

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2002  
Commission File No. 0-21886

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

Maryland 52-0812977  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification No.)

4724 SW Macadam Avenue 97239  
Portland, Oregon (Zip Code)  
(Address of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [ X ] No [ ]

Number of shares of Common Stock, \$.01 par value, outstanding at October 31, 2002 was 5,804,335 shares.

BARRETT BUSINESS SERVICES, INC.

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## Part I - Financial Information

## Item 1. Financial Statements

## BARRETT BUSINESS SERVICES, INC.

## Balance Sheets

(Unaudited)

(In thousands, except per share amounts)

	September 30,	December
	2002	2001
	-----	-----
31,		
----		
ASSETS		
Current assets:		
<S>	<C>	<C>
Cash and cash equivalents	\$ 720	\$
1,142		
Trade accounts receivable, net	12,794	
13,760		
Prepaid expenses and other	1,182	
1,022		
Deferred tax assets	3,153	
2,841		
----		
Total current assets	17,849	
18,765		
Goodwill, net	18,749	
18,749		
Intangibles, net	71	
129		
Property and equipment, net	5,359	
6,084		
Restricted marketable securities and workers' compensation deposits	4,318	
5,425		
Deferred tax assets	1,694	
2,268		
Other assets	1,009	
1,146		
----		
	\$ 49,049	\$
52,566		
=====		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 447	\$
708		
Line of credit	3,576	
3,424		
Accounts payable	641	
686		
Accrued payroll, payroll taxes and related benefits	5,892	
5,165		
Workers' compensation claims and safety incentive liabilities	2,912	
5,735		
Other accrued liabilities	452	
389		
----		
Total current liabilities	13,920	
16,107		
Long-term debt, net of current portion	487	
922		
Customer deposits	434	
520		
Long-term workers' compensation claims liabilities	3,501	
3,515		
Other long-term liabilities	808	
968		
----		

-----		19,150	
22,032		-----	-----
-----			
Commitments and contingencies			
Stockholders' equity:			
Common stock, \$.01 par value; 20,500 shares authorized, 5,804 and 5,847 shares issued and outstanding		58	
58			
Additional paid-in capital		3,264	
3,461			
Employee loan		(107)	
(29)			
Retained earnings		26,684	
27,044		-----	-----
-----			
30,534		29,899	
-----		-----	-----
-----			
52,566		\$ 49,049	\$
=====		=====	

</TABLE>

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

BARRETT BUSINESS SERVICES, INC.  
Statements of Operations  
(Unaudited)  
(In thousands, except per share amounts)

<TABLE>  
<CAPTION>

	Three Months Ended September 30,	
	----- 2002	----- 2001
-----		
Revenues:		
<S>	<C>	<C>
Staffing services	\$ 26,935	\$
33,538		
Professional employer services	18,710	
24,744		
-----		
58,282	45,645	
-----		
Cost of revenues:		
Direct payroll costs	35,587	
45,271		
Payroll taxes and benefits	3,627	
4,611		
Workers' compensation	2,058	
2,426		
-----		
52,308	41,272	
-----		
Gross margin	4,373	
5,974		
Selling, general and administrative expenses	3,984	
4,741		

Depreciation and amortization 818	282	
-----	-----	-----
Income from operations 415	107	
-----	-----	-----
Other (expense) income:		
Interest expense (87)	(91)	
Interest income 72	50	
Other, net -	27	
-----	-----	-----
	(14)	
-----	-----	-----
Income before provision for income taxes 400	93	
Provision for income taxes 158	37	
-----	-----	-----
Net income 242	\$ 56	\$
=====	=====	=====
Basic earnings per share .04	\$ .01	\$
=====	=====	=====
Weighted average number of basic shares outstanding 6,152	5,804	
=====	=====	=====
Diluted earnings per share .04	\$ .01	\$
=====	=====	=====
Weighted average number of diluted shares outstanding 6,180	5,816	
=====	=====	=====

</TABLE>

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

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BARRETT BUSINESS SERVICES, INC.  
Statements of Operations  
(Unaudited)  
(In thousands, except per share amounts)

<TABLE>  
<CAPTION>

	Nine Months Ended September 30,	
	2002	2001
	-----	-----
Revenues:		
<S>	<C>	<C>
Staffing services	\$ 74,189	\$ 94,759
Professional employer services	55,269	71,227
	-----	-----
	129,458	165,986
	-----	-----

Cost of revenues:		
Direct payroll costs	100,705	128,654
Payroll taxes and benefits	10,839	13,794
Workers' compensation	5,402	7,044
	-----	-----
	116,946	149,492
	-----	-----
Gross margin	12,512	16,494
Selling, general and administrative expenses	12,255	14,269
Depreciation and amortization	882	2,469
	-----	-----
Loss from operations	(625)	(244)
	-----	-----
Other income (expense) :		
Interest expense	(188)	(295)
Interest income	173	226
Other, net	21	46
	-----	-----
	6	(23)
	-----	-----
Loss before provision for income taxes	(619)	(267)
Benefit from income taxes	(259)	(114)
	-----	-----
Net loss	\$ (360)	\$ (153)
	=====	=====
Basic loss per share	\$ (.06)	\$ (.02)
	=====	=====
Weighted average number of basic shares outstanding	5,810	6,268
	=====	=====
Diluted loss per share	\$ (.06)	\$ (.02)
	=====	=====
Weighted average number of diluted shares outstanding	5,810	6,268
	=====	=====

</TABLE>

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

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BARRETT BUSINESS SERVICES, INC.  
Statements of Cash Flows  
(Unaudited)  
(In thousands)

<TABLE>  
<CAPTION>

	Nine Months Ended September 30,	
	-----	
	2002	2001
	-----	
-		
-		
Cash flows from operating activities:		
<S>	<C>	<C>
Net loss	\$ (360)	\$ (153)
Reconciliations of net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	882	2,469
Gain on sale of property	-	(46)
Gain on sales of marketable securities	(24)	-
Deferred taxes	262	(80)
Changes in certain assets and liabilities:		
Trade accounts receivable, net	966	2,889
Prepaid expenses and other	(160)	(90)
Accounts payable	(45)	(239)
Accrued payroll, payroll taxes and related benefits	727	315
Other accrued liabilities	63	(1,126)
Workers' compensation claims and safety incentive liabilities	(2,837)	(207)
Customer deposits and other assets, net	51	(127)

Other long-term liabilities	(160)	136
<hr/>		
Net cash (used in) provided by operating activities	(635)	3,741
<hr/>		
Cash flows from investing activities:		
Proceeds from sale of property	-	266
Purchase of equipment	(99)	(239)
Proceeds from maturities of marketable securities	2,708	272
Proceeds from sales of marketable securities	807	-
Purchase of marketable securities	(2,384)	(60)
<hr/>		
Net cash provided by investing activities	1,032	239
<hr/>		
Cash flows from financing activities:		
Proceeds from credit-line borrowings	37,954	48,488
Payments on credit-line borrowings	(37,802)	(47,501)
Payments on long-term debt	(696)	(3,214)
Payment to shareholder	(28)	-
Loan to employee	(78)	-
Repurchase of common stock	(183)	(1,485)
Proceeds from exercise of stock options	14	-
<hr/>		
Net cash used in financing activities	(819)	(3,712)
<hr/>		
Net (decrease) increase in cash and cash equivalents	(422)	268
Cash and cash equivalents, beginning of period	1,142	516
<hr/>		
Cash and cash equivalents, end of period	\$ 720	\$ 784
<hr/>		

</TABLE>

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

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 BARRETT BUSINESS SERVICES, INC.  
 Notes to Financial Statements

Note 1 - Basis Of Presentation Of Interim Period Statements:

The accompanying financial statements are unaudited and have been prepared by Barrett Business Services, Inc. (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures typically included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from such estimates and assumptions. The financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2001 Annual Report on Form 10-K at pages F1 - F20. The results of operations for an interim period are not necessarily indicative of the results of operations for a full year. Certain prior year amounts have been reclassified to conform with the current year presentation. Such reclassifications had no impact on gross margin, net income or stockholders' equity.

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

Pro forma net income, without the amortization of goodwill of \$446,000, for the three months ended September 30, 2001 was \$574,000. Pro forma net income,

without the amortization of goodwill of \$1,328,000, for the nine months ended September 30, 2001 was \$834,000. Pro forma basic and diluted earnings per share for the three and nine months ended September 30, 2001 were \$.09 and \$.13, respectively.

The Company's intangible assets are comprised of covenants not to compete resulting from prior year acquisitions and have contractual lives principally ranging from three to five years. The Company's intangible assets are summarized as follows (in thousands):

	September 30, 2002	December 31, 2001
Covenants not to compete	\$ 3,709	\$ 3,709
Less accumulated amortization	3,638	3,580
Intangibles, net	\$ 71	\$ 129

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BARRETT BUSINESS SERVICES, INC.  
Notes to Financial Statements (Continued)

Note 1 - Basis Of Presentation Of Interim Period Statements (Continued):

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standard No. 144 ("SFAS 144") "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 supersedes FASB Statement No. 121 "Accounting for the Impairment of Long-Lived Assets to be Disposed Of" and certain provisions of Accounting Principles Board Opinion No. 30 "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" related to the disposal of a segment of a business. The adoption of SFAS 144 had no effect on the Company's results of operations or its financial position.

Note 2 - Recent Accounting Pronouncements:

In July 2002, the FASB issued SFAS 146, "Accounting for the Costs Associated with Exit or Disposal Activities." SFAS 146 requires companies to recognize liabilities and costs associated with exit or disposal activities initiated after December 31, 2002 when they are incurred, rather than when management commits to a plan to exit an activity. This Statement will affect only the timing of the recognition of future restructuring costs and is not expected to have a material effect on the Company's results of operations or financial position.

In October 2002, the FASB issued SFAS 147, "Acquisitions of Certain Financial Institutions." SFAS 147 amends SFAS 72 "Accounting for Certain Acquisitions of Banking or Thrift Institutions" and SFAS 144 and FASB Interpretation No 9. "Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution is Acquired in a Business Combination Accounted for by the Purchase Method." Except for transactions between two or more mutual enterprises, SFAS 147 removes acquisitions of financial institutions from the scope of both SFAS 72 and Interpretation 9 and requires that those transactions be accounted for in accordance with SFAS 141 and SFAS 142. Additionally, SFAS 147 amends SFAS 144 to include in its scope long-term customer-relationship intangible assets of financial institutions. The effective date of SFAS 147 is October 1, 2002, with earlier application permitted. Management believes that the adoption of this statement will not have a material impact on its results of operations or financial position.

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BARRETT BUSINESS SERVICES, INC.  
Notes to Financial Statements (Continued)

Note 3 - Provision For Income Taxes:

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

<TABLE>  
<CAPTION>

	September 30, 2002	December 31, 2001
Gross deferred tax assets:		
Workers' compensation claims and safety incentive		

<S>	<C>	<C>
liabilities	\$ 2,401	\$ 3,517
Allowance for doubtful accounts	77	159
Book amortization in excess of tax amortization	-	634
Deferred compensation	524	447
Net operating losses and tax credits	2,158	146
Other	109	303
	-----	-----
	5,269	5,206
	-----	-----
Gross deferred tax liabilities:		
Tax depreciation in excess of book depreciation	(93)	(97)
Tax amortization in excess of book amortization	(129)	-
Other	(200)	-
	-----	-----
	(422)	(97)
	-----	-----
Net deferred tax assets	\$ 4,847	\$ 5,109
	=====	=====

</TABLE>

The (benefit from) provision for income taxes for the nine months ended September 30, 2002 and 2001 is as follows (in thousands):

	Nine Months Ended	
	September 30,	
	-----	-----
	2002	2001
	-----	-----
Current:		
Federal	\$ (364)	\$ (2)
State	(85)	(1)
	-----	-----
	(449)	(3)
	-----	-----
Deferred:		
Federal	128	(88)
State	62	(23)
	-----	-----
	190	(111)
	-----	-----
Total benefit	\$ (259)	\$ (114)
	=====	=====

Note 4 - Stock Incentive Plan:

The Company has a Stock Incentive Plan (the "Plan") which provides for stock-based awards to the Company's employees, directors and outside consultants or advisers. The number of shares of common stock reserved for issuance under the Plan is 1,550,000.

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BARRETT BUSINESS SERVICES, INC.  
Notes to Financial Statements (Continued)

Note 4 - Stock Incentive Plan (Continued):

The following table summarizes options granted under the Plan in 2002:

<TABLE>

<CAPTION>

<S>	<C>	<C>	<C>
Outstanding at December 31, 2001	252,206	\$ 1.45 to	\$ 17.75
Options granted	361,000	\$ 3.00 to	\$ 3.87
Options exercised	(4,056)	\$ 3.39 to	\$ 3.50
Options canceled or expired	(24,406)	\$ 3.00 to	\$ 17.75
	-----		
Outstanding at September 30, 2002	584,744	\$ 1.45 to	\$ 17.75
	=====		
Exercisable at September 30, 2002	148,321		
	=====		
Available for grant at September 30, 2002	736,766		
	=====		

</TABLE>

The options listed in the table generally become exercisable in four equal



annual installments beginning one year after the date of grant.

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

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BARRETT BUSINESS SERVICES, INC.

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

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 three and nine months ended September 30, 2002 and 2001.

<TABLE>

<CAPTION>

	Percentage of Total Revenues			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Revenues:				
<S>	<C>	<C>	<C>	<C>
Staffing services	59.0 %	57.5 %	57.3 %	57.1 %
Professional employer services	41.0	42.5	42.7	42.9
	-----	-----	-----	-----
	100.0	100.0	100.0	100.0
	-----	-----	-----	-----
Cost of revenues:				
Direct payroll costs	78.0	77.7	77.8	77.5
Payroll taxes and benefits	7.9	7.9	8.4	8.3
Workers' compensation	4.5	4.2	4.1	4.3
	-----	-----	-----	-----
Total cost of revenues	90.4	89.8	90.3	90.1
	-----	-----	-----	-----
Gross margin	9.6	10.2	9.7	9.9
Selling, general and administrative expenses	8.8	8.1	9.5	8.6
Depreciation and amortization	0.6	1.4	0.7	1.5
	-----	-----	-----	-----
Income (loss) from operations	0.2	0.7	(0.5)	(0.2)
Other income	-	-	-	-
	-----	-----	-----	-----
Pretax income (loss)	0.2	0.7	(0.5)	(0.2)
Provision for (benefit from) income taxes	0.1	0.3	(0.2)	(0.1)
	-----	-----	-----	-----
Net income (loss)	0.1 %	0.4 %	(0.3) %	(0.1) %
	=====	=====	=====	=====

</TABLE>

Three months ended September 30, 2002 and 2001

Net income for the third quarter of 2002 was \$56,000, a decrease of \$186,000 from net income of \$242,000 for the third quarter of 2001. The decline for the third quarter of 2002 was attributable to lower gross margin dollars, as a result of a 21.8% decline in revenues, offset in part by lower selling, general and administrative expenses and lower depreciation and amortization. Basic and diluted earnings per share for the third quarter of 2002 were \$.01 as compared to basic and diluted earnings per share of \$.04 for the 2001 third quarter. Cash flow per share (defined as net income plus depreciation and amortization divided by weighted average diluted shares outstanding) for the 2002 third quarter totaled a positive \$.06 as compared to a positive \$.17 for

the 2001 third quarter.

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BARRETT BUSINESS SERVICES, INC.

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

Results of Operations (Continued)

Revenues for the third quarter of 2002 totaled approximately \$45.6 million, a decrease of approximately \$12.7 million or 21.8% from the third quarter of 2001. The decrease in revenues reflects the general downturn in business conditions in the Company's market areas, particularly in the Company's Northern California operations, which accounted for approximately 49.7% of the decline in total revenues. The Company's Northern California operations continue to be adversely affected by the continued downturn in the "high-tech" industry and related sectors. On a sequential basis, revenues for the third quarter of 2002 increased 6.5% over the 2002 second quarter, as three of the Company's five geographic markets generated higher revenues for the 2002 third quarter as compared to the second quarter of 2002. Management attributes the sequential growth in revenues to seasonality and to a lesser extent to several new branch office managers hired by the Company over the past several months. Management expects that continued revenue growth in the future will be difficult to achieve for the foreseeable future in view of generally soft economic conditions.

Staffing services revenue decreased approximately \$6.6 million or 19.7% primarily due to a decline in demand for personnel in the majority of areas in which the Company does business. Professional employer ("PEO") services revenue decreased approximately \$6.0 million or 24.4%, which was primarily due to a 48.6% decline in the Company's Northern California operations resulting from a softening in demand from existing customers, coupled with management's decision to discontinue the Company's business relationship with customers who generated insufficient margins or demonstrated an inability to adhere consistently to credit terms. The larger percentage decline in PEO services revenue resulted in a decrease in the share of PEO services from 42.7% of total revenues for the third quarter of 2001 to 41.0% for the third quarter of 2002. The share of revenues for staffing services had a corresponding increase from 57.3% of total revenues for the third quarter of 2001 to 59.0% for the third quarter of 2002.

Gross margin for the third quarter of 2002 totaled approximately \$4.4 million, which represented a decrease of \$1.6 million or 26.8% from the third quarter of 2001 primarily resulting from the 21.8% decline in revenues experienced in the third quarter of 2002. The gross margin percent decreased from 10.2% of revenues for the third quarter of 2001 to 9.6% for the third quarter of 2002. The decrease in the gross margin percentage was due to higher direct payroll costs and higher workers' compensation expense, as a percentage of revenues. The increase in direct payroll costs, as a percentage of revenues, for the third quarter of 2002 reflects the current mix of services to the current customer base rather than an erosion of the Company's mark-up rates for its services. Workers' compensation expense for the third quarter of 2002 totaled \$2.1 million or 4.5% of revenues, which compares to \$2.4 million or 4.2% of revenues for the third quarter of 2001. The decline in workers' compensation expense, in terms of total dollars, was primarily due to a decrease in the number of injury claims in the 2002 third quarter compared to the same period in 2001, which is consistent with the downturn in the Company's business.

Selling, general and administrative ("SG&A") expenses for the 2002 third quarter amounted to approximately \$4.0 million, a decrease of \$757,000 or 16.0% from the comparable period in 2001. SG&A expenses, expressed as a percentage of revenues, increased from 8.1%

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BARRETT BUSINESS SERVICES, INC.

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

Results of Operations (Continued)

for the third quarter of 2001 to 8.8% for the third quarter of 2002. The decrease in total dollars from 2001 was primarily attributable to reductions in branch office management personnel and related expenses as a result of the downturn in business.

Depreciation and amortization totaled \$282,000 or 0.6% of revenues for the third quarter of 2002, as compared to \$818,000 or 1.4% of revenues for the same period in 2001. The decrease of \$536,000 was principally due to the Company's adoption of SFAS 142 effective January 1, 2002, whereby the Company ceased the amortization of its recorded goodwill. The third quarter of 2001 included \$446,000 of goodwill amortization. (See Note 1 to the financial statements.)

Other expense totaled \$14,000 for the third quarter of 2002, which compares to \$15,000 of other expense for the third quarter of 2001. The increase in

other, net was offset in part by a small increase in net interest expense and by lower interest income.

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

The Company offers various qualified employee benefit plans to its employees, including its worksite employees. These qualified employee benefit plans include a savings 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 ("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. 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. Reference is made to pages 20-21 of the Company's 2001 Annual Report on Form 10-K for a more detailed discussion of this issue.

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

Results of Operations (Continued)

After several years of study, on April 24, 2002, the Internal Revenue Service ("IRS") issued Revenue Procedure 2002-21 ("Rev Proc") to provide relief with respect to certain defined contribution retirement plans maintained by a PEO that benefit worksite employees. The Rev Proc outlines the steps necessary for a PEO to avoid plan disqualification for violating the exclusive benefit rule. Essentially, a PEO must either (1) terminate its plan; (2) convert its plan to a "multiple employer plan" by December 31, 2003; or (3) transfer the plan assets and liabilities to a customer plan. Although management has not fully evaluated the Rev Proc to determine which alternatives the Company will pursue to maintain the qualified status of its plans, it believes that the Company has adequate time to fully evaluate the Rev Proc and to develop a comprehensive timetable to ensure compliance with the new law. Under the Rev Proc, the Company must file a notice with the IRS by May 2, 2003, indicating the actions the Company intends to take.

Nine Months Ended September 30, 2002 and 2001

Net loss for the nine months ended September 30, 2002 was \$360,000, a decline of \$207,000 from the net loss of \$153,000 for the same period in 2001. The increased loss was attributable to lower gross margin dollars primarily due to a 22.0% decrease in revenue, partially offset by a 14.1% reduction in SG&A expenses and a 64.3% reduction in depreciation and amortization expenses. Basic and diluted loss per share for the first nine months of 2002 were \$.06 as compared to basic and diluted loss per share of \$.02 for the same period of 2001. Cash flow per share (defined as net income (loss) plus depreciation and amortization divided by weighted average diluted shares outstanding) for the first nine months of 2002 totaled a positive \$.09 as compared to a positive \$.37 for the 2001 comparable period.

Revenues for the nine months ended September 30, 2002 totaled approximately \$129.5 million, a decrease of approximately \$36.5 million or 22.0% from the similar period in 2001. The decrease in total revenues was primarily due to the continued softening of business conditions in the Company's market areas, particularly in the Company's Northern California operations, which accounted for approximately 45.0% of the decline in total revenues for the first nine months of 2002.

Gross margin for the nine months ended September 30, 2002 totaled

approximately \$12.5 million, which represented a decrease of \$4.0 million or 24.1% from the similar period of 2001. The gross margin percent decreased from 9.9% of revenues for the nine-month period of 2001 to 9.7% for the same period of 2002. The small decrease in the gross margin percentage was primarily due to higher direct payroll costs and slightly higher payroll taxes and benefits, offset in part by lower workers' compensation expense. The increase in direct payroll costs, as a percentage of revenues, from 77.5% to 77.8%, primarily reflects to the current mix of services to the current customer base. The small increase in payroll taxes and benefits for the nine-month period of 2002 was primarily attributable to slightly higher state unemployment tax rates in various states in which the Company operates as compared to the nine-month period of 2001. Workers' compensation expense for the nine months ended September 30, 2002 totaled \$5.4 million or 4.1% of revenues, which compares to \$7.0 million or 4.3% of revenues for the

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BARRETT BUSINESS SERVICES, INC.

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

Results of Operations (Continued)

similar period of 2001. The decline in workers' compensation expense, in terms of total dollars and as a percentage of revenues, for the 2002 period was primarily due to a decrease in the number of injury claims for the nine month period of 2002 compared to the same period in 2001.

SG&A expenses for the nine months ended September 30, 2002 amounted to approximately \$12.3 million, a decrease of \$2.0 million or 14.1% from the similar period of 2001. SG&A expenses, expressed as a percentage of revenues, increased from 8.6% for the nine-month period of 2001 to 9.5% for the same period of 2002. The decrease in total SG&A dollars was primarily due to reductions in branch management personnel and related expenses as a result of the downturn in business.

Depreciation and amortization totaled \$882,000 or 0.7% of revenues for the nine months ended September 30, 2002, which compares to \$2.5 million or 1.5% of revenues for the same period of 2001. The decreased expense was primarily due to the Company's adoption of SFAS 142 effective January 1, 2002, whereby the Company ceased the amortization of its recorded goodwill. The first nine months of 2001 included \$1,328,000 of goodwill amortization. (See Note 1 to the financial statements.)

Other income totaled \$6,000 for the nine-month period ended September 30, 2002, which compares to \$23,000 of other expense for the comparable 2001 period. The increase in income was primarily due to a reduction in net interest expense attributable to lower debt levels during the first nine months of 2002 as compared to the similar period of 2001 offset, in part, by lower interest income and other, net.

Liquidity and Capital Resources

The Company's cash position of \$720,000 at September 30, 2002 decreased by \$422,000 from December 31, 2001, which compares to an increase of \$268,000 for the comparable period in 2001. The decrease in cash at September 30, 2002, as compared to December 31, 2001, was primarily attributable to payments on workers' compensation claims liabilities and long-term debt offset in part by cash provided by proceeds from maturities of marketable securities, net of purchases.

Net cash used in operating activities for the nine months ended September 30, 2002 amounted to \$635,000, as compared to \$3,741,000 of net cash provided by operating activities for the comparable 2001 period. For the nine months ended September 30, 2002, net cash used in operating activities was primarily for payments on workers' compensation claims and safety incentive liabilities of \$2,837,000, offset in part by decreases in trade accounts receivable and increases in accrued payroll and related benefits totaling \$1,693,000.

Net cash provided by investing activities totaled \$1,032,000 for the nine months ended September 30, 2002, as compared to \$239,000 net cash provided by investing activities for the similar 2001 period. For the 2002 period, the principal source of cash provided by investing

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BARRETT BUSINESS SERVICES, INC.

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

Liquidity and Capital Resources (Continued)

activities was from net proceeds of \$3,515,000 from maturities and sales of

marketable securities, offset in part by \$2,384,000 of net purchases of marketable securities. The Company presently has no material long-term capital commitments.

Net cash used in financing activities for the nine-month period ended September 30, 2002 was \$819,000, compared to \$3,712,000 net cash used in financing activities for the similar 2001 period. For the 2002 period, the principal use of cash for financing activities was \$696,000 of payments made on long-term debt, primarily related to the \$8,000,000 three-year term loan in connection with the Company's 1999 acquisition of Temporary Skills Unlimited, Inc., and \$183,000 used to repurchase the Company's common stock, offset in part by \$152,000 of net borrowings on the Company's revolving credit line. The Company's three-year term loan was paid in full on schedule as of May 31, 2002.

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

Effective September 2, 2002, the Company entered into an Amended and Restated Credit Agreement with its principal bank. The Agreement provides for a revolving credit facility of up to \$11.0 million, which includes a subfeature under the line of credit for standby letters of credit for not more than \$5.5 million, as to which approximately \$5.47 million were outstanding as of September 30, 2002, and a term loan in the original amount of \$693,750 bearing interest at an annual rate 7.4%, as to which the outstanding principal balance was approximately \$360,000 as of September 30, 2002.

Under the terms of the Agreement, the Company's total outstanding borrowings, to a maximum of \$11.0 million, may not at any time exceed an aggregate of (i) 85% of the Company's eligible billed accounts receivable, plus (ii) 65% of the Company's eligible unbilled accounts receivable (not to exceed \$2.5 million), plus (iii) 75% of the appraised value of the Company's real property mortgaged to the bank, minus amounts outstanding under the term loan. Advances will bear interest at an annual rate of prime rate plus one percent. The Agreement expires April 30, 2003. The revolving credit facility is secured by the Company's assets, including, without limitation, its accounts receivable, equipment, intellectual property, real property and bank deposits, and may be prepaid at anytime without penalty. Pursuant to the Agreement, the Company is required to maintain compliance with the following financial covenants: (1) a Current Ratio not less than 1.10 to 1.0 prior to December 31, 2002, and not less than 1.15 to 1.0 as of December 31, 2002 and thereafter, with "Current Ratio" defined as total current assets divided by total current liabilities; (2) EBITDA not less than negative \$2,750,000 as of the quarter ending September 30, 2002, not less than \$850,000 as of the quarter ending December 31, 2002, and not less than \$1,500,000 as of the quarter ending March 31, 2003, measured on a trailing four-quarter basis, with "EBITDA" defined as net profit before taxes, interest expense (net of capitalized interest expense), depreciation expense and

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

Liquidity and Capital Resources (Continued)

amortization expense; (3) Funded Debt to EBITDA Ratio not more than 7.0 to 1.0 as of December 31, 2002 and not more than 3.25 to 1.0 as of March 31, 2003, with "Funded Debt" defined as all borrowed funds plus the amount of all capitalized lease obligations of the Company and "Funded Debt to EBITDA Ratio" defined as Funded Debt divided by EBITDA; and (4) EBITDA Coverage Ratio not less than 0.75 to 1.0 as of December 31, 2002 and not less than 1.50 to 1.0 as of March 31, 2003, with "EBITDA Coverage Ratio" defined as EBITDA divided by the aggregate of total interest expense plus the prior period current maturity of long-term debt and the prior period current maturity of subordinated debt. The Company was in full compliance with the foregoing financial covenants as of September 30, 2002.

In addition, under the Agreement, the Company may not, without the Bank's prior consent, among other things, use proceeds from the revolving credit facility other than for working capital, incur additional indebtedness, merge or consolidate with any other entity, sell or otherwise dispose of a substantial portion of the Company's assets, acquire all or substantially all of the assets of any other entity in any transaction involving a purchase price of \$5,000,000 or more, make any substantial change in the nature of the Company's business, make any guaranty of, or otherwise become liable for, the indebtedness of others, make any loans or other investments in other persons or entities, or grant a security interest in its assets. Management expects that the funds anticipated to be generated from operations, together with the bank-provided credit facility and other potential sources of financing, will be sufficient in the aggregate to fund the Company's working capital needs for the foreseeable future.

In February 1999, the Company's board of directors authorized a stock repurchase program to repurchase common shares from time to time in open market purchases. Since inception, the board of directors has approved six increases in the total number of shares or dollars authorized to be repurchased under the program. As of November 12, 2002, the repurchase program had remaining authorized availability of \$41,400 for the repurchase of additional shares. During the first nine months of 2002, the Company repurchased 47,600 shares at an aggregate price of \$183,200. Since the inception of the repurchase program through November 12, 2002, the Company has repurchased 1,900,900 shares for an aggregate price of \$8,589,600. Management anticipates that the capital necessary to continue this program will be provided by existing cash balances and other available resources.

#### Inflation

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

#### Forward-Looking Information

Statements in this report which are not historical in nature, including discussion of economic conditions in the Company's market areas and effect on revenue growth, the potential

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BARRETT BUSINESS SERVICES, INC.

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

##### Forward-Looking Information (Continued)

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 effectiveness of the Company's management information systems, the tax-qualified status of the Company's 401(k) savings plan and the availability of financing and working capital to meet the Company's funding requirements, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors with respect to the Company include difficulties associated with integrating acquired businesses and clients into the Company's operations, economic trends in the Company's service areas, uncertainties regarding government regulation of PEOs, including the ability of the Company to meet the new IRS requirements to retain the tax-qualified status of employee benefit plans offered by PEOs, material deviations from expected future workers' compensation claims experience, the availability of capital or letters of credit necessary to meet state-mandated surety deposit requirements for maintaining the Company's status as a qualified self-insured employer for workers' compensation coverage, collectibility of accounts receivable, 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.

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BARRETT BUSINESS SERVICES, INC.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk for changes in interest rates primarily relates to the Company's short-term and long-term debt obligations. As of September 30, 2002, the Company had interest-bearing debt obligations of approximately \$4.5 million, of which approximately \$3.6 million bears interest at a variable rate and approximately \$0.9 million at a fixed rate of interest. The variable rate debt is comprised of approximately \$3.6 million outstanding under a secured revolving credit facility, which bears interest at the prime rate plus 1.0%. Based on the Company's overall interest exposure at September 30, 2002, a 10 percent change in market interest rates would not have a material effect on the fair value of the Company's long-term debt or its results of operations. As of September 30, 2002, the Company had not entered into any interest rate instruments to reduce its exposure to interest rate risk.

#### Item 4. Controls and Procedures

- (a) Evaluation of disclosure controls and procedures. The Company's chief executive officer and its chief financial officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c)), which are designed to ensure that information the Company must disclose in its reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized, and reported on a timely basis, on November 12, 2002 and have concluded that, as of such date, the Company's disclosure controls and procedures were adequate and effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is brought to their attention on a timely basis.
- (b) Changes in internal controls. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, nor were there any significant deficiencies or material weaknesses identified in the Company's internal controls. As a result, no corrective actions were undertaken.

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## Part II - Other Information

### Item 6. Exhibits and Reports on Form 8-K

- (a) The exhibits filed herewith are listed in the Exhibit Index following the signature page of this report.
- (b) The following Current Report on Form 8-K was filed by the Registrant during the quarter ended September 30, 2002:

The Company filed on September 4, 2002 a Current Report on Form 8-K dated as of August 28, 2002, to report that the Company entered into an Amended and Restated Credit Agreement, effective September 2, 2002, with Wells Fargo Bank, N.A.

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## SIGNATURES

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

BARRETT BUSINESS SERVICES, INC.  
(Registrant)

Date: November 12, 2002

/s/ Michael D. Mulholland

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Michael D. Mulholland  
Vice President - Finance  
(Principal Financial Officer)

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## CERTIFICATIONS

I, William W. Sherertz certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Barrett Business Services, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all

material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:
  - a. designed such disclosure controls and procedures to ensure that material information relating to the Registrant is made known to us by others within the Company, particularly during the period in which this quarterly report is being prepared;
  - b. evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors:
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and
6. The Registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ William W. Sherertz

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William W. Sherertz  
Chief Executive Officer

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I, Michael D. Mulholland certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Barrett Business Services, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:
  - a. designed such disclosure controls and procedures to ensure that material information relating to the Registrant is made known to us by others within the Company, particularly during the period in which this quarterly report is being prepared;
  - b. evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c. presented in this quarterly report our conclusions about the



effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors:
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and
6. The Registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Michael D. Mulholland

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Michael D. Mulholland  
Chief Financial Officer

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#### EXHIBIT INDEX

#### Exhibit

- 11 Statement of Calculation of Basic and Diluted Common Shares Outstanding.
- 99.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

<TABLE>  
<CAPTION>

Three Months  
Ended  
September 30, 2002  
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<S>  
Weighted average number of basic shares outstanding  
5,803,647

<C>

Stock option plan shares to be issued at prices ranging from \$1.45 to \$17.75  
per share  
401,098

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  
(388,745)

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Weighted average number of diluted shares outstanding  
5,816,000

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</TABLE>

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Barrett Business Services, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William W. Sherertz, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ William W. Sherertz

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William W. Sherertz  
Chief Executive Officer  
November 12, 2002

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Barrett Business Services, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael D. Mulholland, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Michael D. Mulholland

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Michael D. Mulholland  
Chief Financial Officer  
November 12, 2002