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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, 1997
Commission File Number 0-21886

BARRETT BUSINESS SERVICES, INC.

(Exact name of registrant as specified in its charter)

Maryland	52-0812977
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4724 SW Macadam Avenue Portland, Oregon (Address of principal executive offices)	97201 (Zip Code)

Registrant's telephone number, including area code: (503) 220-0988
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, Par Value $.01 Per Share
(Title of class)

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

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

State the aggregate market value of the voting stock held by non-affiliates of the Registrant: $53,155,434 at February 27, 1998

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, 1998
Common Stock, Par Value $.01 Per Share	6,743,563 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 1998 Annual Meeting of Stockholders are hereby incorporated by reference into Part III of 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, aggressive 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 labor-related regulatory compliance. For 1997 Barrett's staffing services revenues represented 55.2% of total revenues, compared to 44.8% for PEO services revenues.

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 1997, the Company provided staffing services to approximately 5,400 customers. Although a majority of the Company's staffing customers are small to mid-sized businesses, during 1997 approximately 40 of the Company's customers have each utilized Barrett employees in a number ranging from at least 200 employees to as many as 1,800 employees through various staffing services arrangements. In addition, Barrett had approximately 654 PEO clients at December 31, 1997, compared to 780 at December 31, 1996. The decline in the number of PEO clients in 1997 as compared to 1996 reflects the Company's disciplined adherence to its safe-work policies and credit policies.

The Company operates through a network of 24 branch offices in Oregon, California, Washington, Maryland, Delaware, Idaho, Arizona and Michigan. Barrett also has 22 smaller recruiting offices in its general market areas under the direction of a branch office.

OPERATING STRATEGIES

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

GROWTH STRATEGIES

The Company's principal growth strategies are to: (i) expand through acquisitions of human resource-related businesses in new and existing geographic markets, (ii) ensure acquisitions are fully aligned with zone management to strengthen and expand operations, (iii) continue to support the full implementation of operational line authority through zone managers and (iv) enhance management information systems to support continued growth and to improve customer services.

RECENT ACQUISITIONS

Effective February 1, 1997, the Company acquired D&L Personnel Department Specialists, Inc., dba HR Only, a staffing services company which specializes in human resource professionals with offices in Los Angeles and Garden Grove, California. The Company paid $1,800,000 in cash for all of the outstanding common stock of HR Only and $1,200,000 in cash for noncompete agreements with certain individuals, of which $1,000,000 will be deferred for five years and then be paid ratably over the succeeding five-year period. HR Only's revenues for the fiscal year ended January 31, 1997 were approximately $4.3 million.

Effective April 13, 1997, the Company acquired certain assets of JRL Services, Inc., dba TLC Staffing, a provider of clerical staffing services located in Tucson, Arizona. TLC Staffing had revenues of approximately $800,000 (unaudited) for the year ended December 31, 1996. The Company paid $150,000 in cash for the assets and assumed an $18,000 office lease liability.

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

THE COMPANY'S SERVICES

Overview of Services. The Company offers a continuum of human resource management services to its clients. 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:

- Payroll Processing. For both the Company's PEO and staffing services 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.

- Employee Benefits and Administration. As a result of its size, Barrett is able to offer employee benefits which are 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, claims administration and a nonqualified deferred compensation plan.

- 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, and 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.

- Workers' Compensation Coverage. Beginning in 1987, the Company acquired self-insured employer status for workers' compensation coverage in Oregon and is currently a qualified self-insured employer in many of the state and federal jurisdictions in which it operates. 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 aggressively manages job injury claims, including identifying fraudulent claims and utilizing its staffing services to return workers to active employment earlier. As a result of its ability to manage workers' compensation costs, the Company is often able to reduce its clients' overall expenses arising out of job-related injuries and insurance.

- Human Resource Administration. Barrett offers its clients the opportunity to leverage the Company's experience in personnel-related regulatory compliance. For both its PEO clients and for staffing services employees, 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. As more and more companies focus on cost-cutting and reducing overhead, the use of employees on a short-term basis allows firms to utilize the "just-in-time" approach to their personnel needs, thereby converting a portion of their fixed personnel costs to 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 manpower 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 large national companies which use Barrett's services on a local basis. None of the Company's staffing services customers individually accounted for more than 10% of its total 1997 revenues.

In 1997, light industrial workers generated approximately 70% of the Company's staffing services revenues, while technical personnel accounted for 18% of such revenues and clerical office staff represented the balance of 12%. 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 workforce 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.

Barrett's staffing services employees are not under its direct control while placed at a customer's worksite. 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, which could have a material adverse effect on the Company's business, financial condition and results of operations.

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 resources staff. In addition, the escalating costs of health and workers' compensation insurance in recent years, coupled with the increased complexity of laws and regulations affecting the workplace, have created a compelling motivation 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 also hires and fires 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 expanded these services to Maryland and Washington in the first and third quarters, respectively, of 1994, to Delaware and California in the second quarter of 1995, and to Idaho and Arizona in 1996. 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 100 employees. None of the Company's PEO clients

individually accounted for more than 5% of its total annual revenues during 1997.

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 significant 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 client to maintain comprehensive liability coverage in the amount of $1,000,000 for acts of its worksite employees. In addition, the Company has excess liability insurance coverage in the amount of $2,000,000 per occurrence and policy limits of $5,000,000 in the aggregate. 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 have a material adverse effect on the Company's business, financial condition and results of operations.

SALES AND MARKETING

The Company markets its services primarily through direct sales presentations by its branch office account managers. The Company also obtains referrals from existing clients and other third parties, and places radio commercials and advertisements in various publications, including local newspapers and the Yellow Pages. Barrett believes that it is able to offer its services at competitive rates due to the lower costs associated with its self-insured workers' compensation program when compared to the cost of workers' compensation insurance. See "Self-Insured Workers' Compensation Program" below.

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. The Company requires a deposit from its PEO clients to cover one payroll period plus gross margin.

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 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 has subsequently obtained self-insured employer status for workers' compensation in four additional states, Maryland, Washington, Delaware and California. In addition, in May 1995, the Company was granted self-insured employer status by the U.S. Department of Labor for longshore and harbor ("USL&H") workers' compensation coverage. Regulations governing self-insured employers in each jurisdiction typically require the employer to maintain surety deposits of cash, government securities or other financial instruments to cover workers' claims in the event the employer is unable to pay for such claims.

Barrett also maintains excess workers' compensation insurance for single occurrences exceeding $350,000 (except for $300,000 in Maryland and $500,000 for USL&H coverage) with statutory limits (i.e., in unlimited amounts) pursuant to annual policies with major insurance companies. The excess-insurance policies contain standard exclusions from coverage, including punitive damages, fines or penalties in connection with violation of any statute or regulation and losses covered by other insurance or indemnity provisions.

In addition, the Company has implemented an insured large-deductible program which allows it to become insured for workers' compensation coverage in nearly all states where the extent of the Company's operations does not yet warrant the investment to become a self-insured employer.

Claims Management. Pursuant to its self-insured status, the Company's workers' compensation expense is tied directly to the incidence and severity of workplace injuries to its employees. Barrett 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 performing thorough and prompt on-site investigations of claims filed by employees, working with physicians to encourage efficient medical management of cases, denying questionable claims and negotiating early settlements to eliminate future case development and costs. Barrett also maintains a mandatory 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 (referred to as the "IBNR reserve") 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, 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, legal fees and safety incentive payments. Although not directly related to the size of the Company's payroll, the number of claims and correlative loss payments may be expected to increase with growth in the total number of employees. TPA fees also vary with the number of claims administered. The state assessments are typically based on payroll amounts and, to a limited

extent, the amount of permanent disability awards during the previous year. Excess insurance premiums are also based in part on the size of the Company's payroll. Safety incentives expense may increase as the number of the Company's PEO employees rises, although increases will only occur for any given PEO client if such client's claims costs are below agreed-upon amounts.

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 periodically review the Company's total workers' compensation claims liability and reserving practices. Based in part on such review, the Company believes its total accrued workers' compensation claims liabilities are adequate. There can, however, be no assurance that the Company's actual future workers' compensation obligations will not exceed the amount of its accrued liabilities, with a corresponding negative effect on future earnings, due to such factors as unanticipated adverse loss development of known claims, and the effect, if any, of claims incurred but not reported.

Approximately one-fourth of the Company's payroll exposure associated with staffing or PEO services is in relatively high-risk industries with respect to workplace injuries, including trucking, logging and construction. A failure to successfully manage the severity and frequency of workers' compensation injuries will have a negative impact on the Company. Management maintains clear guidelines for its branch managers, account managers, and loss control specialists 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 adopted a policy of "zero tolerance" for avoidable workplace injuries.

MANAGEMENT INFORMATION SYSTEM

The Company performs all functions associated with payroll administration through its internal management information system. Each branch 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. Although the current system employed by the Company satisfactorily meets its current needs, the Company perceives it to be advantageous to significantly expand the capacity and capabilities through the utilization of new software technologies. Accordingly, management initiated a project in mid-1997 to convert to new technologies which it anticipates will enable the Company to more effectively

accommodate its anticipated growth, maintain a cost-effective and efficient processing structure, improve functionality, meet expected customer requirements for expanded communication capabilities, and provide additional customer services and information reporting. The Company's new system will utilize client-server technology, an existing software product from an independent software development company and a relational database environment. Management estimates the total cost of implementing this project at approximately $2.5 million. The new system is currently expected to be operational in mid-1998 and will address all concerns related to what is commonly known as the "Year 2000 issue."

EMPLOYEES AND EMPLOYEE BENEFITS

At December 31, 1997, the Company had approximately 18,925 employees, including approximately 12,800 staffing services employees, approximately 5,800 PEO employees and approximately 325 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 1997, 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 things, contains covenants not to engage in certain activities in competition with the Company for 18 months following termination of employment and to maintain the confidentiality of certain proprietary information. Barrett believes its employee relations are good.

Benefits offered to Barrett's staffing services employees include group health insurance, a Section 125 cafeteria plan which permits employees to use pretax earnings to fund various services, including medical, dental and childcare, and a Section 401(k) savings plan pursuant to which employees may begin making contributions upon reaching 21 years of age and completing 1,000 hours of service in any consecutive 12-month period. The Company may also make contributions to the savings plan, which vest over seven years and are subject to certain legal limits, at the sole discretion of the Company's Board of Directors. In addition, the Company offers a nonqualified deferred compensation plan for highly compensated employees who are precluded from participation in the 401(k) plan. Employees subject to a co-employer arrangement may participate in the Company's benefit plans, provided that the group health insurance premiums may, at the client's option, be paid by payroll deduction. 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 Oregon, Washington, Maryland, Delaware, California and the U.S. Department of Labor for USL&H workers. 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 material adverse impact on Barrett's business, financial condition or results of operations.

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 "worksite 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 worksite employees. These 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 Code Section 125, a group health plan, a group life insurance plan, a group disability insurance plan and an employee assistance plan. In addition, the Company offers a nonqualified deferred compensation plan, which is available to highly compensated employees who are not eligible for participation in the Company's 401(k) 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 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 PEO and staffing services businesses are characterized by rapid growth and intense competition. The staffing services market includes competitors of all sizes, including several, such as Manpower, Inc., Kelly Services, Inc., The Olsten Corporation, Interim Services, Inc., and Adia Services, Inc., which are national in scope and have substantially greater financial, 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. The Company estimates that at least 100 firms provide staffing services in Oregon. There are relatively few barriers to entry into the staffing services business. The principal competitive factors in the staffing services industry are price, the ability to provide qualified workers in a timely manner and the monitoring of job performance. The Company attributes its 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 approximately 2,200 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. Barrett believes that there are approximately 50 firms offering PEO services in Oregon, but the Company has the largest presence in the state. The Company may face additional competition in the future from new entrants to the field, including other staffing services companies, payroll processing companies and insurance companies. Certain 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 The Vincam Group Inc., Administaff, Inc., Staff Leasing, Inc. and Paychex, Inc., among others. Competition in the PEO industry is based largely on price, although service and quality are also important. Barrett believes that its growth in PEO services 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 24 of its branch offices. The following table shows the locations of the Company's branch offices and the year in which each branch was opened or acquired. The Company's Oregon branches accounted for 53% of its total revenues in 1997. The Company also leases office space in 22 other locations in its market areas which it uses to recruit and place employees.

Oregon Locations	Year Opened or Acquired	Other Locations	Year Opened or Acquired
Portland (Industrial)	1984	Tucson, Arizona	1996
Portland (Bridgeport)	1988	Sacramento, California	1988
Bend	1990	Santa Clara, California	1994
Medford	1990	Brea, California	1996
Salem	1990	Goleta, California	1996
Albany	1991	Ontario, California	1996
Eugene	1991	Oxnard, California	1996
Portland (Leasing)	1993	Los Angeles, California	1997
Pendleton	1994	Boise, Idaho	1996
Hood River	1996	Lutherville, Maryland	1951
		Salisbury, Maryland	1994
		Easton, Maryland	1994
		Flint, Michigan	1997
		Spokane, Washington	1994

The Company's corporate headquarters are located in an office building in Portland, Oregon, with approximately 9,200 square feet of office space. The building is subject to a mortgage loan with a principal balance of approximately $566,000 at December 31, 1997.

The Company also owns another office building in Portland, Oregon, which houses its Portland/Bridgeport branch office. The building is subject to a mortgage loan with a principal balance at December 31, 1997, of approximately $273,000 and has approximately 7,000 square feet of office space.

Barrett leases office space for its other branch offices. At December 31, 1997, such leases had expiration dates ranging from less than one year to six years, with total minimum payments through 2002 of approximately $2,170,000.

ITEM 3. LEGAL PROCEEDINGS

A lawsuit was filed in the Circuit Court of the State of Oregon for the County of Multnomah on February 5, 1997, by Javier and Ester Munoz, husband and wife, against Asger M. Nielson, doing business as Nielson and Son ("Nielson"), Rain-Master Roofing, Inc. ("Rain-Master"), and the Company. Mr. Munoz was employed by the Company under a PEO arrangement with Rain-Master, which is in the roofing business. On February 1, 1995, Rain-Master was providing roofing services at a construction site for which Nielson was serving as a general contractor. Mr. Munoz fell from the roof at the site in the course of his employment and is now a paraplegic as a result of the injuries he suffered. Until the filing of the lawsuit referred to above, Mr. Munoz's claim was being defended as a workers' compensation claim. In the lawsuit, the plaintiffs were seeking damages in the amount of $10,000,000 pursuant to claims for relief based on employer liability, intentional injury, product liability, negligence, breach of implied warranty and loss of consortium.

On July 14, 1997, the court granted the Company's motion to dismiss the Company as a party to the lawsuit. The dismissal was without prejudice. The plaintiffs and the Company agreed that the dismissal of the plaintiffs' suit was with prejudice and, therefore, the plaintiffs were barred from refiling their suit against the Company. A stipulated judgment dismissing plaintiffs' case against the Company was entered on October 16, 1997. Nielson had previously filed a cross-claim against the Company for indemnity and contribution based on the same grounds as the plaintiffs' suit. Nielson agreed to voluntarily dismiss the cross-claim against the Company.

As part of a mediation held November 11, 1997, the Company agreed to waive a portion of its right to recoup certain sums previously paid to Mr. Munoz as part of the workers' compensation claim. As a result, a settlement was reached whereby the Company will receive reimbursement from Nielson of a portion of the workers' compensation benefits paid to Mr. Munoz and secured by the Company's workers' compensation lien. The Company paid no additional amounts to Mr. Munoz or any other party as a result of the settlement of this lawsuit. A final order of dismissal eliminating the remainder of the case has been executed by all parties and will be filed upon the completed execution of a mutual release of all claims.

On March 11, 1997, a Notice of Intent to Revoke Farm/Forest Labor Contractor License and to Assess Civil Penalties (the "Notice") was served on the Company by the Bureau of Labor and Industries of the State of Oregon (the "Bureau"). The Notice also names Daniel A. Hatfield ("Hatfield"), an employee of the Company. The Notice proposed to assess civil penalties in the amount of $488,000, based on the numbers of workers allegedly affected, for alleged noncompliance with various duties imposed on farm labor contracts by Oregon law, including licensing violations, failure to comply with wage payment laws, and failure to maintain and to provide workers and the Bureau with required documentation. The case was resolved by a Stipulation, Agreement and Consent Final Order dated February 27, 1998 (the "Order") wherein the Bureau, the Company and Hatfield agreed to the following conditions: (i) the Company will terminate all farm and forest contracting work at the Company's Salem, Oregon branch for a period of three years; (ii) the Bureau will renew licenses for all other Company branches; (iii) Hatfield will not engage in such contracting work for three years; (iv) $50,000 in civil penalties assessed against Hatfield will be paid by the Company's Salem branch, and (v) $50,000 in civil penalties assessed against the Company was suspended and payment thereof will not be required unless the Bureau finds that the Company has willfully violated the statutory and regulatory requirements relating to farm labor contracts during the three years following the date of the initial Order.

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 1997.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table identifies, as of February 27, 1998, 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	52	President; Chief Executive Officer; Director	1980
Michael D. Mulholland	46	Vice President-Finance and Secretary; Chief Financial Officer	1994
K. Risa Olsen	47	Vice President	1997
Gregory R. Vaughn	42	Vice President	1998
James D. Miller	34	Controller, Principal Accounting Officer	1994

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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., a former Nasdaq-listed retail company, serving as its Executive Vice President, Chief Financial Officer and Secretary. In November 1991, Sprouse-Reitz filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code. Its plan of reorganization was confirmed by the Bankruptcy Court in June 1992. Subsequently, Mr. Mulholland was appointed to the additional position of Acting Chief Executive Officer prior to Sprouse's filing of a voluntary petition in connection with a prepackaged liquidating Chapter 11 in November 1993. He is a certified public accountant on inactive status.

K. Risa Olsen rejoined the Company in April 1996 as National Accounts Manager. Ms. Olsen was appointed Vice President in January 1997. Prior to rejoining Barrett, she was a self-employed Area Director for The Worth Collection, Ltd., a national privately-held direct marketer of women's apparel, from November 1994 to March 1996. From January 1993 to October 1994, Ms. Olsen owned and operated a marketing organization for various manufacturers of women's apparel. Prior to 1993, Ms. Olsen was employed by The John H. Harland Co., a publicly-held provider of checks, forms, and business documents to financial institutions, as a District Manager. Ms. Olsen was previously employed by the Company from 1976 to 1981.

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. and Continental Information Systems, Inc.

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 from 1987 to 1991.

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 under the symbol "BBSI." At February 27, 1998, there were 57 stockholders of record and approximately 2,500 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:

1996	High	Low
First Quarter	$ 20.75	$ 14.50
Second Quarter	20.00	16.25
Third Quarter	22.25	14.00
Fourth Quarter	17.50	13.50
1997		
First Quarter	$ 19.00	$ 12.75
Second Quarter	15.00	11.50
Third Quarter	17.50	13.63
Fourth Quarter	17.25	11.00

During 1997, the Company issued equity securities without registration under the Securities Act of 1933, in each case in reliance upon the exemption from registration set forth in Section 4(2) of the Securities Act of 1933 regarding transactions by an issuer not involving a public offering, as follows:

60,000 shares of Common Stock issued in April 1997, upon the exercise of stock warrants with an exercise price of $3.50 per share issued in connection with the Company's initial public offering in June 1993.

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 14 of this report.

	Year Ended December 31				
	1997	1996	1995	1994	1993
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Staffing services	$ 155,192	$ 112,778	$ 99,036	$ 71,148	$ 41,755
Professional employer services	125,814	101,148	79,480	68,571	57,950
Total	281,006	213,926	178,516	139,719	99,705
Cost of revenues:					
Direct payroll costs	218,249	163,448	135,980	105,515	75,171
Payroll taxes and benefits	24,996	18,755	14,993	11,925	9,349
Workers' compensation	8,146	5,938	6,073	5,069	4,591
Safety incentives	1,509	1,532	981	1,103	598
Total	252,900	189,673	158,027	123,612	89,709
Gross margin	28,106	24,253	20,489	16,107	9,996
Selling, general, and administrative expenses	20,887	16,034	13,657	10,302	6,450
Amortization of intangibles	1,292	820	564	430	370
Income from operations	5,927	7,399	6,268	5,375	3,176
Other (expense) income:					
Interest expense	(162)	(82)	(75)	(106)	(86)
Interest income	362	534	400	224	161
Other, net	1	--	32	78	133
Total	201	452	357	196	208
Income before provision for income taxes	6,128	7,851	6,625	5,571	3,384
Provision for income taxes(1)	2,303	2,815	2,507	2,105	437
Net income	$ 3,825	$ 5,036	$ 4,118	$ 3,466	$ 2,947
Basic net income per share	$ 0.57	$ .75	$ .64	$ .55	

Weighted average basic shares	6,751	6,714	6,474	6,333	
Diluted net income per share	$ 0.56	$ 0.73	$ 0.62	$ 0.53	
Weighted average diluted shares	6,885	6,935	6,680	6,591	
Unaudited pro forma data(1):					
Net income					$ 2,060
Basic net income per share(2)					$ .39
Weighted average basic shares					5,260
Diluted net income per share					$ .39
Weighted average diluted shares					5,329

	As of December 31				
	1997	1996	1995	1994	1993
	(In thousands)				
Selected Balance Sheet Data:					
Working capital	$ 10,613	$ 11,557	$ 8,417	$ 4,889	$ 7,017
Total assets	48,410	42,646	31,273	24,665	18,425
Long-term debt, net of current portion	531	838	875	908	946
Stockholders' equity	30,144	25,562	20,034	14,455	10,480

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

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

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

OVERVIEW

The Company's revenues consist of staffing services and professional employer organization ("PEO") services. Staffing services revenues consist of short-term staffing, contract staffing and on-site management. PEO services refer exclusively to co-employer contractual agreements with PEO clients. The Company's revenues represent all amounts billed to customers for direct payroll, related employment taxes, workers' compensation coverage and a service fee (equivalent to a mark-up percentage). The Company's Oregon branches accounted for approximately 53% of its total revenues in 1997, and an additional 34% was derived from its branches in California and Washington. Consequently, weakness in economic conditions on the West Coast could have a material adverse effect on the Company's financial results.

The Company's cost of revenues is comprised of direct payroll costs, payroll taxes and employee benefits, workers' compensation and safety incentives. Direct payroll costs represent the gross payroll earned by 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 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 a large-deductible workers' compensation insurance policy for employees working

in states where the Company is not currently self-insured. Safety incentives represent cash incentives paid to certain PEO client companies as a reward 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 loss parameters.

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 an additional IBNR reserve 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 internal claims reporting system minimizes the occurrence of unreported incurred claims.

Selling, general and administrative expenses represent both branch and corporate operating expenses. Branch operating expenses consist primarily of branch office staff payroll and payroll related costs, advertising, rent, office supplies, depreciation and branch incentive compensation. Branch incentive compensation represents a combined 15% of branch pre-tax profits, of which 10% is paid to the branch manager and 5% is shared among the office staff. Corporate operating expenses consist primarily of executive and office staff payroll and payroll related costs, professional and legal fees, travel, depreciation, occupancy costs, information systems costs and executive and corporate staff incentive bonuses.

Amortization of intangibles consists primarily of the amortization of the costs of acquisitions in excess of the fair value of net assets acquired (goodwill). The Company uses a 15-year estimate as the useful life of goodwill, as compared to the 40-year maximum permitted by generally accepted accounting principles, and amortizes such cost using the straight-line method. Other intangible assets, such as customer lists and covenants not to compete, are amortized using the straight-line method over their estimated useful lives, which range from two to 15 years.

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, the potential for and effect of 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 tax-qualified status of the Company's 401(k) savings plan, 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, uncertainties regarding government regulation of PEOs, including the possible adoption by the IRS of an unfavorable position as to the tax-qualified status of employee benefit plans maintained by PEOs, future workers' compensation claims experience, 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, 1997, 1996 and 1995, listed in Item 14 of this report. Certain 1996 and 1995 revenue and cost of revenue amounts have been reclassified to conform with the 1997 presentation. Such reclassifications had no impact on gross margin, net income or stockholders' equity. References to the Notes to Financial Statements appearing below are to the notes to the Company's financial statements listed in Item 14 of this report.

	Percentage of Total Revenues		
	Years Ended December 31,		
	1997	1996	1995
Revenues:			
Staffing services	55.2%	52.7%	55.5%
Professional employer services	44.8	47.3	44.5
Total revenues	100.0	100.0	100.0
Cost of revenues:			
Direct payroll costs	77.7	76.4	76.2
Payroll taxes and benefits	8.9	8.8	8.4
Workers' compensation	2.9	2.8	3.4
Safety incentives	0.5	0.7	0.5
Total cost of revenues	90.0	88.7	88.5
Gross margin	10.0	11.3	11.5
Selling, general and administrative expenses	7.4	7.5	7.7
Amortization of intangibles	0.5	0.3	0.3
Income from operations	2.1	3.5	3.5
Other income (expense)	0.1	0.2	0.2
Pretax income	2.2	3.7	3.7
Provision for income taxes	0.8	1.3	1.4
Net income	1.4%	2.4%	2.3%

YEARS ENDED DECEMBER 31, 1997 AND 1996

Net income for 1997 amounted to $3,825,000, a decrease of $1,211,000 or 24.0% from 1996 net income of $5,036,000. The decrease in 1997 net income from 1996 was primarily due to a lower gross margin percentage, which resulted primarily from increased payroll costs as a percentage of revenues, offset in part by lower income taxes as a percentage of revenues. Diluted net income per share for 1997 was $0.56 compared to $0.73 for 1996.

Total 1997 revenues were $281,006,000, which represented an increase of $67,080,000 or 31.4% over 1996 revenues of $213,926,000. The increase in revenues over 1996 was primarily due to a 1997 internal growth rate of 22.1%, combined with the effect from a full year of operations for five 1996 acquisitions, as well as from two acquisitions in the first half of 1997. Staffing services revenues increased 37.6% over 1996 primarily as a result of the growth in large contract staffing and on-site management services and the effect of a full year of operations for the 1996 acquisitions. Professional employer (staff leasing) services revenues increased 24.4% over 1996 due to the effect from a full year of operations for the 1996 acquisitions. Revenues from staffing services, as a percent of total revenues, increased in 1997 to 55.2% as compared to 52.7% of total revenues in 1996.

During 1997, the Company closed its branch offices in Seattle, Washington and Phoenix, Arizona. Management relocated the Seattle operations to Tacoma, Washington in connection with a new customer base in the south Puget Sound area. The Phoenix office, which opened during the third quarter of 1996

and represented the Company's first office in Arizona, transferred its business to the expanding operations of the Company's Tucson, Arizona office.

Gross margin for 1997 totaled $28,106,000, representing an increase of $3,853,000 or 15.9% over 1996. The gross margin rate of 10.0% of revenues represents a 130 basis point decline from 1996 due primarily to increases in direct payroll costs as a percentage of revenues. Direct payroll costs as a percentage of revenues increased primarily as a result of increased business activity in contract staffing and on-site management arrangements. The Company expects gross margin, as a percentage of revenues, to continue to be influenced by increases or decreases in contract staffing and on-site management arrangements, as well as by the adequacy of its estimates for workers' compensation liabilities, which may be negatively affected by unanticipated adverse loss development of claims reserves.

The increase in direct payroll costs as a percentage of revenues from 76.4% for 1996 to 77.7% for 1997 was primarily attributable to increased business activity in contract staffing and on-site management arrangements, which are typically higher volume, lower margin accounts.

Workers' compensation expense increased from 2.8% of revenues for 1996 to 2.9% of revenues for 1997. The increase in the total number of injury claims for 1997 over 1996 was due in large part to a new policy implemented in 1997 which records "first aid" type claims. Such claims totaled 276 for 1997 and were not recorded in 1996. The increase in workers' compensation expense for 1997 was generally attributable to a moderately higher incidence of injuries during 1997, as compared to 1996, and management's decision to (i) continue to increase the Company's accrual for future adverse loss development of open claims and (ii) build an accrual for potential future catastrophic workers' compensation claims.

The following table summarizes certain indicators of experience regarding the Company's self-insured workers' compensation program by quarter for 1997 and 1996.

Self-Insured Workers' Compensation Profile

	No. of Injury Claims		Total Workers' Comp Expense (in thousands)		Total Workers' Comp Expense as a % of Total Payroll	
	1997	1996	1997	1996	1997	1996
Q1	321	193	$ 1,855	$ 770	3.9%	2.4%
Q2	419	312	1,973	1,213	3.7%	3.1
Q3	578	401	2,237	2,161	3.6%	4.7
Q4	476	422	2,081	1,794	3.8%	3.9
For the Year	1,794	1,328	$ 8,146	$ 5,938	3.7%	3.6

Selling, general and administrative expenses consist of compensation and other expenses incident to the operation of the Company's headquarters and branch offices and marketing of its services. Selling, general and administrative ("SG&A") expenses (excluding the amortization of intangibles) for 1997 amounted to approximately $20.9 million, an increase of approximately $4.9 million or 30.3% over 1996. Selling, general and administrative expenses expressed as a percentage of revenues decreased from 7.5% for 1996 to 7.4% for 1997. The increase in total SG&A dollars for 1997 over 1996 was primarily attributable to incremental branch office expenses as a result of the four acquisitions since October 1, 1996, the opening of four new offices in 1996 and early 1997, the addition of experienced personnel at several offices to expand the Company's managerial resources and a $0.7 million increase in bad debt expense. Two customers accounted for over one-half of the increase in bad debt

expense. Management believes that the Company's allowance for doubtful accounts of $575,000 is adequate at December 31, 1997. There can be no assurance, however, that future experience with respect to the Company's ability to collect accounts receivable will not be adverse.

Amortization of intangibles totaled $1,292,000 for 1997 or 0.5 % of revenues, which compares to $820,000 or 0.3% of revenues for 1996. The increased amortization expense for 1997 was primarily attributable to amortization arising from the four acquisitions made since October 1, 1996.

The Company offers various qualified employee benefit plans to its employees, including its worksite 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 Code Section 125, a group health plan, a group life insurance plan, a group disability insurance plan and an employee assistance plan. Generally, qualified employee benefit plans are subject to provisions of both the Code and 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.

A definitive judicial interpretation of "employer" in the context of a PEO arrangement has not been established. The tax-exempt status of the Company's 401(k) plan and cafeteria plan is subject to continuing scrutiny and approval by the Internal Revenue Service (the "IRS") and depends upon the Company's ability to establish the Company's employer-employee relationship with PEO employees. The issue of whether the Company's tax-qualified benefit plans can legitimately include worksite employees under their coverage has not yet been resolved. If the worksite employees cannot be covered by the plans, then the exclusive benefit requirement imposed by the Code would not be met by the plans as currently administered and the plans could be disqualified.

The IRS has established a Market Segment Study Group regarding Employee Leasing for the stated purpose of examining whether PEOs, such as the Company, are the employers of worksite employees under the Code provisions applicable to employee benefit plans and are, therefore, able to offer to worksite employees benefit plans that qualify for favorable tax treatment. The IRS Study Group is reportedly also examining whether the owners of client companies are employees of PEO companies under Code provisions applicable to employee benefit plans. To the best of the Company's knowledge, the Market Segment Study Group has not issued a report.

A PEO company headquartered in Texas has stated publicly that the IRS National Office is being requested by the IRS Houston District to issue a Technical Advice Memorandum ("TAM") on the PEO worksite employee issue in connection with an ongoing audit of a plan of the Texas PEO company. The stated purpose of TAMs is to help IRS personnel in closing cases and to establish and maintain consistent holdings. The IRS's position is that TAMs are not precedential; that is, they are limited to the particular taxpayer involved and that taxpayer's set of facts. The draft request for a TAM by the IRS Houston District reportedly states its determination that the Texas PEO company's Code Section 401(k) plan should be disqualified for the reason, among others, that it covers worksite employees who are not employees of the PEO company.

The timing and nature of the issuance and contents of any TAM regarding the worksite employee issue or any report of the Market Segment Study Group regarding Employee Leasing is unknown at this time. There has also been public discussion of the possibility that the Treasury Department may propose some form of administrative relief or that Congress may provide legislative resolution or clarification regarding this issue.

In the event the tax exempt status of the Company's benefit plans were to be discontinued and the benefit plans were to be disqualified, such actions could have a material adverse effect on the Company's business, financial condition, and results of operations. The Company is not presently able to

predict the likelihood of disqualification nor the resulting range of loss, in light of the lack of public direction from the IRS or Congress.

YEARS ENDED DECEMBER 31, 1996 AND 1995

Net income for 1996 amounted to $5,036,000, an increase of $918,000 or 22.3% over 1995 net income of $4,118,000. The increase in 1996 net income from 1995 was primarily due to continued growth in revenues and gross margin, which was offset in part by increased selling, general and administrative expenses. Diluted net income per share for 1996 was $0.73 compared to $0.62 for 1995.

Total 1996 revenues were $213,926,000, which represented an increase of $35,410,000 or 19.8% over 1995 revenues of $178,516,000. The increase in revenues over 1995 was primarily due to a 1996 internal growth rate of 10.6%, coupled with the acquisition of five staffing and PEO businesses during 1996. Professional employer (staff leasing) services revenues increased 27.3% over 1995 due to the growth in the number of new PEO clients, primarily in Oregon and California. The growth in 1996 PEO services revenues was a result of internal sales efforts, together with the acquisitions made during 1996. Revenues from staffing services, as a percent of total revenues, declined in 1996 to 52.7% as compared to 55.5% of total revenues in 1995, despite a 13.9% growth rate over 1995.

Gross margin for 1996 totaled $24,253,000, representing an increase of $3,764,000 or 18.4% over 1995. The gross margin rate of 11.3% of revenues for 1996 represented a 20 basis point decrease from 1995 due to slight increases in direct payroll costs and payroll taxes and benefits, offset in part by a decrease in workers' compensation expense as a percentage of total revenues.

Workers' compensation expense, both in terms of total dollars and as a percent of total payroll dollars, improved in 1996 to $5,938,000 or 2.8% of revenues, compared to $6,073,000 or 3.4 % of revenues in 1995. The decrease in the 1996 expense was primarily the result of lower severity for 1996 claims, coupled with a slightly lower incidence of injuries compared to 1995.

Selling, general and administrative expenses (excluding the amortization of intangibles) amounted to $16,034,000 or 7.5% of revenues for 1996, as compared to $13,657,000 or 7.7% of revenues for 1995. The increase in total dollars for 1996, as compared to 1995, was primarily due to additional branch office staff resulting from the five acquisitions consummated during 1996.

Amortization of intangibles totaled $820,000 for 1996, or 0.3 % of revenues, which compared to $564,000 or 0.3% of revenues for 1995. The increased amortization expense for 1996 over 1995 was primarily attributable to the five acquisitions during 1996.

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 may tend to represent a smaller percentage of revenues 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, as well as adverse loss development of prior period claims during a subsequent quarter.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash position of $3,380,000 at December 31, 1997 increased $1,479,000 from December 31, 1996. The increase was primarily due to $7,783,000 provided by operations and $757,000 provided by the exercise of stock options and warrants, offset by $2,227,000 used for acquisitions, $1,469,000 used for the purchase of property and equipment and $2,825,000 used for the repurchase of common stock (see discussion below).

Net cash provided by operating activities for 1997 amounted to $7,783,000 as compared to $2,208,000 for 1996. For 1997, cash flow was primarily generated by net income together with increases of $2,042,000 in accrued payroll and benefits and $900,000 in accrued workers' compensation claim liabilities. The $1,030,000 increase in other long-term liabilities includes the $1,000,000 deferred noncompete agreement arising from the acquisition of HR Only and is reflected in the supplemental schedule of noncash activities within the "liabilities assumed" caption.

Net cash used in investing activities totaled $4,084,000 for 1997, as compared to $3,603,000 for 1996. During 1997, the Company paid $2,227,000 in cash in connection with the HR Only and TLC Staffing acquisitions and had capital expenditures of $1,469,000. Approximately $1.0 million of the total capital expenditures was related to new computer hardware and software for the Company's new management information system, which will address all concerns related to the "Year 2000 issue," as

discussed in Item 1 under "Management Information System." During 1996, the Company paid $1,519,000 in cash in connection with five acquisitions, incurred $1,058,000 in capital expenditures and had net purchases of $1,026,000 of restricted marketable securities to satisfy various state and federal self-insured workers' compensation surety deposit requirements. The Company presently has no material long-term capital commitments.

Net cash used in financing activities for 1997 totaled $2,220,000, which compares to $78,000 net cash provided by financing activities for 1996. For 1997, the principal use of cash used in financing activities arose from the Company's obligation to redeem 159,154 shares of its common stock at a value of $2,824,984 pursuant to a Plan and Agreement of Reorganization between StaffAmerica, Inc. and the Company. The cash used for this stock redemption was offset in part by net proceeds from the exercise of stock options and warrants totaling $757,000. As of the date of this report, an underwriter continues to hold warrants to purchase 30,000 shares of common stock at $4.20 per share issued in connection with the Company's 1993 initial public offering of its common stock. The unexercised warrants expire on June 10, 1998.

The Company has an unsecured $4.0 million revolving credit facility with its principal bank and $2.1 million for standby letters of credit in connection with certain workers' compensation surety arrangements. There was no outstanding balance on the revolving credit facility at December 31, 1997. See Note 7 of the Notes to Financial Statements. Management believes that the credit facility and other potential sources of financing, together with anticipated funds generated from operations, will be sufficient in the aggregate to fund the Company's working capital needs for the foreseeable future.

INFLATION

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

No disclosure is required under this item.

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 14.

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

None.

PART III

ITEM 10. INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The information required by Item 10, Directors and Executive Officers of the Registrant, is incorporated herein by reference to the Company's definitive Proxy Statement for the 1998 Annual Meeting of Stockholders ("Proxy Statement"), under the headings "Election of Directors" and "Stock Ownership by Principal Stockholders and Management--Section 16(a) Beneficial Ownership Reporting Compliance" or appears under the heading "Executive Officers of the Registrant" on page 13 of this report. The information required by Item 11, Executive Compensation, is incorporated herein by reference to the Proxy Statement, under the headings "Executive Compensation" and "Election of Directors--Compensation Committee Interlocks and Insider Participation." The information required by Item 12, Security Ownership of Certain Beneficial Owners and Management, is incorporated herein by reference to the Proxy Statement, under the heading "Stock Ownership by Principal Stockholders and Management--Beneficial Ownership Table." The information required by Item 13, Certain Relationships and Related Transactions, is incorporated herein by reference to the Proxy Statement, under the heading "Election of Directors--Compensation Committee Interlocks and Insider Participation."

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

FINANCIAL STATEMENTS AND SCHEDULES
The Financial Statements, together with the report thereon of Price Waterhouse LLP, are included on the pages indicated below:

	Page
Report of Independent Public Accountants	F-1
Balance Sheets - December 31, 1997 and 1996	F-2
Statements of Operations for the years ended December 31, 1997, 1996 and 1995	F-3
Statements of Redeemable Common Stock and Nonredeemable Stockholders' Equity - December 31, 1997, 1996 and 1995	F-4
Statements of Cash Flows for the years ended December 31, 1997, 1996 and 1995	

F-5

Notes to Consolidated Financial Statements F-6

There are no schedules required to be filed herewith.

REPORTS ON FORM 8-K
No reports on Form 8-K were filed during the quarter ended December 31, 1997.

EXHIBITS
Exhibits are listed in the Exhibit Index which follows the Financial Statements included in this report. Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this report is listed under Item 10, "Executive Compensation Plans and Arrangements and Other Management Contracts" in the Exhibit Index.

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.

BARRETT BUSINESS SERVICES, INC.
Registrant

Date: March 30, 1998 By: /s/ William W. Sherertz
William W. Sherertz
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 30th day of March, 1998.

Principal Executive Officer and Director:

/s/ William W. Sherertz William W. Sherertz	President and Chief Executive Officer and Director

Principal Financial Officer:

/s/ Michael D. Mulholland Michael D. Mulholland	Vice President-Finance and Secretary

Principal Accounting Officer:

/s/ James D. Miller James D. Miller	Controller

Other Directors:

* ROBERT R. AMES	Director
* HERBERT L. HOCHBERG	Director
* ANTHONY MEEKER	Director
* STANLEY G. RENECKER	Director

* By /s/ Michael D. Mulholland
Michael D. Mulholland

Attorney-in-Fact

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying balance sheets and the related statements of operations, of redeemable common stock and nonredeemable stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Barrett Business Services, Inc. at December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ Price Waterhouse LLP

Portland, Oregon
February 11, 1998

BARRETT BUSINESS SERVICES, INC.
BALANCE SHEETS
DECEMBER 31, 1997 AND 1996

(in thousands, except par value)	1997	1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,380	$ 1,901
Trade accounts receivable, net	19,366	19,057
Note receivable (Note 2)	-	324
Prepaid expenses and other	1,080	914
Deferred tax assets (Note 12)	1,926	1,279
Total current assets	25,752	23,475
Intangibles, net (Note 4)	12,094	10,226
Property and equipment, net (Notes 5 and 8)	4,263	3,111
Restricted marketable securities and workers' compensation deposits (Note 6)	6,095	5,707
Other assets	206	127
	$ 48,410	$ 42,646
LIABILITIES, REDEEMABLE COMMON STOCK AND NONREDEEMABLE STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 8)	$ 323	$ 36
Accounts payable	801	667
Accrued payroll, payroll taxes and related benefits	9,403	7,354
Accrued workers' compensation claim liabilities (Note 6)	3,140	2,240
Customer safety incentives payable	1,073	1,015
Other accrued liabilities	399	606
Total current liabilities	15,139	11,918
Long-term debt, net of current portion (Note 8)	531	838
Customer deposits	934	890
Long-term workers' compensation liabilities (Note 6)	632	613
Other long-term liabilities	1,030	-

	18,266	14,259
Commitments and contingencies (Notes 9, 10 and 15)		
Redeemable common stock, $.01 par value; 159 shares issued and outstanding at December 31, 1996 (Note 13)	-	2,825
Nonredeemable stockholders' equity:		
Common stock, $.01 par value; 20,500 shares authorized, 6,743 and 6,625 shares issued and outstanding (Notes 13 and 14)	67	66
Additional paid-in capital	11,685	10,929
Retained earnings	18,392	14,567
	30,144	25,562
	$ 48,410	$ 42,646

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

BARRETT BUSINESS SERVICES, INC.
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

(in thousands, except per share amounts)	1997	1996	1995
Revenues:			
Staffing services	$ 155,192	$ 112,778	$ 99,036
Professional employer services	125,814	101,148	79,480
	281,006	213,926	178,516
Cost of revenues:			
Direct payroll costs	218,249	163,448	135,980
Payroll taxes and benefits	24,996	18,755	14,993
Workers' compensation (Note 6)	8,146	5,938	6,073
Safety incentives	1,509	1,532	981
	252,900	189,673	158,027
Gross margin	28,106	24,253	20,489
Selling, general and administrative expenses	20,887	16,034	13,657
Amortization of intangibles (Note 4)	1,292	820	564
Income from operations	5,927	7,399	6,268
Other (expense) income:			
Interest expense	(162)	(82)	(75)
Interest income	362	534	400
Other, net	1	-	32
	201	452	357
Income before provision for income taxes	6,128	7,851	6,625
Provision for income taxes (Note 12)	2,303	2,815	2,507
Net income	$ 3,825	5,036	4,118
Basic earnings per share	$ .57	.75	.64
Weighted average number of basic shares outstanding	6,751	6,714	6,474
Diluted earnings per share	$ .56	.73	.62
Weighted average number of diluted shares outstanding	6,885	6,935	6,680

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

BARRETT BUSINESS SERVICES, INC.
STATEMENTS OF REDEEMABLE COMMON STOCK AND

NONREDEEMABLE STOCKHOLDERS' EQUITY
DECEMBER 31, 1997, 1996 AND 1995

(in thousands)	REDEEMABLE COMMON STOCK SHARES	REDEEMABLE COMMON STOCK AMOUNT	NONREDEEMABLE STOCKHOLDERS' EQUITY COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL
Balance, December 31, 1994	-	$ -	6,367	$ 64	$ 8,978	$ 5,413	$ 14,455
Common stock issued for acquisitions			67	1	910		911
Common stock issued on exercise of options and warrants			124	1	549		550
Net income						4,118	4,118
Contribution of common stock (Note 11)			(7)				-
Balance, December 31, 1995	-	-	6,551	66	10,437	9,531	20,034
Common stock issued for acquisitions	159	2,825	20		380		380
Common stock issued on exercise of options, net			54		112		112
Net income						5,036	5,036
Balance, December 31, 1996	159	2,825	6,625	66	10,929	14,567	25,562
Common stock issued on exercise of options and warrants, net			118	1	756		757
Repurchase of redeemable common stock	(159)	(2,825)					-
Net income						3,825	3,825
Balance, December 31, 1997	-	$ -	6,743	$ 67	$ 11,685	$ 18,392	$ 30,144

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

BARRETT BUSINESS SERVICES, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

(in thousands)	1997	1996	1995
Cash flows from operating activities:			
Net income	$ 3,825	$ 5,036	$ 4,118
Reconciliations of net income to net cash provided by operating activities:			
Depreciation and amortization	1,683	1,126	812
Gain on sales of marketable securities	-	-	(42)
Deferred taxes	(647)	(342)	(23)
Changes in certain assets and liabilities, net of amounts purchased in acquisitions:			
Trade accounts receivable, net	237	(5,834)	(3,520)
Prepaid expenses and other	(123)	(436)	121
Accounts payable	125	289	160
Accrued payroll, payroll taxes and related benefits	2,042	1,557	740
Other accrued liabilities	(331)	606	-
Accrued workers' compensation claim liabilities	900	148	183
Customer safety incentives payable	58	239	(29)
Customer deposits, other liabilities and other assets, net	(16)	(181)	(24)
Other long-term liabilities	30	-	-
Net cash provided by operating activities	7,783	2,208	2,496
Cash flows from investing activities:			
Cash paid for acquisitions, including other direct costs	(2,227)	(1,519)	(1,199)
Purchases of fixed assets, net of amounts purchased in acquisitions	(1,469)	(1,058)	(369)
Proceeds from maturities of marketable securities	5,343	7,025	1,862
Purchases of marketable securities	(5,731)	(8,051)	(2,305)
Net cash used in investing activities	(4,084)	(3,603)	(2,011)
Cash flows from financing activities:			
Payment of credit line assumed in acquisition	(401)	-	-
Note receivable	324	-	-
Payments on long-term debt	(75)	(34)	(31)
Repurchase of common stock	(2,825)	-	-
Proceeds from the exercise of stock options and warrants	757	112	550
Net cash (used in) provided by financing activities	(2,220)	78	519
Net increase (decrease) in cash and cash equivalents	1,479	(1,317)	1,004

Cash and cash equivalents, beginning of year	1,901	3,218	2,214
Cash and cash equivalents, end of year	$ 3,380	$ 1,901	$ 3,218
Supplemental schedule of noncash activities:			
Acquisition of other businesses:			
Cost of acquisitions in excess of fair market value of net assets acquired	$ 3,160	$ 4,337	$ 2,080
Tangible assets acquired	674	494	30
Liabilities assumed	1,607	107	-
Common stock issued in connection with acquisitions	-	3,205	911

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

1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Barrett Business Services, Inc. ("Barrett" or "the Company"), a Maryland corporation, is engaged in providing staffing and professional employer services to a diversified group of customers through a network of branch offices throughout Oregon, Washington, Idaho, California, Arizona, Maryland, Delaware and Michigan. Approximately 53%, 66% and 68%, respectively, of the Company's revenues during 1997, 1996 and 1995 were attributable to its Oregon operations.

REVENUE RECOGNITION

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

CASH AND CASH EQUIVALENTS

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company had an allowance for doubtful accounts of $575,000 and $25,000 at December 31, 1997 and 1996, respectively.

MARKETABLE SECURITIES

At December 31, 1997 and 1996, marketable securities consisted primarily of governmental debt instruments with maturities generally from 90 days to 30 years (see Note 6). Marketable equity and debt securities have been categorized as held-to-maturity and, as a result, are stated at amortized cost. Realized gains and losses on sales of marketable securities are included in other (expense) income on the Company's statements of operations.

INTANGIBLES

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

The Company uses a 15-year estimate as the useful life of goodwill. This life is based on an analysis of industry practice and the factors influencing the acquisition decision. Other intangible assets are amortized

on the straight-line method over their estimated useful lives, ranging from 2 to 15 years. (See Note 4.)

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1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTANGIBLES (CONTINUED)
The Company reviews for asset impairment at the end of each quarter or more frequently when events or changes in circumstances indicate that the carrying amount of intangible assets may not be recoverable. To perform that review, the Company estimates the sum of expected future undiscounted net cash flows from the intangible assets. If the estimated net cash flows are less than the carrying amount of the intangible asset, the Company recognizes an impairment loss in an amount necessary to write down the intangible asset to a fair value as determined from expected future discounted cash flows. No write-down for impairment loss was recorded for the years ended December 31, 1997, 1996 and 1995.

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

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

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

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

STATEMENTS OF CASH FLOWS
The Company has recorded the following non-cash transactions:

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

Interest paid during 1997, 1996, and 1995 did not materially differ from interest expense.

Income taxes paid by the Company in 1997, 1996 and 1995 totaled $3,117,200, $2,939,900 and $2,510,700, respectively.

1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET INCOME PER SHARE
The Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share", for the year ended December 31, 1997. SFAS No. 128 requires disclosure of basic and diluted earnings per share. All prior years have been restated to reflect the adoption of SFAS No. 128. 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 and warrants.

RECLASSIFICATIONS
Certain prior year amounts have been reclassified to conform with the 1997 presentation. Such reclassifications have no impact on net income or stockholders' equity.

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

2. ACQUISITIONS

MID-DEL EMPLOYMENT SERVICE, INC.; SUSSEX EMPLOYMENT SERVICES, INC.; PPI (PRESTIGE PERSONNEL) - SALISBURY, INC.; AND DEL-MAR-VA NURSES-ON-CALL INC.
On July 17, 1995, the Company purchased certain assets of Mid-Del Employment Service, Inc.; Sussex Employment Services, Inc.; PPI (Prestige Personnel) - Salisbury, Inc.; and Del-Mar-Va Nurses-On-Call Inc. (collectively, "the Maryland and Delaware companies"). These companies were engaged in the temporary staffing business in eastern Maryland and Delaware. The all-cash purchase price of $969,000 (inclusive of acquisition-related costs of $19,000) was accounted for under the purchase method of accounting, which resulted in $944,000 of intangible assets and $25,000 of fixed assets.

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

BARRETT BUSINESS SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997 AND 1996

2. ACQUISITIONS (CONTINUED)

STAFFAMERICA, INC.
On April 1, 1996, the Company acquired certain assets and the business of StaffAmerica, Inc., pursuant to a Plan and Agreement of Reorganization. StaffAmerica provides both temporary staffing and staff leasing services through its two offices located in Goleta and Oxnard, California. In 1995, StaffAmerica had revenues of approximately $6.7 million. In exchange for the StaffAmerica assets and business operations, the Company issued 157,464 shares of its common stock valued at $2,795,000, assumed a StaffAmerica liability of $50,000 for customer deposits, issued to each of the two owners of StaffAmerica 845 shares of Company common stock for their covenants not to compete, and incurred $102,000 in acquisition-related costs. The acquisition was accounted for under the purchase method of accounting, which resulted in $2,597,000 of intangible assets, a promissory note receivable of $324,000 from the seller, and $56,000 in fixed assets. The $324,000 promissory note was repaid to the Company during 1997.

On April 11, 1997, pursuant to the Plan and Agreement of Reorganization between StaffAmerica, Inc. and the Company, the Company repurchased from StaffAmerica and its two shareholders all 159,154 shares of common stock previously issued by the Company as consideration for the acquisition, for a total of $2,824,984 or $17.75 per share. Upon completion of the share repurchase, the Company canceled the shares of common stock.

JOBWORKS AGENCY, INC.
On April 8, 1996, the Company acquired certain assets and the business of JobWorks Agency, Inc. (JobWorks) by way of a Plan and Agreement of Reorganization. JobWorks provided both temporary staffing and staff leasing services through its two offices located in Hood River and The Dalles, Oregon. JobWorks had revenues of approximately $1.2 million (unaudited) in 1995. The Company issued 20,446 shares of its common stock with a then-fair value of $380,000 for the assets and business of JobWorks, assumed a customer deposit liability of $2,000, and incurred $14,000 in acquisition-related costs. The Company paid $20,000 in cash for the selling shareholder's agreement of noncompetition. The acquisition was accounted for under the purchase method of accounting, which resulted in $324,000 of intangible assets, $72,000 in accounts receivable, and $20,000 in fixed assets.

CASCADE TECHNICAL STAFFING
Effective August 26, 1996, the Company acquired certain assets of Cascade Technical Staffing (Cascade). Cascade provided technical and light industrial staffing services primarily in the electronics industry through its Beaverton, Oregon office. Cascade had revenues of approximately $3.5 million (unaudited) in 1995. The Company paid $550,000 in cash for the assets and incurred $6,000 in acquisition-related costs. The acquisition was accounted for under the purchase method of accounting, which resulted in $536,000 of intangible assets and $20,000 of fixed assets.

CALIFORNIA EMPLOYER SERVICES, INC.
Effective November 4, 1996, the Company purchased the staff leasing division of California Employer Services, Inc. (CES), an Orange County, California staffing services company. The CES division had revenues of approximately $10.5 million (unaudited) for the fiscal year ended September 30, 1996. The Company paid $624,000 in cash for the division, assumed a customer deposit liability of $36,000, and incurred $25,000 in acquisition-related costs. The transaction was accounted for under the purchase method of accounting, which resulted in $685,000 of intangible assets.

2. ACQUISITIONS (CONTINUED)

PROFESSIONAL PERSONNEL, INC.

Effective November 25, 1996, the Company purchased certain assets of Professional Personnel, Inc. (PPI), a provider of staff leasing services located in Downey, California. PPI had revenues of approximately $2.4 million (unaudited) for the year ended September 30, 1996. The Company paid $176,000 in cash for certain assets, assumed a customer deposit liability of $19,000, and incurred $2,000 in acquisition-related costs. The transaction was accounted for under the purchase method of accounting, which resulted in $195,000 of intangible assets and $2,000 of fixed assets.

HR ONLY

Effective February 1, 1997, the Company acquired D&L Personnel Department Specialists, Inc., dba HR Only, a staffing services company which specializes in human resource professionals, with offices in Los Angeles and Garden Grove, California. The Company paid $1,800,000 in cash for all of the outstanding common stock of HR Only and $1,200,000 in cash for noncompete agreements with certain individuals, of which $1,000,000 was deferred with simple interest at 5% per annum for five years and then be paid ratably over the succeeding five-year period. The deferred portion of the noncompete agreement is presented on the balance sheet in other long-term liabilities. HR Only's revenues for the fiscal year ended January 31, 1997 were approximately $4.3 million. The transaction was accounted for under the purchase method of accounting, which resulted in $3,027,000 of intangible assets, including $92,000 for acquisition-related costs, and $65,000 of net tangible assets.

TLC STAFFING

Effective April 13, 1997, the Company purchased certain assets of JRL Services, Inc., dba TLC Staffing, a provider of clerical staffing services located in Tucson, Arizona. TLC Staffing had revenues of approximately $800,000 (unaudited) for the year ended December 31, 1996. The Company paid $150,000 in cash for the assets, assumed an $18,000 office lease liability and incurred $4,000 in acquisition related costs. The transaction was accounted for under the purchase method of accounting, which resulted in $152,000 of intangible assets and $2,000 of fixed assets.

PRO FORMA RESULTS OF OPERATIONS (UNAUDITED)

The operating results of each of the above acquisitions are included in the Company's results of operations from the respective date of acquisition. The following unaudited summary presents the combined results of operations as if the StaffAmerica, Cascade Technical Staffing, California Employer Services, and HR Only acquisitions had occurred at the beginning of 1996, after giving effect to certain adjustments for the amortization of intangible assets, taxation and cost of capital. The other acquisitions made since January 1, 1996 are not included in the pro forma information as their effect is not material.

	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996
(in thousands, except per share amounts)		
Revenue	$ 281,361	$ 232,280
Net income	$ 3,829	$ 5,284
Basic earnings per share	$ .57	$ .78
Diluted earnings per share	$ .56	$ .76

2. ACQUISITIONS (CONTINUED)

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

3. FAIR VALUE OF FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK

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

- Marketable securities - Marketable securities primarily consist of U.S. Treasury bills and municipal bonds. The interest 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, 1997, the Company had significant concentrations of credit risk as follows:

- Marketable securities - $2,155,000 of marketable securities at December 31, 1997 consisted of Oregon State Housing & Community Service Bonds.

- Trade receivables - $2,500,000 of trade receivables were with two customers at December 31, 1997 (13% of trade receivables outstanding at December 31, 1997).

4. INTANGIBLES

Intangibles consist of the following (in thousands):

	1997	1996

Covenants not to compete	$ 3,269	$ 2,049
Goodwill	12,925	10,985
Customer lists	358	358
	16,552	13,392
Less accumulated amortization	4,458	3,166
	$ 12,094	$ 10,226

5. PROPERTY AND EQUIPMENT

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

	1997	1996
Office furniture and fixtures	$ 2,884	$ 2,360
Computer hardware and software	1,683	677
Buildings	1,201	1,183
Vehicles	55	60
	5,823	4,280
Less accumulated depreciation	1,868	1,477
	3,955	2,803
Land	308	308
	$ 4,263	$ 3,111

6. ACCRUED WORKERS' COMPENSATION CLAIM LIABILITIES

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

6. ACCRUED WORKERS' COMPENSATION CLAIM LIABILITIES (CONTINUED)

The Company has provided $3,772,000 and $2,853,000 at December 31, 1997 and 1996, respectively, as an estimated liability for unsettled workers' compensation claims. This estimated liability represents management's best estimate which includes, in part, an evaluation of information provided by the Company's third-party administrators and its independent actuary. Included in the claims liabilities are case reserve estimates for reported losses, plus additional amounts based on projections for incurred but not reported claims, anticipated increases in case reserve estimates and additional claims administration expenses. These estimates are continually reviewed and adjustments to liabilities are reflected in current operations as they become known. The Company believes that the difference between amounts recorded for its estimated liability and the possible range of costs of settling related claims is not material to results of operations; nevertheless, it is reasonably possible that adjustments required in future periods may be material to results of operations.

The United States Department of Labor and the States of Oregon, Maryland, Washington, and California require the Company to maintain specified investment balances or other financial instruments, totaling $7,698,000 at December 31, 1997 and $7,151,000 at December 31, 1996, to cover potential claims losses. In partial satisfaction of these requirements, at December 31, 1997, the Company has provided letters of credit in the amount of $2,096,000 and surety bonds totaling $457,000. The investments are included in restricted marketable securities and workers' compensation deposits in the accompanying balance sheets.

Liabilities incurred for work-related employee fatalities are recorded either at an agreed lump-sum settlement amount or the net present value of future fixed and determinable payments over the actuarially determined remaining life of the beneficiary, discounted at a rate that approximates a long-term, high-quality corporate bond rate. The Company has obtained excess workers' compensation insurance to limit its self-insurance exposure to $350,000 per occurrence in all states, except for $300,000 in Maryland and $500,000 per occurrence for USL&H exposure. The excess insurance provides unlimited coverage above the aforementioned exposures. At December 31, 1997, the Company has recorded $632,000 for work-related catastrophic injuries and fatalities in long-term workers' compensation liabilities in the accompanying balance sheets.

The aggregate undiscounted pay-out amount for the catastrophic injuries and fatalities is $1,570,000. The actuarially determined pay-out periods to the beneficiaries range from nine years to 44 years. As a result, the five-year cash requirements related to these claims are immaterial.

The workers' compensation expense in the accompanying statements of operations consists of $8,099,000, $5,799,000 and $5,802,000 for self-insurance expense for 1997, 1996 and 1995, respectively. Premiums in the insured states were $47,000, $139,000 and $271,000 for 1997, 1996 and 1995, respectively.

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7. CREDIT FACILITY

Effective May 30, 1997, the Company renegotiated its loan agreement ("the Agreement") with a major bank, which provides for (a) an unsecured revolving credit facility for working capital purposes, (b) a term real estate loan (Note 8) and (c) standby letters of credit totaling $2,096,000, in connection with certain workers' compensation surety arrangements. The Agreement expires on May 31, 1998 and currently permits total borrowings of up to $4,000,000 under the revolving credit facility. The interest rates available Federal on outstanding balances under the revolving credit facility include Prime Rate, Funds Rate plus 1.75%, or Adjusted Eurodollar Rate plus 1.25%. Under the loan agreement, the Company is required to maintain a zero outstanding balance against the revolving credit facility for a minimum of 30 consecutive days during each year. The pledging of any of the Company's assets, other than existing mortgages on its real property, is limited to a pro rata basis with any other lender.

During the year ended December 31, 1997, the maximum balance outstanding under the revolving credit facility was $3,556,000, the average balance outstanding was $1,412,000, and the weighted average interest rate during the period was 7.3%. The weighted average interest rate during 1997 was calculated using daily weighted averages. There were no borrowings on the revolving credit facility during 1996.

8. LONG-TERM DEBT

Long-term debt consists of the following:

	1997	1996
	(IN THOUSANDS)	
Mortgage note payable in monthly installments of $2,784, including interest at 11% per annum through 1998, with a principal payment of $269,485 due in 1998, secured by land and building	$ 273	$ 276
Mortgage note payable in monthly installments of $6,730, including interest at 8.15% per annum through 2003, with a principal payment of $366,900 due in 2003, secured by land and building (Note 7)	566	598
Capitalized lease equipment with monthly installments of $2,965, including interest at 11.5% per annum through 1998, secured by equipment	15	-
	854	874
Less portion due within one year	323	36
	$ 531	$ 838

8. LONG-TERM DEBT (CONTINUED)

Maturities on long-term debt are summarized as follows at December 31, 1997 (in thousands):

YEAR ENDING DECEMBER 31,	
1998	$ 323
1999	39
2000	42
2001	45
2002	49
Thereafter	356
	$ 854

9. SAVINGS PLAN

On April 1, 1990, the Company established a Section 401(k) employee savings plan for the benefit of its eligible employees. All employees 21 years of age or older 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. Company contributions to the plan were $111,000, $134,000 and $142,000 for the

years ended December 31, 1997, 1996 and 1995, respectively.

Recent attention has been placed by the Internal Revenue Service ("the IRS") and the staff leasing industry on IRC Section 401(k) plans sponsored by staff leasing companies. As such, the tax-exempt status of the Company's plan is subject to continuing scrutiny and approval by the IRS and to the Company's ability to support to the IRS the Company's employer-employee relationship with leased employees. In the event the tax-exempt status were to be discontinued and the plan were to be disqualified, the operations of the Company could be adversely affected. The Company has not recorded any provision for this potential contingency, as the Company and its legal counsel cannot presently estimate either the likelihood of disqualification or the resulting range of loss, if any.

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10. COMMITMENTS

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

YEAR ENDING DECEMBER 31,	
1998	$ 834
1999	630
2000	399
2001	226
2002	81
	$ 2,170

Rent expense for the years ended December 31, 1997, 1996 and 1995 was approximately $1,139,000, $799,000 and $607,000, respectively.

11. RELATED PARTY TRANSACTIONS

During 1997, 1996 and 1995, the Company recorded revenues of $4,047,000, $4,086,000 and $3,753,000, respectively, and cost of revenues of $3,719,000, $3,768,000 and $3,408,000, respectively, for providing services to a company of which a then director of the Company was president and majority stockholder. At December 31, 1997 and 1996, Barrett had trade receivables from this company of $188,000 and $126,000, respectively.

At December 31, 1993, the President and Chief Executive Officer of the Company, pursuant to the approval of a majority of the disinterested outside directors, agreed to personally guarantee, at no cost to the Company, the repayment of a $111,000 receivable from an unrelated, insolvent customer. During 1995, pursuant to this agreement, the Company exercised its right to the personal guarantee provided by the Company's Chief Executive Officer. Accordingly, the Chief Executive Officer surrendered to the Company 7,400 shares of common stock of Barrett Business Services, Inc., with a then-fair market value of $111,000 or $15.00 per share, in satisfaction of the guarantee. The Company subsequently retired the shares and the par value of the shares was reclassified to additional paid-in capital. The uncollectible account was included in the Company's provisions for doubtful accounts during 1993 and 1994.

BARRETT BUSINESS SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997 AND 1996

12. INCOME TAXES

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

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Current:			
Federal	$ 2,471	$ 2,681	$ 2,067
State	479	476	463
	2,950	3,157	2,530
Deferred:			
Federal	(535)	(283)	(19)
State	(112)	(59)	(4)
	(647)	(342)	(23)
Total provision	$ 2,303	$ 2,815	$ 2,507

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

	1997	1996
Accrued workers' compensation claim liabilities	$ 1,469	$ 1,113
Allowance for doubtful accounts	236	10
Tax depreciation in excess of book depreciation	(165)	(154)
Safety incentives	276	281
Amortization of intangibles	110	29
	$ 1,926	$ 1,279

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

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Statutory federal tax rate	34.0 %	34.0 %	34.0 %
State taxes, net of federal benefit	3.5	3.5	4.6
Nondeductible amortization of intangibles	1.3	.1	.1
Federal tax-exempt interest income	(1.0)	(1.4)	(1.3)
Other, net	(.2)	(.3)	.6
	37.6 %	35.9 %	38.0 %

During 1997, the Company recognized a State of Oregon tax credit of approximately $121,000 related to the 1996 tax year. During 1996, the Company recognized a State of Oregon surplus tax refund of approximately $145,000 related to tax years 1993 through 1995.

13. REDEEMABLE COMMON STOCK AND NONREDEEMABLE STOCKHOLDERS' EQUITY

REDEEMABLE COMMON STOCK

As part of the 1996 acquisition of StaffAmerica discussed in Note 2, the Company granted "put rights" to certain shareholders that required the Company to redeem 159,154 shares of its common stock at a redemption price of $17.75 per share for a total of $2,824,984 on April 11, 1997.

At December 31, 1996, the shares of common stock subject to the "put rights" are presented in the accompanying balance sheets as redeemable common stock. Such shares were recorded at their fair market value as of the date of acquisition. Such fair market value equaled the maximum redemption amount.

14. STOCK INCENTIVE PLAN

As of March 1, 1993, the Company adopted the 1993 Stock Incentive Plan ("the Plan") which provides for stock-based awards to the Company's employees, non-employee directors, and outside consultants or advisors. Effective May 14, 1997, the Company's stockholders approved an increase in the number of shares of common stock reserved for issuance under the Plan from 800,000 to 1,300,000.

The options 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. Under the terms of the Plan, the exercise price of the options must be not less than the fair market value of the Company's stock on the date of grant. The number of options and the price per share have been restated to reflect the 2-for-1 stock split effective May 23, 1994.

In connection with its initial public offering in 1993, the Company issued 200,000 warrants to its underwriters and related parties for the purchase of shares of the Company's common stock exercisable in whole at any time or in part from time to time commencing June 11, 1994 at $4.20 per share, after giving effect to the 2-for-1 stock split. A total of 170,000 warrants have been exercised through December 31, 1997 for proceeds of $714,000. The remaining unexercised warrants expire on June 10, 1998.

14. STOCK INCENTIVE PLAN (CONTINUED)

A summary of the status of the Company's stock option plan at December 31, 1997, 1996 and 1995, together with changes during the periods then ended, is presented below.

	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at December 31, 1994	306,575	$ 7.36
Options granted at market price	151,500	14.31
Options granted above market price	70,000	16.36

Options exercised	(13,950)	6.19
Options canceled or expired	(17,500)	7.52
Outstanding at December 31, 1995	496,625	10.78
Options granted at market price	137,498	16.63
Options exercised	(83,625)	6.77
Options canceled or expired	(58,500)	17.70
Outstanding at December 31, 1996	491,998	12.27
Options granted at market price	219,871	14.54
Options exercised	(77,375)	9.46
Options canceled or expired	(39,375)	13.87
Outstanding at December 31, 1997	595,119	13.50
Available for grant at December 31, 1997	503,756	

The Company applies APB Opinion 25 and related interpretations in accounting for the Plan. Accordingly, no compensation expense has been recognized for its stock option grants. Had compensation expense for the Company's stock-based compensation plan 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 No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

(in thousands, except per share amounts)	1997	1996	1995
Net income, as reported	$ 3,825	$ 5,036	$ 4,118
Net income, pro forma	3,344	4,664	3,857
Basic earnings per share, as reported	.57	.75	.64
Basic earnings per share, pro forma	.50	.69	.60
Diluted earnings per share, as reported	.56	.73	.62
Diluted earnings per share, pro forma	.49	.67	.58

14. STOCK INCENTIVE PLAN (CONTINUED)

The effects of applying SFAS No. 123 for providing pro forma disclosures for 1997, 1996 and 1995 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.

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 1997, 1996 and 1995:

	1997	1996	1995
Expected volatility	42%	41%	41%
Risk free rate of return	6.25%	6.10%	6.10%
Expected dividend yield	0%	0%	0%
Expected life (years)	7.5	7.0	7.0

Total fair value of options granted at market price was computed to be $1,809,662, $1,227,834 and $1,165,925 for the years ended December 31, 1997, 1996 and 1995, respectively. Total fair value of options granted at 110% above market price was computed to be $531,300 for the year ended December 31, 1995. Such options were granted to the chief executive officer

in 1995. The weighted average value of options granted in 1997, 1996 and 1995 was $8.23, $8.93 and $5.26, respectively.

The following table summarizes information about stock options outstanding at December 31, 1997:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICE RANGE	NUMBER OF SHARES	WEIGHTED AVERAGE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	EXERCISABLE AT DECEMBER 31, 1997	WEIGHTED AVERAGE EXERCISE PRICE
$ 3.50	33,000	$ 3.50	5.4	33,000	$ 3.50
8.75 - 9.50	66,250	9.42	6.1	35,750	9.35
10.75 - 12.07	83,860	11.69	8.8	20,000	11.00
13.37 - 14.88	202,000	14.39	8.4	49,500	14.40
15.00 - 18.69	210,009	16.22	6.7	73,708	15.80

At December 31, 1997, 1996 and 1995, 211,958, 126,500 and 82,875 were exercisable at weighted average exercise prices of $12.02, $10.80 and $7.04, respectively.

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)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
Year ended December 31, 1995				
Revenues	$ 39,005	$ 44,270	$ 49,308	$ 45,933
Cost of revenues	35,526	39,351	43,050	40,100
Net income	344	1,039	1,513	1,223
Basic earnings per share	.06	.16	.23	.19
Diluted earnings per share	.05	.16	.23	.18
Year ended December 31, 1996				
Revenues	42,888	51,558	59,666	59,814
Cost of revenues	37,872	45,411	53,073	53,318
Net income	827	1,305	1,661	1,243
Basic earnings per share	.13	.19	.25	.18
Diluted earnings per share	.12	.19	.24	.18
Year ended December 31, 1997				
Revenues	62,086	69,568	79,455	69,897
Cost of revenues	55,982	62,425	71,602	62,891
Net income	830	1,254	947	794
Basic earnings per share	.12	.19	.14	.12
Diluted earnings per share	.12	.18	.14	.12

EXHIBIT INDEX

3.1 Charter of the registrant, as amended. Incorporated by reference to Exhibit 3 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994.

3.2 Bylaws of the registrant, as amended. Incorporated by reference to Exhibit 3.2 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1996.

4.1 Loan Agreement between the registrant and Wells Fargo Bank, N.A., dated May 30, 1997. Incorporated by reference to Exhibit 4.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.

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

10 Executive Compensation Plans and Arrangements and Other Management Contracts.

10.1 1993 Stock Incentive Plan of the registrant as amended. Incorporated by reference to Exhibit 10.1 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1996.

10.2 Form of Indemnification Agreement with each director of the registrant. Incorporated by reference to Exhibit 10.8 to the registrant's Registration Statement on Form S-1 (No. 33-61804).

10.3 Deferred Compensation Plan for Management Employees of the registrant.

11 Statement of calculation of Basic and Diluted shares outstanding.

23 Consent of Price Waterhouse LLP, independent accountants.

24 Power of attorney of certain officers and directors.

27.1 Financial Data Schedule, fiscal year end 1997.

27.2 Financial Data Schedule, fiscal year ends 1995 and 1996 and Qtrs. 1, 2 and 3 of 1996.

27.3 Financial Data Schedule, Qtrs. 1, 2 and 3 of 1997.

BARRETT BUSINESS SERVICES, INC.

DEFERRED COMPENSATION PLAN

FOR MANAGEMENT EMPLOYEES

This DEFERRED COMPENSATION PLAN FOR MANAGEMENT EMPLOYEES (the "Plan") is adopted by BARRETT BUSINESS SERVICES, INC., a Maryland corporation ("Corporation"), effective December 1, 1997.

ARTICLE 1

PURPOSE OF PLAN

The continued growth and success of Corporation are dependent upon its ability to attract and retain the services of executives and key employees of the highest competence and to provide incentives for their effective service and superior performance. The purpose of the Plan is to advance the interests of Corporation and its shareholders through a deferred compensation program that will attract and retain executives and key employees.

ARTICLE 2

NATURE OF PLAN

This Plan is intended to be and shall be administered by Corporation as an income tax nonqualified, unfunded plan primarily for the purpose of providing deferred compensation for a "select group of management or highly compensated employees" within the meaning of Sections 201(2), 301(a)(3), and 401(a)(1)

of the Employee Retirement Income Security Act of 1974, as amended.

ARTICLE 3

SPONSORING EMPLOYERS

The corporations whose employees are covered by the Plan (the "Sponsoring Employers") are Corporation and any corporation that is a member of a controlled group of corporations (within the meaning of Code Section 414(b)) of which Corporation is a member, whose board of directors adopts a resolution to be a Sponsoring Employer.

ARTICLE 4

ELIGIBILITY

Any employee who performs services for a Sponsoring Employer during the plan year and who receives Compensation from the Sponsoring Employer in excess of $80,000 in the preceding plan year shall be eligible to participate in this Plan ("Eligible Employee").

ARTICLE 5

PARTICIPATION

5.1 ELECTION. An Eligible Employee may participate in the Plan by filing with Corporation an election, on a form provided by Corporation (an "Election"), to participate in the Plan and a life insurance application form. An Eligible Employee who makes an Election shall be a "Participant," provided, however, that if it is determined by the Committee that the proposed life insurance policy cannot be obtained in a cost efficient manner after medical underwriting requirements have

been met, the Participant shall not be eligible to receive death benefits in accordance with Section 9.2(a) of the Plan. Each Election shall be in a form prescribed by Corporation, and shall set forth the Participant's election to participate in the Plan, the percentage or amount of Compensation (as defined in Section 5.4) to be deferred, and a payment method pursuant to Section 9.1. The Election on record for a calendar quarter shall apply to salary paid during the quarter and to commissions or bonuses earned during that quarter even if not paid until the following quarter.

5.2 DEFERRED AMOUNTS. A Participant may elect to defer a flat dollar amount or a percentage of Compensation that shall not exceed 100% of the Participant's Compensation. The minimum contribution that may be made in any calendar year shall not be less than $5,000.

5.3 TIME FOR FILING ELECTION; AMENDMENT OR TERMINATION OF ELECTION. An Initial Election to defer Compensation must be filed with Corporation by December 1, 1997, and is effective the first payroll period on or after December 1, 1997. An employee who becomes an Eligible Employee after December 1, 1997, shall have 30 days from the date he or she becomes an Eligible Employee to make an Initial Election. Such election shall be effective for the remainder of the calendar quarter. An Eligible Employee who fails to defer Compensation during the Initial Election period may make an Election to defer Compensation effective the first payroll period of the next calendar quarter. An Election to defer Compensation is effective until amended or terminated.

An Election may be amended or terminated by filing an Amendment or Termination of Deferral Election in a form prescribed by Corporation not later than 15 days prior to the end of the previous calendar quarter. Such Election shall be effective the first payroll period of the next calendar quarter. An Election for any calendar quarter may not be amended, modified, revoked, or terminated after the beginning of such calendar quarter. A Participant who has made an Election and who ceases to be an Eligible Employee shall be deemed to have terminated his or her Election for all remaining calendar quarters that begin after the Participant ceases to be an Eligible Employee.

5.4 COMPENSATION.

(a) Except as provided in subsection 5.4(b), for purposes of this Article 5, "Compensation" means regular cash compensation, including commissions and any awards or bonuses payable under any incentive compensation plan or program maintained by the Sponsoring Employers.

(b) For purposes of this Article 5, "Compensation" does not include any employee elected contribution or purchase of benefits or any incentive compensation under any plan or program of any Sponsoring Employer which is specifically designated by the Committee as ineligible for purposes of this Article 5.

ARTICLE 6

DEFERRED ACCOUNTS

6.1 DEFERRED ACCOUNTS. All Deferred Amounts shall be withheld and credited to the Participant's "Deferred Account" as of the last day of each month in which they are deducted from the

Participant's Compensation. Each Participant's Deferred Account shall have separate subaccounts, each of which corresponds to an investment fund elected by the Participant pursuant to Section 6.2. Each Deferred Account and separate subaccount shall be maintained solely for recordkeeping purposes.

6.2 "AS IF" INVESTMENT FUNDS. For all amounts credited to a Participant's Deferred Account, the Participant may designate one or more of the investment funds (the "As If Funds") available under the Plan as the measure of return for the respective subaccounts as if the amounts credited to the subaccounts had actually been invested in such investment funds. The Participant may specify that all or any multiple of his or her Deferred Account (equal to or greater than 10% in whole percentage increments) be deemed to be invested in one or more of the As If Funds. The Sponsoring Employers shall have no obligation to actually invest funds in the investment funds corresponding to a Participant's designated As If Funds. The As If Funds shall serve solely as a mechanism for determining the amounts to be credited to a Participant's separate subaccounts pursuant to Section 6.4. A Participant may designate new As If Fund investments and change existing As If Fund investments effective as of the end of the calendar month.

6.3 ACCRUALS. Each Deferred Account shall accrue additional amounts as described in Sections 6.4 and 6.5 from the date Deferred Amounts are credited to the Deferred Account pursuant to Section 6.1 until the date of final payment of the balance of the Deferred Account.

6.4 SUBACCOUNTS. As of the last day of each month, each Participant's separate subaccount shall be credited with an amount equivalent to the return that would have been obtained had the balance of the separate subaccount been invested in the As If Fund specified by the Participant.

6.5 DISCRETIONARY EMPLOYER CONTRIBUTION. As of the last day of each calendar year, each Participant's Deferred Account shall be credited with any discretionary employer contribution, if Corporation determines that such contribution shall be made.

ARTICLE 7

SOURCE OF BENEFITS

7.1 UNFUNDED PLAN. This Plan and the benefits payable hereunder shall be unfunded and shall be payable only from the general assets of the Sponsoring Employers. The Sponsoring Employers do not represent that a specific portion of their assets will be used to provide the benefits hereunder. Participants or beneficiaries shall not have any interest in any assets of a Sponsoring Employer. Nothing in this Plan shall be deemed to create a trust of any kind or create any fiduciary relationship. To the extent that any person acquires a right to receive payments from any Sponsoring Employer under this Plan, such rights shall be no greater than the right of any unsecured general creditor of such Sponsoring Employer.

7.2 TRUST. Notwithstanding the foregoing, the Sponsoring Employers may deposit moneys under the Barrett Business Services, Inc., Deferred Compensation Umbrella Trust

Agreement (the "Trust") for the purpose of paying benefits hereunder from those moneys and the income thereon, unless such Trust assets are required to satisfy the obligations of the Sponsoring Employers to their general creditors.

ARTICLE 8

VESTING

A Participant's deferred Compensation and any investment earnings or losses shall be 100% vested at all times.

The following vesting schedule shall apply to any discretionary employer contributions, if made:

Years of Service	Percent Vested
1	0%
2	0%
3	20%
4	40%
5	60%
6	80%
7	100%

ARTICLE 9

PAYMENT OF DEFERRED COMPENSATION

9.1 PAYMENT OPTIONS. Each Participant shall set forth in the Initial Election an election of one of the following methods of payment of the accrued balance of the Participant's Deferred Account:

(a) A lump-sum cash payment;

(b) Payment in five substantially equal quarterly installments;

(c) Payment in ten substantially equal quarterly installments; or

(d) Payment in 15 substantially equal quarterly installments.

Any quarterly installment payment shall be reduced by applicable administrative charges. If no method of payment is effectively elected, a Participant's Deferred Account shall be paid in cash in a single lump sum. A Participant may modify the method of payment that he or she has previously elected, provided such modification occurs at least one year before the date payments are scheduled to commence. If a Participant ceases to be employed by any Sponsoring Employer and has a Deferred Account balance of $25,000 or more, the method of payment shall be as elected by the Participant during the Initial Election period, or as subsequently modified. If a Participant ceases to be employed by any Sponsoring Employer and has a Deferred Account balance of less than $25,000, the method of payment shall be a lump-sum cash payment. All payments made pursuant to this Section 9.1 shall be made as soon as administratively feasible after the first day of the month following the end of the quarter in which the termination date occurs.

9.2 DEATH BENEFIT.

(a) In the case of a Participant who dies while employed by any Sponsoring Employer, a $100,000 lump-sum payment shall be made to the Participant's beneficiary. The benefit

payable pursuant to this paragraph (a) shall only be paid if the insurance company determines that the Participant is insurable and shall be subject to all conditions and exceptions set forth in the applicable insurance policy.

(b) If a Participant dies while employed by any Sponsoring Employer,

the Participant's Deferred Account shall be paid in a lump-sum cash payment to the Participant's beneficiary or, if no beneficiary has been effectively designated, to the Participant's estate within 90 days after a Participant's death. If a Participant dies while receiving quarterly installments, the remaining quarterly installments shall be paid to the Participant's beneficiary, or, if none, to the Participant's estate, as they become payable.

9.3 HARDSHIP WITHDRAWALS. The Committee, in its sole discretion, may accelerate payment of the balance of the vested portion of a Deferred Account if a Participant requests payment and the Committee finds that an unforeseeable emergency exists, but only to the extent needed to satisfy the emergency. An unforeseeable emergency is a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent (as defined in Section 152(a) of the Code) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The circumstances that will constitute an unforeseeable emergency will depend upon the facts of each case, but, in any case,

Payment may not be made to the extent that such hardship is or may be relieved--

(a) Through reimbursement or compensation by insurance or otherwise;

(b) By liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship; or

(c) By cessation of deferrals under the Plan. Examples of what are not considered to be unforeseeable emergencies include the need to send a Participant's child to college or the desire to purchase a home. A Participant shall be permitted only two Hardship Withdrawals during all periods of Plan participation.

9.4 DISTRIBUTION WITH SCHEDULED WITHDRAWAL DATE. In the case of a Participant who has elected a distribution date for an in-service withdrawal of all amounts of Compensation deferred in a particular plan year, and earnings and losses attributable thereto, (a "Scheduled Withdrawal Date"), such Participant shall receive his or her Deferred Account for the particular plan year on the Scheduled Withdrawal Date in a lump-sum cash payment (or in installment payments if eligible). A Participant's Scheduled Withdrawal Date with respect to amounts of Compensation deferred in a particular plan year may be no earlier than two years from the last day of the plan year for which the deferrals of Compensation are made. A Participant may extend the Scheduled Withdrawal Date for the deferral of Compensation for any plan year, provided such extension occurs at least one year before the

Scheduled Withdrawal Date and is for a period of not less than one year from the Scheduled Withdrawal Date. In the event a Participant terminates employment with any Sponsoring Employer prior to a Scheduled Withdrawal Date, the portion of the Participant's Deferred Account associated with Scheduled Withdrawal Dates that have not occurred prior to such termination shall be distributed as soon as administratively feasible after the first day of the month following the end of the quarter in which the termination date occurs.

9.5 EARLY DISTRIBUTIONS. A Participant shall be permitted to elect a withdrawal of amounts from his or her Deferred Account prior to the time the Participant would otherwise be entitled to such amounts (an "Early Distribution"), subject to the following restrictions:

(a) The election to take an Early Distribution shall be made by filing a form provided by and filed with the Committee.

(b) The amount of the Early Distribution shall be paid in a single cash lump-sum payment as soon as practicable after the end of the calendar month in which the Early Distribution election is made.

(c) If a Participant receives an Early Distribution of his or her Deferred Account, such Participant shall forfeit 10% of the gross amount to be distributed from the Participant's Deferred Account.

(d) If a Participant receives an Early Distribution of either all or a part of his or her

Deferred Account, the Participant shall be ineligible to participate in the Plan for the balance of the plan year and for the following plan year.

ARTICLE 10

ADMINISTRATION

The Plan shall be administered by the Committee. The Committee shall have the exclusive authority and responsibility for all matters in connection with the operation and administration of the Plan. The Committee's powers and duties shall include, but shall not be limited to, the following:

(a) Responsibility for the compilation and maintenance of all records necessary in connection with the Plan;

(b) Authorizing the payment of all benefits and expenses of the Plan as they become payable under the Plan; and

(c) Authority to engage such legal, accounting, and other professional services as it may deem proper.

Decisions by the Committee shall be final and binding upon all parties affected by the Plan, including Participants and the beneficiaries of Participants.

The Committee may rely on information and recommendations provided by supervisory management. The Committee may delegate to a subcommittee composed of less than all Committee members or to supervisory management who are not Committee members the responsibility for decisions that it may make or actions that it may take under the terms of the Plan,

subject to the Committee's reserved right to review such decisions or actions and modify them when necessary or appropriate under the circumstances. The Committee shall not allow any employee to obtain control over decisions or actions that affect that employee's Plan benefits.

ARTICLE 11

MISCELLANEOUS

11.1 NONASSIGNABILITY OF BENEFITS. A Participant's benefits under the Plan, including the right to receive payment of the Deferred Account, cannot be sold, transferred, anticipated, assigned, pledged, hypothecated, seized by legal process, subjected to claims of creditors in any way, or otherwise disposed of.

11.2 GOVERNING LAW. This Plan and any amendments shall be construed,

administered, and governed in all respects in accordance with applicable federal law and the laws of the State of Oregon.

11.3 NO RIGHT OF CONTINUED EMPLOYMENT. Nothing in the Plan shall confer upon any person the right to continue in the employ of any Sponsoring Employer or interfere in any way with the right of any Sponsoring Employer to terminate the person's employment at any time.

11.4 WITHHOLDING TAXES. The Sponsoring Employer shall withhold any taxes required by law to be withheld in connection with payment of deferred compensation under this Plan. In the event any Sponsoring Employer shall be required to withhold taxes with respect to amounts deferred pursuant to the Plan, the

Sponsoring Employer shall have the right to require a Participant to reimburse them for any such taxes.

ARTICLE 12

CLAIMS PROCEDURE

12.1 INITIAL CLAIM. Any person claiming any benefit under this Plan (the "Claimant") shall present a claim in writing (a "Claim") to Corporation's President or a Vice President serving on the Committee (the "Designated Officer").

12.2 DECISION ON INITIAL CLAIM.

(a) Time Period for Denial Notice. A decision shall be made on the Claim as soon as practicable and shall be communicated in writing by the Designated Officer to the Claimant within a reasonable period after receipt of the Claim by the Designated Officer. In no event shall the decision on an initial Claim be given more than 90 days after the date the Claim was filed, unless special circumstances require an extension of time for processing. If there is an extension, the Claimant shall be notified of such within 90 days of the date the Claim was filed. The extension notice shall indicate the special circumstances and the date by which a decision is expected. The extension shall not exceed 90 days from the end of the initial response period.

(b) Contents of Notice. If the Claim is wholly or partially denied, the Claimant shall be given a written notice of denial which shall indicate:

(i) The specific reasons for the denial;

(ii) The specific references to pertinent Plan provisions on which the denial is based;

(iii) A description of additional material or information necessary for the Claimant to perfect the Claim and an explanation of why such material or information is necessary; and

(iv) An explanation of the Plan's Claim review procedure.

(c) Deemed Denied. If written notice of the decision wholly or partially denying the Claim has not been furnished within 90 days after the Claim is filed or there has been an extension and no notice of a decision is furnished by the end of the extension period, and if the Claim has not been granted within such period, the Claim shall be deemed denied as of the end of the 90-day or 180-day period for purposes of proceeding to the review stage described in 12.3 and 12.4.

12.3 REVIEW OF DENIED CLAIM. If a Claimant receives a notice of denial or his or her Claim is deemed denied pursuant to 12.2 above, the Claimant may request a review of the Claim. The request for review is made by personally delivering or mailing a written request for review, prepared by either the Claimant or his or her authorized representative, to the Committee. The Claimant's request for review must be made within a reasonable period of time taking into consideration the nature of the benefit which is the subject of the Claim and other attendant circumstances. In no event shall the period for requesting review expire less than 60 days after receipt of the notice of denial or the date on which the Claim is deemed denied if no notice is received. If

the written request for review is not made on a timely basis, the Claimant shall be deemed to waive his or her right to review. The Claimant or his or her duly authorized representative may, at or after the time of making the request, review all pertinent documents and submit issues and comments in writing.

12.4 DECISION ON REVIEW. A review shall be promptly made by the Committee after receipt of a timely filed request for review. A decision on review shall be made and furnished in writing to the Claimant. The decision shall be made not later than 60 days after receipt of the request for review. If special circumstances require an extension of time for processing (such as the need to hold a hearing), a decision shall be made and furnished to the Claimant not later than 120 days after such receipt. If an extension is required, the Claimant shall be notified of such within 60 days after the request for review was filed. The written decision shall include the reasons for such decision with reference to the provisions of the Plan upon which the decision is based. The decision shall be final and binding upon the Claimant and Corporation and its subsidiaries and all other persons involved. If the decision on review is not furnished within the applicable time period, the Claim shall be deemed denied on review.

The scope of any subsequent review of the benefit Claim, judicial or otherwise, shall be limited to a determination as to whether the Committee acted arbitrarily or capriciously in the exercise of its discretion. In no event shall any such further review be on a de novo basis as the Committee has

discretionary authority to determine eligibility for benefits and to construe the terms of this Plan.

ARTICLE 13

AMENDMENTS AND TERMINATION

Corporation's Board of Directors has the power to terminate this Plan at any time or to amend this Plan at any time and in any manner that it may deem advisable. In the event of termination of the Plan, compensation deferred pursuant to the Plan prior to the effective date of the termination shall continue to be subject to the provisions of the Plan as if the Plan had not been terminated.

IN WITNESS WHEREOF this Plan was executed as of the 23rd day of December, 1997.

BARRETT BUSINESS SERVICES, INC.

By: /s/ K. Risa Olsen

Its Vice President

BARRETT BUSINESS SERVICES, INC.

STATEMENT OF CALCULATION OF BASIC AND DILUTED SHARES OUTSTANDING

	Three Months Ended Dec. 31, 1997	Year Ended Dec. 31, 1997
Weighted average number of basic shares outstanding	6,738,826	6,750,523
Stock option plan shares to be issued at prices ranging from $3.50 to $18.00 per share	559,658	532,615
Warrant issues at a price of $4.20 per share	30,000	47,308
Less: Assumed purchase at average market price during the period using proceeds received upon exercise of options and purchase of stock, and using tax benefits of compensation due to premature dispositions	(516,724)	(445,327)
Weighted average number of diluted shares outstanding	6,811,760	6,885,119

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-71792, 33-55117, 33-52871 and 333-33487) and in the Prospectus constituting part of the Registration Statements on Form S-3 (Nos. 33-62979, 333-07751 and 333-24449) of Barrett Business Services, Inc. of our report dated February 11, 1998 appearing on page F-1 of this Annual Report on Form 10-K.

PRICE WATERHOUSE LLP

Portland, Oregon
March 31, 1998

POWER OF ATTORNEY

Each person whose signature appears below designates and appoints WILLIAM W. SHERERTZ and MICHAEL D. MULHOLLAND, and either of them, true and lawful attorneys-in-fact and agents to sign the Annual Report on Form 10-K of Barrett Business Services, Inc., a Maryland corporation, for the year ended December 31, 1997, and to file said report, with all exhibits thereto, with the Securities and Exchange Commission under the Securities Exchange Act of 1934. Each person whose signature appears below also grants full power and authority to these attorneys-in-fact and agents to perform every act and execute any instruments that they deem necessary or desirable in connection with said report, as fully as he could do in person, hereby ratifying and confirming all that the attorneys-in-fact and agents or their substitutes may lawfully do or cause to be done.

IN WITNESS WHEREOF, this power of attorney has been executed by each of the undersigned as of the 11th day of March, 1998.

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

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This  schedule  contains  summary  financial   information  extracted  from  the
company's  balance  sheets and related  statements of operations  for the period
ended  December  31, 1997 and is  qualified in its entirety by reference to such
financial statements.
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This schedule contains summary financial information extracted from the Company's balance sheets and related statements of operations for the periods ended December 31, 1995, December 31, 1996, March 31, 1996, June 30, 1996 and September 30, 1996 and is qualified in its entirety by reference to such financial statements.
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This schedule contains summary financial information extracted from the Company's balance sheets and related statements of operations for the periods ended March 31, 1997, June 30, 1997 and September 30, 1997 and is qualified in its entirety by reference to such financial statements.
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