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

Form 10-K

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

For the fiscal year ended December 31, 1998
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	97201
(Address of principal executive offices)	(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. X

State the aggregate market value of the voting stock held by non-affiliates of the Registrant: $33,077,380 at February 26, 1999.

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 26, 1999
Common Stock, Par Value $.01 Per Share	7,679,456 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 1999 Annual Meeting of Stockholders are hereby incorporated by reference into Part III of Form 10-K.

BARRETT BUSINESS SERVICES, INC.
1998 ANNUAL REPORT ON FORM 10-K
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PART I

ITEM 1. BUSINESS

GENERAL

Barrett Business Services, Inc. ("Barrett" or the "Company"), was incorporated in the state of Maryland in 1965. Barrett is a leading human resource management company. The Company provides comprehensive outsourced

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

Barrett's range of services and expertise in human resource management encompasses five major categories: payroll processing, employee benefits and administration, workers' compensation coverage, 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 employment-related regulatory compliance. For 1998, Barrett's staffing services revenues represented 54.6% of total revenues, compared to 45.4% 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 1998, 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 1998 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 1,600 employees through various staffing services arrangements. In addition, Barrett had approximately 612 PEO clients at December 31, 1998, compared to 654 at December 31, 1997. The decline in the number of PEO clients in 1998 as compared to 1997 reflects the Company's continued adherence to its safe-work policies and credit policies.

The Company operates through a network of 30 branch offices in Oregon, California, Washington, Maryland, Idaho and Arizona. 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) provide a unique and efficient blend of staffing and PEO services, (ii) promote a decentralized and autonomous management philosophy and structure, (iii) leverage zone and branch level economies of scale, (iv) motivate employees through wealth sharing, 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) utilize a zone management structure to strengthen and expand operations and (iii) enhance management information systems to support continued growth and to improve customer services.

RECENT ACQUISITIONS

On April 13, 1998, the Company acquired certain assets of BOLT Staffing Service, Inc., a provider of staffing services located in Pocatello, Idaho. BOLT Staffing had revenues of approximately $2.4 million (unaudited) for the year ended December 31, 1997. The Company paid $675,000 in cash for the assets, assumed a $6,000 office lease liability and incurred approximately $18,000 in acquisition related costs.

On June 29, 1998, the Company consummated its transaction with Western Industrial Management, Inc. ("WIMI") pursuant to a stock-for-stock merger. The transaction qualified as a tax-free merger and has been accounted for as a pooling-of-interests. As a result of the merger, the former shareholders of WIMI received a total of 894,642 shares of the Company's common stock, which included 10,497 shares issued in exchange for real property consisting of an office condominium in which WIMI's main office is located. A dissenting WIMI shareholder received cash in the amount of $519,095, based on a value of $11.375 per share of Barrett's common stock. The Company also paid certain professional fees owed by WIMI in connection with the transaction totaling approximately $425,000. WIMI was a privately-held staffing services company headquartered in San Bernardino, California, with 1997 revenues of approximately $24.5 million (unaudited).

Subsequent to year end, effective January 1, 1999, the Company acquired all of the outstanding common stock of Temporary Staffing Systems, Inc. ("TSS"), a staffing services company with eight branch offices in North Carolina and one in South Carolina. The Company paid $2,000,000 in cash and issued a note payable for $950,000 due January 31, 2000, payment of which is contingent upon a minimum equity requirement for 1998 and certain financial performance criteria for 1999. The Company also paid $50,000 in cash for a noncompete agreement with the selling shareholder. TSS's revenues for the fiscal year ended March 29, 1998 were approximately $12.9 million (audited).

Subsequent to year end, effective February 15, 1999, the Company acquired certain assets of TPM Staffing Services, Inc. ("TPM"), a staffing services company with three offices in Southern California - Lake Forest, Santa Ana and Anaheim. The Company paid $1,200,000 in cash for the assets of TPM and the selling shareholder's noncompete agreement, of which $240,000 will be deferred for six months. TPM's revenues for the year ended December 31, 1998 were approximately $5.7 million (unaudited).

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 for their personnel needs, thereby converting a portion of their fixed personnel costs to a variable expense.

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

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

The Company's staffing services customers operate in a broad range of businesses, including forest products and agriculture-based companies, electronic manufacturers, transportation and shipping companies, food processors, professional firms and construction contractors. Such customers range in size from small local firms to companies with international operations, which use Barrett's services on a domestic basis. None of the Company's staffing services customers individually accounted for more than 10% of its total 1998 revenues.

In 1998, light industrial workers generated approximately 67% of the Company's staffing services revenues, while technical personnel accounted for 19% of such revenues and clerical office staff represented the balance of 14%. Light industrial workers in the Company's employ perform such tasks as operation of machinery, manufacturing, loading and shipping, site preparation for special events, construction-site cleanup and janitorial services. Technical personnel include electronic parts assembly workers and designers and drafters of electronic parts.

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

The Company utilizes a variety of methods to recruit its work force for staffing services, including among others, referrals by existing employees, newspaper advertising and marketing brochures distributed at colleges and vocational schools. The employee application process includes an interview, skills assessment test, reference verification and drug screening. The recruiting of qualified employees requires more effort when unemployment rates are low.

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 subsequently expanded these services to other states. The Company has entered into co-employer arrangements with a wide variety of clients, including companies involved in moving and shipping, professional firms, construction, retail, manufacturing and distribution businesses. PEO clients are typically small to mid-sized businesses with up to 100 employees. None of the Company's PEO clients individually accounted for more than 10% of its total annual revenues during 1998.

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 certain of 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 $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 maintains 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-fifth 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 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 $2.7 million. The new system is currently expected to be operational in mid-1999 and has been certified by the vendor to be year 2000 compliant.

EMPLOYEES AND EMPLOYEE BENEFITS

At December 31, 1998, the Company had approximately 19,410 employees, including approximately 14,000 staffing services employees, approximately 5,100 PEO employees and approximately 310 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 1998, approximately 1% 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.

The Company's decentralized management structure relies heavily on its zone managers, each responsible for overseeing the operations of several branch offices. Accordingly, the efficiency of Barrett's operations is dependent upon its ability to attract and retain highly qualified, motivated individuals to serve as zone managers. This ability is also central to the Company's plans to expand through acquiring human resources related businesses in existing and new geographic areas. There is no assurance that the Company will continue to be able to recruit and retain individuals with the skills and experience required of zone managers.

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 to participate 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 staffing services and PEO 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 60 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 30 of its branch offices. The following table shows the number of branch offices located in each state in which the Company operates. The Company's Oregon offices accounted for 46% of its total revenues in 1998. The Company also leases office space in 22 other locations in its market areas which it uses to recruit and place employees.

State	Number of Branch Offices

Arizona	1
California	13
Idaho	2
Maryland	3
Oregon	10
Washington	1

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 $530,000 at December 31, 1998.

The Company also owns another office building in Portland, Oregon, which houses its Portland/Bridgeport branch office. The building has approximately 7,000 square feet of office space.

Barrett leases office space for its other branch offices. At December 31, 1998, such leases had expiration dates ranging from less than one year to five years, with total minimum payments through 2003 of approximately $2,882,000.

ITEM 3. LEGAL PROCEEDINGS

There were no material legal proceedings pending against the Company at September 30, 1998, or during the period beginning with that date through March 30, 1999.

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 1998.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table identifies, as of February 26, 1999, 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	53	President; Chief Executive Officer; Director	1980
Michael D. Mulholland	47	Vice President-Finance and Secretary; Chief Financial Officer	1994
K. Risa Olsen (1)	48	Vice President	1997
Gregory R. Vaughn	43	Vice President	1998
James D. Miller	35	Controller and Assistant Secretary; Principal Accounting Officer	1994

(1) Ms. Olsen tendered her resignation on March 19, 1999, effective April 2, 1999.

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. from 1995 to 1996 and Continental Information Systems, Inc. from 1990 to 1994.

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 26, 1999, there were 70 stockholders of record and approximately 1,100 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:

1997	High	Low
First Quarter	$ 19.00	$ 12.75
Second Quarter	15.00	11.50
Third Quarter	17.50	13.63
Fourth Quarter	17.25	11.00

1998	High	Low
First Quarter	$ 12.00	$ 10.25
Second Quarter	13.38	9.13
Third Quarter	10.88	7.88

Fourth Quarter	9.38	6.00

The Company issued 30,000 shares of Common Stock in April 1998, upon the exercise of stock warrants with an exercise price of $4.20 per share issued in connection with the Company's initial public offering in June 1993 without registration under the Securities Act of 1933 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.

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				
	1998	1997	1996	1995	1994
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Staffing services	$ 165,443	$ 177,263	$ 130,746	$ 113,437	$ 83,344
Professional employer services	137,586	128,268	101,206	79,480	68,571
Total	303,029	305,531	231,952	192,917	151,915
Cost of revenues:					
Direct payroll costs	235,265	236,307	176,686	146,490	114,493
Payroll taxes and benefits	25,550	27,226	20,414	16,139	12,888
Workers' compensation	8,670	9,075	6,641	6,729	5,758
Safety incentives	1,520	1,509	1,532	981	1,103
Total	271,005	274,117	205,273	170,339	134,242
Gross margin	32,024	31,414	26,679	22,578	17,673
Selling, general, and administrative expenses	23,481	24,011	18,534	15,496	11,695
Merger expenses	750	--	--	--	--
Amortization of intangibles	1,316	1,332	860	606	472
Income from operations	6,477	6,071	7,285	6,476	5,506
Other (expense) income:					
Interest expense	(173)	(247)	(122)	(154)	(231)
Interest income	441	362	554	400	224
Other, net	(1)	1	--	32	78
Total	267	116	432	278	71
Income before provision for income taxes	6,744	6,187	7,717	6,754	5,577
Provision for income taxes	2,923	2,342	2,749	2,566	2,117
Net income	$ 3,821	$ 3,845	$ 4,968	$ 4,188	$ 3,460
Basic net income per share	$ .50	$ .50	$ .65	$ .57	$ .48
Weighted average basic shares	$ 7,664	7,646	7,602	7,358	7,217
Diluted net income per share	$ .50	$ .49	$ .64	$ .55	$ .46
Weighted average diluted shares	$ 7,711	7,780	7,823	7,564	7,475

	As of December 31				
	1998	1997	1996	1995	1994
	(In thousands)				
Selected Balance Sheet Data:					
Working capital	$ 13,272	$ 10,201	$ 11,489	$ 8,387	$ 4,738
Total assets	52,770	50,815	44,063	32,450	25,552
Long-term debt, net of current portion	503	573	1,107	875	908
Stockholders' equity	33,702	30,231	25,629	20,139	14,490

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 offices accounted for approximately 46% of its total revenues in 1998. An additional 36% of revenues was derived from its offices in California. Consequently, weakness in economic conditions in these regions 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 additional reserves to provide for future unanticipated increases in expenses ("adverse loss development") of the claims reserves for open injury claims and for claims incurred but not reported related to prior and current periods. Management believes that the Company's internal claims reporting system minimizes the occurrence of unreported incurred claims.

Selling, general and administrative expenses represent both branch office 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 pretax 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 recent and future acquisitions, the effect of changes in the Company's mix of services on gross margin, the adequacy of the Company's workers' compensation reserves and allowance for doubtful accounts, the tax-qualified status of the Company's 401(k) savings plan, the timely resolution of the Year 2000 issue by the Company and its customers and vendors, 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, 1998, 1997 and 1996, listed in Item 14 of this report. The Company's acquisition by merger of Western Industrial Management, Inc. and a related company (together, "WIMI"), in June 1998 was accounted for as a pooling-of-interests and, accordingly, the Company's financial statements have been restated for prior periods to give effect to the merger. Certain 1997 and 1996 revenue and cost of revenue amounts have been reclassified to conform with the 1998 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,		
	1998	1997	1996
Revenues:			
Staffing services	54.6%	58.0%	56.4%
Professional employer services	45.4	42.0	43.6
Total revenues	100.0	100.0	100.0
Cost of revenues:			
Direct payroll costs	77.6	77.3	76.1
Payroll taxes and benefits	8.4	8.9	8.8
Workers' compensation	2.9	3.0	2.9
Safety incentives	0.5	0.5	0.7
Total cost of revenues	89.4	89.7	88.5
Gross margin	10.6	10.3	11.5

Selling, general and administrative expenses........	7.8	7.9	8.0
Merger expenses.....................................	0.2	-	-
Amortization of intangibles.........................	0.4	0.4	0.4
Income from operations..............................	2.2	2.0	3.1
Other income (expense)..............................	0.1	-	0.2
Pretax income.......................................	2.3	2.0	3.3
Provision for income taxes..........................	1.0	0.7	1.2
Net income..	1.3%	1.3%	2.1%

YEARS ENDED DECEMBER 31, 1998 AND 1997

Net income for 1998 amounted to $3,821,000, a decrease of $24,000 or 0.6% from 1997 net income of $3,845,000. The small decrease in 1998 net income from 1997 was primarily due to $750,000 of merger expenses in connection with the WIMI transaction and a higher income tax rate, offset in part by the effect of a higher gross margin percent and lower selling, general and administrative expenses. Diluted net income per share for 1998 was $0.50 compared to $0.49 for 1997.

Revenues for 1998 totaled $303,029,000 which represented a decrease of $2,502,000 or 0.8% from 1997 revenues of $305,531,000. To date, the revenue trend has not been a company-wide issue and has been primarily confined to a few larger branch offices. The decline in revenues is related to a limited number of large staffing customers that have been affected by various economic conditions.

Staffing services revenue decreased $11,820,000 or 6.7%, while professional employer services revenue increased $9,318,000 or 7.3%, which resulted in a decrease in the share of staffing services to 54.6% of total revenues for 1998, as compared to 58.0% for 1997. The decline in staffing services revenue for 1998 was primarily attributable to two factors: (1) management's decision not to renew a business relationship with a large seasonal customer which was anticipated to provide an unacceptable profit margin and (2) a moderation in the demand for the Company's services by a limited number of large staffing customers that were affected by various economic conditions. The share of professional employer services revenues had a corresponding increase from 42.0% of total revenues for 1997 to 45.4% for 1998.

Gross margin for 1998 totaled $32,024,000, representing an increase of $610,000 or 1.9% over 1997. The gross margin rate of 10.6% of revenues represents a 30 basis point increase from 1997 due primarily to lower payroll taxes and benefits and workers' compensation expenses as a percentage of revenues, offset in part by higher direct payroll costs as a percentage of revenues. The decline in payroll taxes and benefits, in total dollars and as a percent of revenues, for 1998 was primarily due to lower state unemployment tax rates. The increase in direct payroll costs, as a percentage of revenues, was primarily attributable to the increased share of professional employer services business, where payroll costs typically represent a higher percentage of revenues as compared to staffing services. The Company expects gross margin, as a percentage of revenues, to continue to be influenced by fluctuations in the mix between staffing and PEO services, 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.

Workers' compensation expense decreased from 3.0% of revenues for 1997 to 2.9% of revenues for 1998. The decrease in workers' compensation expense for 1998 was generally attributable to a lower incidence of injuries during 1998, as compared to 1997.

Selling, general and administrative ("SG&A") expenses consist of compensation and other expenses incident to the operation of the Company's

headquarters and the branch offices and the marketing of its services. SG&A expenses (excluding the amortization of intangibles) for 1998 amounted to $23,481,000, a decrease of $530,000 or 2.2% from 1997. SG&A expenses expressed as a percentage of revenues also decreased from 7.9% for 1997 to 7.8% for 1998. The decrease in total SG&A expenses for 1998 from 1997 was primarily attributable to lower management payroll and bad debt expense. During the first quarter of 1998, management implemented specific performance criteria for all branch offices to align operating expenses more closely with growth in gross margin dollars rather than growth in revenues. For 1998, improvement in SG&A expense was achieved by reducing SG&A expenses as a percent of gross margin dollars from 76.4% in 1997 to 73.3% in 1998. Management believes that its zone-management practices and tighter operating controls implemented in 1998 have enhanced the Company's ability to more effectively manage its operating costs.

Amortization of intangibles totaled $1,316,000 for 1998 or 0.4% of revenues, which compares to $1,332,000 or 0.4% of revenues for 1997.

The Company's effective income tax rate for 1998 was 43.3%, as compared to 37.9% for 1997. The increase in the effective rate was primarily attributable to the nondeductibility of certain merger expenses and an increase in nondeductible amortization expense.

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 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.

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 legally 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 stated publicly over three years ago that the IRS National Office was 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 stated 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 for the past several years 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, 1997 AND 1996

Net income for 1997 amounted to $3,845,000, a decrease of $1,123,000 or 22.6% from 1996 net income of $4,968,000. 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 $0.49 compared to $0.64 for 1996.

Total 1997 revenues were $305,531,000, which represented an increase of $73,579,000 or 31.7% over 1996 revenues of $231,952,000. The increase in revenues over 1996 was primarily due to a 1997 internal growth rate of 23.2%, 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 35.6% 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. PEO services revenues increased 26.7% 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 58.0% as compared to 56.4% of total revenues in 1996.

Gross margin for 1997 totaled $31,414,000, representing an increase of $4,735,000 or 17.7% over 1996. The gross margin rate of 10.3% of revenues represents a 120 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 increase in direct payroll costs as a percentage of revenues from 76.1% for 1996 to 77.3% 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 2.9% of revenues for 1996 to 3.0% 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.

Selling, general and administrative ("SG&A") expenses (excluding the amortization of intangibles) for 1997 amounted to $24,011,000, an increase of $5,477,000 or 29.6% over 1996. SG&A expenses expressed as a percentage of revenues decreased from 8.0% for 1996 to 7.9% 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 four acquisitions after 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 an approximate $700,000 increase in bad debt expense. Two customers accounted for over one-half of the increase in bad debt expense for 1997.

Amortization of intangibles totaled $1,332,000 for 1997, or 0.4% of revenues, which compares to $860,000 or 0.4% of revenues for 1996. The increased amortization expense for 1997 was primarily attributable to amortization arising from the four acquisitions made after October 1, 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 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 $4,029,000 at December 31, 1998 increased $590,000 from December 31, 1997. The increase was primarily due to $4,246,000 of cash provided by operating activities, offset by $1,627,000 for the combined payments on credit-line borrowings and long-term debt, $1,077,000 used for the purchase of property and equipment and $693,000 used for acquisitions.

Net cash provided by operating activities for 1998 amounted to $4,246,000, as compared to $7,281,000 for 1997. For 1998, cash flow was primarily generated by net income and depreciation and amortization expenses, offset in part by an increase of $856,000 in accounts receivable and a decrease of $788,000 in accrued payroll and benefits. For 1997, cash flow was primarily generated by net income and depreciation and amortization expenses, together with an increase of $2,180,000 in accrued payroll and benefits.

Net cash used in investing activities totaled $1,679,000 for 1998, as compared to $4,112,000 for 1997. During 1998, the Company had capital expenditures of $1,077,000 and paid $693,000 in cash for the purchase of BOLT Staffing. Approximately $500,000 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" and below under "Year 2000 Readiness." 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 $1,497,000. At March 30, 1999, the

Company had no material long-term capital commitments.

Net cash used in financing activities for 1998 totaled $1,977,000, which compares to $1,353,000 net cash used in financing activities for 1997. For 1998, the principal use of cash for financing activities was for repayments of credit-line borrowings of $887,000 and long-term debt of $740,000 and for payment of $519,000 to a dissenting WIMI shareholder in connection with the WIMI merger. 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 and net proceeds from credit-line borrowings of $701,000.

The Company negotiated an amendment to its loan agreement with its principal bank, effective February 8, 1999, to increase the revolving credit facility by $2.0 million, from $5.65 million to $7.65 million. This facility includes a subfeature for letters of credit, as to which approximately $1.9 million was outstanding as of December 31, 1998. As such, the Company currently has approximately $5.7 million of unused availability on its line of credit. There was no outstanding balance on the revolving credit facility at December 31, 1998. 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.

On February 26, 1999, the Company's board of directors authorized a stock repurchase program to purchase up to 250,000 common shares from time to time in open market purchases. Management anticipates that the capital necessary to execute this program will be provided by existing cash balances.

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.

YEAR 2000 READINESS

The Company has developed a Year 2000 plan to ensure its internal operational readiness, as well as compliance by the Company's key vendors. Management's plan is focused on evaluating the readiness of the Company's mission-critical applications software, operating systems software, hardware, communications, third-party interfaces, facilities (typically non-information technology systems) and key vendors. This evaluation process involves four phases: (1) identification of risks, (2) assessment of risks, (3) development of remediation and contingency plans, and (4) testing and implementation.

As the Company has previously reported, management initiated a project in mid-1997 to convert its information systems to new technologies which are expected to enable the Company to more effectively accommodate its anticipated growth. This upgrade is anticipated to be completed in mid-1999 and is expected to alleviate the Year 2000 issue for such mission-critical applications as payroll processing and financial reporting systems. The Company has incurred capital expenditures of $2.2 million through December 31, 1998, for this project and expects to incur another $0.5 million prior to completion. The remaining mission-critical application is a branch-level legacy system which is expected to require only minor reprogramming by the Company's internal staff during the first half of 1999 at no incremental cost to the Company.

Mission-critical applications are currently in a remediation or testing phase. Management is currently uncertain as to the need for contingency plans for the Company's mission-critical applications, as it expects these systems to be fully operational by the third quarter of 1999.

The Company's assessment of the risks associated with non-mission-critical systems is incomplete but ongoing, and as such, management cannot predict whether significant problems will be identified, and if so, the costs to remediate such problems. In addition, management has not yet identified any reasonably likely worst case scenarios or determined the extent of contingency planning that may be required. Costs identified to date, however, have not been material. As part of its assessment, the Company is relying on assurances from key vendors that their products and services will be Year 2000 compliant.

The risks associated with the Year 2000 problem are pervasive and complex, can be difficult to identify and to address, and can result in material adverse consequences to the Company. Even if the Company, in a timely manner, completes all of its assessments, identifies and tests remediation plans believed to be adequate, and develops contingency plans believed to be adequate, some problems may not be identified or corrected in time to prevent material adverse consequences to the Company. Also, the Company's business may be adversely affected by events outside its control, such as disruptions to services provided by utilities, banks or transportation or telecommunications networks.

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 1999 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 PricewaterhouseCoopers LLP, are included on the pages indicated below:

	Page
Report of Independent Accountants	F-1
Balance Sheets - December 31, 1998 and 1997	F-2
Statements of Operations for the Years Ended December 31, 1998, 1997 and 1996	F-3
Statements of Redeemable Common Stock and Nonredeemable Stockholders' Equity - December 31, 1998, 1997 and 1996	F-4
Statements of Cash Flows for the Years Ended December 31, 1998, 1997 and 1996	F-5
Notes to Consolidated Financial Statements	F-6

No schedules are required to be filed herewith.

REPORTS ON FORM 8-K
No reports on Form 8-K were filed during the quarter ended December 31, 1998.

EXHIBITS
Exhibits are listed in the Exhibit Index that 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, 1999

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, 1999.

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 and Assistant Secretary

Other Directors:

* ROBERT R. AMES	Director
* HERBERT L. HOCHBERG	Director
* ANTHONY MEEKER	Director
* STANLEY G. RENECKER	Director
* NANCY B. SHERERTZ	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, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, 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.

PricewaterhouseCoopers LLP

Portland, Oregon
February 8, 1999, except as to Note 16, which is
as of February 15, 1999

BARRETT BUSINESS SERVICES, INC.
BALANCE SHEETS
DECEMBER 31, 1998 AND 1997

(in thousands, except par value)

	1998	1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,029	$ 3,439
Trade accounts receivable, net	21,907	21,051
Prepaid expenses and other	1,103	1,231
Deferred tax assets (Note 12)	1,857	1,895
Total current assets	28,896	27,616
Intangibles, net (Note 4)	11,508	12,133
Property and equipment, net (Notes 5 and 8)	5,184	4,574
Restricted marketable securities and workers' compensation deposits (Note 6)	6,004	6,095
Deferred tax assets (Note 12)	552	191
Other assets	626	206
	$ 52,770	$ 50,815
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 8)	$ 61	$ 731
Line of credit payable (Note 7)	-	887
Income taxes payable (Note 12)	438	-
Accounts payable	948	1,136
Accrued payroll, payroll taxes and related benefits	9,246	10,034
Accrued workers' compensation claim liabilities (Note 6)	3,244	3,140
Customer safety incentives payable	1,173	1,073
Other accrued liabilities	514	414
Total current liabilities	15,624	17,415
Long-term debt, net of current portion (Note 8)	503	573
Customer deposits	829	934
Long-term workers' compensation claim liabilities (Note 6)	714	632
Other long-term liabilities (Note 2)	1,398	1,030
	19,068	20,584
Commitments and contingencies (Notes 9, 10 and 14)		
Stockholders' equity:		
Common stock, $.01 par value; 20,500 shares authorized, 7,676 and 7,638 shares issued and outstanding (Note 13	77	76
Additional paid-in capital	11,409	11,760
Retained earnings	22,216	18,395
	33,702	30,231
	$ 52,770	$ 50,815

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

BARRETT BUSINESS SERVICES, INC.
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

(in thousands, except per share amounts)

	1998	1997	1996
Revenues:			
Staffing services	$ 165,443	$ 177,263	$ 130,746
Professional employer services	137,586	128,268	101,206
	303,029	305,531	231,952
Cost of revenues:			
Direct payroll costs	235,265	236,307	176,686
Payroll taxes and benefits	25,550	27,226	20,414
Workers' compensation (Note 6)	8,670	9,075	6,641
Safety incentives	1,520	1,509	1,532
	271,005	274,117	205,273
Gross margin	32,024	31,414	26,679
Selling, general and administrative expenses	23,481	24,011	18,534
Merger expenses	750	-	-
Amortization of intangibles (Note 4)	1,316	1,332	860
Income from operations	6,477	6,071	7,285
Other (expense) income:			
Interest expense	(173)	(247)	(122)
Interest income	441	362	554
Other, net	(1)	1	-
	267	116	432
Income before provision for income taxes	6,744	6,187	7,717
Provision for income taxes (Note 12)	2,923	2,342	2,749
Net income	$ 3,821	$ 3,845	$ 4,968
Basic earnings per share	$ .50	$ .50	$ .65
Weighted average number of basic shares outstanding	7,664	7,646	7,602
Diluted earnings per share	$ .50	$ .49	$ .64
Weighted average number of diluted shares outstanding	7,711	7,780	7,823

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, 1998, 1997 AND 1996

	Redeemable Common Stock		Nonredeemable Stockholders' Equity				
			Common Stock		Additional		
	Shares	Amount	Shares	Amount	Paid-in Capital	Retained Earnings	Total

Balance, December 31, 1995	-	$ -	7,436	$ 75	$ 10,482	$ 9,582	$ 20,139
Common stock issued for acquisitions	159	2,825	20	-	380	-	380
Common stock issued on exercise of options, net	-	-	54	-	112	-	112
Net income	-	-	-	-	-	4,968	4,968
Contributions of capital	-	-	10	-	30	-	30
Balance, December 31, 1996	159	2,825	7,520	75	11,004	14,550	25,629
Common stock issued on exercise of options and warrants, net	-	-	118	1	756	-	757
Redemption of redeemable common stock	(159)	(2,825)	-	-	-	-	-
Net income	-	-	-	-	-	3,845	3,845
Balance, December 31, 1997	-	-	7,638	76	11,760	18,395	30,231
Common stock issued on exercise of options and warrants, net	-	-	38	1	168	-	169
Distribution to dissenting shareholder in connection with merger (Note 2)	-	-	-	-	(519)	-	(519)
Net income	-	-	-	-	-	3,821	3,821
Balance, December 31, 1998	-	$ -	7,676	$ 77	$ 11,409	$ 22,216	$ 33,702

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

BARRETT BUSINESS SERVICES, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

(in thousands)

	1998	1997	1996
Cash flows from operating activities:			
Net income	$ 3,821	$ 3,845	$ 4,968
Reconciliations of net income to net cash provided by operating activities:			
Depreciation and amortization	1,785	1,765	1,189
Deferred taxes	(323)	(727)	(422)
Changes in certain assets and liabilities, net of amounts purchased in acquisitions:			
Trade accounts receivable, net	(856)	(332)	(5,824)
Prepaid expenses and other	128	(179)	(513)
Income taxes payable	438	-	-
Accounts payable	(188)	73	125
Accrued payroll, payroll taxes and related benefits	(788)	2,180	1,903
Other accrued liabilities	100	(316)	606
Accrued workers' compensation claim liabilities	104	900	148
Customer safety incentives payable	100	58	239
Customer deposits, other liabilities and other assets, net	(443)	(16)	(181)
Other long-term liabilities	368	30	-
Net cash provided by operating activities	4,246	7,281	2,238
Cash flows from investing activities:			
Cash paid for acquisitions, including other direct costs	(693)	(2,227)	(1,519)
Purchase of property and equipment, net of amounts purchased in acquisitions	(1,077)	(1,497)	(1,390)
Proceeds from maturities of marketable securities	5,532	5,343	7,025
Purchase of marketable securities	(5,441)	(5,731)	(8,051)
Net cash used in investing activities	(1,679)	(4,112)	(3,935)
Cash flows from financing activities:			
Payment of credit line assumed in acquisition	-	(401)	-
Net (payments on) proceeds from credit-line borrowings	(887)	701	(188)
Note receivable	-	324	-
Proceeds from issuance of long-term debt	-	180	284
Payments on long-term debt	(740)	(89)	(34)
Distribution to dissenting shareholder	(519)	-	-
Redemption of common stock	-	(2,825)	-
Contribution of capital	-	-	30
Proceeds from the exercise of stock options and warrants	169	757	112

Net cash (used in) provided by financing activities	(1,977)	(1,353)	204
Net increase (decrease) in cash and cash equivalents	590	1,816	(1,493)
Cash and cash equivalents, beginning of year	3,439	1,623	3,116
Cash and cash equivalents, end of year	$ 4,029	$ 3,439	$ 1,623
Supplemental schedule of noncash activities:			
Acquisition of other businesses:			
Cost of acquisitions in excess of fair market value of net assets acquired	$ 683	$ 3,160	$ 4,337
Tangible assets acquired	10	674	494
Liabilities assumed	-	1,607	107
Common stock issued in connection with acquisitions	-	-	3,205

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

BARRETT BUSINESS SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997

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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 and Maryland. Approximately 46%, 49% and 61%, respectively, of the Company's revenues during 1998, 1997, and 1996 were attributable to its Oregon operations. On June 29, 1998, the Company merged with Western Industrial Management, Inc. and Catch 55, Inc. (collectively "WIMI"). The transaction was accounted for as a pooling-of-interests pursuant to Accounting Principles Board ("APB") Opinion No. 16 and, accordingly, the Company's financial statements have been restated for all prior periods to give effect to the merger, as more fully described in Note 2.

REVENUE RECOGNITION

The Company recognizes revenue as 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 $262,000 and $575,000 at December 31, 1998 and 1997, respectively.

MARKETABLE SECURITIES

At December 31, 1998 and 1997, 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.)

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, 1998, 1997 and 1996.

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 the event of default of payment.

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

Interest paid during 1998, 1997 and 1996 did not materially differ from interest expense.

Income taxes paid by the Company in 1998, 1997 and 1996 totaled $2,623,000, $3,224,000 and $2,953,000, respectively.

NET INCOME PER SHARE

The Company adopted Statement of Financial Accounting Standards ("SFAS") 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.

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

RECLASSIFICATIONS
Certain prior year amounts have been reclassified to conform with the 1998 presentation. Such reclassifications had 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 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

2. BUSINESS COMBINATIONS

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 provided 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 noncompete agreement. 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.

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2. BUSINESS COMBINATIONS (CONTINUED)

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.

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 to 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 (audited). 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.

2. BUSINESS COMBINATIONS (CONTINUED)

BOLT STAFFING

On April 13, 1998, the Company acquired certain assets of BOLT Staffing Services, Inc., a provider of staffing services located in Pocatello, Idaho. BOLT Staffing had revenues of approximately $2.4 million (unaudited) for the year ended December 31, 1997. The Company paid $675,000 in cash for the assets, assumed a $6,000 office lease liability and incurred approximately $18,000 in acquisition related costs. The transaction was accounted for under the purchase method of accounting, which resulted in $683,000 of intangible assets and $10,000 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 HR Only and BOLT Staffing acquisitions had occurred at the beginning of 1997, after giving effect to certain adjustments for the amortization of intangible assets, taxation and cost of capital. The other acquisitions made since January 1, 1997 are not included in the pro forma information as their effect is not material.

(in thousands, except per share amounts)

	Year ended December 31, 1998	1997
Revenue	$ 303,829	$ 308,289
Net income	$ 3,852	$ 3,975
Basic earnings per share	$ .50	$ .52
Diluted earnings per share	$ .50	$ .51

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 January 1, 1997, or of results which may occur in the future.

WESTERN INDUSTRIAL MANAGEMENT, INC.

On June 29, 1998, the Company completed a merger with WIMI, whereby WIMI was merged directly with and into Barrett. The transaction qualified as a tax-free merger and has been accounted for as a pooling-of-interests. As a result of the merger, the former shareholders of WIMI received a total of 894,642 shares of the Company's common stock, which included 10,497 shares issued in exchange for real property consisting of an office condominium in which WIMI's main office is located. A dissenting WIMI shareholder received cash in the amount of $519,095, based on the value of $11.375 per share of Barrett's common stock. WIMI was a privately-held staffing services company headquartered in San Bernardino, California.

BARRETT BUSINESS SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997

2. BUSINESS COMBINATIONS (CONTINUED)

PRO FORMA RESULTS OF OPERATIONS (UNAUDITED)
Separate results of operations for the periods prior to the merger with the Company are as follows:

(in thousands)

	YEAR ENDED DECEMBER 31, 1997	1996
Revenues:		
Barrett	$ 281,006	$ 213,926
WIMI	24,525	18,026
Combined	$ 305,531	$ 231,952
Net income (loss):		
Barrett	$ 3,825	$ 5,036
WIMI	20	(68)
Combined	$ 3,845	$ 4,968
Other changes in redeemable common stock and nonredeemable stockholders' equity:		
Barrett	$ (2,068)	$ 3,317
WIMI	-	30
Combined	$ (2,068)	$ 3,347

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, 1998, the Company had significant concentrations of credit risk as follows:

- Marketable securities - $2,585,000 of marketable securities at December 31, 1998 consisted of Oregon State Housing & Community Service Bonds.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK (CONTINUED)

- Trade receivables - $1,483,000 of trade receivables were with two customers at December 31, 1998 (7% of trade receivables outstanding at December 31, 1998).

4. INTANGIBLES

Intangibles consist of the following (in thousands):

	1998	1997
Covenants not to compete	$ 3,484	$ 3,469
Goodwill	13,595	12,925
Customer lists	358	358
	17,437	16,752
Less accumulated amortization	5,929	4,619
	$ 11,508	$ 12,133

5. PROPERTY AND EQUIPMENT

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

	1998	1997
Office furniture and fixtures	$ 3,032	$ 2,899
Computer hardware and software	2,225	1,820
Buildings	1,463	1,441
Vehicles	34	55
	6,754	6,215
Less accumulated depreciation	1,878	1,949
	4,876	4,266
Land	308	308
	$ 5,184	$ 4,574

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 $3,958,000 and $3,772,000 at December 31, 1998 and 1997, 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.

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 $500,000 per occurrence for USL&H exposure. The excess insurance provides unlimited coverage above the aforementioned exposures.

At December 31, 1998, the Company's long-term workers' compensation claim liabilities in the accompanying balance sheet includes $714,000 for work-related catastrophic injuries and fatalities. The aggregate undiscounted pay-out amount of the catastrophic injuries and fatalities is $1,655,000. The actuarially determined pay-out periods to the beneficiaries ranges from eight years to 43 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 $7,460,000, $8,099,000 and $5,799,000 for self-insurance expense for 1998, 1997 and 1996, respectively. Premiums for insured operations were $1,210,000, $976,000 and $842,000 for 1998, 1997 and 1996, respectively.

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 $7,651,000 at December 31, 1998 and $7,698,000 at December 31, 1997, to cover potential claims losses. In partial satisfaction of these requirements, at December 31, 1998, the Company has provided letters of credit in the amount of $1,572,000 and surety bonds totaling $457,000. The investments are included in restricted marketable securities and workers' compensation deposits in the accompanying balance sheets.

7. CREDIT FACILITY

Effective May 31, 1998, 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 $1,908,000, in connection with certain workers' compensation surety arrangements. The Agreement expires on May 31, 1999 and permits total borrowings of up to $4,000,000 under the revolving credit facility. The interest rates available on outstanding balances under the revolving credit facility include Prime Rate, Federal Funds Rate plus 1.75%, or Adjusted Eurodollar Rate plus 1.25%. Under the 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, 1998, the maximum balance outstanding under the revolving credit facility was $1,971,000, the average balance outstanding was $773,000, and the weighted average interest rate during the period was 7.3%. The weighted average interest rate during 1998 was calculated using daily weighted averages.

The Company had an additional revolving credit facility. Total borrowings outstanding at December 31, 1997 were $887,0000. This credit facility was paid off in 1998.

8. LONG-TERM DEBT

Long-term debt consists of the following:

	1998	1997
	(in thousands)	
Loan from shareholder, interest at 10% per annum paid in 1998 (See Note 11)	$ -	$ 122
Mortgage note payable in monthly installments of $2,784, including interest at 11% per annum through 1998, with a principal payment of $269,485 paid in 1998, secured by land and building	-	273
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)	530	566
Mortgage note payable, including interest at 10% per annum paid in 1998, secured by land and building	-	210
Capitalized lease equipment with variable monthly installments, including interest at 11.5% per annum through 2000, secured by equipment	34	75
Other	-	58

	564	1,304
Less portion due within one year	61	731
	$ 503	$ 573

Maturities on long-term debt are summarized as follows at December 31, 1998 (in thousands):

Year ending December 31,	
1999	$ 61
2000	53
2001	45
2002	49
2003	356
	$ 564

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 $104,000, $111,000 and $134,000 for the years ended December 31, 1998, 1997 and 1996, 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.

10. COMMITMENTS

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

YEAR ENDING
December 31,

1999	$ 1,315
2000	725
2001	470
2002	228
2003	144
	$ 2,882

Rent expense for the years ended December 31, 1998, 1997 and 1996 was approximately $1,369,000, $1,188,000 and $848,000, respectively.

11. RELATED PARTY TRANSACTIONS

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

On December 31, 1997, the Company borrowed $122,100 from a shareholder. The note bore interest at 10% per annum and was repaid in full on June 29, 1998.

12. INCOME TAXES

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

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Current:			
Federal	$ 2,571	$ 2,566	$ 2,692
State	675	503	479
	3,246	3,069	3,171
Deferred:			
Federal	(255)	(600)	(348)
State	(68)	(127)	(74)
	(323)	(727)	(422)
Total provision	$ 2,923	$ 2,342	$ 2,749

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

	December 31,	
	1998	1997
Current:		
Accrued workers' compensation claim liabilities	$ 1,232	$ 1,223
Allowance for doubtful accounts	102	236

Safety incentives	310	276
Other accruals	213	160
	$ 1,857	$ 1,895
Noncurrent:		
Tax depreciation in excess of book depreciation	$ (101)	$ (165)
Accrued workers' compensation claim liabilities	278	246
Amortization of intangibles	289	110
Deferred compensation	62	-
Other	24	-
	$ 552	$ 191

12. INCOME TAXES (CONTINUED)

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

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Statutory federal tax rate	34.0 %	34.0 %	34.0 %
State taxes, net of federal benefit	6.1	3.5	3.5
Nondeductible expenses	3.4	-	-
Nondeductible amortization of intangibles	2.5	1.3	.1
Federal tax-exempt interest income	(1.0)	(1.0)	(1.4)
Other, net	(1.7)	.1	(.6)
	43.3 %	37.9 %	35.6 %

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. 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 Company 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 number of options and the price per share have been restated to reflect the 2-for-1 stock split effective May 23, 1994.

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 incentive stock options must not be less than the fair market value of the Company's stock on the date of grant. Certain of the Company's zone and branch management employees have elected to receive a portion of their quarterly

cash bonus in the form of nonqualified deferred compensation stock options. Such options are awarded at a sixty percent discount from the then fair market value of the Company's stock and are fully vested and immediately exercisable upon grant. The amount of the grantee's deferred compensation (discount from fair market value) is subject to market risk. During 1998, the Company awarded deferred compensation stock options for 51,417 shares at an average exercise price of $4.26 per share.

13. STOCK INCENTIVE PLAN (CONTINUED)

A summary of the status of the Company's stock option plan at December 31, 1998, 1997 and 1996, together with changes during the periods then ended, are presented below.

	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
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
Options granted at market price	217,601	10.91
Options granted below market price	51,417	4.26
Options exercised	(7,250)	5.91
Options canceled or expired	(71,592)	14.50
Outstanding at December 31, 1998	785,295	12.15
Available for grant at December 31, 1998	306,330	

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

	1998	1997	1996
(in thousands, except per share amounts)			
Net income, as reported	$ 3,821	$ 3,845	$ 4,968
Net income, pro forma	3,117	3,364	4,596
Basic earnings per share, as reported	.50	.50	.65
Basic earnings per share, pro forma	.41	.43	.59
Diluted earnings per share, as reported	.50	.49	.64
Diluted earnings per share, pro forma	.41	.42	.58

13. STOCK INCENTIVE PLAN (CONTINUED)

The effects of applying SFAS No. 123 for providing pro forma disclosures for 1998, 1997 and 1996 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 1998, 1997 and 1996:

	1998	1997	1996
Expected volatility	43%	42%	41%
Risk free rate of return	5.50%	6.25%	6.10%
Expected dividend yield	0%	0%	0%
Expected life (years)	8.0	7.5	7.0

Total fair value of options granted at market price was computed to be $1,364,155, $1,809,662 and $1,227,834 for the years ended December 31, 1998, 1997 and 1996, respectively. Total fair value of options granted at 60% below market price was computed to be $422,743 for the year ended December 31, 1998. In accordance with APB No. 25, the Company recognized compensation expense of $212,941 in connection with the issuance of these discounted options. The weighted average value of options granted in 1998, 1997 and 1996 was $6.64, $8.23 and $8.93, respectively.

The following table summarizes information about stock options outstanding at December 31, 1998:

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE	
Exercise price range	Number of shares	Weighted average price	Weighted average remaining contractual life	Exercisable at December 31, 1998	Weighted average exercise price
$ 3.39 - 5.23	79,917	$ 3.99	7.6	55,831	$ 3.81
8.75 - 9.50	64,000	9.42	5.2	64,000	9.42
10.13 - 12.50	284,954	11.10	8.9	52,360	11.52
13.37 - 14.88	161,500	14.40	7.6	76,625	14.41
15.00 - 18.00	194,924	16.08	7.2	114,479	15.97

At December 31, 1998, 1997 and 1996, 363,295, 211,958 and 126,500 were exercisable at weighted average exercise prices of $11.97, $12.02 and $10.80, respectively.

14. 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.

15. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(in thousands, except per share amounts)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Year ended December 31, 1996				
Revenues	$ 46,502	$ 55,902	$ 64,694	$ 64,854
Cost of revenues	40,987	49,146	57,438	57,702
Net income	816	1,287	1,639	1,226
Basic earnings per share	.11	.17	.21	.16
Diluted earnings per share	.11	.16	.21	.16
Common stock market prices:				
High	20.75	20.00	22.25	17.50
Low	14.50	16.25	14.00	13.50
Year ended December 31, 1997				
Revenues	$ 67,011	$ 75,660	$ 85,995	$ 76,865
Cost of revenues	60,296	67,686	77,258	68,877
Net income	823	1,254	976	792
Basic earnings per share	.11	.16	.13	.10
Diluted earnings per share	.10	.16	.13	.10
Common stock market prices:				
High	19.00	15.00	17.50	17.25
Low	12.75	11.50	13.63	11.00
Year ended December 31, 1998				
Revenues	$ 69,241	$ 76,651	$ 81,969	$ 75,168
Cost of revenues	62,467	68,524	73,002	67,012
Net income	387	600	1,599	1,235
Basic earnings per share	.05	.08	.21	.16
Diluted earnings per share	.05	.08	.21	.16
Common stock market prices:				
High	12.00	13.38	10.88	9.38
Low	10.25	9.13	7.88	6.00

16. SUBSEQUENT EVENTS

Subsequent to year end, effective January 1, 1999, the Company acquired all of the outstanding common stock of Temporary Staffing Systems, Inc. ("TSS"), a staffing services company with eight branch offices in North Carolina and one in South Carolina. The Company paid $2,000,000 in cash and issued a note payable for $950,000 due January 31, 2000, payment of which is contingent upon a minimum equity requirement for 1998 and certain financial performance criteria for 1999. The Company also paid $50,000 in cash for a noncompete agreement with the selling shareholder. TSS's revenues for the fiscal year ended March 29, 1998 were approximately $12.9 million (audited).

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16. SUBSEQUENT EVENTS (CONTINUED)

Subsequent to year end, effective February 8, 1999, the Company negotiated an amendment to the loan agreement with its principal bank to increase the availability under the unsecured revolving credit facility by $2.0 million. All other terms and conditions of the loan agreement were unchanged.

Subsequent to year end, effective February 15, 1999, the Company acquired certain assets of TPM Staffing Services, Inc. ("TPM"), a staffing services company with three offices in southern California - Lake Forest, Santa Ana, and Anaheim. The Company paid $1,200,000 in cash for the assets of TPM and the selling shareholder's noncompete agreement, of which $240,000 will be deferred for six months. TPM's revenues for the year ended December 31, 1998 were approximately $5.7 million (unaudited).

EXHIBIT INDEX

2 Acquisition and Merger Agreement dated June 29, 1998, among the registrant, Western Industrial Management, Inc., Catch 55, Inc., and the other parties listed therein. Incorporated by reference to Exhibit 2 to the registrant's Current Report on Form 8-K filed July 13, 1998.

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 31, 1998. Incorporated by reference to Exhibit 4.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.

4.2 Amendment, dated February 8, 1999, to Loan Agreement between the registrant and Wells Fargo Bank, N.A., dated May 31, 1998.

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.

Incorporated by reference to Exhibit 10.3 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1997.

10.4	Employment Agreement between the registrant and Michael D. Mulholland, dated January 26, 1999.
11	Statement of calculation of Basic and Diluted shares outstanding.
23	Consent of PricewaterhouseCoopers LLP, independent accountants.
24	Power of attorney of certain officers and directors.
27	Financial Data Schedule, fiscal year end 1998.

February 8, 1999

BARRETT BUSINESS SERVICES, INC.
4724 SW Macadam Avenue
Portland, OR 97201

Dear Gentlemen:

This letter amendment (this "Amendment") is to confirm the changes agreed upon between Wells Fargo Bank, National Association ("Bank") and Barrett Business Services, Inc. ("Borrower") to the terms and conditions of that certain letter agreement between Bank and Borrower dated as of May 31, 1998, as amended from time to time (the "Agreement"). For valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Bank and Borrower hereby agree that the Agreement shall be amended as follows to reflect said changes.

1. The Agreement is hereby amended by deleting "Five Million Six Hundred Fifty Thousand Dollars ($5,650,000.00)" as the maximum principal amount available under Line of Credit, and by substituting for said amount "Seven Million Six Hundred Fifty Thousand Dollars ($7,650,000.00)," with such change to be effective upon the execution and delivery to Bank of a promissory note substantially in the form of Exhibit A attached hereto (which promissory note shall replace and be deemed Line of Credit Note defined in and made pursuant to the Agreement) and all other contracts, instruments and documents required by Bank to evidence such change.

2. Paragraph I.1. (b) of the Agreement is hereby amended by deleting "Five Million Six Hundred Fifty Thousand Dollars ($5,650,000.00)" as the aggregate undrawn amount of all outstanding Letters of Credit, and by substituting for said amount "Seven Million Six Hundred Fifty Thousand Dollars ($7,650,000.00)."

3. Except as specifically provided herein, all terms and conditions of the Agreement remain in full force and effect, without waiver or modification. All terms defined in the Agreement shall have the same meaning when used herein. This Amendment and the Agreement shall be read together, as one document.

4. Borrower hereby remakes all representations and warranties contained in the Agreement and reaffirms all covenants set forth therein. Borrower further certifies that as of the date

of Borrower's acknowledgment set forth below there exists no default or defined event of default under the Agreement or any promissory note or other contract, instrument or document executed in connection therewith, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute such a default or defined event of default.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY BANK AFTER OCTOBER 3, 1989 CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY BANK TO BE ENFORCEABLE.

Your acknowledgment of this Amendment shall constitute acceptance of the foregoing terms and conditions.

Sincerely,

WELLS FARGO BANK,

NATIONAL ASSOCIATION

By: /s/ Julie Wilson
Julie Wilson
Vice President

Acknowledged and accepted as of February 10, 1999:

BARRETT BUSINESS SERVICES, INC.

By: /s/ Michael D. Mulholland

Title: Vice President - Finance

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, dated for reference purposes January 26, 1999, is by and between BARRETT BUSINESS SERVICES, INC., a Maryland corporation ("Employer"), and MICHAEL D. MULHOLLAND ("Employee"). Employer desires to confirm the continued employment of Employee as its Vice President-Finance and Secretary, to perform the duties set forth in this Agreement; and Employee is willing to enter into this contract of employment.

NOW, THEREFORE, in consideration of the mutual promises, agreements and conditions hereinafter set forth, it is agreed as follows:

1. EMPLOYMENT. Employer shall continue to employ Employee, and Employee agrees to be employed by Employer in accordance with the terms and conditions hereinafter set forth. Employee represents and warrants that he has the legal capacity to execute and perform this Agreement, that it is a valid and binding agreement against him according to its terms, and that its execution and performance by him does not violate the terms of any existing agreement or understanding to which Employee is a party. In addition, Employee represents and warrants that he knows of no reason why he is not physically capable of performing his obligations under this Agreement in accordance with its terms.

2. TERM. The term of this Agreement will begin on January 26, 1999, 1999 ("Anniversary Date"). Except as otherwise provided under paragraphs 2.1 and 2.2 herein, as of each Anniversary Date, the term of this Agreement shall not be less than two (2) years.

2.1 Unless either party to this Agreement notifies the other in writing not later than 30 days prior to an Anniversary Date of an election to terminate this Agreement on the Anniversary Date in the following year, the term of this Agreement shall automatically renew each year for an additional one (1) year, upon the annual Anniversary Date, such that the effective term of this Agreement shall always be not less than two (2) years as of each Anniversary Date.

2.2 In the event of a "Change in Control" of the Employer, this Agreement shall automatically renew for a period of not less than two (2) years beginning with the day immediately preceding the effective date of the Change in Control of the Employer. For the purposes of this Agreement, Change in Control shall be identical to the definition included in the Employer's 1993 Stock Incentive Plan, as amended; provided, however, the definition of Change in Control shall not include any form of acquisition, merger or consolidation of Employer's stock initiated by William W. Sherertz or any entity controlled by William W. Sherertz which would cause the Employer to become a

privately owned company and William W. Sherertz continues as President and Chief Executive Officer.

3. DUTIES. Employee will serve as Vice President-Finance and Secretary of Employer, with such duties as are customarily associated with such positions, and such other duties as may be assigned to him from time to time by the Board of Directors of Employer (the "Board").

4. EXTENT OF SERVICES; RESTRICTIONS. Employee shall devote his entire working time, attention and energies to the performance of his duties hereunder and shall not, during the term of this Agreement, be engaged in any other business activity, whether or not such business activity is pursued for gain, profit or other pecuniary advantage. Employee shall at all times, faithfully and to the best of his ability, perform all of the duties that may be required of him pursuant to this Agreement; provided, however, that nothing in this

Agreement shall preclude Employee from devoting time during reasonable periods required for:

4.1 serving, in accordance with Employer's policies and with the prior approval of the Board, as a director or member of a committee of any company or organization involving no actual or potential conflict of interest with Employer;

4.2 delivering lectures and fulfilling speaking engagements;

4.3 engaging in charitable and community activities; and

4.4 investing his personal assets in businesses in which his participation is solely that of an investor; provided, however, that such activities do not materially affect or interfere with the performance of Employee's duties and obligations to Employer.

5. SALARY. Employee shall be paid a salary of $155,000 per year, in accordance with Employer's standard payroll procedures for its executive management employees. Employee's salary shall be evaluated annually, as provided in the Employer's Executive Officer Compensation Policy Dated November 30, 1995. The foregoing salary is in addition to such other forms of compensation such as stock appreciation rights, options, bonuses, and benefits, as provided for in the Company's Executive Officer Compensation Policy Dated November 30, 1995, and as the Board may award to Employee from time to time.

6. BENEFITS; REIMBURSEMENT; STOCK OPTIONS. Employer will furnish Employee, at Employer's expense, the same employment fringe benefits that are generally provided from time to time by Employer to its executive management employees. Employer shall reimburse Employee for reasonable out-of-pocket expenses that

Employee incurs in connection with the performance of his duties in accordance with the same reimbursement policies that generally apply to Employer's executive management employees.

7. TERMINATION.

7.1 FOR CAUSE. Employer, by a vote of a majority of the Board, may terminate Employee's employment at any time "For Cause" with immediate effect upon delivering written notice thereof to Employee. For purposes of this Agreement, For Cause includes:

(a) a significant failure to comply with policies, standards and regulations of the Employer as established from time to time;

(b) gross negligence in the performance of Employee's duties, continuing after appropriate notice pursuant to Employer policy;

(c) embezzlement, theft, larceny, material fraud, or other acts of dishonesty;

(d) significant violation of any of Employee's material duties or obligations under this Agreement; or

(e) conviction of or entry of a plea of guilty or nolo contendere to a felony or other crime.

On termination For Cause, Employer shall pay Employee his salary earned through the date of termination, and Employee shall not be entitled to any further compensation or benefits under this Agreement after the date of such termination other than fringe benefits due under Employer's benefit plans or applicable law.

7.2 WITHOUT CAUSE. In the event of a Change in Control of the

Employer and Employee's employment is terminated other than For Cause, then Employer shall pay to Employee an amount equal to two (2) times his then-current annual base salary in a lump sum within three (3) days of the date of termination of employment, unless the provisions of paragraph 8 are applicable, wherein such lump sum payment shall then be payable in accordance with paragraph 8. If Employee voluntarily terminates employment with Employer within 90 days of a "Change in Duties" related to a Change in Control, Employer shall be deemed to have terminated Employee's employment other than For Cause under this paragraph 7.2, then Employer shall pay to Employee an amount equal to two (2) times his then-current annual base salary in a lump sum within three (3) days of the date of termination of employment, unless the provisions of paragraph 8 are applicable, wherein such lump sum payable shall then be payable in accordance with paragraph 8. Change in Duties shall mean any one or more of the following:

(a) a significant change in the nature or scope of Employee's title, responsibilities, authorities, or duties from those applicable as of the date of this Agreement;

(b) a significant diminution in Employee's eligibility to participate in bonus, stock option, incentive awards, and other compensation plans;

(c) a significant diminution in employee benefits, including, but not limited to, medical and dental insurance, and perquisites applicable to Employee, from the employee benefits and perquisites to which he was entitled as of the date of this Agreement; provided, however, Employer may modify and amend the group benefit plans offered to its employees including Employee, without violating the terms of this paragraph 7.2(c);

(d) a change in the location of Employee's principal place of employment by Employer by more than 30 miles from Portland, Oregon; or

(e) significant violation of any of the Employer's material duties or obligations under this Agreement.

7.3 DEATH. In the event of Employee's death during the term of this Agreement, this Agreement will terminate.

7.4 DISABILITY. This Agreement shall terminate upon Employee's total disability. Employee's total disability means his inability to perform his regular duties by reason of illness or accident for a period of six (6) consecutive months, determined by a licensed physician acceptable to Employer and Employee. On termination by reason of Employee's disability, in addition to such group disability insurance benefits as Employer may provide from time to time, Employee and his dependents shall continue to be covered by the group health insurance provided to executive management employees of Employer for the remaining term of this Agreement.

7.5 BY EMPLOYEE. In the event Employee voluntarily terminates employment with Employer during the term of this Agreement (other than as a result of a Change in Duties as set forth in paragraph 7.2 above), Employer shall pay Employee his salary through the date of termination and Employee shall not be entitled to any further compensation or benefits under this Agreement after the date of termination other than fringe benefits due under Employer's benefit plans or applicable law.

8. LIMITATIONS ON TERMINATION COMPENSATION.

8.1 In the event that the "Present Value" (as defined herein) of any termination benefits payable to Employee under this Agreement, and any other payments otherwise payable to Employee by the Employer on or after a Change in Control, which are deemed under Section 280G of the Internal Revenue Code of

1986, as amended (the "Code"), to constitute "Parachute Payments" [as defined in Section 280G without regard to Section 280G(b)(2)(A)(ii)] equals or exceeds 300 percent of Employee's base amount (as defined herein), the provisions set forth below will apply, and termination benefits payable to Employee under paragraph 7 of this Agreement will be made only in accordance with this paragraph 8 notwithstanding any provision to the contrary in this Agreement.

8.2 Not later than ten (10) days from the date of Employee's termination, the Employer will provide Employee with a schedule indicating by category the Present Value of all termination benefits payable to Employee under this Agreement and any other payments otherwise payable to Employee by the Employer on or after the Change in Control, which, in the Employer's opinion, constitute Parachute Payments under Section 280G. No payments under paragraph 7 of this Agreement shall be made until after ten (10) days from the receipt of such schedule by Employee. At any time prior to the expiration of said ten (10) day period, Employee shall have the right to select from all or part of any category of payment to be made under this Agreement those payments to be made to Employee in an amount, the Present Value of which (when combined with the Present Value of any other payments otherwise payable to Employee by the Employer that are deemed Parachute Payments) is less than 300 percent of Employee's base amount. If Employee fails to exercise his right to make a selection, only a lump sum cash termination payment in the maximum amount that is less than 300 percent of his base amount (reduced by the Present Value of any other payments otherwise payable to Employee by the Employer that are deemed Parachute Payments) shall be made to Employee on the day after the expiration of the period extending ten (10) days from the receipt by Employee of the schedule provided for hereunder.

8.3 At any time prior to Employee exercising his right to make a selection under paragraph 8.2, Employee shall have the right to request that the Employer obtain a ruling from the Internal Revenue Service ("Service") as to whether any or all payments listed on the schedule provided hereunder are, in the view of the Service, Parachute Payments under Section 280G. If a ruling is sought pursuant to his request, no termination benefit under this Agreement shall be paid to him until after 15 days from the date of such ruling, and the period during which Employee may exercise his right to make a selection under paragraph 8.2 hereof shall be extended to a date 15 days from the date of such ruling. For purposes of this paragraph 8, Employee and the Employer hereby agree to be bound by the Service's ruling as to whether payments constitute Parachute Payments under Section 280G. If the Service declines, for any reason, to provide the ruling requested, the Employer's determination with respect to what payments constitute Parachute Payments shall control, and the period during which Employee may exercise his right to make a selection under paragraph 8.2 hereof shall be

extended to a date 15 days from the date of the Service's notice indicating that no ruling will be forthcoming.

8.4 For purposes of this paragraph 8, "Present Value" means the value determined in accordance with the principles of Section 1274(d) of the Code under rules provided in Treasury Regulations under Section 280G, and base amount means the average annual compensation payable to Employee by the Employer and includable in his gross income for federal income tax purposes during the shorter of the period consisting of the most recent five (5) taxable years ending before the date of any Change in Control of the Employer or the portion of such period during which Employee was an employee of the Employer.

8.5 Any selection by Employee under this paragraph 8 shall be invalid, and no such payments will be made, unless, under relevant Treasury Regulations, such payments can be reduced to Present Value as of the date of termination or such appropriate date prior thereto as provided in said Treasury Regulations.

8.6 References to Section 280G herein are specific references to Section 280G, as amended to date. In the event that Section 280G is amended further prior to expiration or termination of this Agreement, or replaced by a successor statute, the limitations imposed by this paragraph 8 upon payments to be made to Employee under this Agreement shall be deemed modified without further action of the parties so as to provide only for such limitations that are consistent with such amendment(s) or successor statute(s), as the case may be. In the event that Section 280G, or any successor statute, is repealed, this paragraph 8 shall cease to be effective on the effective date of such repeal. The parties to this Agreement recognize that final Treasury Regulations under Section 280G may affect the amounts that may be paid hereunder and agree that, upon issuance of such final Treasury Regulations, this Agreement may be modified as in good faith deemed necessary in light of the provisions of such Treasury Regulations to achieve the purposes hereof, and consent to such modifications shall not be unreasonably withheld.

9. CONFIDENTIAL INFORMATION AND EMPLOYER MATERIALS. Employee recognizes and acknowledges that all information pertaining to the affairs, business, clients, or customers of Employer (any or all of such entities hereinafter referred to as the "Business"), as such information may exist from time to time, is confidential information and is a unique and valuable asset of the Business, access to and knowledge of which are essential to the performance of Employee's duties under this Agreement. Employee shall not, except to the extent reasonably necessary in the performance of his duties under this Agreement, divulge to any person, firm, association, corporation, or governmental agency, any information concerning the affairs, business, clients, or customers of the Business (except such information as is required by law to be divulged to a government agency or pursuant to lawful process), or make use of any such information for

his own purposes or for the benefit of any person, firm, association or corporation (except the Business) and shall use his reasonable best efforts to prevent the disclosure of any such information by others. All records, memoranda, letters, books, papers, reports, accountings, experience or other data, and other records and documents relating to the Business, whether made by Employee or otherwise coming into his possession, are confidential information and are, shall be, and shall remain the property of Employer. No copies thereof shall be made which are not retained by Employer, and Employee agrees, on termination of his employment, or on demand of Employer, to deliver the same to Employer. Employer's obligation to make payments, deliver shares of stock or provide for any benefits under this Agreement or any other agreement with Employee shall cease upon any violation of the preceding provisions of this paragraph; provided, however, that Employee shall first have the right to appear before the Board with counsel and that cessation of payments shall require a vote of a majority of the Board.

10. NOTICES. Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and personally delivered or sent by registered or certified mail addressed as follows:

Employer:	Barrett Business Services, Inc. 4724 SW Macadam Avenue Portland OR 97201-4225 Attn: President
With a copy to:	Kirkham E. Hay Brownstein, Rask, Arenz, Sweeney, Kerr & Grim, LLP 1200 SW Main Building Portland OR 97205-2040
Employee:	Michael D. Mulholland 3061 SW Fairmount Boulevard Portland OR 97201

Either party may, by notice in writing to the other party as provided

herein, change the address to which notices to that party are to be given.

11. WAIVER. The waiver by Employer of the breach of any provision of this Agreement by Employee shall not operate or be construed as a waiver of any subsequent breach by Employee.

12. MODIFICATION. No amendment, modification or discharge of this Agreement shall be valid unless it is in writing and duly executed by the party to be charged therewith.

13. GOVERNING LAW. This Agreement shall be governed and construed in accordance with the laws of the State of Oregon without regard to any applicable conflicts of law rules thereof.

14. SEVERABILITY. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

15. BENEFIT. This Agreement shall inure to and be binding upon the parties, their heirs, personal representatives, successors, and assigns; provided, however, Employee may not assign this Agreement.

16. ENTIRE AGREEMENT. The entire agreement between the parties is contained herein and it supersedes and replaces all other agreements pertaining to Employee's employment by Employer; provided, however, this Agreement does not supersede or invalidate other agreements and understandings between the parties relating to fringe benefit plans provided to Employee or noncompetition agreements. There are no promises or representations made on behalf of Employer to induce Employee to enter into this Agreement which are not set forth herein.

17. ARBITRATION. Any and all disputes arising from or pertaining to this Agreement, or the interpretation or enforcement thereof, shall be resolved by binding arbitration in Portland, Oregon. The arbitration shall be conducted by an independent and neutral arbiter mutually agreed upon by the parties. If the parties fail to agree on the selection of the arbiter within 30 days after either party requests arbitration, the arbiter shall be appointed, on petition by either party, by the Presiding Judge of the Circuit Court of the State of Oregon for Multnomah County. The fees and expenses of the arbiter shall be equally shared by the parties. The decision of the arbiter shall be final and judgment thereon may be entered in any court of competent jurisdiction. All parties shall use good faith best efforts to resolve any dispute related to this Agreement within 90 days from the date of notice by either party of a dispute. In the event the Employer fails to use good faith best efforts to resolve any dispute hereunder within 90 days, then the Employer shall forfeit his rights under this Agreement and the Employee shall be permitted to enter a default judgment in favor of the Employee, including all fees and expenses incurred by the Employee in connection with the dispute, in any court of competent jurisdiction.

18. NO ATTACHMENT. Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge, or hypothecation or to execution, attachment, levy, or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to effect any such action shall be null, void and of no effect; provided, however, that nothing in this paragraph 18 shall preclude the assumption of such rights by executors, administrators or other legal representatives of Employee or his estate and their assigning any rights hereunder to the person or persons entitled thereto.

19. SOURCE OF PAYMENTS. All payments provided for under this Agreement shall be paid in cash from the general funds of Employer. Employer shall not be

required to establish a special or separate fund or other segregation of assets to assure such payments, and, if Employer shall make any investments to aid it in meeting its obligations hereunder, Employee shall have no right, title or interest whatsoever in or to any such investments except as may otherwise be expressly provided in a separate written instrument relating to such investments. Nothing contained in this Agreement, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between Employer and Employee or any other person. To the extent that any person acquires a right to receive payments from Employer hereunder, such right shall be no greater than the right of an unsecured creditor of Employer.

20. CAPTIONS. The paragraph captions are for convenience of the parties and shall not affect the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first herein written.

Employer:

Barrett Business Services, Inc.

By /s/ William W. Sherertz

Title: President and CEO

Employee:

/s/ Michael D. Mulholland
Michael D. Mulholland

EXHIBIT 11

BARRETT BUSINESS SERVICES, INC.
STATEMENT OF CALCULATION OF BASIC
AND DILUTED COMMON SHARES OUTSTANDING

	Year Ended December 31, 1998
Weighted average number of basic shares outstanding	7,664,016
Stock option plan shares to be issued at prices ranging from $3.50 to $18.00 per share	712,777
Warrants issued at a price of $4.20 per share	9,643
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	(675,539)
Weighted average number of diluted shares outstanding	7,710,897

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 Prospectuses constituting part of the Registration Statements on Form S-3 (Nos. 333-24449 and 333-62041) of Barrett Business Services, Inc. of our report dated February 8, 1999, except as to Note 16, which is as of February 15, 1999 appearing on page F-1 of this Annual Report on Form 10-K.

PRICEWATERHOUSECOOPERS LLP

Portland, Oregon
March 26, 1999

POWER OF ATTORNEY EXHIBIT 24

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, 1998, 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 17th Day of March, 1999.

SIGNATURE	TITLE
/s/ William W. Sherertz William W. Sherertz	President and Chief Executive Officer and Director (Principal Executive Officer)
/s/ Michael D. Mulholland Michael D. Mulholland	Vice President-Finance and Secretary (Principal Financial Officer)
/s/ James D. Miller James D. Miller	Controller (Principal Accounting Officer)
/s/ 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
/s/ Nancy B. Sherertz Nancy B. Sherertz	Director

<ARTICLE> 5

<LEGEND>

BARRETT BUSINESS SERVICES, INC.
FINANCIAL DATA SCHEDULE

This schedule contains summary financial information extracted from the Company's balance sheets and related statements of operations for the year ended December 31, 1998 and is qualified in its entirety by reference to such financial statements.
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