesses, particularly those with a limited number of employees, find personnel administration requirements to be unduly complex and time consuming. These businesses often cannot justify the expense of a full-time human resource staff. In addition, the escalating costs of health and workers' compensation insurance in recent years, coupled with the increased complexity of laws and regulations affecting the workplace, have created a compelling opportunity for small to mid-sized businesses to outsource these managerial burdens. The outsourcing of non-core business functions, such as human resource administration, enables small enterprises to devote their limited resources to their core competencies.

In a PEO services arrangement, Barrett enters into a contract to become a co-employer of the client company's existing workforce. Pursuant to this contract, Barrett assumes responsibility for some or all of the human resource management responsibilities, including payroll and payroll taxes, employee benefits, health insurance, workers' compensation coverage, workplace safety programs, compliance with federal and state employment laws, labor and workplace

regulatory requirements and related administrative responsibilities. Barrett has the right to hire and fire its PEO employees, although the client company remains responsible for day-to-day assignments, supervision and training and, in most cases, recruiting.

The Company began offering PEO services to Oregon customers in 1990 and subsequently expanded these services to other states. The Company has entered into co-employer arrangements with a wide variety of clients, including companies involved in moving and shipping, professional firms, construction, retail, manufacturing and distribution businesses. PEO clients are typically small to mid-sized businesses with up to several hundred employees. None of the Company's PEO clients individually accounted for more than 3% of its total annual revenues during 2003.

Prior to entering into a co-employer arrangement, the Company performs an analysis of the potential client's actual personnel and workers' compensation costs based on information provided by the customer. Barrett introduces its workplace safety program and recommends improvements in procedures and equipment following a safety inspection of the customer's facilities which the potential client must agree to implement as part of the co-employer arrangement. Barrett also offers financial incentives to PEO clients to maintain a safe-work environment.

The Company's standard PEO services agreement provides for services for an indefinite term, until notice of termination is given by either party. The agreement permits cancellation by either party upon 30 days written notice. In addition, the Company may terminate the agreement at any time for specified reasons, including nonpayment or failure to follow Barrett's workplace safety program.

The form of agreement also provides for indemnification of the Company by the client against losses arising out of any default by the client under the agreement, including failure to comply with any employment-related, health and safety or immigration laws or regulations. The Company also requires the PEO client to maintain comprehensive liability coverage in the amount of \$1 million for acts of its work-site employees. In addition, the Company has excess liability insurance coverage. Although no claims exceeding such policy limits have been paid by the Company to date, the possibility exists that claims for amounts in excess of sums available to the Company through indemnification or insurance may be asserted in the future, which could adversely affect the Company's profitability.

Sales and Marketing

The Company's marketing efforts are principally focused on branch-level development of local business relationships. On a regional and national level, efforts are made to expand and align the Company's services to fulfill the needs of local customers with multiple locations, which may include using on-site Barrett personnel and the opening of additional offices to better serve a customer's broader geographic needs.

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Billing

Through centralized operations at the Company's headquarters in Portland, Oregon, the Company prepares invoices weekly for its staffing services customers and following the end of each payroll period for PEO clients. Health insurance premiums are passed through to PEO clients. Payment terms for most PEO clients are due on the invoice date.

Self-Insured Workers' Compensation Program

A principal service provided by Barrett to its customers, particularly its PEO clients, is workers' compensation coverage. As the employer of record, Barrett is responsible for complying with applicable statutory requirements for workers' compensation coverage. The Company's workplace safety services, also described under "Overview of Services," are closely tied to its approach to the

management of workers' compensation risk.

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

Self Insurance for Workers' Compensation. In August 1987, Barrett became a self-insured employer for workers' compensation coverage in Oregon. The Company subsequently obtained self-insured employer status for workers' compensation in four additional states, Maryland, Washington, Delaware and California. Regulations governing self-insured employers in each jurisdiction typically require the employer to maintain surety deposits of government securities, letters of credit or other financial instruments to cover workers' claims in the event the employer is unable to pay for such claims.

To manage its financial exposure from the incidence of catastrophic injuries and fatalities, the Company maintains excess workers' compensation insurance pursuant to an annual policy with a major insurance company. Through December 31, 2000, such excess insurance included a self-insured retention or deductible of \$350,000. For calendar 2001, the Company's self-insured retention was \$400,000. Beginning January 1, 2002, the Company's excess workers' compensation insurance policy provided coverage for single occurrences exceeding \$750,000 with statutory limits. Effective January 1, 2004, the per occurrence retention increased to \$1 million and the policy limit was increased to \$25 million. The higher per occurrence retention may result in higher workers' compensation costs to the Company with a corresponding negative effect on its operating results.

Claims Management. As a self-insured employer, the Company's workers' compensation expense is tied directly to the incidence and severity of workplace injuries to its employees. Barrett seeks to contain its workers' compensation costs through an aggressive approach to claims management. The Company uses managed-care systems to reduce medical costs and keeps time-loss costs to a minimum by assigning injured workers, whenever possible, to short-term assignments which accommodate the workers' physical limitations. The Company believes that these assignments minimize both time actually lost from work and covered time-loss costs. Barrett has also engaged third-party administrators ("TPAs") to provide additional claims management expertise. Typical management procedures include

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performing thorough and prompt on-site investigations of claims filed by employees, working with physicians to encourage efficient medical management of cases, denying questionable claims and attempting to negotiate early settlements to eliminate future case development and costs. Barrett also maintains a corporate-wide pre-employment drug screening program and a mandatory post-injury drug test. The program is believed to have resulted in a reduction in the frequency of fraudulent claims and in accidents in which the use of illegal drugs appears to have been a contributing factor.

Elements of Self-Insurance Costs. The costs associated with the Company's self-insured workers' compensation program include case reserves for reported claims, an additional expense provision for unanticipated increases in

the cost of open injury claims (known as "adverse loss development") and for claims incurred in prior periods but not reported (referred to as "IBNR"), fees payable to the Company's TPAs, additional claims administration expenses, administrative fees payable to state and federal workers' compensation regulatory agencies, premiums for excess workers' compensation insurance and legal fees. Although not directly related to the size of the Company's payroll, the number of claims and correlative loss payments may be expected to increase with growth in the total number of employees. The state assessments are typically based on payroll amounts and, to a limited extent, the amount of permanent disability awards during the previous year. Excess insurance premiums are also based in part on the size and risk profile of the Company's payroll and loss experience.

Workers' Compensation Claims Experience and Reserves

The Company recognizes its liability for the ultimate payment of incurred claims and claims adjustment expenses by accruing liabilities which represent estimates of future amounts necessary to pay claims and related expenses with respect to covered events that have occurred. When a claim involving a probable loss is reported, the Company's TPA establishes a case reserve for the estimated amount of ultimate loss. The estimate reflects an informed judgment based on established case reserving practices and the experience and knowledge of the TPA regarding the nature and expected value of the claim, as well as the estimated expense of settling the claim, including legal and other fees and expenses of administering claims. The adequacy of such case reserves depends on the professional judgment of each TPA to properly and comprehensively evaluate the economic consequences of each claim. Additionally, on an aggregate basis, the Company has established an additional expense reserve for both future adverse loss development in excess of initial case reserves on open claims and for claims incurred but not reported, referred to as the IBNR reserve.

As part of the case reserving process, historical data is reviewed and consideration is given to the anticipated effect of various factors, including known and anticipated legal developments, inflation and economic conditions. Reserve amounts are necessarily based on management's estimates, and as other data becomes available, these estimates are revised, which may result in increases or decreases in existing case reserves. Barrett has engaged a nationally-recognized, independent actuary to review annually the Company's total workers' compensation claims liability and reserving practices. Based in part on such review, the Company believes its total accrued workers' compensation claims liabilities at December 31, 2003, are adequate. It is possible, however, that the Company's actual future workers' compensation obligations may exceed the amount of its accrued liabilities, with a corresponding negative effect on future earnings, due to such factors as unanticipated adverse loss development of known claims, and the effect, if any, of claims incurred but not reported. Refer to Part II, Item 7, under the heading "Critical Accounting Policies".

Approximately one-fifth of the Company's total payroll exposure was in relatively high-risk industries with respect to workplace injuries, including trucking, construction and certain warehousing activities. Failure to successfully manage the severity and frequency of workers' compensation injuries results in increased workers' compensation expense and has a negative effect, which may be substantial, on the Company's operating results and financial

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condition. Management maintains clear guidelines for its branch office managers, account managers, and risk managers directly tying their continued employment with the Company to their diligence in understanding and addressing the risks of accident or injury associated with the industries in which client companies operate and in monitoring the compliance by clients with workplace safety requirements. The Company has a policy of "zero tolerance" for avoidable workplace injuries.

Management Information Systems

The Company performs all functions associated with payroll administration through its internal management information system. Each branch office performs payroll data entry functions and maintains an independent database of employees and customers, as well as payroll and invoicing records. All processing functions are centralized at Barrett's corporate headquarters in Portland, Oregon.

Employees and Employee Benefits

At December 31, 2003, the Company had approximately 17,000 employees, including approximately 5,000 staffing services employees, approximately 11,800 PEO employees and approximately 200 managerial, sales and administrative employees. The number of employees at any given time may vary significantly due to business conditions at customer or client companies. During 2003, approximately 3% of the Company's employees were covered by a collective bargaining agreement. Each of Barrett's managerial, sales and administrative employees has entered into a standard form of employment agreement which, among other provisions, contains covenants not to engage in certain activities in competition with the Company for 18 months following termination of employment and to maintain the confidentiality of certain proprietary information. Barrett believes its employee relations are good.

Benefits offered to Barrett's staffing services employees include group health insurance, a Section 125 cafeteria plan which permits employees to use pretax earnings to fund various services, including health insurance premiums and childcare expenses, and a savings plan (the "401(k) plan") under Section 401(k) of the Internal Revenue Code (the "Code") pursuant to which employees may begin making contributions upon reaching 21 years of age and completing 1,000 hours of service in any consecutive 12-month period. The Company may also make contributions to the savings plan, which vest over seven years and are subject to certain legal limits, at the sole discretion of the Company's Board of Directors. Employees subject to a co-employer arrangement may participate in the Company's benefit plans at the election of the co-employer. See "Regulatory and Legislative Issues--Employee Benefit Plans."

Regulatory and Legislative Issues

Business Operations. The Company is subject to the laws and regulations of the jurisdictions within which it operates, including those governing self-insured employers under the workers' compensation systems in Washington, Oregon, California, Maryland and Delaware. An Oregon PEO company, such as Barrett, is required to be licensed as a worker-leasing company by the Workers' Compensation Division of the Oregon Department of Consumer and Business Services. Temporary staffing companies are expressly exempt from the Oregon licensing requirement. Oregon PEO companies are also required to ensure that each PEO client provides adequate training and supervision for its employees to comply with statutory requirements for workplace safety and to give 30 days written notice in the event of a termination of its obligation to provide workers' compensation coverage for PEO employees and other subject employees of a PEO client. Although compliance with these requirements imposes some additional financial risk on Barrett, particularly with respect to those clients who breach their payment obligation to the Company, such compliance has not had a significant adverse impact on Barrett's business to date.

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

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

The Company offers various qualified employee benefit plans to its employees, including its work-site employees. These employee benefit plans include the 401(k) plan, a cafeteria plan under Section 125 of the Code, a group health plan, a group life insurance plan and a group disability insurance plan. Generally, qualified employee benefit plans are subject to provisions of both the Code and the Employee Retirement Income Security Act of 1974 ("ERISA"). In order to qualify for favorable tax treatment under the Code, qualified plans must be established and maintained by an employer for the exclusive benefit of its employees. See Part II, Item 7 of this report for a discussion of issues regarding qualification of the Company's employee benefit plans arising out of participation by the Company's PEO employees.

Competition

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

Although there are believed to be at least several hundred companies currently offering PEO services in the U.S., many of these potential competitors are located in states in which the Company presently does not operate. During 2003, approximately 73% and 25% of the Company's PEO service fee revenues were earned in California and Oregon, respectively.

The Company may face additional PEO competition in the future from new entrants to the field, including other staffing services companies, payroll processing companies and insurance companies. Certain PEO companies operating in areas in which Barrett does not now, but may in the future, offer its services have greater financial and marketing resources than the Company, such as Administaff, Inc., Gevity HR, Inc. and Paychex, Inc., among others. Competition in the PEO industry is based largely on price, although service and quality can also provide competitive advantages. Barrett believes that its past growth in PEO service fee

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revenues is attributable to its ability to provide small and mid-sized companies with the opportunity to provide enhanced benefits to their employees while reducing their overall personnel administration and workers' compensation costs. The Company's competitive advantage may be adversely affected by a substantial increase in the costs of maintaining its self-insured workers' compensation program. A general market decrease in the level of workers' compensation insurance premiums may also decrease demand for PEO services.

Item 2. PROPERTIES

The Company provides staffing and PEO services through all 28 of its branch offices. The following table shows the number of branch offices located in each state in which the Company operates. The Company's California and Oregon offices accounted for 51% and 27%, respectively, of its total revenues in 2003. The Company also leases office space in other locations in its market areas

which it uses to recruit and place employees.

State	Number of Branch Offices
-----	-----
Arizona	1
California	10
Idaho	1
Oregon	9
Washington	2
Maryland	3
Delaware	1
North Carolina	1

Barrett leases office space for its corporate and branch offices. At December 31, 2003, such leases had expiration dates ranging from less than one year to ten years, with total minimum payments through 2013 of approximately \$4,330,000.

Item 3. LEGAL PROCEEDINGS

There were no material legal proceedings pending against the Company at December 31, 2003, or during the period beginning with that date through March 26, 2004.

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

No matters were submitted to a vote of the Company's stockholders during the fourth quarter of 2003.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table identifies, as of February 29, 2004, each executive officer of the Company. Executive officers are elected annually and serve at the discretion of the Board of Directors.

Name	Age	Principal Positions and Business Experience	Officer Since

William W. Sherertz	58	President; Chief Executive Officer; Director	1980
Michael D. Mulholland	52	Vice President-Finance and Secretary; Chief Financial Officer	1994
Gregory R. Vaughn	48	Vice President	1998
James D. Miller	40	Controller and Assistant Secretary; Principal Accounting Officer	1994

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

Michael D. Mulholland joined the Company in August 1994 as Vice President-Finance and Secretary. From 1988 to 1994, Mr. Mulholland was employed by Sprouse-Reitz Stores Inc. ("Sprouse"), a former Nasdaq-listed retail company, serving as its Executive Vice President, Chief Financial Officer and Secretary. Prior to Sprouse, Mr. Mulholland held senior management positions with Lamb-Weston, Inc., a food processing company, from 1985 to 1988, and Keil, Inc., a regional retail company, from 1978 to 1985. Mr. Mulholland, a certified public accountant on inactive status, was also employed by Touche Ross & Co., now known as Deloitte & Touche LLP.

Gregory R. Vaughn joined the Company in July 1997 as Operations Manager. Mr. Vaughn was appointed Vice President in January 1998. Prior to joining Barrett, Mr. Vaughn was Chief Executive Officer of Insource America, Inc., a privately-held human resource management company headquartered in Portland, Oregon, since 1996. Mr. Vaughn has also held senior management positions with Sundial Time Systems, Inc. from 1995 to 1996 and Continental Information Systems, Inc. from 1990 to 1994. Previously, Mr. Vaughn was employed as a technology consultant by Price Waterhouse LLP, now known as PricewaterhouseCoopers LLP.

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

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PART II

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

The Company's common stock (the "Common Stock") trades on The Nasdaq Stock Market's SmallCap(TM) tier under the symbol "BBSI." At February 27, 2004, there were 59 stockholders of record and approximately 570 beneficial owners of the Common Stock. The Company has not declared or paid any cash dividends since the closing of its initial public offering of Common Stock on June 18, 1993, and has no present plan to pay any cash dividends in the foreseeable future. The following table presents the high and low sales prices of the Common Stock for each quarterly period during the last two fiscal years, as reported by The Nasdaq Stock Market:

	High	Low
	-----	-----
2002		
First Quarter	\$ 4.00	\$ 3.15
Second Quarter	4.00	2.74
Third Quarter	3.50	2.01
Fourth Quarter	4.00	2.67
2003		
First Quarter	\$ 3.75	\$ 2.31
Second Quarter	3.65	2.64
Third Quarter	7.41	3.00
Fourth Quarter	15.13	7.00

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Item 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the Company's financial statements and the accompanying notes listed in Item 15 of this Report.

	Year Ended December 31,				
	2003	2002	2001	2000	1999
(In thousands, except per share data)					
Statement of operations:					
Revenues:					
Staffing services	\$ 93,544	\$ 96,750	\$123,110	\$188,500	\$194,991
Professional employer service fees	29,177	12,558	16,281	22,128	24,433
Total	122,721	109,308	139,391	210,628	219,424
Cost of revenues:					
Direct payroll costs	69,099	71,515	90,750	139,177	141,623
Payroll taxes and benefits	22,916	14,062	17,635	27,007	28,603
Workers' compensation	9,333	8,766	12,971	12,639	11,702
Total	101,348	94,343	121,356	178,823	181,928
Gross margin	21,373	14,965	18,035	31,805	37,496
Selling, general and administrative expenses	17,186	16,008	18,737	24,583	25,957
Depreciation and amortization	1,058	1,162	3,277	3,192	2,461
Income (loss) from operations	3,129	(2,205)	(3,979)	4,030	9,078
Other (expense) income:					
Interest expense	(268)	(278)	(359)	(830)	(634)
Interest income	82	217	297	341	357
Other, net	32	21	45	6	32
Total	(154)	(40)	(17)	(483)	(245)
Income (loss) before income taxes	2,975	(2,245)	(3,996)	3,547	8,833
Provision for (benefit from) income taxes	890	(892)	(1,574)	1,446	3,684
Net income (loss)	\$ 2,085	\$ (1,353)	\$ (2,422)	\$ 2,101	\$ 5,149
Basic earnings (loss) per share	\$.36	\$ (.23)	\$ (.39)	\$.29	\$.68
Weighted average number of basic shares outstanding	5,690	5,804	6,193	7,237	7,581
Diluted earnings (loss) per share	\$.35	\$ (.23)	\$ (.39)	\$.29	\$.68
Weighted average number of diluted shares outstanding	5,876	5,804	6,193	7,277	7,627
Selected balance sheet data:					
Cash	\$ 7,785	\$ 96	\$ 1,142	\$ 516	\$ 550
Working capital	8,470	2,235	2,658	3,731	7,688
Total assets	54,673	47,297	52,566	60,865	70,504
Long-term debt, net of current portion	400	488	922	2,283	5,007
Stockholders' equity	30,634	28,785	30,534	34,917	37,329

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

Overview

The Company's revenues consist of staffing services and professional employer organization ("PEO") service fees. Staffing services revenues are derived from services performed for short-term staffing, contract staffing and on-site management. PEO service fees refer exclusively to co-employer contractual agreements with PEO clients. The Company's revenues from staffing services represent all amounts invoiced to customers for direct payroll,

employer payroll related taxes, workers' compensation coverage and a service fee (equivalent to a mark-up percentage). PEO service fee revenues are recognized in accordance with EITF 99-19, "Reporting Revenues Gross as a Principal Versus Net as an Agent." As such, the Company's PEO service fee revenues include amounts invoiced to PEO customers for employer payroll related taxes, workers' compensation coverage and a gross profit. Thus, amounts invoiced to PEO customers for salaries, wages, health insurance and employee out-of-pocket expenses incurred incidental to employment are excluded from PEO service fee revenues and cost of revenues. The Company's Oregon and California offices accounted for approximately 78% of its total net revenues in 2003. Consequently, weakness in economic conditions in these regions could have a material adverse effect on the Company's financial results. Safety incentives represent cash incentives paid to certain PEO client companies for maintaining safe-work practices in order to minimize workplace injuries. The incentive is based on a percentage of annual payroll and is paid annually to customers who meet predetermined workers' compensation claims cost objectives. The safety incentive expense is netted against PEO revenues on the Company's Statements of Operations.

The Company's cost of revenues is comprised of direct payroll costs for staffing services, employer payroll related taxes and employee benefits and workers' compensation. Direct payroll costs represent the gross payroll earned by staffing services employees based on salary or hourly wages. Payroll taxes and employee benefits consist of the employer's portion of Social Security and Medicare taxes, federal unemployment taxes, state unemployment taxes and staffing services employee reimbursements for materials, supplies and other expenses, which are paid by the customer. Workers' compensation expense consists primarily of the costs associated with the Company's self-insured workers' compensation program, such as claims reserves, claims administration fees, legal fees, state and federal administrative agency fees and reinsurance costs for catastrophic injuries. The Company also maintains separate workers' compensation insurance policies for employees working in states where the Company is not self-insured.

The largest portion of workers' compensation expense is the cost of workplace injury claims. When an injury occurs and is reported to the Company, the Company's respective independent third-party claims administrator ("TPA") analyzes the details of the injury and develops a case reserve, which is the TPA's estimate of the cost of the claim based on similar injuries and its professional judgment. The Company then records, or accrues, an expense and a corresponding liability based upon the TPA's estimates for claims reserves. As cash payments are made by the Company's TPA against specific case reserves, the accrued liability is reduced by the corresponding payment amount. The TPA also reviews existing injury claims on an on-going basis and adjusts the case reserves as new or additional information for each claim becomes available. The Company has established additional reserves to provide for future unanticipated increases in expenses ("adverse loss development") of the claims reserves for open injury claims and for claims incurred but not reported related to prior and current periods. Management believes that the Company's operational policies and internal claims reporting system help to limit the occurrence of unreported incurred claims.

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Selling, general and administrative ("SG&A") expenses represent both branch office and corporate-level operating expenses. Branch operating expenses consist primarily of branch office staff payroll and personnel related costs, advertising, rent, office supplies, depreciation and branch incentive compensation. Corporate-level operating expenses consist primarily of executive and office staff payroll and personnel related costs, professional and legal fees, travel, depreciation, occupancy costs, information systems costs and executive and corporate staff incentive bonuses.

Amortization of intangible assets consists of the amortization of software costs, and covenants not to compete, which are amortized using the straight-line method over their estimated useful lives, which range from two to

10 years.

Critical Accounting Policies

The Company has identified the following policies as critical to the Company's business and the understanding of its results of operations. For a detailed discussion of the application of these and other accounting policies, see Note 1 in the Notes to the Financial Statements in Item 15 of this Annual Report on Form 10-K. Note that the preparation of this Annual Report on Form 10-K requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Self-insured workers' compensation reserves. The Company is self-insured for workers' compensation coverage in a majority of its employee work sites. Accruals for workers' compensation expense are made based upon the Company's claims experience and an annual independent actuarial analysis, utilizing Company experience, as well as claim cost development trends and current workers' compensation industry loss information. As such, a majority of the Company's recorded expense for workers' compensation is management's best estimate. Management believes that the amount accrued is adequate to cover all known and unreported claims at December 31, 2003. However, if the actual costs of such claims and related expenses exceed the amount estimated, additional reserves may be required, which could have a material negative effect on operating results.

Allowance for doubtful accounts. The Company must make estimates of the collectibility of accounts receivables. Management analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in the customers' payment tendencies when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Intangible assets and goodwill. The Company assesses the recoverability of intangible assets and goodwill annually and whenever events or changes in circumstances indicate that the carrying value might be impaired. Factors that are considered include significant underperformance relative to expected historical or projected future operating results, significant negative industry trends and significant change in the manner of use of the acquired assets. Management's current assessment of the carrying value of intangible assets and goodwill indicates there is no impairment based upon projected future cash flows. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets.

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New Accounting Pronouncements

For a discussion of new accounting pronouncements and their potential effect on the Company's results of operations and financial condition, refer to Note 1 in the Notes to the Financial Statements in Item 15 of this Annual Report on Form 10-K.

Forward-Looking Information

Statements in this Item or in Item 1 of this report which are not historical in nature, including discussion of economic conditions in the Company's market areas and effect on revenue growth, 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 allowance for doubtful accounts, the effectiveness of

the Company's management information systems, 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 results 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 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 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 availability of and costs associated with potential sources of financing. 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.

Results of Operations

The following table sets forth the percentages of total revenues represented by selected items in the Company's Statements of Operations for the years ended December 31, 2003, 2002 and 2001, listed in Item 15 of this report. References to the Notes to Financial Statements appearing below are to the notes to the Company's financial statements listed in Item 15 of this Report.

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	Percentage of Total Net Revenues		
	Years Ended December 31,		
	2003	2002	2001
Revenues:			
Staffing services	76.2 %	88.5 %	88.3 %
Professional employer service fees	23.8	11.5	11.7
Total	100.0	100.0	100.0
Cost of revenues:			
Direct payroll costs	56.3	65.4	65.1
Payroll taxes and benefits	18.7	12.9	12.7
Workers' compensation	7.6	8.0	9.3
Total	82.6	86.3	87.1
Gross margin	17.4	13.7	12.9
Selling, general and administrative expenses	14.0	14.6	13.4
Depreciation and amortization	0.9	1.1	2.4
Income (loss) from operations	2.5	(2.0)	(2.9)
Other (expense) income	(0.1)	--	--
Pretax income (loss)	2.4	(2.0)	(2.9)
Provision for (benefit from) income taxes	0.7	(0.8)	(1.2)
Net income (loss)	1.7 %	(1.2) %	(1.7) %

The Company changed its reporting of PEO revenues from a gross basis to a net basis in 2002 because it was determined by the requirements of EITF 99-19, "Reporting Revenues Gross as a Principal Versus Net as an Agent", that the Company was not the primary obligor for the services provided by employees pursuant to its PEO contracts. The gross revenues and cost of revenues information below, although not in accordance with generally accepted accounting principles ("GAAP"), is presented for comparison purposes and because management believes such information is more informative as to the level of the Company's business activity and more useful in managing its operations.

(in thousands)	Year Ended December 31,	
	2003	2002
Revenues:		
Staffing services	\$ 93,544	\$ 96,750
Professional employer services	173,134	73,952
Total revenues	266,678	170,702
Cost of revenues:		
Direct payroll costs	210,785	132,909
Payroll taxes and benefits	22,916	14,062
Workers' compensation	11,604	8,766
Total cost of revenues	245,305	155,737
Gross margin	\$ 21,373	\$ 14,965

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A reconciliation of non-GAAP gross revenues to net revenues is as follows for the years ended December 31, 2003 and 2002 (in thousands):

	Gross Revenue Reporting Method		Reclassification		Net Revenue Reporting Method	
	2003	2002	2003	2002	2003	2002
Revenues:						
Staffing services	\$ 93,544	\$ 96,750	\$ --	\$ --	\$ 93,544	\$ 96,750
Professional employer services	173,134	73,952	(143,957)	(61,394)	29,177	12,558
Total revenues	\$266,678	\$170,702	\$ (143,957)	\$ (61,394)	\$122,721	\$109,308
Cost of revenues:	\$245,305	\$155,737	\$ (143,957)	\$ (61,394)	\$101,348	\$ 94,343

Years Ended December 31, 2003 and 2002

Net income for the year ended December 31, 2003 was \$2,085,000, an

improvement of \$3,438,000 over the net loss of \$1,353,000 for 2002. The improvement in the net income was primarily attributable to higher gross margin dollars, primarily due to a 12.3% increase in revenues, offset in part by an increase in selling, general and administrative ("SG&A") expenses to support the increase in business activity. Basic income per share for 2003 was \$.36 and diluted income per share for 2003 was \$.35 as compared to basic and diluted loss per share of \$.23 for 2002.

Revenues for 2003 totaled \$122,721,000, an increase of approximately \$13,413,000 or 12.3% over 2002 revenues of \$109,308,000. The increase in total revenues was due primarily to the significant growth in the Company's professional employer ("PEO") service fee revenue in California, partially offset by a small decline in staffing service revenue.

PEO service fee revenue increased \$16,619,000 or 132.3%, while staffing services revenue decreased \$3,206,000 or 3.3%, which resulted in an increase in the share of PEO service fee revenue to 23.8% of total revenues for 2003, as compared to 11.5% for 2002. The increase in PEO service fee revenue for 2003 was primarily due to strong growth in California attributable to business opportunities available to the Company as a qualified self-insured employer for workers' compensation coverage resulting from the adverse market conditions for workers' compensation insurance in the state. Management expects growth in demand for its PEO services to continue in the foreseeable future. The decrease in staffing services revenue for 2003 was primarily attributable to continued weak demand for the Company's services in the majority of areas in which the Company does business owing to general weak economic conditions. The share of staffing services revenues had a corresponding decrease from 88.5% of total revenues for 2002 to 76.2% for 2003.

Gross margin for 2003 totaled \$21,373,000, which represented an increase of \$6,408,000 or 42.8% over 2002. The gross margin percent increased from 13.7% of revenues for 2002 to 17.4% for 2003. The increase in the gross margin percentage was due to lower direct payroll costs and workers' compensation costs, offset in part by higher payroll taxes and benefit costs, as a percentage of net revenues. The decrease in direct payroll costs as a percentage of net revenues from 65.4% for 2002 to 56.3% for 2003 primarily reflects the current mix of services to the current customer base and to the effect of their unique mark-up percent. The decrease in workers' compensation costs, as a percentage of net revenues, from 8.0% of

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revenues for 2002 to 7.6% for 2003, was principally due to a lessening of the increase in the adverse development of estimated future costs of workers' compensation claims primarily concentrated in the Company's California operations. The increase in payroll taxes and benefits as a percentage of net revenues from 12.9% for 2002 to 18.7% for 2003 was primarily attributable to higher state unemployment tax rates in various states in which the Company operates, as well as to the effect of significant growth in PEO services. The Company expects gross margin, as a percentage of net revenues, to continue to be influenced by fluctuations in the mix between staffing and PEO services, including the mix within the staffing segment, as well as the adequacy of its estimates for workers' compensation liabilities, which may be negatively affected by unanticipated adverse loss development of claims reserves.

In connection with the Company's self-insured workers' compensation program, the Company has maintained an excess workers' compensation policy which limits the financial effect of costly workers' compensation claims. For the calendar year 2001, such policies included a self-insured retention or deductible of \$400,000 per occurrence. Effective January 1, 2002, the self-insured retention or deductible increased to \$750,000 per occurrence. Effective January 1, 2004, the self-insured retention or deductible on the Company's excess workers' compensation policy increased to \$1,000,000 per occurrence, although the premium cost per \$100 of payroll declined significantly. Management believes that the Company obtained the most favorable terms and conditions available in the market, in view of the effect of the

events of September 11, 2001, on the insurance industry and the Company's size and scope of operations.

SG&A expenses consist of compensation and other expenses incident to the operation of the Company's headquarters and the branch offices and the marketing of its services. SG&A expenses for 2003 amounted to \$17,186,000, an increase of \$1,178,000 or 7.4% over 2002. SG&A expenses, expressed as a percentage of net revenues, declined from 14.6% for 2002 to 14.0% for 2003. The increase in total SG&A dollars was primarily due to increases in branch management personnel and related expenses as a result of the growth in the Company's PEO business.

Depreciation and amortization totaled \$1,058,000 for 2003, which compares to \$1,162,000 for 2002. The depreciation and amortization expense level remained comparable to 2002 amounts due to the Company's current low level of capital expenditures.

At December 31, 2003, the Company had net deferred income tax assets of \$3,237,000 primarily reflecting temporary differences between taxable income for financial accounting and tax purposes and tax credit carryforwards, which will reduce taxable income in future years. Pursuant to generally accepted accounting principles, the Company is required to assess the realization of the deferred income tax assets as significant changes in circumstances may require adjustments during future periods. Although realization is not assured, management has concluded that it is more likely than not that the remaining net deferred income tax assets will be realized, principally based upon projected taxable income for the next two years. The amount of the net deferred income tax assets actually realized could vary, if there are differences in the timing or amount of future reversals of existing deferred income tax assets or changes in the actual amounts of future taxable income as compared to operating forecasts. If the Company's operating forecast is determined to no longer be reliable due to uncertain market conditions, the Company's long-term forecast may require reassessment. As a result, in the future, a valuation allowance may be required to be established for all or a portion of the net deferred income tax assets. Such a valuation allowance could have a significant effect on the Company's future results of operations and financial position.

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Effective January 1, 2004, the Company acquired certain assets of Skills Resource Training Center ("SRTC"), a staffing services company with nine offices in Central Washington, Eastern Oregon and Southern Idaho. The Company paid \$3,000,000 in cash for the assets of SRTC and the selling shareholders' noncompete agreements and agreed to issue up to 135,731 shares of its common stock ("Earnout Shares"), with the actual number of Earnout Shares to be issued based upon the level of financial performance achieved by the SRTC offices during calendar 2004.

The Company offers various qualified employee benefit plans to its employees, including its PEO employees. These qualified employee benefit plans include a savings plan (the "401(k) plan") under Section 401(k) of the Internal Revenue Code (the "Code"), a cafeteria plan under Section 125 of the Code, a group health plan, a group life insurance plan and group disability insurance plan. Generally, qualified employee benefit plans are subject to provisions of both the Code and the Employee Retirement Income Security Act of 1974 ("ERISA"). In order to qualify for favorable tax treatment under the Code, qualified plans must be established and maintained by an employer for the exclusive benefit of its employees.

After several years of study, on April 24, 2002, the Internal Revenue Service ("IRS") issued Revenue Procedure 2002-21 ("Rev Proc") to provide relief with respect to certain defined contribution retirement plans maintained by a PEO that benefit worksite employees. The Rev Proc outlines the steps necessary for a PEO to avoid plan disqualification for violating the exclusive benefit rule. Essentially, a PEO must either (1) terminate the plan; (2) convert its plan to a "multiple employer plan" by December 31, 2003; or (3) transfer the

plan assets and liabilities to a customer plan. Effective December 1, 2002, the Company converted its 401(k) plan to a "multiple employer plan".

Years Ended December 31, 2002 and 2001

Net loss for the year ended December 31, 2002 was \$1,353,000, an improvement of \$1,069,000 over the net loss of \$2,422,000 for 2001. The improvement in the net loss was attributable to a 14.6% reduction in SG&A expenses and a 64.5% reduction in depreciation and amortization expenses, partially offset by a 17.0% decline in gross margin dollars, primarily resulting from a 21.6% decrease in net revenues. Basic and diluted loss per share for 2002 were \$.23 as compared to basic and diluted loss per share of \$.39 for 2001.

Revenues for 2002 totaled \$109,308,000, a decrease of approximately \$30,083,000 or 21.6% from 2001 revenues of \$139,391,000. The decrease in total net revenues was due, in part, to the continued softening of business conditions in the Company's market areas, particularly in the Company's Northern California operations, which accounted for approximately 46.0% of the decline in total net revenues for 2002, as well as to management's decision to terminate the Company's relationship with certain customers who provided insufficient gross margin in relation to such risk factors as workplace safety and credit.

Staffing services revenue decreased \$26,360,000 or 21.4%, while PEO service fee revenue decreased \$3,723,000 or 22.9%, which resulted in an increase in the share of staffing services to 88.5% of total revenues for 2002, as compared to 88.3% for 2001. The decrease in staffing services revenue for 2002 was primarily attributable to a continued decrease in demand for the Company's services in the majority of areas in which the Company does business owing to general weak economic conditions. The share of PEO service fee revenues had a corresponding decrease from 11.7% of total revenues for 2001 to 11.5% for 2002. The decrease in PEO service fee revenue for 2002 was primarily due to management's decision to discontinue its services to certain PEO customers which provided insufficient gross margin or represented unacceptable levels of risk associated with credit or workplace safety.

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Gross margin for 2002 totaled \$14,965,000, which represented a decrease of \$3,070,000 or 17.0% from 2001. The gross margin percent increased from 12.9% of revenues for 2001 to 13.7% for 2002. The increase in the gross margin percentage was due to lower workers' compensation costs offset in part by higher direct payroll costs and payroll taxes and benefits, as a percentage of revenues. The decrease in workers' compensation costs, as a percentage of revenues, from 9.3% of revenues for 2001 to 8.0% for 2002, was principally due to a lessening of the increase in the adverse development of estimated future costs of workers' compensation claims primarily concentrated in the Company's California operations. The increase in direct payroll costs as a percentage of revenues from 65.1% for 2001 to 65.4% for 2002 primarily reflected the then-current mix of services to the then-current customer base. The increase in payroll taxes and benefits as a percentage of revenues from 12.7% for 2001 to 12.9% for 2002 was primarily attributable to slightly higher state unemployment tax rates in various states in which the Company operates.

SG&A expenses for 2002 amounted to \$16,008,000, a decrease of \$2,729,000 or 14.6% from 2001. SG&A expenses, expressed as a percentage of revenues, increased from 13.4% for 2001 to 14.6% for 2002. The decrease in total SG&A dollars was primarily due to reductions in branch management personnel and related expenses as a result of the continued downturn in the Company's business.

Depreciation and amortization totaled \$1,162,000 for 2002, which compares to \$3,277,000 for 2001. The decreased expense was primarily due the Company's adoption of Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangible Assets" effective January 1, 2002, whereby the Company ceased the amortization of its recorded goodwill. 2001 included

\$1,783,000 of goodwill amortization. (See Note 1 in the Notes to the Financial Statements in Item 15 of this Annual Report on Form 10-K.)

Fluctuations in Quarterly Operating 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 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 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 and forest products-related industries. As a result, the Company may have greater revenues and net income in the third and fourth quarters of its fiscal year. 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 by some employees. 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. In addition, 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 at December 31, 2003 of \$7,785,000 increased \$7,689,000 over December 31, 2002. The increase in cash at December 31, 2003 was primarily generated from net income, the proceeds of a sale and leaseback of two Company-owned office buildings, the receipt of the Company's 2002 income tax refund, the release of a workers' compensation surety deposit from restricted marketable securities to

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cash and an increase in accrued payroll, payroll taxes and related benefits, offset in part by payments on workers' compensation claims liabilities, net payments on the Company's credit-line and an increase in trade accounts receivable.

Net cash provided by operating activities for 2003 amounted to \$7,176,000, as compared to net cash used in operating activities of \$906,000 for 2002. For 2003, net cash provided by operating activities was primarily attributable to net income of \$2,085,000, a \$1,923,000 decrease in income taxes receivable as a result of the receipt of the 2002 federal income tax refund and an increase in accrued payroll and related benefits of \$8,984,000, offset in part by a net decrease of workers' compensation claims of \$1,478,000, coupled with an increase of \$7,124,000 in trade accounts receivable. For 2002, net cash used in operating activities was primarily attributable to a \$1,353,000 net loss, a \$2,475,000 decrease in workers' compensation claims liabilities and a \$1,923,000 increase in income taxes receivable, partially offset by a \$2,403,000 decrease in accounts receivable, a \$1,553,000 decrease in deferred income tax assets and depreciation and amortization of \$1,162,000.

Net cash provided by investing activities totaled \$4,695,000 for 2003, as compared to net cash provided by investing activities of \$988,000 for 2002. For 2003, the principal source of cash provided by investing activities was from \$2,338,000 of proceeds from the sale and leaseback of two office buildings and from net proceeds totaling \$9,914,000 from maturities and sales of marketable securities, offset in part by \$7,226,000 of net purchases of marketable securities. These transactions generally represent scheduled maturities and the replacement of such securities held for workers' compensation surety deposit purposes. For 2002, the principal source of cash provided by investing activities was from proceeds of \$4,279,000 from maturities and sales of

marketable securities, offset in part by \$3,116,000 of purchases of marketable securities. The Company presently has no material long-term commitments for capital expenditures, nor does it anticipate any in the foreseeable future.

Net cash used in financing activities for 2003 amounted to \$4,182,000, which compares to \$1,128,000 in 2002. For 2003, the principal use of cash for financing activities was for \$3,513,000 of net payments made on the Company's revolving credit line, common stock repurchases totaling \$446,000 pursuant to its repurchase program and scheduled payments on long-term debt of \$433,000. For 2002, the principal use of cash in financing activities was for scheduled payments on long-term debt of \$708,000 and common stock repurchases totaling \$386,000.

The Company entered into a new Credit Agreement (the "New Credit Agreement") with its principal bank on March 23, 2004, to be effective March 31, 2004. The New Credit Agreement provides for a revolving credit facility of up to \$6.0 million, which includes a subfeature under the line of credit for standby letters of credit for not more than \$4.0 million. The interest rate on advances, if any, will be, at the Company's discretion, either (i) equal to the prime rate or (ii) LIBOR plus 1.50%. The New Credit Agreement expires July 1, 2005.

The revolving credit facility is collateralized by the Company's assets, including, without limitation, its accounts receivable, equipment, intellectual property and bank deposits, and may be prepaid at any time without penalty. Pursuant to the New Credit Agreement, the Company is required to maintain compliance with the following financial covenants: (1) a Current Ratio not less than 1.10 to 1.0 with "Current Ratio" defined as total current assets divided by total current liabilities; (2) Tangible Net Worth not less than \$8 million, determined at each fiscal quarter end, with "Tangible Net Worth" defined as the aggregate of total stockholders' equity plus subordinated debt less any intangible assets; (3) Total Liabilities divided by Tangible Net Worth not greater than 5.00 to 1.0, determined at each fiscal quarter end, with "Total Liabilities" defined as the aggregate of current liabilities and non-current liabilities, less subordinated debt

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and the deferred gain on the Company's sale and leaseback transaction, and with "Tangible Net Worth" as defined above; and (4) Net income after taxes not less than \$1.00 on an annual basis, determined as of each fiscal year end, and pre-tax profit not less than \$1.00 on a quarterly basis, determined as of each fiscal quarter end.

The New Credit Agreement replaces the Company's prior Amended and Restated Credit Agreement (the "Prior Agreement") with the same bank, which was amended three times during fiscal year 2003. The Prior Agreement provided for a revolving credit facility of up to \$8.0 million, which included a subfeature for standby letters of credit for not more than \$5.0 million and a term loan but was subject to asset-based limits on the amount of available credit. The term loan was paid in full as of June 30, 2003.

Effective June 30, 2003, the Company completed a sale and leaseback transaction involving two office buildings owned by the Company. The sale and leaseback transaction provided net cash proceeds of approximately \$2.0 million (after the June 30, 2003 payment of the outstanding mortgage balance). The net proceeds from the transaction were applied to the outstanding balance on the Company's credit facility.

As of December 31, 2003, the Company had approximately \$4.7 million available under its prior \$8.0 million credit facility and was in compliance with all loan covenants.

Management expects that current liquid assets, the funds anticipated to be generated from operations, and credit available under the New Credit Agreement and other potential sources of financing, will be sufficient in the aggregate to fund the Company's working capital needs for the foreseeable

future.

During 1999, the Company's Board of Directors authorized a stock repurchase program to repurchase common shares from time to time in open market purchases. Since inception, the Board of Directors has approved seven increases in the total number of shares or dollars authorized to be repurchased under the program. The stock repurchase program had \$443,000 of remaining authorization for the repurchase of additional shares at December 31, 2003. During 2003, the Company repurchased 112,655 shares at an aggregate price of \$446,000. Management anticipates that the capital necessary to execute this program will be provided by existing cash balances and other available resources.

Contractual Obligations

The Company's contractual obligations as of December 31, 2003, including long-term debt, commitments for future payments under non-cancelable lease arrangements and long-term workers' compensation claims liabilities for catastrophic injuries, are summarized below:

(in thousands)	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Long-term debt	\$ 488	\$ 88	\$ 400	\$ -	\$ -
Operating leases	4,330	1,297	1,380	521	1,132
Long-term workers' compensation claims liabilities for catastrophic injuries	625	22	50	59	494
Total contractual cash obligations	<u>\$5,443</u>	<u>\$1,407</u>	<u>\$1,830</u>	<u>\$ 580</u>	<u>\$1,626</u>

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Inflation

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

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market risk for changes in interest rates primarily relates to the Company's short-term and long-term debt obligations. As of December 31, 2003, the Company had interest-bearing debt obligations of approximately \$0.5 million, which bears interest at a fixed rate. Based on the Company's overall interest rate exposure at December 31, 2003, a 10% change in market interest rates would not have a material effect on the fair value of the Company's long-term debt or its results of operations. As of December 31, 2003, the Company had not entered into any interest rate instruments to reduce its exposure to interest rate risk.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and notes thereto required by this item begin on page F-1 of this report, as listed in Item 15.

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

FINANCIAL DISCLOSURE

None.

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Item 9A. CONTROLS AND PROCEDURES

The Company's disclosure controls and procedures are designed to ensure that information the Company must disclose in its reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported on a timely basis. The Company's management has evaluated, with the participation and under the supervision of our chief executive officer ("CEO") and chief financial officer ("CFO"), the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our CEO and CFO have concluded that, as of such date, the Company's disclosure controls and procedures are effective in ensuring that information relating to the Company required to be disclosed in reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

No change in the Company's internal control over financial reporting occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this Item 10 concerning directors and executive officers of the Company appears under the heading "Executive Officers of the Registrant" on page 12 of this report or is incorporated into this report by reference to the Company's definitive Proxy Statement for its 2004 Annual Meeting of Shareholders to be filed within 120 days of the Company's fiscal year end of December 31, 2003 (the "Proxy Statement"), in which additional required information is included under the headings "Election of Directors," "Stock Ownership by Principal Stockholders and Management--Section 16(a) Beneficial Ownership Reporting Compliance," and "Code of Ethics."

Audit Committee

The Company has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act known as the Audit and Compliance Committee. The members of the Audit and Compliance Committee are Thomas J. Carley, chairman, and Fores J. Beaudry, James B. Hicks, Ph.D., and Anthony Meeker, each of whom is independent as that term is used in Nasdaq listing standards applicable to the Company.

Audit Committee Financial Expert

The Company's Board of Directors has determined that Thomas J. Carley, an audit committee member, qualifies as an "audit committee financial expert" as defined by Item 401(h) of Regulation S-K under the Exchange Act and is independent as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act.

Item 11. EXECUTIVE COMPENSATION

Information required by this Item 11 concerning executive and director

compensation is incorporated into this report by reference to the Proxy Statement, in which required information is set forth under the headings "Executive Compensation" and "Meetings and Committees of the Board of Directors - Compensation Committee Interlocks and Insider Participation."

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this Item 12 concerning the security ownership of certain beneficial owners and management is incorporated into this report by reference to the Proxy Statement, in which required information is set forth under the heading "Stock Ownership of Principal Stockholders and Management - Beneficial Ownership Table" and "Executive Compensation - Additional Equity Compensation Plan Information."

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Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this Item 13 concerning certain relationships and related transactions is incorporated into this report by reference to the Proxy Statement, in which required information is set forth under the headings "Meetings and Committees of the Board of Directors - Compensation Committee Interlocks and Insider Participation" and "Transactions with Management."

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this Item 14 concerning fees paid to our accountants is incorporated into this report by reference to the Proxy Statement, in which required information is set forth under the heading "Matters Relating to Our Auditor."

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PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

Financial Statements and Schedules

The Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP, are included on the pages indicated below:

	Page
Report of Independent Auditors	F-1
Balance Sheets - December 31, 2003 and 2002	F-2
Statements of Operations for the Years Ended December 31, 2003, 2002 and 2001	F-3
Statements of Stockholders' Equity for the Years Ended December 31, 2003, 2002 and 2001	F-4
Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001	F-5
Notes to Financial Statements	F-6

No schedules are required to be filed herewith.

Reports on Form 8-K

The Company filed on December 5, 2003, a Current Report on Form 8-K dated as of

December 4, 2003, to report under Item 5 that the Company had reached an agreement in principle to acquire certain assets of Skills Resource Training Center ("SRTC") pursuant to an asset purchase agreement effective January 1, 2004.

Exhibits

Exhibits are listed in the Exhibit Index that follows the signature page of this report.

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Report of Independent Auditors

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

In our opinion, the accompanying balance sheets and the related statements of operations, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Barrett Business Services, Inc. (the Company) at December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the Company adopted the provisions of Statement Accounting Standards No. 142, Goodwill and Other Intangible Assets, effective January 1, 2002.

/s/ PricewaterhouseCoopers LLP

Portland, Oregon

February 20, 2004, except as to Note 6, which is as of March 23, 2004

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Barrett Business Services, Inc.
Balance Sheets
December 31, 2003 and 2002
(In Thousands, Except Par Value)

	2003	2002
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,785	\$ 96
Income taxes receivable	--	1,923
Trade accounts receivable, net	18,481	11,357

Prepaid expenses and other	958	1,040
Deferred income taxes	2,196	2,111
	-----	-----
Total current assets	29,420	16,527
Goodwill, net	18,749	18,749
Intangibles, net	13	59
Property and equipment, net	3,367	5,167
Restricted marketable securities and workers' compensation deposits	1,647	4,286
Deferred income taxes	1,041	1,445
Other assets	436	1,064
	-----	-----
	\$54,673	\$47,297
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 88	\$ 434
Line of credit	--	3,513
Accounts payable	727	834
Accrued payroll, payroll taxes and related benefits	13,881	4,897
Workers' compensation claims liabilities	3,886	3,903
Safety incentives liability	2,007	406
Other accrued liabilities	361	305
	-----	-----
Total current liabilities	20,950	14,292
Long-term debt, net of current portion	400	488
Customer deposits	455	443
Long-term workers' compensation claims liabilities	1,031	2,492
Other long-term liabilities	45	797
Deferred gain on sale and leaseback	1,158	--
Commitments and contingencies (Notes 8, 9 and 15)		
Stockholders' equity:		
Common stock, \$.01 par value; 20,500 shares authorized, 5,701 and 5,751 shares issued and outstanding	62	57
Additional paid-in capital	2,903	3,144
Employee loan	(107)	(107)
Retained earnings	27,776	25,691
	-----	-----
	30,634	28,785
	-----	-----
	\$54,673	\$47,297
	=====	=====

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

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Barrett Business Services, Inc.
Statements of Operations
Years Ended December 31, 2003, 2002 and 2001
(In Thousands, Except Per Share Amounts)

	2003	2002	2001
	-----	-----	-----
Revenues:			
Staffing services	\$ 93,544	\$ 96,750	\$123,110
Professional employer service fees	29,177	12,558	16,281
	-----	-----	-----
	122,721	109,308	139,391

Cost of revenues:			
Direct payroll costs	69,099	71,515	90,750
Payroll taxes and benefits	22,916	14,062	17,635
Workers' compensation	9,333	8,766	12,971
	101,348	94,343	121,356
Gross margin	21,373	14,965	18,035
Selling, general and administrative expenses	17,186	16,008	18,737
Depreciation and amortization	1,058	1,162	3,277
Income (loss) from operations	3,129	(2,205)	(3,979)
Other (expense) income:			
Interest expense	(268)	(278)	(359)
Interest income	82	217	297
Other, net	32	21	45
	(154)	(40)	(17)
Income (loss) before income taxes	2,975	(2,245)	(3,996)
Provision for (benefit from) income taxes	890	(892)	(1,574)
Net income (loss)	\$ 2,085	\$ (1,353)	\$ (2,422)
Basic earnings (loss) per share	\$.36	\$ (.23)	\$ (.39)
Weighted average number of basic shares outstanding	5,690	5,804	6,193
Diluted earnings (loss) per share	\$.35	\$ (.23)	\$ (.39)
Weighted average number of diluted shares outstanding	5,876	5,804	6,193

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

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Barrett Business Services, Inc.
Statements of Stockholders' Equity
Years Ended December 31, 2003, 2002 and 2001
(In Thousands)

	Common Stock		Additional Paid-in Capital	Employee Loan	Retained Earnings	Total
	Shares	Amount				
Balance, December 31, 2000	6,451	\$ 64	\$ 5,387	\$ --	\$ 29,466	\$ 34,917
Repurchase of common stock	(604)	(6)	(2,301)	--	--	(2,307)
Stock option compensation	--	--	17	--	--	17

Reclassification of accrued stock option compensation to equity	--	--	358	--	--	358
Employee loan	--	--	--	(29)	--	(29)
Net loss	--	--	--	--	(2,422)	(2,422)
<hr/>						
Balance, December 31, 2001	5,847	58	3,461	(29)	27,044	30,534
Common stock issued on exercise of options	5	--	14	--	--	14
Repurchase of common stock	(101)	(1)	(385)	--	--	(386)
Payment to shareholder	--	--	(28)	--	--	(28)
Purchase of option rights	--	--	(31)	--	--	(31)
Reclassification of accrued stock option compensation to equity	--	--	113	--	--	113
Employee loan	--	--	--	(78)	--	(78)
Net loss	--	--	--	--	(1,353)	(1,353)
<hr/>						
Balance, December 31, 2002	5,751	57	3,144	(107)	25,691	28,785
Common stock issued on exercise of options	63	6	67	--	--	73
Repurchase of common stock	(113)	(1)	(445)	--	--	(446)
Tax benefit of stock option exercises	--	--	137	--	--	137
Net income	--	--	--	--	2,085	2,085
<hr/>						
Balance, December 31, 2003	5,701	\$ 62	\$ 2,903	\$ (107)	\$ 27,776	\$ 30,634
<hr/>						

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

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Barrett Business Services, Inc.
Statements of Cash Flows
Years Ended December 31, 2003, 2002 and 2001
(In Thousands)

	2003	2002	2001
	-----	-----	-----
Cash flows from operating activities:			
Net income (loss)	\$ 2,085	\$ (1,353)	\$ (2,422)
Reconciliations of net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,058	1,162	3,277
Gain on sale of property	--	--	(46)
Gain on sale of marketable securities	(49)	(24)	--
Gain recognized on sale and leaseback	(61)	--	--
Deferred income taxes	319	1,553	(1,568)
Changes in certain assets and liabilities, net of amounts purchased in acquisitions:			
Trade accounts receivable, net	(7,124)	2,403	6,900
Income taxes receivable	1,923	(1,923)	--
Prepaid expenses and other	82	(18)	200
Accounts payable	(107)	148	(327)
Accrued payroll, payroll taxes and related benefits	8,984	(155)	(2,353)
Other accrued liabilities	56	(84)	(1,233)
Workers' compensation claims liabilities	(1,478)	(2,475)	3,343
Safety incentives liability	1,601	26	(49)
Customer deposits and other assets, net	639	5	(113)
Other long-term liabilities	(752)	(171)	(32)
	-----	-----	-----
Net cash provided by (used in) operating activities	7,176	(906)	5,577
	-----	-----	-----
Cash flows from investing activities:			
Proceeds from sale and leaseback of buildings	2,338	--	--

Cash paid for acquisitions, including other direct costs	--	--	(31)
Proceeds from sale of property	--	--	266
Purchase of equipment, net of amounts purchased in acquisitions	(331)	(175)	(269)
Proceeds from maturities of marketable securities	7,642	3,472	2,436
Proceeds from sales of marketable securities	2,272	807	--
Purchase of marketable securities	(7,226)	(3,116)	(2,221)
	-----	-----	-----
Net cash provided by investing activities	4,695	988	181
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from credit-line borrowings	46,042	48,629	62,638
Payments on credit-line borrowings	(49,555)	(48,540)	(61,842)
Payments on long-term debt	(433)	(708)	(3,592)
Payment to shareholder	--	(28)	--
Purchase of option rights	--	(31)	--
Loan to employee	--	(78)	(29)
Repurchase of common stock	(446)	(386)	(2,307)
Proceeds from the exercise of stock options	73	14	--
Tax benefit of stock option exercises	137	--	--
	-----	-----	-----
Net cash used in financing activities	(4,182)	(1,128)	(5,132)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	7,689	(1,046)	626
Cash and cash equivalents, beginning of year	96	1,142	516
	-----	-----	-----
Cash and cash equivalents, end of year	\$ 7,785	\$ 96	\$ 1,142
	-----	-----	-----
Supplemental schedule of noncash activities:			
Acquisition of other businesses:			
Cost of acquisitions in excess of fair market value of net assets acquired	\$ --	\$ --	\$ 31

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

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Barrett Business Services, Inc.
Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Nature of operations

Barrett Business Services, Inc. ("Barrett" or the "Company"), a Maryland corporation, is engaged in providing both staffing and professional employer services to a diversified group of customers through a network of branch offices throughout Washington, Oregon, California, Arizona, Maryland, Delaware and North Carolina. Approximately 78%, 74% and 79%, respectively, of the Company's revenues during 2003, 2002 and 2001 were attributable to its Oregon and California operations.

Revenue recognition

The Company recognizes revenue as services are rendered by its workforce. Staffing services are engaged by customers to meet short-term and long-term personnel needs. Professional employer services ("PEO") 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.

The Company's cost of revenues for staffing services is comprised of direct payroll costs, employer payroll related taxes and employee benefits and workers' compensation. The Company's cost of revenues for PEO services includes employer payroll related taxes and workers' compensation. Direct payroll costs represent the gross payroll earned by staffing services employees based on salary or hourly wages. Payroll taxes and employee benefits consist of the employer's portion of Social Security and Medicare

taxes, federal unemployment taxes, state unemployment taxes and staffing services employee reimbursements for materials, supplies and other expenses, which are paid by the customer. Workers' compensation costs consists primarily of the costs associated with the Company's self-insured workers' compensation program, such as claims reserves, claims administration fees, legal fees, state and federal administrative agency fees and reinsurance costs for catastrophic injuries. The Company also maintains separate workers' compensation insurance policies for employees working in states where the Company is not self-insured. Safety incentives represent cash incentives paid to certain PEO client companies for maintaining safe-work practices in order to minimize workplace injuries. The incentive is based on a percentage of annual payroll and is paid annually to customers who meet predetermined workers' compensation claims cost objectives.

Cash and cash equivalents

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

Allowance for doubtful accounts

The Company had an allowance for doubtful accounts of \$146,000 and \$41,000 at December 31, 2003 and 2002, respectively. The Company must make estimates of the collectibility of accounts receivables. Management analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic conditions and changes in customers' payment trends when evaluating the adequacy of the allowance for doubtful accounts.

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Barrett Business Services, Inc.

Notes to Financial Statements (Continued)

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

Deferred income taxes

The Company calculates income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes", which requires recognition of deferred income tax assets and liabilities for the expected tax consequences of events that have been included in the financial statements and income tax returns. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized.

Marketable securities

At December 31, 2003 and 2002, marketable securities consisted primarily of governmental debt instruments with maturities generally from 90 days to 20 years (see Note 5). Marketable securities have been categorized as held-to-maturity and, as a result, are stated at amortized cost. Realized gains and losses on sales of marketable securities are included in other (expense) income on the Company's statements of operations. During the year ended December 31, 2003, the Company sold certain restricted marketable securities due to a decrease in the statutory surety requirements established by the State of Oregon Workers' Compensation Division.

Intangibles

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. ("SFAS") 141, "Business Combinations" and SFAS 142, "Goodwill and Other Intangible Assets." The Company's adoption date for SFAS 141 was July 1, 2001 and the adoption date for SFAS 142 was January 1, 2002. With respect to SFAS 142, the Company performed a goodwill impairment test as of the adoption date and at December 31, 2002 and 2003 and has determined there was no impairment to its recorded goodwill. The Company will perform a goodwill impairment test annually during the fourth quarter and whenever events or circumstances occur indicating that goodwill might be impaired. Effective January 1, 2002,

amortization of all goodwill ceased. There were no changes in goodwill from December 31, 2001 to December 31, 2003. The impact of this change is summarized as follows (in thousands):

	Year ended December 31,		
	2003	2002	2001
Reported net income (loss)	\$ 2,085	\$ (1,353)	\$ (2,422)
Add back: goodwill amortization, net of tax	--	--	1,327
Adjusted net income (loss)	\$ 2,085	\$ (1,353)	\$ (1,095)
Reported net income (loss) per share	\$.35	\$ (.23)	\$ (.39)
Adjusted net income (loss) per share	.35	(.23)	(.18)

The Company's intangible assets are comprised of covenants not to compete arising from prior year acquisitions and have contractual lives principally ranging from three to five years. (See Note 3.)

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Barrett Business Services, Inc.
Notes to Financial Statements (Continued)

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

Property and equipment

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

Depreciation of property and equipment is calculated using either straight-line or accelerated methods over estimated useful lives, which range from 3 years to 10 years.

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. 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 then-current amount of the customer's estimated workers' compensation claims reserves as established by the Company's third party administrator.

Customer deposits

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

Statements of cash flows

Interest paid during 2003, 2002 and 2001 did not materially differ from interest expense.

Income taxes paid by the Company in 2003 totaled \$567,000. The Company paid no income taxes in 2002 and 2001.

Basic and diluted earnings per share

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

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Barrett Business Services, Inc.
Notes to Financial Statements (Continued)

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

Basic and diluted earnings per share (Continued)

	Year Ended December 31,		
	2003	2002	2001
Weighted average number of basic shares outstanding	5,690,261	5,804,231	6,193,119
Stock option plan shares to be issued at prices ranging from \$1.45 to \$17.75 per share	586,674	--	--
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 dispositio	(400,808)	--	--
Weighted average number of diluted shares outstanding	5,876,127	5,804,231	6,193,119

As a result of the net loss reported for the years ended December 31, 2002 and 2001, 23,978 and 25,779, respectively, of potential common shares have been excluded from the calculation of diluted loss per share because their effect would be anti-dilutive.

Stock option compensation

The Company applies APB Opinion No. 25 and related interpretations in accounting for its stock incentive plan. Accordingly, no compensation expense has been recognized for its stock option grants issued at market price because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant. If compensation expense for the Company's stock-based compensation plan had been determined based on the fair market value at the grant date for awards under the Plan consistent with the method of Statement of Financial Accounting Standards ("SFAS") No. 123, the Company's net income (loss) and earnings (loss) per share would have been adjusted to the pro forma amounts indicated below:

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Barrett Business Services, Inc.
Notes to Financial Statements (Continued)

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

Stock option compensation (Continued)

	2003	2002	2001
	-----	-----	-----
(in thousands, except per share amounts)			
Net income (loss), as reported	\$ 2,085	\$ (1,353)	\$ (2,422)
Add back compensation expense recognized under APB No. 25	--	--	17
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(176)	(168)	(237)
Net income (loss), pro forma	\$ 1,909	\$ (1,521)	\$ (2,642)
Basic earnings (loss) per share, as reported	\$.36	\$ (.23)	\$ (.39)
Basic earnings (loss) per share, pro forma	.34	(.26)	(.43)
Diluted earnings (loss) per share, as reported	.35	(.23)	(.39)
Diluted earnings (loss) per share, pro forma	.33	(.26)	(.43)

The effects of applying SFAS No. 123 for providing pro forma disclosures for 2003, 2002 and 2001 are not likely to be representative of the effects on reported net income for future years, because options vest over several years and additional awards generally are made each year.

Reclassifications Certain prior year amounts have been reclassified to conform with the 2003 presentation. Such reclassifications had no impact on gross margin, operating results or shareholder equity.

Accounting estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from such estimates.

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

Recent accounting pronouncements

In June 2001, the Financial Accounting Standards Board (FASB or the "Board") issued Statement of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other Intangible Assets." SFAS 142 supersedes APB 17, Intangible Assets, and is effective for fiscal years beginning after December 14, 2001. SFAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. The provisions of SFAS 142 prohibit the amortization of goodwill and indefinite-lived intangible assets, and require that goodwill and indefinite-lived intangible assets be tested annually for impairment. The Company adopted the provisions of SFAS 141 and 142 in the first quarter of 2002.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Obligations

Associated with the Retirement of Long-Lived Assets." SFAS 143 establishes accounting standards for the recognition and measurement of asset retirement obligations and the associated asset retirement costs. The Company adopted the provisions of SFAS No. 143 in the first quarter of 2003. The adoption of SFAS 143 did not have a material impact on the Company's results of operations or financial position.

In May 2002, the FASB issued SFAS 145, "Rescission of FAS Nos. 4, 44 and 64, Amendment of FAS 13, and Technical Corrections." Among other things, SFAS 145 rescinds various pronouncements regarding early extinguishment of debt and allows extraordinary accounting treatment for early extinguishment only when the provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" are met. SFAS 145 provisions regarding early extinguishment of debt are generally effective for fiscal years beginning after May 15, 2002. The adoption of SFAS 145 did not have a material impact on the Company's results of operations or financial position.

In July 2002, the FASB issued SFAS 146, "Accounting for the Costs Associated with Exit or Disposal Activities." SFAS 146 addresses the financial accounting and reporting for obligations associated with an exit activity, including restructuring. Exit activities include, but are not limited to, eliminating or reducing product lines, terminating employees and contracts and relocating plant facilities or personnel. SFAS 146 specifies that a company will record a liability for a cost associated with an exit or disposal activity only when that liability is incurred and can be measured at fair value. Therefore, commitment to an exit plan or a plan of disposal expresses only management's intended future actions and, therefore, does not meet the requirement for recognizing a liability and the related expense. SFAS 146 is effective prospectively for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS 146 in 2003 did not have a material impact on the Company's results of operations or financial position.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock Based Compensation - Transition and Disclosure." SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and requires fair value method pro forma disclosures to be

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Barrett Business Services, Inc.
Notes to Financial Statements (Continued)

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

Recent accounting pronouncements (Continued)
displayed more prominently and in a tabular format. Additionally, SFAS 148 requires similar disclosures in interim financial statements. The transition and disclosure requirements of SFAS 148 were adopted by the Company in the fourth quarter of 2002.

In November 2002, the FASB issued Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45), which elaborates on required disclosures by a guarantor in its financial statements about obligations under certain guarantees that it has issued and clarifies the need for a guarantor to recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company has reviewed the provisions of FIN 45 relating to initial recognition and measurement of guarantor liabilities, which are effective for qualifying guarantees entered into or modified after December 31, 2002.

The adoption of FIN 45 did not have a material impact on the Company's results of operations or financial position.

In January 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. In December 2003, the FASB published a revision of FIN 46 (FIN 46R), in part to clarify certain of the provisions and implementation issues of FIN 46. FIN 46 applies immediately to variable interest entities (VIEs created after January 31, 2003, and to VIEs in which an enterprise obtains an interest after that date). It applies in the first fiscal year or interim period ending after December 15, 2003, to VIEs in which an enterprise holds a variable interest that it acquired before February 1, 2003. The adoption of FIN 46 did not have a material impact on the Company's results of operations or financial position.

In April 2003, the FASB issued SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS 149 did not have a material impact on the Company's results of operations or financial position.

In May 2003, the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that an issuer classify a financial instrument that is within its scope as a liability if that financial instrument embodies an obligation to the issuer.

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Barrett Business Services, Inc.
Notes to Financial Statements (Continued)

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

Recent accounting pronouncements (Continued)

SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. The adoption of SFAS 150 did not have a material impact on the Company's results of operations or financial position.

2. Fair Value of Financial Instruments and Concentration of Credit Risk

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

- Marketable securities - Marketable securities primarily consist of U.S. Treasury bills and municipal bonds. The interest rates on the Company's marketable security investments approximate current market rates for these types of investments; therefore, the recorded value of the marketable securities approximates fair market value.

- Long-term debt - The interest rates on the Company's long-term debt approximate current market rates, based upon similar obligations with like maturities; therefore, the recorded value of long-term debt approximates the fair market value.

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of temporary cash investments, marketable securities and trade accounts receivable. The Company restricts investment of temporary cash investments and marketable securities to financial institutions with high credit ratings and to investments in governmental debt instruments. Credit risk on trade receivables is minimized as a result of the large and diverse nature of the Company's customer base. At December 31, 2003, the Company had significant concentrations of credit risk as follows:

- Marketable securities - \$1,296,000 of marketable securities at December 31, 2003 consisted of U.S. Treasury bills and U.S. Treasury notes.
- Trade receivables - Trade receivables from two customers aggregated \$910,000 at December 31, 2003 (6% of trade receivables outstanding at December 31, 2003).

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Barrett Business Services, Inc.
Notes to Financial Statements (Continued)

3. Intangibles

Intangibles consist of the following (in thousands):

	December 31,	
	----- 2003	2002 -----
Covenants not to compete	\$ 3,709	\$ 3,709
Less accumulated amortization	3,696	3,650
	-----	-----
	\$ 13	\$ 59
	=====	=====

4. Property and Equipment

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

	December 31,	
	----- 2003	2002 -----
Office furniture and fixtures	\$ 4,443	\$ 4,474
Computer hardware and software	4,582	4,581
Buildings	--	1,272
	-----	-----
	9,025	10,327
Less accumulated depreciation and amortization	5,658	5,468

	-----	-----
	3,367	4,859
Land	--	308
	-----	-----
	\$ 3,367	\$ 5,167
	=====	=====

Effective June 30, 2003, the Company completed a sale and leaseback transaction involving two office buildings owned by the Company providing net cash proceeds of approximately \$2.0 million (after payment of the outstanding mortgage balance).

5. Workers' Compensation Claims Liabilities

The Company is a self-insured employer with respect to workers' compensation coverage for all its employees (including employees subject to PEO contracts) working in Oregon, Maryland, Delaware and California. In the state of Washington, state law allows only the Company's staffing services and management employees to be covered under the Company's self-insured workers' compensation program.

The Company has provided a total of \$4,917,000 and \$6,395,000 at December 31, 2003 and 2002, respectively, as an estimated liability for unsettled workers' compensation claims liabilities. The estimated liability for unsettled workers' compensation claims represents management's best estimate, which includes, in part, an evaluation of information provided

Barrett Business Services, Inc.
Notes to Financial Statements (Continued)

5. Workers' Compensation Claims Liabilities (Continued)

by the Company's third-party administrators for workers' compensation claims and its independent actuary, who annually assist management to estimate the total future costs of all claims, including potential future adverse loss development. Included in the claims liabilities are case reserve estimates for reported losses, plus additional amounts based on projections for incurred but not reported claims, anticipated increases in case reserve estimates and additional claims administration expenses. These estimates are continually reviewed and adjustments to liabilities are reflected in current operating results as they become known. The Company believes that the difference between amounts recorded for its estimated liabilities and the possible range of costs to settle related claims is not material to results of operations; nevertheless, it is reasonably possible that adjustments required in future periods may be material to results of operations.

Liabilities incurred for work-related employee fatalities, as determined by the state in which the accident occurred, are recorded either at an agreed lump-sum settlement amount or the net present value of future fixed and determinable payments over the actuarially determined remaining life expectancy of the beneficiary, discounted at a rate that approximates a long-term, high-quality corporate bond rate. During 2003, the Company maintained excess workers' compensation insurance to limit its self-insurance exposure to \$750,000 per occurrence in all states. The excess insurance provided statutory coverage above the aforementioned exposures.

At December 31, 2003, the Company's long-term workers' compensation claims liabilities in the accompanying balance sheet included \$625,000 for work-related fatalities. The aggregate undiscounted pay-out amount related

to the catastrophic injuries and fatalities is \$1,304,000. The discount rates applied to the discounted liabilities range from 7.05% to 9.00%. These rates represented the then-current rates for high quality long-term debt securities available at the date of loss with maturities equal to the length of the pay-out period to the beneficiaries. The actuarially determined pay-out periods to the beneficiaries range from 7 to 38 years. As a result, the five-year cash requirements related to these claims are immaterial.

The states of Oregon, Maryland, Washington, Delaware and the United States Department of Labor require the Company to maintain specified investment balances or other financial instruments, totaling \$4,737,000 at December 31, 2003 and \$8,968,000 at December 31, 2002, to cover potential claims losses. In partial satisfaction of these requirements, at December 31, 2003, the Company has provided standby letters of credit in the amount of \$3,141,000 and surety bonds totaling \$907,000. The investments are included in restricted marketable securities and workers' compensation deposits in the accompanying balance sheets. Prior to July 1, 2003, the state of California required the Company to maintain a \$4,036,000 letter of credit to cover potential claims losses. Effective July 1, 2003, the Company became a participant in California's new alternative security program and paid the state an annual fee of \$234,000, which was determined by several factors, including the amount of a future security deposit and the Company's overall credit rating. Upon payment of the alternative security program fee, the State of California agreed to allow the Company's letter of credit to be terminated. For the period May 1, 1996 through July 1, 2001, the Company maintained a multi-state workers' compensation insurance policy with a

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Barrett Business Services, Inc.
Notes to Financial Statements (Continued)

5. Workers' Compensation Claims Liabilities (Continued)

retention level of \$350,000 per occurrence. This policy provided workers' compensation coverage for most of the states in which the Company operated for which the Company was not self-insured for workers' compensation purposes. Pursuant to this arrangement, the Company provided standby letters of credit to the insurance company totaling \$145,000 at December 31, 2003 and \$685,000 at December 31, 2002.

6. Credit Facility

The Company entered into a second amendment to the Amended and Restated Credit Agreement (the "Agreement") with its principal bank effective April 30, 2003. The Agreement provides for a revolving credit facility of up to \$8.0 million, which includes a subfeature under the line of credit for standby letters of credit for not more than \$5.0 million and a term loan in the original amount of \$693,750 bearing interest at an annual rate of 7.4%, as to which the outstanding principal balance was paid in full as of June 30, 2003.

Under the terms of the Agreement, the Company's total outstanding borrowings, to a maximum of \$8.0 million, may not at any time exceed an aggregate of (i) 85% of the Company's eligible billed accounts receivable, plus (ii) 65% of the Company's eligible unbilled accounts receivable (not to exceed \$1.5 million). Subsequent to the quarter ended September 30, 2003, the bank reduced the interest rate on advances from an annual rate of prime rate plus two percent to prime plus one percent. The Agreement expires March 31, 2004.

Effective June 30, 2003, the Company completed a sale and leaseback transaction involving two office buildings owned by the Company. The sale

and leaseback transaction provided net cash proceeds of approximately \$2.0 million (after the June 30, 2003 payment of the outstanding mortgage balance). The net proceeds from the transaction were applied to the outstanding balance on the Company's credit facility, effective July 1, 2003.

Effective May 22, 2003, the Company entered into a third amendment to the Agreement with its principal bank, whereby the bank agreed to temporarily increase the total amount available under the credit facility from \$8.0 million to \$11.0 million until July 30, 2003 to accommodate a short delay in the closing of the Company's sale and leaseback of two office buildings. Effective July 31, 2003, the amount available under the credit facility was \$8.0 million.

Effective July 22, 2003, the Company entered into a fourth amendment to the Agreement with its principal bank, whereby the bank agreed to allow the Company to invest in equity securities of publicly-traded companies believed to offer strategic value or benefit to the Company, in amounts not to exceed an aggregate of \$200,000 plus any investment gains (net of any losses) thereon.

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Barrett Business Services, Inc.
Notes to Financial Statements (Continued)

6. Credit Facility (Continued)

As of December 31, 2003, the Company had approximately \$4.7 million available under its \$8.0 million credit facility and was in compliance with all loan covenants.

The Company entered into a new Credit Agreement (the "New Credit Agreement") with its principal bank on March 23, 2004, effective March 31, 2004. The New Credit Agreement provides for a revolving credit facility of up to \$6.0 million, which includes a subfeature under the line of credit for standby letters of credit for not more than \$4.0 million. The interest rate options on advances, if any, will be, at the Company's discretion, either (i) equal to the prime rate or (ii) LIBOR plus 1.50%. The New Credit Agreement expires July 1, 2005.

The revolving credit facility is collateralized by the Company's assets, including, without limitation, its accounts receivable, equipment, intellectual property and bank deposits, and may be prepaid at any time without penalty. Pursuant to the New Credit Agreement, the Company is required to maintain compliance with the following financial covenants: (1) a Current Ratio not less than 1.10 to 1.0 with "Current Ratio" defined as total current assets divided by total current liabilities; (2) Tangible Net Worth not less than \$8.0 million, determined at each fiscal quarter end, with "Tangible Net Worth" defined as the aggregate of total stockholders' equity plus subordinated debt less any intangible assets; (3) Total Liabilities divided by Tangible Net Worth not greater than 5.00 to 1.0, determined at each fiscal quarter end, with "Total Liabilities" defined as the aggregate of current liabilities and non-current liabilities, less subordinated debt and the current and long-term portion of the Deferred Gain on Sale and Leaseback, and with "Tangible Net Worth" as defined above; and (4) Net income after taxes not less than \$1.00 on an annual basis, determined as of each fiscal year end, and pre-tax profit not less than \$1.00 on a quarterly basis, determined as of each fiscal quarter end.

During the year ended December 31, 2003, the maximum balance outstanding under the revolving credit facility was \$4,846,000, the average balance outstanding was \$2,141,000, and the weighted average interest rate during the period was 5.74%. The weighted average interest rate during 2003 was calculated using daily weighted averages.

Barrett Business Services, Inc.
Notes to Financial Statements (Continued)

7. Long-Term Debt

Long-term debt consists of the following:

	December 31,	
	----- 2003	2002 -----
	(in thousands)	
Note payable in annual installments of \$200,000 for years 2002, 2005 and 2006 and \$87,500 for years 2003 and 2004, plus simple interest at 5.00% per annum through 2006	\$ 488	\$ 575
Mortgage note payable in monthly installments of \$6,408, including interest at 7.40% per annum through 2003, with a principal payment of \$325,000 paid in 2003, secured by land and building	--	347
	-----	-----
	488	922
Less portion due within one year	88	434
	-----	-----
	\$ 400	\$ 488
	=====	=====

Maturities on long-term debt are summarized as follows at December 31, 2003 (in thousands):

Year ending December 31, -----	
2004	\$ 88
2005	200
2006	200

	\$ 488
	=====

8. Savings Plan

The Company has a Section 401(k) employee savings plan for the benefit of its eligible employees. All employees 21 years of age or older become eligible to participate in the savings plan upon completion of 1,000 hours of service in any consecutive 12-month period following the initial date of employment. Employees covered under a co-employer ("PEO") contract receive credit for prior employment with the PEO client for purposes of meeting savings plan service eligibility. The determination of Company contributions to the plan, if any, is subject to the sole discretion of the Company.

Participants' interests in Company contributions to the plan vest over a seven-year period. No discretionary company contributions were made to the plan for the years ended December 31, 2003 and 2002.

After several years of study, on April 24, 2002, the Internal Revenue Service ("IRS") issued Revenue Procedure 2002-21 ("Rev Proc") to provide

relief with respect to certain defined contribution retirement plans maintained by a PEO that benefit worksite employees. The Rev Proc outlines the steps necessary for a PEO to avoid plan disqualification for violating

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Barrett Business Services, Inc.
Notes to Financial Statements (Continued)

8. Savings Plan (Continued)

the exclusive benefit rule. Essentially, a PEO must either (1) terminate its plan; (2) convert its plan to a "multiple employer plan" by December 31, 2003; or (3) transfer the plan assets and liabilities to a customer plan. Effective December 1, 2002, the Company converted its 401(k) plan to a "multiple employer plan".

9. Commitments

Lease commitments

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

Year ending December 31, -----	
2004	\$ 1,297
2005	915
2006	465
2007	279
2008	242
2009 and thereafter	1,132

	\$ 4,330
	=====

Rent expense for the years ended December 31, 2003, 2002 and 2001 was approximately \$1,499,000, \$1,741,000 and \$1,811,000, respectively.

10. Related Party Transactions

During the period from January 1, 2002 to May 1, 2002, the Company recorded revenues of \$138,000 and cost of revenues of \$132,000 for providing services to a company owned by Barrett's President and Chief Executive Officer, Mr. William W. Sherertz. Effective May 1, 2002, this company was sold to an unrelated third-party. During 2001, the Company recorded revenues of \$26,000 and cost of revenues of \$25,000 to this Company and at December 31, 2001, Barrett had trade receivables due from this Company of \$19,000.

During 2001, pursuant to the approval of all disinterested outside directors, the Company agreed to loan Mr. Sherertz up to \$60,000 between December 2001 and June 2002 to assist Mr. Sherertz in meeting his debt service obligations of interest only on a personal loan from the Company's principal bank, which is secured by his holdings of Company stock. In the spring of 2002, with the approval of all disinterested outside directors, the Company agreed to extend its financial commitment to lend to Mr. Sherertz amounts equal to an additional two quarterly interest-only payments in July and September 2002. The Company's note receivable from Mr. Sherertz bears interest at prime less 50 basis points, which is the same rate as Mr. Sherertz's personal loan from the bank. As of December 31, 2003, the note

receivable from Mr. Sherertz totaled approximately \$107,000 and is shown as contra equity in the Statements of Stockholders' Equity.

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Barrett Business Services, Inc.
Notes to Financial Statements (Continued)

10. Related Party Transactions (Continued)

During 2001, pursuant to the approval of all disinterested outside directors, the Company entered into a split dollar life insurance agreement with Mr. Sherertz's personal trust. Terms of the agreement provide that upon Mr. Sherertz's death, the Company will recoup from his trust all insurance premiums paid by the Company. During each of 2002 and 2001, the Company paid annual life insurance premiums of approximately \$56,000. In addition, during each of 2002 and 2001, the Company paid a cash bonus of approximately \$39,000 to Mr. Sherertz in connection with his personal expenses related to the split dollar life insurance program. During 2003, the Company paid no insurance premiums in connection with this split dollar life insurance agreement.

In October 2001, the Company entered into an agreement with Mr. Sherertz to rent a residence in La Quinta, California owned by Mr. Sherertz for use in entertaining the Company's customers. During 2003, 2002 and 2001, the Company paid Mr. Sherertz \$99,000, \$97,000 and \$23,000, respectively, for rental of the property.

11. Income Taxes

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

	Year ended December 31,		
	2003	2002	2001
	-----	-----	-----
Current:			
Federal	\$ 500	\$ (2,452)	\$ 24
State	52	7	2
	-----	-----	-----
	552	(2,445)	26
	-----	-----	-----
Deferred:			
Federal	210	1,592	(1,356)
State	128	(39)	(244)
	-----	-----	-----
	338	1,553	(1,600)
	-----	-----	-----
Total provision (benefit)	\$ 890	\$ (892)	\$ (1,574)
	=====	=====	=====

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Barrett Business Services, Inc.
Notes to Financial Statements (Continued)

11. Income Taxes (Continued)

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

	2003	2002
	-----	-----
Gross deferred income tax assets:		
Workers' compensation claims liabilities	\$ 1,913	\$ 2,488
Safety incentives payable	722	99
Allowance for doubtful accounts	57	16
Fixed assets	474	--
Deferred compensation	101	510
Net operating losses and tax credits	562	542
Other	94	63
	-----	-----
	3,923	3,718
	-----	-----
Gross deferred income tax liabilities:		
Tax depreciation in excess of book depreciation	(54)	(93)
Amortization of intangibles	(632)	(69)
	-----	-----
	(686)	(162)
	-----	-----
Net deferred income tax assets	\$ 3,237	\$ 3,556
	=====	=====

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

	Year ended December 31,		
	2003	2002	2001
	-----	-----	-----
Statutory federal tax rate	34.0 %	(34.0) %	(34.0) %
State taxes, net of federal benefit	4.0	(1.0)	(4.0)
Nondeductible expenses and other, net	(2.4)	5.9	0.2
Nondeductible amortization of intangibles	--	--	2.2
Federal tax-exempt interest income	(.5)	(2.6)	(1.8)
Federal tax credits	(5.2)	(8.0)	(2.0)
	-----	-----	-----
	29.9 %	(39.7) %	(39.4) %
	=====	=====	=====

At December 31, 2003, the Company had state tax loss carryforwards of \$5,403,000, which expire in varying amounts between 2008 and 2023.

In the tax year ended December 31, 2003, the Company generated and utilized \$177,000 and \$56,000 in U.S. Federal Work Opportunity Tax Credits and Welfare to Work Tax Credits, respectively. At December 31, 2003, the Company had \$304,000 and \$88,000 of unused U.S. Federal Work Opportunity Tax Credits and Welfare to Work Tax Credits.

The nondeductible expenses pertain to meals, certain entertainment expenses and life insurance premiums.

12. Stock Incentive Plans

The Company's 2003 Stock Incentive Plan (the "2003 Plan") which provides for

stock-based awards to Company employees, non-employee directors and outside consultants or advisors, was approved by shareholders on May 14, 2003. The number of shares of common stock reserved for issuance under the 2003 Plan is 400,000. No new grants of stock options may be made under the Company's 1993 Stock Incentive Plan (the "1993 Plan"). At March 10, 2003 there were option awards covering 520,095 shares outstanding under the 1993 Plan, which, to the extent they are terminated unexercised, are carried over to the 2003 Plan as shares authorized to be issued under the 2003 Plan. Outstanding options under both plans generally become exercisable in four equal annual installments beginning one year after the date of grant and expire ten years after the date of grant. The exercise price of incentive stock options must not be less than the fair market value of the Company's stock on the date of grant.

In addition, certain of the Company's branch management employees have elected to receive a portion of their quarterly cash bonus in the form of nonqualified deferred compensation stock options. Such options are awarded at a 60% discount from the then-fair market value of the Company's stock and are fully vested and immediately exercisable upon grant. During 2001, the Company awarded deferred compensation stock options for 7,811 shares at an average exercise price of \$1.45 per share. During 2002 and 2003, the Company made no awards of deferred compensation stock options. In accordance with Accounting Principles Board ("APB") Opinion No. 25, the Company recognized compensation expense of \$17,000 for the year ended December 31, 2001, in connection with the issuance of these discounted options.

On August 22, 2001, the Company offered to all employee optionees who held options with an exercise price of more than \$5.85 per share (covering a total of 812,329 shares), the opportunity to voluntarily return for cancellation without payment any stock option award with an exercise price above that price. At the close of the offer period on September 20, 2001, stock options for a total of 797,229 shares were voluntarily surrendered for cancellation. On August 20, 2002, the Compensation Committee of the Company's board of directors approved the issuance of options covering a total of 357,000 shares to then-current employees.

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Barrett Business Services, Inc.
Notes to Financial Statements (Continued)

12. Stock Incentive Plans (Continued)

A summary of the status of the Company's stock options at December 31, 2003, 2002 and 2001, together with changes during the periods then ended, are presented below:

	Number of options	Weighted average exercise price
	-----	-----
Outstanding at December 31, 2000	955,662	\$ 10.44
Options granted at market price	99,562	3.74
Options granted below market price	7,811	1.45
Options voluntarily surrendered	(797,229)	11.53
Options canceled or expired	(13,600)	8.72

Outstanding at December 31, 2001	252,206	
Options granted at market price	372,719	3.16
Options exercised	(16,556)	3.67

Options canceled or expired	(88,174)	3.58

Outstanding at December 31, 2002	520,195	
Options granted at market price	170,549	3.98
Options exercised	(75,719)	3.59
Options canceled or expired	(29,566)	4.02

Outstanding at December 31, 2003	585,459	
	=====	
Available for grant at December 31, 2003	258,917	
	=====	

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions used for grants in 2003, 2002 and 2001:

	2003	2002	2001
	-----	-----	-----
Expected volatility	62%	58%	56%
Risk free rate of return	3.22%	2.94%	4.59%
Expected dividend yield	0%	0%	0%
Expected life (years)	5.0	5.0	5.0

Total fair value of options granted at market price was computed to be \$369,000, \$571,000 and \$197,000 for the years ended December 31, 2003, 2002 and 2001, respectively. Total fair value of options granted at 60% discount to market price was computed to be approximately \$21,000 for the year ended December 31, 2001. There were no options granted during 2003 and 2002 below market price. The weighted average fair value per share of all options granted in 2003, 2002 and 2001 was \$2.16, \$1.53 and \$2.03, respectively.

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Barrett Business Services, Inc.
Notes to Financial Statements (Continued)

12. Stock Incentive Plans (Continued)

The following table summarizes information about stock options outstanding at December 31, 2003:

Exercise price range	Options outstanding			Options exercisable	
	Number of shares	Weighted-average exercise price	Weighted-average remaining contractual life (years)	Exercisable at December 31, 2003	Weighted-average exercise price
-----	-----	-----	-----	-----	-----
\$ 1.45 - \$ 3.58	472,717	\$ 3.07	8.8	60,467	\$ 2.92
3.63 - 7.75	92,193	4.29	6.9	36,061	4.87
11.50 - 17.75	20,549	14.38	7.5	7,000	13.58
	-----			-----	
	585,459			103,528	
	=====			=====	

At December 31, 2003, 2002 and 2001, 103,528, 84,778 and 135,344 options were exercisable at weighted average exercise prices of \$4.32, \$4.79 and \$4.21, respectively.

13. Stockholders' Equity

During 2002 and 2001, the Company reclassified accrued stock option compensation from current liabilities to equity related to stock options previously issued at a 60% discount to market price. The compensation cost associated with the options was previously recognized as an expense by the Company in the year of grant.

During 2002, the Company received a final liquidating distribution from a former insolvent customer. The customer's receivable was personally guaranteed by the Company's President and Chief Executive Officer, who had previously satisfied the guarantee to the Company in full. As such, the payment by the Company of approximately \$28,000 to the Company's President represented a partial recovery for the guarantor of the guaranteed receivable.

During 2003, the Company recognized a tax benefit of \$137,000 resulting from disqualifying dispositions of stock option exercises. The Company recorded this tax benefit in additional paid-in capital.

14. Stock Repurchase Program

During 1999, the Company's Board of Directors authorized a stock repurchase program to purchase common shares from time to time in open market purchases. Since inception, the Board has approved seven increases in the total number of shares or dollars authorized to be repurchased under the program. The repurchase program currently allows for \$444,000 to be used for the repurchase of additional shares as of December 31, 2003. During 2003, the Company repurchased 112,700 shares at an aggregate price of \$446,000. During 2002, the Company repurchased 100,900 shares at an aggregate price of \$386,000. During 2001,

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Barrett Business Services, Inc.
Notes to Financial Statements (Continued)

14. Stock Repurchase Program (Continued)

the Company repurchased 603,600 shares at an aggregate price of \$2,307,000. In accordance with Maryland corporation law, all repurchased shares are immediately cancelled.

15. Litigation

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

16. Quarterly Financial Information (Unaudited)

(in thousands, except per share amounts and market price per share)

	First Quarter -----	Second Quarter -----	Third Quarter -----	Fourth Quarter -----
Year ended December 31, 2001				
Revenues	\$ 35,397	\$ 33,853	\$ 37,901	\$ 32,240
Cost of revenues	30,055	28,675	31,927	30,699
Net (loss) income	(211)	(184)	242	(2,269)
Basic (loss) earnings per share	(.03)	(.03)	.04	(.38)
Diluted (loss) earnings per share	(.03)	(.03)	.04	(.38)
Common stock market prices:				
High	\$ 4.00	\$ 3.97	\$ 4.25	\$ 5.06
Low	3.38	3.30	3.05	3.04
Year ended December 31, 2002				
Revenues	\$ 25,738	\$ 27,766	\$ 30,090	\$ 25,714
Cost of revenues	21,951	23,414	25,717	23,261
Net (loss) income	(417)	1	56	(993)
Basic (loss) earnings per share	(.07)	--	.01	(.17)
Diluted (loss) earnings per share	(.07)	--	.01	(.17)
Common stock market prices:				
High	\$ 4.00	\$ 4.00	\$ 3.50	\$ 4.00
Low	3.15	2.74	2.01	2.67
Year ended December 31, 2003				
Revenues	\$ 23,397	\$ 27,902	\$ 34,773	\$ 36,649
Cost of revenues	20,028	23,446	28,422	29,452
Net (loss) income	(343)	167	943	1,318
Basic (loss) earnings per share	(.06)	.03	.17	.23
Diluted (loss) earnings per share	(.06)	.03	.16	.22
Common stock market prices:				
High	\$ 3.75	\$ 3.65	\$ 7.41	\$ 15.13
Low	2.31	2.64	3.00	7.00

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Barrett Business Services, Inc.
Notes to Financial Statements (Continued)

17. Subsequent Event

Subsequent to year end, effective January 1, 2004, the Company acquired certain assets of Skills Resource Training Center ("SRTC"), a staffing services company with nine offices in Central Washington, Eastern Oregon and Southern Idaho. The Company paid \$3,000,000 in cash for the assets of SRTC and the selling shareholders' noncompete agreements and agreed to issue up to 135,731 shares of its common stock ("Earnout Shares"), with the actual number of Earnout Shares to be issued based upon the level of financial performance achieved by the SRTC offices during calendar 2004.

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SIGNATURES

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

- 10.3 Deferred Compensation Plan for Management Employees of the Registrant. Incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.*
- 10.4 Employment Agreement between the Registrant and Michael D. Mulholland, dated January 26, 1999. Incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1998.*
- 10.5 Promissory note of William W. Sherertz dated December 10, 2001. Incorporated by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001.*
- 10.6 Credit Agreement dated as of March 31, 2004, between the Registrant and Wells Fargo Bank, N.A.
- 10.7 Revolving Line of Credit Note dated as of March 31, 2004, in the amount of \$6,000,000 issued to Wells Fargo Bank, N.A.
- 10.8 Continuing Security Agreement Equipment dated as of May 22, 2003. Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed June 12, 2003.
- 10.9 Continuing Security Agreement Rights to Payment dated as of September 2, 2002, executed in favor of Wells Fargo Bank, N.A. Incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on September 4, 2002.
- 10.10 2003 Stock Incentive Plan of the Registrant (the "2003 Plan"). Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.*
- 10.11 Form of Incentive Stock Option Agreement under the 2003 Plan.*
- 10.12 Form of Nonqualified Stock Option Agreement under the 2003 Plan.*
- 10.13 Form of Annual Director Option Agreement under the 2003 Plan.*

- 14 Code of Business Conduct.
- 23 Consent of PricewaterhouseCoopers LLP, independent auditors.
- 24 Power of attorney of certain officers and directors.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
- 32 Certification pursuant to 18 U.S.C. Section 1350.

* Denotes a management contract or a compensatory plan or arrangement.

CREDIT AGREEMENT

THIS AGREEMENT is entered into as of March 31, 2004, by and between Barrett Business Services, Inc., a Maryland corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

Borrower has requested that Bank extend or continue credit to Borrower as described below, and Bank has agreed to provide such credit to Borrower on the terms and conditions contained herein.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Bank and Borrower hereby agree as follows:

ARTICLE I
CREDIT TERMS

SECTION 1.1. LINE OF CREDIT.

(a) Line of Credit. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to and including July 1, 2005, not to exceed at any time the aggregate principal amount of Six Million Dollars (\$6,000,000.00) ("Line of Credit"), the proceeds of which shall be used for working capital. Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a promissory note dated as of March 31, 2004 ("Line of Credit Note"), all terms of which are incorporated herein by this reference.

(b) Letter of Credit Subfeature. As a subfeature under the Line of Credit, Bank agrees from time to time during the term thereof to issue or cause an affiliate to issue standby letters of credit for the account of Borrower (each, a "Letter of Credit" and collectively, "Letters of Credit"); provided however, that the aggregate undrawn amount of all outstanding Letters of Credit shall not at any time exceed Four Million Dollars (\$4,000,000.00). The form and substance of each Letter of Credit shall be subject to approval by Bank, in its sole discretion. Each Letter of Credit shall be issued for a term not to exceed three hundred sixty-five (365) days, as designated by Borrower; provided however, that no Letter of Credit shall have an expiration date subsequent to the maturity date of the Line of Credit. The undrawn amount of all Letters of Credit shall be reserved under the Line of Credit and shall not be available for borrowings thereunder. Each Letter of Credit shall be subject to the additional terms and conditions of the Letter of Credit agreements, applications and any related documents required by Bank in connection with the issuance thereof. Each drawing paid under a Letter of Credit shall be deemed an advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions of this Agreement applicable to such advances; provided however, that if advances under the Line of Credit are not available, for any reason, at the time any drawing is paid, then Borrower shall immediately pay to Bank the full amount drawn, together with interest thereon from the date such drawing is paid to the date such amount is fully repaid by Borrower, at the rate of interest applicable to advances under the Line of Credit. In such event Borrower agrees that Bank, in its sole discretion, may debit any account maintained by Borrower with Bank for the amount of any such drawing.

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(c) Borrowing and Repayment. Borrower may from time to time during the term of the Line of Credit borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions contained herein or in the Line of Credit Note; provided however, that the total outstanding borrowings under the Line of Credit shall not at any time exceed the maximum principal amount available thereunder, as set forth

above.

SECTION 1.2. INTEREST/FEES.

(a) Interest. The outstanding principal balance of the Line of Credit shall bear interest, and the amount of each drawing paid under any Letter of Credit shall bear interest from the date such drawing is paid to the date such amount is fully repaid by Borrower, at the rate of interest set forth in each promissory note or other instrument or document executed in connection therewith.

(b) Computation and Payment. Interest shall be computed on the basis of a 360-day year, actual days elapsed. Interest shall be payable at the times and place set forth in each promissory note or other instrument or document required hereby.

(c) Commitment Fee. Borrower shall pay to Bank a non-refundable commitment fee for the Line of Credit equal to \$15,000.00, which fee shall be due and payable in full on March 31, 2004.

(d) Letter of Credit Fees. Borrower shall pay to Bank fees upon the issuance of each Letter of Credit, upon the payment or negotiation of each drawing under any Letter of Credit and upon the occurrence of any other activity with respect to any Letter of Credit (including without limitation, the transfer, amendment or cancellation of any Letter of Credit) determined in accordance with Bank's standard fees and charges then in effect for such activity but in any event not more than 0.90% per annum for any Letter of Credit issued or renewed, without prior notice.

SECTION 1.3. COLLECTION OF PAYMENTS. Borrower authorizes Bank to collect all principal, interest and fees due under each credit subject hereto by charging Borrower's deposit account number 4159583848 with Bank, or any other deposit account maintained by Borrower with Bank, for the full amount thereof. Should there be insufficient funds in any such deposit account to pay all such sums when due, the full amount of such deficiency shall be immediately due and payable by Borrower.

SECTION 1.4. COLLATERAL.

As security for all indebtedness of Borrower to Bank subject hereto, Borrower hereby grants to Bank security interests of first priority in all Borrower's rights to payment from customers and accounts receivable arising from services rendered or to be rendered, whether or not the same has been earned by performance, and all rights under any contracts it has or may have with its customers, and proceeds of all of the foregoing, general intangibles and equipment.

All of the foregoing shall be evidenced by and subject to the terms of such security agreements, financing statements, deeds of trust and other documents as Bank shall reasonably require, all in form and substance satisfactory to Bank. Borrower shall reimburse Bank immediately upon demand for all costs and expenses incurred by Bank in connection with any of the foregoing

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security, including without limitation, filing and recording fees and costs of appraisals, audits and title insurance.

ARTICLE II REPRESENTATIONS AND WARRANTIES

Borrower makes the following representations and warranties to Bank, which representations and warranties shall survive the execution of this Agreement and shall continue in full force and effect until the full and final payment, and satisfaction and discharge, of all obligations of Borrower to Bank subject to

this Agreement.

SECTION 2.1. LEGAL STATUS. Borrower is a corporation, duly organized and existing and in good standing under the laws of the State of Maryland, and is qualified or licensed to do business (and is in good standing as a foreign corporation, if applicable) in all jurisdictions in which such qualification or licensing is required or in which the failure to so qualify or to be so licensed could have a material adverse effect on Borrower.

SECTION 2.2. AUTHORIZATION AND VALIDITY. This Agreement and each promissory note, contract, instrument and other document required hereby or at any time hereafter delivered to Bank in connection herewith (collectively, the "Loan Documents") have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Borrower or the party which executes the same, enforceable in accordance with their respective terms.

SECTION 2.3. NO VIOLATION. The execution, delivery and performance by Borrower of each of the Loan Documents do not violate any provision of any law or regulation, or contravene any provision of the Articles of Incorporation or By-Laws of Borrower, or result in any breach of or default under any contract, obligation, indenture or other instrument to which Borrower is a party or by which Borrower may be bound.

SECTION 2.4. LITIGATION. There are no pending, or to the best of Borrower's knowledge threatened, actions, claims, investigations, suits or proceedings by or before any governmental authority, arbitrator, court or administrative agency which could have a material adverse effect on the financial condition or operation of Borrower other than those disclosed by Borrower to Bank in writing prior to the date hereof.

SECTION 2.5. CORRECTNESS OF FINANCIAL STATEMENT. The financial statement of Borrower dated January 31, 2004, a true copy of which has been delivered by Borrower to Bank prior to the date hereof, (a) is complete and correct and presents fairly the financial condition of Borrower, (b) discloses all liabilities of Borrower that are required to be reflected or reserved against under generally accepted accounting principles, whether liquidated or unliquidated, fixed or contingent, and (c) has been prepared in accordance with generally accepted accounting principles consistently applied. Since the date of such financial statement there has been no material adverse change in the financial condition of Borrower, nor has Borrower mortgaged, pledged, granted a security interest in or otherwise encumbered any of its assets or properties except in favor of Bank or as otherwise permitted by Bank in writing.

SECTION 2.6. INCOME TAX RETURNS. Borrower has no knowledge of any pending assessments or adjustments of its income tax payable with respect to any year.

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SECTION 2.7. NO SUBORDINATION. There is no agreement, indenture, contract or instrument to which Borrower is a party or by which Borrower may be bound that requires the subordination in right of payment of any of Borrower's obligations subject to this Agreement to any other obligation of Borrower.

SECTION 2.8. PERMITS, FRANCHISES. Borrower possesses, and will hereafter possess, all permits, consents, approvals, franchises and licenses required and rights to all trademarks, trade names, patents, and fictitious names, if any, necessary to enable it to conduct the business in which it is now engaged in compliance with applicable law.

SECTION 2.9. ERISA. Borrower is in compliance in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended or recodified from time to time ("ERISA"); Borrower has not violated any provision of any defined employee pension benefit plan (as defined in ERISA) maintained or contributed to by Borrower (each, a "Plan"); no Reportable Event as defined in ERISA has occurred and is continuing with respect to any Plan initiated by Borrower; Borrower has met its minimum funding

requirements under ERISA with respect to each Plan; and each Plan will be able to fulfill its benefit obligations as they come due in accordance with the Plan documents and under generally accepted accounting principles.

SECTION 2.10. OTHER OBLIGATIONS. Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation.

SECTION 2.11. ENVIRONMENTAL MATTERS. Except as disclosed by Borrower to Bank in writing prior to the date hereof, Borrower is in compliance in all material respects with all applicable federal or state environmental, hazardous waste, health and safety statutes, and any rules or regulations adopted pursuant thereto, which govern or affect any of Borrower's operations and/or properties, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Federal Resource Conservation and Recovery Act of 1976, and the Federal Toxic Substances Control Act, as any of the same may be amended, modified or supplemented from time to time. None of the operations of Borrower is the subject of any federal or state investigation evaluating whether any remedial action involving a material expenditure is needed to respond to a release of any toxic or hazardous waste or substance into the environment. Borrower has no material contingent liability in connection with any release of any toxic or hazardous waste or substance into the environment.

ARTICLE III CONDITIONS

SECTION 3.1. CONDITIONS OF INITIAL EXTENSION OF CREDIT. The obligation of Bank to extend any credit contemplated by this Agreement is subject to the fulfillment to Bank's satisfaction of all of the following conditions:

(a) Approval of Bank Counsel. All legal matters incidental to the extension of credit by Bank shall be satisfactory to Bank's counsel.

(b) Documentation. Bank shall have received, in form and substance satisfactory to Bank, each of the following, duly executed:

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(i) This Agreement and each promissory note or other instrument or document required hereby.

(ii) Such other documents as Bank may require under any other Section of this Agreement.

(c) Financial Condition. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower, nor any material decline, as determined by Bank, in the market value of any collateral required hereunder or a substantial or material portion of the assets of Borrower.

(d) Insurance. Borrower shall have delivered to Bank evidence of insurance coverage on all Borrower's property, in form, substance, amounts, covering risks and issued by companies satisfactory to Bank, and where required by Bank, with loss payable endorsements in favor of Bank.

SECTION 3.2. CONDITIONS OF EACH EXTENSION OF CREDIT. The obligation of Bank to make each extension of credit requested by Borrower hereunder shall be subject to the fulfillment to Bank's satisfaction of each of the following conditions:

(a) Compliance. The representations and warranties contained herein and in each of the other Loan Documents shall be true on and as of the date of the signing of this Agreement and on the date of each extension of credit by Bank pursuant hereto, with the same effect as though such representations and

warranties had been made on and as of each such date, and on each such date, no Event of Default as defined herein, and no condition, event or act which with the giving of notice or the passage of time or both would constitute such an Event of Default, shall have occurred and be continuing or shall exist.

(b) Documentation. Bank shall have received all additional documents which may be required in connection with such extension of credit.

ARTICLE IV
AFFIRMATIVE COVENANTS

Borrower covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower shall, unless Bank otherwise consents in writing:

SECTION 4.1. PUNCTUAL PAYMENTS. Punctually pay all principal, interest, fees or other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein.

SECTION 4.2. ACCOUNTING RECORDS. Maintain adequate books and records in accordance with generally accepted accounting principles consistently applied, and permit any representative of Bank, at any reasonable time, to inspect, audit and examine such books and records, to make copies of the same, and to inspect the properties of Borrower.

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SECTION 4.3. FINANCIAL STATEMENTS. Provide to Bank all of the following, in form and detail satisfactory to Bank:

(a) not later than 95 days after and as of the end of each fiscal year, an audited financial statement of Borrower, prepared by a certified public accountant acceptable to Bank, to include a balance sheet, income statement, statement of cash flows, and a copy of Borrower's Form 10-K report filed with the Securities and Exchange Commission;

(b) not later than 50 days after and as of the end of each fiscal quarter, a financial statement of Borrower, prepared by Borrower, to include a copy of Borrower's Form 10-Q report filed with the Securities and Exchange Commission;

(c) from time to time such other information as Bank may reasonably request, including without limitation, a list of the names and addresses of all Borrower's account debtors;

SECTION 4.4. COMPLIANCE. Preserve and maintain all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business; and comply with the provisions of all documents pursuant to which Borrower is organized and/or which govern Borrower's continued existence and with the requirements of all laws, rules, regulations and orders of any governmental authority applicable to Borrower and/or its business.

SECTION 4.5. INSURANCE. Maintain and keep in force insurance of the types and in amounts customarily carried in lines of business similar to that of Borrower, including but not limited to fire, extended coverage, public liability, flood, property damage and workers' compensation, with all such insurance carried with companies and in amounts satisfactory to Bank, and deliver to Bank from time to time at Bank's request schedules setting forth all insurance then in effect.

SECTION 4.6. FACILITIES. Keep all properties useful or necessary to Borrower's business in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that such properties

shall be fully and efficiently preserved and maintained.

SECTION 4.7. TAXES AND OTHER LIABILITIES. Pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation federal and state income taxes and state and local property taxes and assessments, except such (a) as Borrower may in good faith contest or as to which a bona fide dispute may arise, and (b) for which Borrower has made provision, to Bank's satisfaction, for eventual payment thereof in the event Borrower is obligated to make such payment.

SECTION 4.8. LITIGATION. Promptly give notice in writing to Bank of any litigation pending or threatened against Borrower with a claim in excess of \$200,000.00.

SECTION 4.9. FINANCIAL CONDITION. Maintain Borrower's financial condition as follows using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein), with compliance determined commencing with Borrower's financial statements for the period ending March 31, 2004:

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(a) Current Ratio not at any time less than 1.10 to 1.0, with "Current Ratio" defined as total current assets divided by total current liabilities.

(b) Tangible Net Worth not less than \$8,000,000.00, determined at each fiscal quarter end, with "Tangible Net Worth" defined as the aggregate of total stockholders' equity plus subordinated debt less any intangible assets.

(c) Total Liabilities divided by Tangible Net Worth not greater than 5.00 to 1.0, determined at each fiscal quarter end, with "Total Liabilities" defined as the aggregate of current liabilities and non-current liabilities, less subordinated debt and the current and long-term portion of the Deferred Gain on Sale and Leaseback, and with "Tangible Net Worth" as defined above.

(d) Net income after taxes not less than \$1.00 on an annual basis, determined as of each fiscal year end, and pre-tax profit not less than \$1.00 on a quarterly basis, determined as of each fiscal quarter end.

SECTION 4.10. NOTICE TO BANK. Promptly (but in no event more than five (5) days after the occurrence of each such event or matter) give written notice to Bank in reasonable detail of: (a) the occurrence of any Event of Default, or any condition, event or act which with the giving of notice or the passage of time or both would constitute an Event of Default; (b) any change in the name or the organizational structure of Borrower; (c) the occurrence and nature of any Reportable Event or Prohibited Transaction, each as defined in ERISA, or any funding deficiency with respect to any Plan; or (d) any termination or cancellation of any insurance policy which Borrower is required to maintain, or any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting Borrower's property.

ARTICLE V NEGATIVE COVENANTS

Borrower further covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower will not without Bank's prior written consent:

SECTION 5.1. USE OF FUNDS. Use any of the proceeds of any credit extended hereunder except for the purposes stated in Article I hereof.

SECTION 5.2. OTHER INDEBTEDNESS. Create, incur, assume or permit to exist

any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except (a) the liabilities of Borrower to Bank, and (b) any other liabilities of Borrower existing as of, and disclosed to Bank prior to, the date hereof, (c) unsecured liabilities of Borrower to sellers of companies acquired by Borrower, the total which shall not exceed an aggregate of \$3,500,000.00, and (d) purchase money indebtedness for equipment, which shall not exceed an aggregate of \$100,000.00.

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SECTION 5.3. MERGER, CONSOLIDATION, TRANSFER OF ASSETS. Merge into or consolidate with any other entity; make any substantial change in the nature of Borrower's business as conducted as of the date hereof; acquire all or substantially all of the assets of any other entity in any transaction involving a purchase price of more than \$5,000,000.00 without the prior written approval of Bank, which approval shall not be unreasonably withheld; nor sell, lease, transfer or otherwise dispose of all or a substantial or material portion of Borrower's assets except in the ordinary course of its business.

SECTION 5.4. GUARANTIES. Guarantee or become liable in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for, nor pledge or hypothecate any assets of Borrower as security for, any liabilities or obligations of any other person or entity, except any of the foregoing in favor of Bank.

SECTION 5.5. LOANS, ADVANCES. Make any loans or advances to any person or entity, except: (a) any of the foregoing existing as of, and disclosed to Bank prior to, the date hereof, and (b) loans or advances to William W. Sherertz in amounts not to exceed an aggregate of \$110,000.00 outstanding at any one time.

SECTION 5.6. PLEDGE OF ASSETS. Mortgage, pledge, grant or permit to exist a security interest in, or lien upon, all or any portion of Borrower's assets now owned or hereafter acquired, except (a) any of the foregoing in favor of Bank or which is existing as of, and disclosed to Bank in writing prior to, the date hereof, and (b) purchase money security interests securing purchase money indebtedness, which shall not exceed an aggregate of \$100,000.00.

ARTICLE VI EVENTS OF DEFAULT

SECTION 6.1. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

(a) Borrower shall fail to pay when due any principal, interest, fees or other amounts payable under any of the Loan Documents.

(b) Any financial statement or certificate furnished to Bank in connection with, or any representation or warranty made by Borrower or any other party under this Agreement or any other Loan Document shall prove to be incorrect, false or misleading in any material respect when furnished or made.

(c) Any default in the performance of or compliance with any obligation, agreement or other provision contained herein or in any other Loan Document (other than those referred to in subsections (a) and (b) above), and with respect to any such default which by its nature can be cured, such default shall continue for a period of twenty (20) days from the date Borrower first knew, or using reasonable due diligence should have known, of such default.

(d) Any default in the payment or performance of any obligation, or any defined event of default, under the terms of any contract or instrument (other than any of the Loan Documents) pursuant to which Borrower has incurred any debt or other liability to any person or entity, including Bank.

(e) The filing of a notice of judgment lien against Borrower; or the recording of any abstract of judgment against Borrower in any county in which Borrower has an interest in real property; or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Borrower; or the entry of a judgment against Borrower.

(f) Borrower shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall generally fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors; Borrower shall file a voluntary petition in bankruptcy, or seeking reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time ("Bankruptcy Code"), or under any state or federal law granting relief to debtors, whether now or hereafter in effect; or any involuntary petition or proceeding pursuant to the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Borrower, or Borrower shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or Borrower shall be adjudicated a bankrupt, or an order for relief shall be entered against Borrower by any court of competent jurisdiction under the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors.

(g) There shall exist or occur any event or condition which Bank in good faith believes impairs, or is substantially likely to impair, the prospect of payment or performance by Borrower of its obligations under any of the Loan Documents.

(h) The dissolution or liquidation of Borrower; or Borrower or any of its directors, stockholders or members shall take action seeking to effect the dissolution or liquidation of such Borrower.

SECTION 6.2. REMEDIES. Upon the occurrence of any Event of Default: (a) all indebtedness of Borrower under each of the Loan Documents, any term thereof to the contrary notwithstanding, shall at Bank's option and without notice become immediately due and payable without presentment, demand, protest or notice of dishonor, all of which are hereby expressly waived by each Borrower; (b) the obligation, if any, of Bank to extend any further credit under any of the Loan Documents shall immediately cease and terminate; and (c) Bank shall have all rights, powers and remedies available under each of the Loan Documents, or accorded by law, including without limitation the right to resort to any or all security for any credit subject hereto and to exercise any or all of the rights of a beneficiary or secured party pursuant to applicable law. All rights, powers and remedies of Bank may be exercised at any time by Bank and from time to time after the occurrence of an Event of Default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

ARTICLE VII
MISCELLANEOUS

SECTION 7.1. NO WAIVER. No delay, failure or discontinuance of Bank in exercising any right, power or remedy under any of the Loan Documents shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any

kind by Bank of any breach of or default under any of the Loan Documents must be in writing and shall be effective only to the extent set forth in such writing.

SECTION 7.2. NOTICES. All notices, requests and demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing delivered to each party at the following address:

BORROWER: Barrett Business Services, Inc.
4724 SW Macadam Avenue
Portland, OR 97239

BANK: WELLS FARGO BANK, NATIONAL ASSOCIATION
Portland RCBO
1300 SW 5th Avenue
Portland, OR 97201

or to such other address as any party may designate by written notice to all other parties. Each such notice, request and demand shall be deemed given or made as follows: (a) if sent by hand delivery, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

SECTION 7.3. COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in connection with (a) the negotiation and preparation of this Agreement and the other Loan Documents, Bank's continued administration hereof and thereof, and the preparation of any amendments and waivers hereto and thereto, (b) the enforcement of Bank's rights and/or the collection of any amounts which become due to Bank under any of the Loan Documents, and (c) the prosecution or defense of any action in any way related to any of the Loan Documents, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to any Borrower or any other person or entity.

SECTION 7.4. SUCCESSORS, ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that Borrower may not assign or transfer its interest hereunder without Bank's prior written consent. Bank reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Bank's rights and benefits under each of the Loan Documents. In connection therewith, Bank may disclose all documents and information which Bank now has or may hereafter acquire relating to any credit subject hereto, Borrower or its business, or any collateral required hereunder.

SECTION 7.5. ENTIRE AGREEMENT; AMENDMENT. This Agreement and the other Loan Documents constitute the entire agreement between Borrower and Bank with respect to each credit subject hereto and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof. This Agreement may be amended or modified only in writing signed by each party hereto.

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SECTION 7.6. NO THIRD PARTY BENEFICIARIES. This Agreement is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other person or entity shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any other of the Loan Documents to which it is not a party.

SECTION 7.7. TIME. Time is of the essence of each and every provision of this Agreement and each other of the Loan Documents.

SECTION 7.8. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

SECTION 7.9. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same Agreement.

SECTION 7.10. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Oregon.

SECTION 7.11. ARBITRATION.

(a) Arbitration. The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in tort, contract or otherwise arising out of or relating to in any way (i) the loan and related Loan Documents which are the subject of this Agreement and its negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination; or (ii) requests for additional credit.

(b) Governing Rules. Any arbitration proceeding will (i) proceed in a location in Oregon selected by the American Arbitration Association ("AAA"); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA's commercial dispute resolution procedures, unless the claim or counterclaim is at least \$1,000,000.00 exclusive of claimed interest, arbitration fees and costs in which case the arbitration shall be conducted in accordance with the AAA's optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to, as applicable, as the "Rules"). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. ss.91 or any similar applicable state law.

(c) No Waiver of Provisional Remedies, Self-Help and Foreclosure. The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property

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collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

(d) Arbitrator Qualifications and Powers. Any arbitration proceeding in which the amount in controversy is \$5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than \$5,000,000.00. Any dispute in which the amount in controversy exceeds \$5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in the State of Oregon or a neutral retired judge of the state or federal judiciary of Oregon, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator's discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive law of Oregon and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the Oregon Rules of Civil Procedure or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(e) Discovery. In any arbitration proceeding discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the dispute being arbitrated and must be completed no later than 20 days before the hearing date and within 180 days of the filing of the dispute with the AAA. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

(f) Class Proceedings and Consolidations. The resolution of any dispute arising pursuant to the terms of this Agreement shall be determined by a separate arbitration proceeding and such dispute shall not be consolidated with other disputes or included in any class proceeding.

(g) Payment Of Arbitration Costs And Fees. The arbitrator shall award all costs and expenses of the arbitration proceeding.

(h) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding

may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the Loan Documents or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the Loan Documents or any relationship between the parties.

PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY BANK TO BE ENFORCEABLE.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first written above.

Barrett Business Services, Inc.	WELLS FARGO BANK, NATIONAL ASSOCIATION
By: /s/ Michael D. Mulholland ----- Michael D. Mulholland, Vice President-Finance	By: /s/ Julie Wilson ----- Julie Wilson, Relationship Manager

WELLS FARGO

REVOLVING LINE OF CREDIT NOTE

\$6,000,000.00

Portland, Oregon
March 31, 2004

FOR VALUE RECEIVED, the undersigned Barrett Business Services, Inc. ("Borrower"), promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at Portland RCBO, 1300 S.W. Fifth Avenue, Portland, OR 97201, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of \$6,000,000.00, or so much thereof as may be advanced and be outstanding, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

1. DEFINITIONS:

As used herein, the following terms shall have the meanings set forth after each, and any other term defined in this Note shall have the meaning set forth at the place defined:

1.1 "Business Day" means any day except a Saturday, Sunday or any other day on which commercial banks in Oregon are authorized or required by law to close.

1.2 "Fixed Rate Term" means a period commencing on a Business Day and continuing for 1, 2, 3 or 6 months, as designated by Borrower, during which all or a portion of the outstanding principal balance of this Note bears interest determined in relation to LIBOR; provided however, that no Fixed Rate Term may be selected for a principal amount less than \$250,000.00; and provided further, that no Fixed Rate Term shall extend beyond the scheduled maturity date hereof. If any Fixed Rate Term would end on a day which is not a Business Day, then such Fixed Rate Term shall be extended to the next succeeding Business Day.

1.3 "LIBOR" means the rate per annum (rounded upward, if necessary, to the nearest whole 1/8 of 1%) determined by dividing Base LIBOR by a percentage equal to 100% less any LIBOR Reserve Percentage.

(a) "Base LIBOR" means the rate per annum for United States dollar deposits quoted by Bank as the Inter-Bank Market Offered Rate, with the understanding that such rate is quoted by Bank for the purpose of calculating effective rates of interest for loans making reference thereto, on the first day of a Fixed Rate Term for delivery of funds on said date for a period of time approximately equal to the number of days in such Fixed Rate Term and in an amount approximately equal to the principal amount to which such Fixed Rate Term applies. Borrower understands and agrees that Bank may base its quotation of the Inter-Bank Market Offered Rate upon such offers or other market indicators of the Inter-Bank Market as Bank in its discretion deems appropriate including, but not limited to, the rate offered for U.S. dollar deposits on the London Inter-Bank Market.

(b) "LIBOR Reserve Percentage" means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by Bank for expected changes in such reserve percentage during the applicable Fixed Rate Term.

1.4 "Prime Rate" means at any time the rate of interest most recently announced within Bank at its principal office at its Prime Rate, with the understanding that the Prime Rate is one of Bank's base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof after its announcement in such internal publication or publications as Bank may designate.

2. INTEREST:

2.1 Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) either (a) at a fluctuating rate per annum equal to the Prime Rate in effect from time to time, or (b) at a fixed rate per annum determined by Bank to be 1.50000% above LIBOR in effect on the first day of the applicable Fixed Rate Term. When interest is determined in relation to the Prime Rate, each change in the rate of interest hereunder shall become effective on the date each Prime Rate change is announced within Bank. With respect to each LIBOR selection option selected hereunder, Bank is hereby authorized to note the date, principal amount, interest rate and Fixed Rate Term applicable thereto and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted.

2.2 Selection of Interest Rate Options. At any time any portion of this Note bears interest determined in relation to LIBOR, it may be continued by Borrower at the end of the Fixed Rate Term applicable thereto so that all or a portion thereof bears interest determined in relation to the Prime Rate or to LIBOR for a new Fixed Rate Term designated by Borrower. At any time any portion of this Note bears interest determined in relation to the Prime Rate, Borrower may convert all or a portion thereof so that it bears interest determined in relation to LIBOR for a Fixed Rate Term designated by Borrower. At such time as Borrower requests an advance hereunder or wishes to select a LIBOR option for all or a portion of the outstanding principal balance hereof, and at the end of each Fixed Rate Term, Borrower shall give Bank notice specifying: (a) the interest rate option selected by Borrower; (b) the principal amount subject thereto; and (c) for each LIBOR selection, the length of the applicable Fixed Rate Term. Any such notice may be given by telephone (or such other electronic method as Bank may permit) so long as, with respect to each LIBOR selection, (i) if requested by Bank, Borrower provides to Bank written confirmation thereof not later than 3 Business Days after such notice is given, and (ii) such notice is given to Bank prior to 10:00 a.m. on the first day of the Fixed Rate Term, or at a later time during any Business Day if Bank, at its sole option but without obligation to do so, accepts Borrower's notice and quotes a fixed rate to Borrower. If Borrower does not immediately accept a fixed rate when quoted by Bank, the quoted rate shall expire and any subsequent LIBOR request from Borrower shall be subject to a redetermination by Bank of the applicable fixed rate. If no specific designation of interest is made at the time any advance is requested hereunder or at the end of any Fixed Rate Term, Borrower shall be deemed to have made a Prime Rate interest selection for such advance or the principal amount to which such Fixed Rate Term applied.

2.3 Taxes and Regulatory Costs. Borrower shall pay to Bank immediately upon demand, in addition to any other amounts due or to become due hereunder, any and all (a) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority and related in any manner to LIBOR, and (b) future, supplemental, emergency or other changes in the LIBOR Reserve Percentage, assessment rates imposed by the Federal Deposit Insurance Corporation, or similar requirements or costs imposed by any domestic or foreign governmental authority or resulting from compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority and related in any manner to LIBOR to the extent they are not included in the calculation of LIBOR. In determining which of the foregoing are attributable to any LIBOR option available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

2.4 Payment of Interest. Interest accrued on this Note shall be payable on the 1st day of each month, commencing May 1, 2004.

2.5 Default Interest. From and after the maturity date of this Note, or such

earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, the outstanding principal balance of this Note shall bear interest until paid in full at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to 4% above the rate of interest from time to time applicable to this Note.

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3. BORROWING AND REPAYMENT:

3.1 Borrowing and Repayment. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of the Credit Agreement between Borrower and Bank defined below; provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for any Borrower, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on July 1, 2005.

3.2 Advances. Advances hereunder, to the total amount of the principal sum available hereunder, may be made by the holder at the oral or written request of (a) William W. Sherertz or Michael D. Mulholland, any one acting alone, who are authorized to request advances and direct the disposition of any advances until written notice of the revocation of such authority is received by the holder at the office designated above, or (b) any person, with respect to advances deposited to the credit of any deposit account of any Borrower, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of each Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account. The holder shall have no obligation to determine whether any person requesting an advance is or has been authorized by any Borrower.

3.3 Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof. All payments credited to principal shall be applied first, to the outstanding principal balance of this Note which bears interest determined in relation to the Prime Rate, if any, and second, to the outstanding principal balance of this Note which bears interest determined in relation to LIBOR, with such payments applied to the oldest Fixed Rate Term first.

4. PREPAYMENT:

4.1 Prime Rate. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to the Prime Rate at any time, in any amount and without penalty.

4.2 LIBOR. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to LIBOR at any time and in the minimum amount of \$250,000.00; provided however, that if the outstanding principal balance of such portion of this Note is less than said amount, the minimum prepayment amount shall be the entire outstanding principal balance thereof. In consideration of Bank providing this prepayment option to Borrower, or if any such portion of this Note shall become due and payable at any time prior to the last day of the Fixed Rate Term applicable thereto by acceleration or otherwise, Borrower shall pay to Bank immediately upon demand a fee which is the sum of the discounted monthly differences for each month from the month of prepayment through the month in which such Fixed Rate Term matures, calculated as follows for each such month:

(a) Determine the amount of interest which would have accrued each month

on the amount prepaid at the interest rate applicable to such amount had it remained outstanding until the last day of the Fixed Rate Term applicable thereto.

(b) Subtract from the amount determined in (a) above the amount of interest which would have accrued for the same month on the amount prepaid for the remaining term of such Fixed Rate Term at LIBOR in effect on the date of prepayment for new loans made for such term and in a principal amount equal to the amount prepaid.

(c) If the result obtained in (b) for any month is greater than zero, discount that difference by LIBOR used in (b) above.

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Each Borrower acknowledges that prepayment of such amount may result in Bank incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or liabilities. Each Borrower, therefore, agrees to pay the above-described prepayment fee and agrees that said amount represents a reasonable estimate of the prepayment costs, expenses and/or liabilities of Bank. If Borrower fails to pay any prepayment fee when due, the amount of such prepayment fee shall thereafter bear interest until paid at a rate per annum 2.000% above the Prime Rate in effect from time to time (computed on the basis of a 360-day year, actual days elapsed). Each change in the rate of interest on any such past due prepayment fee shall become effective on the date each Prime Rate change is announced within Bank.

5. EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of March 31, 2004, as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

6. MISCELLANEOUS:

6.1 Remedies. Upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by each Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Each Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorney fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to any Borrower or any other person or entity.

6.2 Obligations Joint and Several. Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

AWARD AGREEMENT
Under The
Barrett Business Services, Inc.
2003 Stock Incentive Plan

INCENTIVE STOCK OPTION

Corporation: BARRETT BUSINESS SERVICES, INC.
4724 S.W. Macadam Avenue
Portland, Oregon 97239

Participant: -----

Date: -----

Corporation maintains the Barrett Business Services, Inc., 2003 Stock Incentive Plan (the "Plan").

This Award Agreement evidences the grant of an Incentive Stock Option (the "Option") to Participant.

The parties agree as follows:

1. Defined Terms

When used in this Agreement, the following terms have the meaning specified below:

(a) "Acquiring Person" means any person or related person or related persons which constitute a "group" for purposes of Section 13(d) and Rule 13d-5 under the Securities Exchange Act of 1934 (the "Exchange Act"), as such Section and Rule are in effect as of the Grant Date; provided, however, that the term Acquiring Person shall not include (i) Corporation or any of its Subsidiaries, (ii) any employee benefit plan of Corporation or any of its Subsidiaries, (iii) any entity holding voting capital stock of Corporation for or pursuant to the terms of any such employee benefit plan, or (iv) any person or group solely because such person or group has voting power with respect to capital stock of Corporation arising from a revocable proxy or consent given in response to a public proxy or consent solicitation made pursuant to the Exchange Act.

(b) "Change in Control" means:

(i) A change in control of Corporation of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A as in effect on the Grant Date pursuant to the Exchange Act; provided that, without limitation, such a change in control shall be deemed to have occurred at such time as any Acquiring Person hereafter becomes the "beneficial owner" (as

defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 30 percent or more of the combined voting power of Voting Securities; or

(ii) During any period of 12 consecutive calendar months, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof unless the election, or the nomination for election, by Corporation shareholders of each new director was approved by a vote of at least a majority of the directors then in office who were directors at the beginning of the period; or

(iii) There shall be consummated (i) any consolidation or merger of Corporation in which Corporation is not the continuing or surviving corporation or pursuant to which Voting Securities would be converted into cash, securities, or other property, other than a merger of Corporation in which the holders of Voting Securities immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (ii) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of Corporation; or

(iv) Approval by the shareholders of Corporation of any plan or proposal for the liquidation or dissolution of Corporation.

(c) "Change in Control Date" means the first date following the Grant Date on which a Change in Control has occurred.

(d) "Employer" means Corporation or a Subsidiary of Corporation.

(e) "Grant Date" means the date the Option is granted, which is reflected as the date of this Agreement.

(f) "Voting Securities" means Corporation's issued and outstanding securities ordinarily having the right to vote at elections for director.

(g) Capitalized terms not otherwise defined in this Agreement have the meanings given them in the Plan.

2. Grant of Option

Subject to the terms and conditions of this Agreement and the Plan, Corporation grants to Participant the Option to purchase _____ Shares of Corporation's common stock at \$ _____ per share [not less than 100 percent of the Fair Market Value of a Share on the date of grant except that the price must be 110 percent of the Fair Market Value of a Share if the Option is granted to a person who owns stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Corporation ("10 percent holder")].

3. Terms of Option

The Option is subject to all the provisions of the Plan and to the following terms and conditions:

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3.1 Term. The term of the Option is ten years from the Grant Date and will automatically terminate on _____, _____, to the extent not exercised, unless terminated earlier in accordance with this Agreement. [five years if the Option is granted to a 10 percent holder]

3.2 Time of Exercise. Unless the Option is otherwise terminated or the time of its exercisability is accelerated in accordance with this Agreement, the Option may be exercised from time to time to purchase Shares up to the following limits (based on years after the Grant Date and including any Shares previously purchased pursuant to the Option):

(a) During the first year - none;

(b) During the second year - up to 25 percent of the total Shares;

(c) During the third year - up to 50 percent of the total Shares;

(d) During the fourth year - up to 75 percent of the total Shares;

and

(e) After the fourth year - 100 percent.

3.3 Employment Requirement. Except as otherwise provided in subsection 3.4 of this Agreement, the Option may not be exercised unless Participant is employed by an Employer continuously for at least one year following the Grant Date, unless employment is terminated by death, Disability, or Retirement. For purposes of this Agreement, "employment" includes periods of illness or other leaves of absence authorized by the Employer. If Participant ceases to be an active employee, the Option will remain exercisable, to the extent the Option had become exercisable on or before the termination date, and the right to exercise the Option will expire at the end of the following periods:

After Termination On Account Of -----	Period -----
Death	1 year
Retirement	3 months
Disability	1 year
Any other reason	3 months

3.4 Acceleration of Exercisability. Notwithstanding the schedule provided in subsection 3.2, the Option will become fully exercisable (unless Participant chooses to decline accelerated Vesting of all or any portion of the Option) upon the occurrence of either:

- (a) Participant's death or termination of employment by reason of Disability or Retirement; or
- (b) A Change in Control Date.

3.5 Method of Exercise. The Option, or any portion thereof, may be exercised, to the extent it has become exercisable pursuant to this Agreement, by delivery of written notice to Corporation stating the number of Shares, form of payment, and proposed date of closing.

3.6 Other Documents. Participant will be required to furnish to Corporation before closing such other documents or representations as Corporation may require to assure compliance with applicable laws and regulations.

3.7 Payment. The exercise price for the Shares purchased upon exercise of the Option must be paid in full at or before closing by one or a combination of the following:

- (a) Payment in cash;
- (b) Delivery of previously acquired Shares having a Fair Market Value equal to the exercise price; or
- (c) With the prior approval of the Committee, by delivery (in a form approved by the Committee) of an irrevocable direction to a securities broker acceptable to the Committee:
 - (i) To sell Shares subject to the Option and to deliver all or a part of the sales proceeds to Corporation in payment of all or a part of the exercise price and withholding taxes due; or
 - (ii) To pledge Shares subject to the Option to the broker as security for a loan and to deliver all or a part of the loan proceeds to Corporation in payment of all or a part of the exercise price and withholding taxes due.

3.8 Previously Acquired Shares. Delivery of previously acquired Shares in full or partial payment for the exercise of the Option will be subject

to the following conditions:

(a) The Shares tendered must be in good delivery form;

(b) The Fair Market Value of the Shares tendered, together with the amount of cash, if any, tendered must equal or exceed the exercise price of the Option;

(c) Any Shares remaining after satisfying the payment for the Option will be reissued in the same manner as the Shares tendered; and

(d) No fractional Shares will be issued and cash will not be paid to the Participant for any fractional Share value not used to satisfy the Option exercise price.

3.9 Reload Option. In the event all or a portion of the Option is exercised by Participant by delivering previously acquired Shares, Participant will be granted automatically a replacement Option for a number of Shares equal to the number of Shares delivered to Corporation by Participant upon exercise of the Option. The grant date for such replacement Option will be the date of exercise and the exercise price for such replacement Option will be the Fair Market Value of a Share on such grant date. The replacement Option initially will not be exercisable and will become fully exercisable six months after the grant date. In all other respects, the replacement Option will be subject to all the terms and conditions of this Award Agreement.

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4. Tax Reimbursement

In the event any withholding or similar tax liability is imposed on Corporation in connection with or with respect to any exercise of the Option or the disposition by Participant of the Shares acquired upon exercise of the Option, Participant agrees to pay to Corporation an amount sufficient to provide for such tax liability.

5. Conditions Precedent

Corporation will use its best efforts to obtain approval of the Plan and this Option by any state or federal agency or authority that Corporation determines has jurisdiction. If Corporation determines that any required approval cannot be obtained, this Option will terminate on notice to the Participant to that effect. Without limiting the foregoing, Corporation will not be required to issue any Shares upon exercise of the Option, or any portion thereof, until Corporation has taken any action required to comply with all applicable federal and state securities laws.

6. Termination for Cause; Competition

6.1 Annulment of Awards. The grant of the Option governed by this Agreement is revocable until Participant becomes entitled to a certificate for Shares in settlement thereof. In the event the employment of Participant is terminated for cause (as defined below), any portion of the Option which is revocable will be annulled as of the date of such termination for cause. For the purpose of this Section 6.1, the term "for cause" will have the meaning set forth in Participant's employment agreement, if any, or otherwise means any discharge (or removal) for material or flagrant violation of the policies and procedures of the Employer or for other performance or conduct which is materially detrimental to the best interests of Corporation, as determined by the Committee.

6.2 Engaging in Competition With Corporation. If Participant terminates employment with an Employer for any reason whatsoever, and within 18

months after the date thereof accepts employment with any competitor of (or otherwise engages in competition with) Corporation, the Committee, in its sole discretion, may require Participant to return to Corporation the economic value of this Option that is realized or obtained (measured at the date of exercise) by Participant at any time during the period beginning on the date that is six months prior to the date of Participant's termination of employment with an Employer.

7. Successorship

Subject to restrictions on transferability set forth in the Plan, this Agreement will be binding upon and benefit the parties, their successors and assigns.

8. Notices

Any notices under this Option must be in writing and will be effective when actually delivered personally or, if mailed, when deposited as registered or certified mail directed to the address of Corporation's records or to such other address as a party may certify by notice to the other party.

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9. Arbitration

Any dispute or claim that arises out of or that relates to this Agreement or to the interpretation, breach, or enforcement of this Agreement, must be resolved by mandatory arbitration in accordance with the then effective arbitration rules of Arbitration Service of Portland, Inc., and any judgment upon the award rendered pursuant to such arbitration may be entered in any court having jurisdiction thereof.

10. Attorney Fees

In the event of any suit or action or arbitration proceeding to enforce or interpret any provision of this Agreement (or which is based on this Agreement), the prevailing party will be entitled to recover, in addition to other costs, reasonable attorney fees in connection with such suit, action, arbitration, and in any appeal. The determination of who is the prevailing party and the amount of reasonable attorney fees to be paid to the prevailing party will be decided by the arbitrator or arbitrators (with respect to attorney fees incurred prior to and during the arbitration proceedings) and by the court or courts, including any appellate courts, in which the matter is tried, heard, or decided, including the court which hears any exceptions made to an arbitration award submitted to it for confirmation as a judgment (with respect to attorney fees incurred in such confirmation proceedings).

BARRETT BUSINESS SERVICES, INC.

By -----
Its -----

Participant

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AWARD AGREEMENT
Under The
Barrett Business Services, Inc.
2003 Stock Incentive Plan

NONQUALIFIED STOCK OPTION

Corporation: BARRETT BUSINESS SERVICES, INC.
4724 S.W. Macadam Avenue
Portland, Oregon 97239

Participant: -----

Date: -----

Corporation maintains the Barrett Business Services, Inc., 2003 Stock Incentive Plan (the "Plan").

This Award Agreement evidences the grant of a Nonqualified Stock Option (the "Option") to Participant.

The parties agree as follows:

1. Defined Terms

When used in this Agreement, the following terms have the meaning specified below:

(a) "Acquiring Person" means any person or related person or related persons which constitute a "group" for purposes of Section 13(d) and Rule 13d-5 under the Securities Exchange Act of 1934 (the "Exchange Act"), as such Section and Rule are in effect as of the Grant Date; provided, however, that the term Acquiring Person shall not include (i) Corporation or any of its Subsidiaries, (ii) any employee benefit plan of Corporation or any of its Subsidiaries, (iii) any entity holding voting capital stock of Corporation for or pursuant to the terms of any such employee benefit plan, or (iv) any person or group solely because such person or group has voting power with respect to capital stock of Corporation arising from a revocable proxy or consent given in response to a public proxy or consent solicitation made pursuant to the Exchange Act.

(b) "Change in Control" means:

(i) A change in control of Corporation of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A as in effect on the Grant Date pursuant to the Exchange Act; provided that, without limitation, such a change in control shall be deemed to have occurred at

such time as any Acquiring Person hereafter becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 30 percent or more of the combined voting power of Voting Securities; or

(ii) During any period of 12 consecutive calendar months, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof unless the election, or the nomination for election, by Corporation shareholders of each new director was approved by a vote of at least a majority of the directors then in office who were directors at the

beginning of the period; or

(iii) There shall be consummated (i) any consolidation or merger of Corporation in which Corporation is not the continuing or surviving corporation or pursuant to which Voting Securities would be converted into cash, securities, or other property, other than a merger of Corporation in which the holders of Voting Securities immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (ii) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of Corporation; or

(iv) Approval by the shareholders of Corporation of any plan or proposal for the liquidation or dissolution of Corporation.

(c) "Change in Control Date" means the first date following the Grant Date on which a Change in Control has occurred.

(d) "Employer" means Corporation or a Subsidiary of Corporation.

(e) "Grant Date" means the date the Option is granted, which is reflected as the date of this Agreement.

(f) "Voting Securities" means Corporation's issued and outstanding securities ordinarily having the right to vote at elections for director.

(g) Capitalized terms not otherwise defined in this Agreement have the meanings given them in the Plan.

2. Grant of Option

Subject to the terms and conditions of this Agreement and the Plan, Corporation grants to Participant the Option to purchase _____ shares of Corporation's common stock at \$ _____ per share [not less than 75 percent of the Fair Market Value of a Share on the date of grant].

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3. Terms of Option

The Option is subject to all the provisions of the Plan and to the following terms and conditions:

3.1 Term. The term of the Option is ten years from the Grant Date and will automatically terminate on _____, _____, to the extent not exercised, unless terminated earlier in accordance with this Agreement.

3.2 Time of Exercise. Unless the Option is otherwise terminated or the time of its exercisability is accelerated in accordance with this Agreement, the Option may be exercised from time to time to purchase Shares up to the following limits (based on years after the Grant Date and including any Shares previously purchased pursuant to the Option):

(a) During the first year - none;

(b) During the second year - up to 25 percent of the total Shares;

(c) During the third year - up to 50 percent of the total Shares;

(d) During the fourth year - up to 75 percent of the total Shares;
and

(e) After the fourth year - 100 percent.

3.3 Employment Requirement. Except as otherwise provided in

subsection 3.4 of this Agreement, the Option may not be exercised unless Participant is employed by an Employer continuously for at least one year following the Grant Date, unless employment is terminated by death, Disability, or Retirement. For purposes of this Agreement, "employment" includes periods of illness or other leaves of absence authorized by the Employer. If Participant ceases to be an active employee, the Option will remain exercisable, to the extent the Option had become exercisable on or before the termination date, and the right to exercise the Option will expire at the end of the following periods:

After Termination On Account Of -----	Period -----
Death	1 year
Retirement	3 months
Disability	1 year
Any other reason	3 months

3.4 Acceleration of Exercisability. Notwithstanding the schedule provided in subsection 3.2, the Option will become fully exercisable (unless Participant chooses to decline accelerated Vesting of all or any portion of the Option) upon the occurrence of either:

(a) Participant's death or termination of employment by reason of Disability or Retirement; or

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(b) A Change in Control Date.

3.5 Method of Exercise. The Option, or any portion thereof, may be exercised, to the extent it has become exercisable pursuant to this Agreement, by delivery of written notice to Corporation stating the number of Shares, form of payment, and proposed date of closing.

3.6 Other Documents. Participant will be required to furnish to Corporation before closing such other documents or representations as Corporation may require to assure compliance with applicable laws and regulations.

3.7 Payment. The exercise price for the Shares purchased upon exercise of the Option must be paid in full at or before closing by one or a combination of the following:

(a) Payment in cash;

(b) Delivery of previously acquired Shares having a Fair Market Value equal to the exercise price; or

(c) With the prior approval of the Committee, by delivery (in a form approved by the Committee) of an irrevocable direction to a securities broker acceptable to the Committee:

(i) To sell Shares subject to the Option and to deliver all or a part of the sales proceeds to Corporation in payment of all or a part of the option price and withholding taxes due; or

(ii) To pledge Shares subject to the Option to the broker as security for a loan and to deliver all or a part of the loan proceeds to Corporation in payment of all or a part of the exercise price and withholding taxes due.

3.8 Previously Acquired Shares. Delivery of previously acquired Shares in full or partial payment for the exercise of the Option will be subject to the following conditions:

(a) The Shares tendered must be in good delivery form;

(b) The Fair Market Value of the Shares tendered, together with the amount of cash, if any, tendered must equal or exceed the exercise price of the Option;

(c) Any Shares remaining after satisfying the payment for the Option will be reissued in the same manner as the Shares tendered; and

(d) No fractional Shares will be issued and cash will not be paid to Participant for any fractional Share value not used to satisfy the Option exercise price.

3.9 Reload Option. In the event all or a portion of the Option is exercised by Participant by delivering previously acquired Shares, Participant will be granted automatically a replacement Option for a number of Shares equal to the number of Shares delivered to

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Corporation by Participant upon exercise of the Option. The grant date for such replacement Option will be the date of exercise and the exercise price for such replacement Option will be the Fair Market Value of a Share on such grant date. The replacement Option initially will not be exercisable and will become fully exercisable six months after the grant date. In all other respects, the replacement Option will be subject to all the terms and conditions of this Award Agreement.

4. Tax Withholding and Reimbursement

Corporation is authorized to withhold from Participant's other compensation any withholding and payroll taxes imposed on Corporation in connection with or with respect to the exercise or other settlement of the Option (the "Payroll Taxes"). In the event Participant is no longer an employee of an Employer at the time of exercise or there is insufficient other income from which to withhold the Payroll Taxes, Participant agrees to pay to Corporation an amount sufficient to provide for payment of all Payroll Taxes.

5. Conditions Precedent

Corporation will use its best efforts to obtain approval of the Plan and this Option by any state or federal agency or authority that Corporation determines has jurisdiction. If Corporation determines that any required approval cannot be obtained, this Option will terminate on notice to Participant to that effect. Without limiting the foregoing, Corporation will not be required to issue any Shares upon exercise of the Option, or any portion thereof, until Corporation has taken any action required to comply with all applicable federal and state securities laws.

6. Termination for Cause; Competition

6.1 Annulment of Awards. The grant of the Option governed by this Agreement is revocable until Participant becomes entitled to a certificate for Shares in settlement thereof. In the event the employment of Participant is terminated for cause (as defined below), any portion of the Option which is revocable will be annulled as of the date of such termination for cause. For the purpose of this Section 6.1, the term "for cause" will have the meaning set forth in Participant's employment agreement, if any, or otherwise means any discharge (or removal) for material or flagrant violation of the policies and procedures of the Employer or for other performance or conduct which is materially detrimental to the best interests of Corporation, as determined by the Committee.

6.2 Engaging in Competition With Corporation. If Participant terminates employment with an Employer for any reason whatsoever, and within 18 months after the date thereof accepts employment with any competitor of (or

otherwise engages in competition with) Corporation, the Committee, in its sole discretion, may require Participant to return to Corporation the economic value of this Option that is realized or obtained (measured at the date of exercise) by Participant at any time during the period beginning on the date that is six months prior to the date of Participant's termination of employment with an Employer.

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7. Successorship

Subject to restrictions on transferability set forth in the Plan, this Agreement will be binding upon and benefit the parties, their successors and assigns.

8. Notices

Any notices under this Option must be in writing and will be effective when actually delivered personally or, if mailed, when deposited as registered or certified mail directed to the address of Corporation's records or to such other address as a party may certify by notice to the other party.

9. Arbitration

Any dispute or claim that arises out of or that relates to this Agreement or to the interpretation, breach, or enforcement of this Agreement, must be resolved by mandatory arbitration in accordance with the then effective arbitration rules of Arbitration Service of Portland, Inc., and any judgment upon the award rendered pursuant to such arbitration may be entered in any court having jurisdiction thereof.

10. Attorney Fees

In the event of any suit or action or arbitration proceeding to enforce or interpret any provision of this Agreement (or which is based on this Agreement), the prevailing party will be entitled to recover, in addition to other costs, reasonable attorney fees in connection with such suit, action, arbitration, and in any appeal. The determination of who is the prevailing party and the amount of reasonable attorney fees to be paid to the prevailing party will be decided by the arbitrator or arbitrators (with respect to attorney fees incurred prior to and during the arbitration proceedings) and by the court or courts, including any appellate courts, in which the matter is tried, heard, or decided, including the court which hears any exceptions made to an arbitration award submitted to it for confirmation as a judgment (with respect to attorney fees incurred in such confirmation proceedings).

BARRETT BUSINESS SERVICES, INC.

By -----
Its -----

Participant

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AWARD AGREEMENT
Under The
Barrett Business Services, Inc.
2003 Stock Incentive Plan

ANNUAL DIRECTOR OPTION

Corporation: BARRETT BUSINESS SERVICES, INC.
4724 S.W. Macadam Avenue
Portland, Oregon 97239

Participant: -----

Date: -----

Corporation maintains the Barrett Business Services, Inc., 2003 Stock Incentive Plan (the "Plan").

This Award Agreement evidences the grant of an Annual Director Option (the "Option") to Participant.

The parties agree as follows:

1. Defined Terms

When used in this Agreement, the following terms have the meaning specified below:

(a) "Acquiring Person" means any person or related person or related persons which constitute a "group" for purposes of Section 13(d) and Rule 13d-5 under the Securities Exchange Act of 1934 (the "Exchange Act"), as such Section and Rule are in effect as of the Grant Date; provided, however, that the term Acquiring Person shall not include (i) Corporation or any of its Subsidiaries, (ii) any employee benefit plan of Corporation or any of its Subsidiaries, (iii) any entity holding voting capital stock of Corporation for or pursuant to the terms of any such employee benefit plan, or (iv) any person or group solely because such person or group has voting power with respect to capital stock of Corporation arising from a revocable proxy or consent given in response to a public proxy or consent solicitation made pursuant to the Exchange Act.

(b) "Change in Control" means:

(i) A change in control of Corporation of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A as in effect on the Grant Date pursuant to the Exchange Act; provided that, without limitation, such a change in control shall be deemed to have occurred at such time as any Acquiring Person hereafter becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or

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indirectly, of 30 percent or more of the combined voting power of Voting Securities; or

(ii) During any period of 12 consecutive calendar months, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof unless the election, or the nomination for election, by Corporation shareholders of each new director was approved by a vote of at least a majority of the directors then in office who were directors at the

beginning of the period; or

(iii) There shall be consummated (i) any consolidation or merger of Corporation in which Corporation is not the continuing or surviving corporation or pursuant to which Voting Securities would be converted into cash, securities, or other property, other than a merger of Corporation in which the holders of Voting Securities immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (ii) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of Corporation; or

(iv) Approval by the shareholders of Corporation of any plan or proposal for the liquidation or dissolution of Corporation.

(c) "Change in Control Date" means the first date following the Grant Date on which a Change in Control has occurred.

(d) "Grant Date" means the date the Option is granted, which is reflected as the date of this Agreement.

(e) "Retirement" means ceasing to be a member of the Board for any reason (other than by removal) after service on the Board for at least 10 years.

(f) "Voting Securities" means Corporation's issued and outstanding securities ordinarily having the right to vote at elections for director.

(g) Capitalized terms not otherwise defined in this Agreement have the meanings given them in the Plan.

2. Grant of Option

Subject to the terms and conditions of this Agreement and the Plan, Corporation grants to Participant the Option to purchase _____ Shares of Corporation's Common Stock at \$_____ per share [100 percent of the Fair Market Value of a Share on the date of grant].

3. Terms of Option

The Option is subject to all the provisions of the Plan and to the following terms and conditions:

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3.1 Term. The term of the Option is unlimited unless terminated earlier in accordance with this Agreement.

3.2 Time of Exercise. Unless the Option is otherwise terminated or the time of its exercisability is accelerated in accordance with this Agreement, the Option may be exercised from time to time to purchase Shares up to the following limits (based on years after the Grant Date and including any Shares previously purchased pursuant to the Option):

(a) During the first year - none;

(b) During the second year - up to 25 percent of the total Shares;

(c) During the third year - up to 50 percent of the total Shares;

(d) During the fourth year - up to 75 percent of the total Shares;

and

(e) After the fourth year - 100 percent.

3.3 Continuation as Director. If Participant ceases to be a member of the Board for any reason, the right to exercise the Option will expire at the end of the following periods:

After Termination On Account of -----	Period -----
Death	1 year
Retirement	5 years
Disability	1 year
Any other reason	3 months

3.4 Acceleration of Exercisability. Notwithstanding the schedule provided in subsection 3.2, the Option will become fully exercisable upon the occurrence of either:

(a) Participant's death or withdrawal from the Board by reason of Disability or Retirement; or

(b) A Change in Control Date.

3.5 Method of Exercise. The Option, or any portion thereof, may be exercised, to the extent it has become exercisable pursuant to this Agreement, by delivery of written notice to Corporation stating the number of Shares, form of payment, and proposed date of closing.

3.6 Other Documents. Participant will be required to furnish to Corporation before closing such other documents or representations as Corporation may require to assure compliance with applicable laws and regulations.

3.7 Payment. The exercise price for the Shares purchased upon exercise of the Option must be paid in full at or before closing by one or a combination of the following:

(a) Payment in cash; or

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(b) Delivery of previously acquired Shares having a Fair Market Value equal to the exercise price.

3.8 Previously Acquired Shares. Delivery of previously acquired Shares in full or partial payment for the exercise of the Option will be subject to the following conditions:

(a) The Shares tendered must be in good delivery form;

(b) The Fair Market Value of the Shares tendered, together with the amount of cash, if any, tendered must equal or exceed the exercise price of the Option;

(c) Any Shares remaining after satisfying the payment for the Option will be reissued in the same manner as the Shares tendered; and

(d) No fractional Shares will be issued and cash will not be paid to the Participant for any fractional Share value not used to satisfy the Option exercise price.

3.9 Reload Option. In the event all or a portion of the Option is exercised by Participant by delivering previously acquired Shares, Participant will be granted automatically a replacement Option for a number of Shares equal to the number of Shares delivered to Corporation by Participant upon exercise of the Option. The grant date for such replacement Option will be the date of exercise and the exercise price for such replacement Option will be the Fair

Market Value of a Share on such grant date. The replacement Option initially will not be exercisable and will become fully exercisable six months after the grant date. In all other respects, the replacement Option will be subject to all the terms and conditions of this Award Agreement. 4 . Tax Reimbursement

In the event any withholding or similar tax liability is imposed on Corporation in connection with or with respect to any exercise of the Option, Participant agrees to pay to Corporation an amount sufficient to provide for such tax liability.

5. Conditions Precedent

Corporation will use its best efforts to obtain approval of the Plan and this Option by any state or federal agency or authority that Corporation determines has jurisdiction. If Corporation determines that any required approval cannot be obtained, this Option will terminate on notice to Participant to that effect. Without limiting the foregoing, Corporation will not be required to issue any Shares upon exercise of the Option, or any portion thereof, until Corporation has taken any action required to comply with all applicable federal and state securities laws.

6. Successorship

Subject to restrictions on transferability set forth in the Plan, this Agreement will be binding upon and benefit the parties, their successors and assigns.

7. Notices

Any notices under this Option must be in writing and will be effective when actually delivered personally or, if mailed, when deposited as registered or certified mail directed to the address of Corporation's records or to such other address as a party may certify by notice to the other party.

8. Arbitration

Any dispute or claim that arises out of or that relates to this Agreement or to the interpretation, breach, or enforcement of this Agreement, must be resolved by mandatory arbitration in accordance with the then effective arbitration rules of Arbitration Service of Portland, Inc., and any judgment upon the award rendered pursuant to such arbitration may be entered in any court having jurisdiction thereof.

9. Attorney Fees

In the event of any suit or action or arbitration proceeding to enforce or interpret any provision of this Agreement (or which is based on this Agreement), the prevailing party will be entitled to recover, in addition to other costs, reasonable attorney fees in connection with such suit, action, arbitration, and in any appeal. The determination of who is the prevailing party and the amount of reasonable attorney fees to be paid to the prevailing party will be decided by the arbitrator or arbitrators (with respect to attorney fees incurred prior to and during the arbitration proceedings) and by the court or courts, including any appellate courts, in which the matter is tried, heard, or decided, including the court which hears any exceptions made to an arbitration award submitted to it for confirmation as a judgment (with respect to attorney fees incurred in such confirmation proceedings).

BARRETT BUSINESS SERVICES, INC.

By -----
Its -----

Participant

BARRETT BUSINESS SERVICES, INC.

CODE OF BUSINESS CONDUCT

Barrett Business Services, Inc. ("Barrett"), demands that its employees, officers and directors conduct business in accordance with the highest standards of integrity and personal and professional ethics. We believe maintenance of a strong sense of integrity is critical to maintaining trust and credibility with our customers, business partners, employees and investors. We further believe our continued emphasis on an ethical business culture will best position us to achieve our business goals.

Barrett employees, officers and directors must:

- o Avoid conflicts of interest where possible and disclose and handle ethically any conflicts that do arise;
- o Protect Barrett's confidential and proprietary information and that of our customers and vendors;
- o Treat employees, customers, suppliers and competitors fairly and with respect at all times;
- o Protect and only use for proper purposes all company assets;
- o Comply with laws, rules and regulations and all internal policies and procedures;
- o Disclose and seek guidance from appropriate sources inside and outside the company when confronted by difficult ethical issues; and
- o Report any unlawful or unethical behavior.

STATEMENT OF POLICY

It is our belief that long-term, trusting business relationships are built by being honest, open and fair. We seek to uphold the highest professional standards in our business operations. We further believe that we must pay constant attention to all legal boundaries and comply with all applicable laws and regulations in all operations.

All employees are part of a team assembled for the purpose of achieving our business goals and each of us deserves to be treated with dignity and respect. In addition, every employee is responsible for his or her own conduct. No one has the authority to make another employee violate this Code of Business Conduct or any law or regulation, and any attempt to direct or otherwise influence someone else to commit a violation is unacceptable. Managers, in particular, set an example for other employees and are often responsible for directing the actions of others. Managers must know and understand the Code of Business Conduct as it applies personally to the manager and those under his or her supervision.

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This Code of Business Conduct outlines our broad principles of legal and ethical business conduct. It is not intended as a complete list of legal or ethical questions an employee might face in the course of business. No two situations are alike, so we should aim for consistency and honest and ethical conduct when we encounter difficult business situations. We must also be vigilant to spot and report possible infringements of Barrett's Code of Business Conduct, whether they are intentional or represent an oversight.

This Code of Business Conduct applies to all employees, officers and directors of Barrett and will be administered by our Chief Executive Officer. Barrett's Chief Executive Officer will consult with and report to the Audit and Compliance Committee regarding the operation of this code. The Audit and Compliance Committee will have ultimate authority to modify, interpret and apply this code. Employees who have questions regarding business conduct or possible violations of this code should contact their manager or our Chief Executive Officer. Any accounting-related issues should be reported to our Audit and Compliance Committee.

BUSINESS ETHICS

To assist employees, we have compiled a list below of areas in which employees should be particularly vigilant. Activities described below raise a greater likelihood of breaches and should be carefully scrutinized. Examples of potentially improper activities include:

- o Excessive or incompletely documented payments to third parties or by third parties to Barrett or its employees;
- o Payments made in cash or by check or wire transfer to persons other than (i) Barrett, in the case of amounts due to us, or (ii) the business entity with which we conduct business, in the case of amounts paid by us;
- o Billings made higher or lower than normal prices or fees at a customer's request;
- o Payments made for any purpose other than as described in supporting documentation; and
- o Payments made through undocumented intermediaries, or that seem to deviate from normal business practice.

CONFLICTS OF INTEREST

Employees are expected to make or participate in business decisions and actions in the course of their employment with Barrett based on the best interests of Barrett as a whole and not based on personal relationships or benefits. Conflicts of interest can compromise business ethics. Employees are expected to apply sound judgment to avoid any activities that are inconsistent with or opposed to Barrett's interests or that may give the appearance of impropriety.

Employees should seek to avoid any relationship that would cause a conflict of interest with their duties and responsibilities at Barrett. Employees and members of their

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immediate families must avoid (i) direct or indirect financial relationships with other businesses that could cause divided loyalties, and (ii) conducting business on behalf of Barrett with members of their families or others with whom they have a significant personal relationship, or business entities controlled by such persons. Employees are expected to disclose to Barrett any situations that may involve conflicts of interest affecting them personally or affecting other employees or those with whom we do business.

Directors must disclose to the Audit and Compliance Committee any personal interest they may have in any transaction with Barrett or any transaction to be considered by its Board of Directors. Directors must recuse themselves from participation in any decision in which there is a conflict between their personal interests and Barrett's interests.

Investment in Public Companies. Passive investment in not more than

a one percent interest in a publicly-traded entity is permissible without approval, provided such investment does not involve the use of confidential or proprietary information, such as confidential information that might have been learned on account of Barrett's relationship with the other company, and is not so large relative to other personal holdings as to create an appearance of a conflict or inside knowledge.

Investment in Private Companies. Barrett employees may not invest in privately-held companies that are customers, partners or suppliers of Barrett without express permission of the Chief Financial Officer. Where the employee either directly or through people in his/her chain of command has responsibility to affect or implement Barrett's relationship with the other company, approval is likely to be denied.

Payments; Gifts. Employees should at all times pay for and receive only that which is proper. Employees should not make payments or promises to influence another's acts or decisions and must not give gifts beyond those extended in normal business. Further, employees must observe all government restrictions on gifts and entertainment.

Novelties, advertising favors and entertainment are allowed when the following conditions are met:

- o They are consistent with Barrett's business practices;
- o They do not violate any applicable law;
- o They are of limited value (\$100 or less per occurrence, \$250 or less in the aggregate annually); and
- o Public disclosure would not embarrass the employee or Barrett.

Supervision of Related Persons. Supervisory relationships with family members or others with whom an employee has a significant relationship present special workplace problems, including conflicts of interest, or at least the appearance of conflicts. Accordingly, employees must avoid a direct reporting relationship with any member of their family or others with whom they have a significant relationship. If such relationship exists or occurs, the employee must report it in writing to a manager or a human resources representative.

PROPRIETARY INFORMATION

Proprietary information is defined as information that was developed, created, or discovered by, or on behalf of, Barrett or that became known by, or was conveyed to, the company that has not been publicly disclosed. It includes but is not limited to trade secrets, copyrights, ideas, techniques, know-how, inventions (whether patentable or not) and any information of any type relating to marketing, pricing, customers, salaries and terms of compensation, and financial condition or results or other financial data.

Each employee has the duty to respect and protect the confidentiality of all such information, whether belonging to Barrett or others with which Barrett does business, and not to use that information for personal advantage. Disclosure or use of confidential and proprietary information--whether Barrett's or a third party's--should be covered by a written agreement. In addition to the obligations imposed by that agreement, all employees should comply with the following requirements:

- o Confidential information of Barrett and of third parties should be disclosed only to Barrett employees who need to access it to perform their jobs;
- o Confidential information of a third party should not be used or copied, except as permitted by the third-party owner;

- o If third-party confidential information is inadvertently presented to Barrett outside a normal business relationship it should be refused and/or returned; and
- o Employees must refrain from using any confidential information belonging to any former employers (unless acquired by Barrett as part of a business transaction) in the course of employment with Barrett.

LAWS, REGULATIONS AND GOVERNMENT-RELATED ACTIVITIES

We are subject to laws and regulations of the United States and of each local jurisdiction in which we conduct our business. Violation of governing laws and regulations is both unethical and subjects Barrett to significant risks. It is expected that each employee will comply with all applicable laws, regulations and corporate policies. Specific areas with which employees are expected to comply include:

- o Privacy
- o Insider Trading
- o Using Third-Party Copyrighted Material
- o Government Business and Reports
- o Antitrust

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- o Political Contributions

Privacy. Barrett has established guidelines for the collection, use and disclosure of personal data. All Barrett operations, activities and functions that collect, use, receive, or distribute personal data must adhere to this policy. Moreover, all electronic and physical resources, whether owned or leased by Barrett, and the messages, files, data, software or other information stored or transmitted on them are, and remain at all times, the property of Barrett.

Employees should be careful to avoid discussing sensitive information regarding Barrett or third parties except for business purposes and any business-related discussions that do occur should not take place in public forums, such as elevators, restrooms, lobbies, or similar areas where others may hear such information.

Insider Trading. Employees must at all times comply with state and federal laws and Barrett's internal policies relating to insider trading. If an employee has material, non-public information relating to Barrett or its business, the employee, his or her family members, and any entities controlled by the employee or his or her family members may not buy or sell Barrett's securities or engage in any other action to take advantage of, or pass on to others, that information. This policy also applies to trading in the securities of any other company, including our customers, suppliers, vendors or other business partners, if employees have material, non-public information about that company which the employee obtained by virtue of his or her position with Barrett.

Besides the obligation to refrain from trading while in possession of material, non-public information, employees are also prohibited from "tipping" others. The concept of unlawful tipping includes passing on information to friends or family members under circumstances that suggest that employees were trying to help them make a profit or avoid a loss.

Copyrighted Material. Employees may sometimes need to use third-party copyrighted material to perform their jobs. Before such third-party material may be used, appropriate authorization from the copyright holder must be obtained. The need for such permission may exist whether or not the end product containing third-party material is for personal use or for internal or other use. Improper use of copyrighted material could subject both Barrett and the individuals involved to possible civil and criminal actions for infringement.

Government Business and Reports. Special requirements might apply when contracting with or reporting to any government body (including national, state, provincial, municipal, or other similar government divisions in local jurisdictions). Because government officials are obligated to follow specific codes of conduct and laws, special care must be taken in government procurement and reporting. When doing business with or reporting to government agencies, employees must take particular care to accurately and completely disclose all requested information, and not offer or accept gifts, gratuities or anything else of value.

Antitrust. The economy of the United States is based on the principle of a free competitive market. To ensure that this principle is respected, the United States (and most other countries) has broad and far-reaching laws prohibiting certain business practices that could inhibit effective competition. Barrett seeks at all times to avoid conduct that may even give the

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appearance of being questionable under those laws. Employees should be cognizant of these laws when conducting business or discussing operations because the penalties for violations can be quite serious. If you encounter a situation in which you believe competition may be restrained--such as discussions at a trade show involving pricing or allocation of market opportunities, publication of pricing models, etc.--please contact the corporate office for guidance.

VIOLETIONS/WAIVERS

Barrett expects all officers, directors and employees to uphold the standards set forth in this Code of Business Conduct. If you become aware of a violation of this code, you should report such violation by contacting the Chief Executive Officer promptly. If a violation involves a senior officer or the compliance officer, you may report the matter to the Chief Executive Officer, or to the Chair of the Audit and Compliance Committee. Barrett will use its best efforts to keep confidential the identity of any person who reports a violation of this code. Barrett prohibits retaliation against individuals who report actual or apparent violations of this Code of Business Conduct in good faith.

All officers, directors and employees are expected to cooperate in internal investigations of actual or apparent violations of this code. Violations of this Code of Business Conduct or a failure to cooperate with an internal investigation will be considered a serious disciplinary matter that may result in personnel action, including termination of employment.

Waivers of this Code of Business Conduct may only be given, (i) for directors, by the Audit and Compliance Committee, (ii) for executive officers, by the Audit and Compliance Committee or the Board of Directors acting as a whole, or (iii) for employees, by Barrett's Chief Executive Officer, in consultation with the Chief Financial Officer. Waivers granted to directors or executive officers will be promptly disclosed to the public in a manner that complies with laws and regulations applicable to Barrett as such may be in effect from time to time.

FINANCIAL REPORTING

In addition to the foregoing, as a public company, it is of critical importance that Barrett's filings with the Securities and Exchange Commission

("SEC") and other public disclosures be accurate and timely. Depending on his or her position, an employee may be called upon to provide information to assure that Barrett's public reports are complete, fair and understandable. Barrett expects all of its personnel to take this responsibility very seriously and to provide prompt, accurate and complete answers to inquiries related to our public disclosure requirements.

Our accounting department bears a special responsibility for promoting integrity throughout the organization. Our chief executive, principal financial and principal accounting officers (collectively, "Senior Financial Officers") are expected to adhere to and promote compliance with this Code of Business Conduct and ensure that a culture exists throughout the company as a whole that facilitates the fair and timely reporting of Barrett's financial results and condition.

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CODE OF ETHICS FOR SENIOR FINANCIAL OFFICERS

Our Senior Financial Officers are bound by the following Code of Ethics for Senior Financial Officers in addition to this Code of Business Conduct. Each Senior Financial Officer agrees that he or she will:

- o Act with honesty and integrity, avoiding actual or apparent conflicts of interest in personal and professional relationships;
- o Prepare and provide information as requested that is accurate, complete and timely to enable Barrett to provide full, fair, accurate, timely, and understandable disclosure in reports and documents that Barrett files with, or submits to, the SEC and in other public communications;
- o Comply with rules and regulations of federal, state and local governments and other appropriate private and public regulatory agencies;
- o Respect the confidentiality of, and not use for personal advantage, information acquired in the course of employment except when authorized or otherwise legally obligated to disclose such information;
- o Engage in responsible use of and control over all assets and resources of Barrett employed by or entrusted to him or her; and
- o Promptly report any conduct that may, in his or her best judgment, constitute a violation of law or business ethics or of any provision of Barrett's Code of Business Conduct.

Violations of this Code of Ethics for Senior Financial Officers, including failures to report potential violations by others, will be viewed as a severe disciplinary matter that may result in personnel action, including termination of employment. If you believe that a violation of this code of ethics has occurred, please contact the chair of the Audit and Compliance Committee directly at [bod@bbsihq.com].

It is against Barrett's policy to retaliate against any employee for good faith reporting of violations of this Code of Ethics for Senior Financial Officers or the Code of Business Conduct.

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-55117, 333-33487 and 333-105833) of Barrett Business Services, Inc. of our report dated February 20, 2004, except as to Note 6, which is as of March 23, 2004, relating to the financial statements, which appears in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

Portland, Oregon

March 29, 2004

POWER OF ATTORNEY

Each person whose signature appears below designates and appoints WILLIAM W. SHERERTZ and MICHAEL D. MULHOLLAND, and either of them, true and lawful attorneys-in-fact and agents, to sign the Annual Report on Form 10-K for the year ended December 31, 2003, of Barrett Business Services, Inc., a Maryland corporation, and to file said report, with all exhibits thereto, with the Securities and Exchange Commission under the Securities Exchange Act of 1934. Each person whose signature appears below also grants to these attorneys-in-fact and agents full power and authority to perform every act and execute any instruments that they deem necessary or desirable in connection with said report, as fully as he could do in person, hereby ratifying and confirming all that the attorneys-in-fact and agents or their substitutes may lawfully do or cause to be done.

IN WITNESS WHEREOF, this power of attorney has been executed by each of the undersigned as of this 29th day of March, 2004.

Signature -----	Title -----
/s/ William W. Sherertz ----- William W. Sherertz	President and Chief Executive Officer and Director (Principal Executive Officer)
/s/ Michael D. Mulholland ----- Michael D. Mulholland	Vice President-Finance and Secretary (Principal Financial Officer)
/s/ James D. Miller ----- James D. Miller	Controller (Principal Accounting Officer)
/s/ Fores J. Beaudry ----- Fores J. Beaudry	Director
----- Thomas J. Carley	Director
/s/ James B. Hicks ----- James B. Hicks	Director
/s/ Anthony Meeker ----- Anthony Meeker	Director
/s/ Nancy B. Sherertz ----- Nancy B. Sherertz	Director

CERTIFICATIONS

I, William W. Sherertz, certify that:

1. I have reviewed this Annual Report on Form 10-K of Barrett Business Services, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this annual report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the Registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant is made known to us by others within the company, particularly during the period in which this annual report is being prepared;
 - b. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation;
 - c. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the registrant's most-recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting;
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: March 29, 2004

/s/ William W. Sherertz

William W. Sherertz
Chief Executive Officer

I, Michael D. Mulholland, certify that:

1. I have reviewed this Annual Report on Form 10-K of Barrett Business Services, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this annual report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the Registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant is made known to us by others within the company, particularly during the period in which this annual report is being prepared;
 - b. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation;
 - c. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the registrant's most-recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting;
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: March 29, 2004

/s/ Michael D. Mulholland

Michael D. Mulholland
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Annual Report of Barrett Business Services, Inc. (the "Company") on Form 10-K for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certify, pursuant to 18 U.S.C. ss. 1350, that:

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

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

/s/ William W. Sherertz

William W. Sherertz
Chief Executive Officer
March 29, 2004

/s/ Michael D. Mulholland

Michael D. Mulholland
Chief Financial Officer
March 29, 2004