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, 2004
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 incorporation or organization)	(IRS Employer Identification No.)
4724 SW Macadam Avenue Portland, Oregon	97239
(Address of principal executive offices)	(Zip Code)

(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 [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

Number of shares of common stock, $.01 par value, outstanding at October 29, 2004 was 5,740,692 shares.

BARRETT BUSINESS SERVICES, INC.

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Part I - Financial Information

Item 1. Financial Statements

BARRETT BUSINESS SERVICES, INC.
Consolidated Balance Sheets
(Unaudited)
(In thousands, except per share amounts)

	September 30, 2004	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$10,009	$ 7,785
Marketable securities	4,503	--
Trade accounts receivable, net	30,523	18,481
Prepaid expenses and other	1,243	958
Deferred income taxes	5,168	2,196
Total current assets	51,446	29,420
Goodwill, net	21,738	18,749
Intangibles, net	30	13
Property and equipment, net	4,439	3,367
Restricted marketable securities and workers' compensation deposits	1,775	1,647
Deferred income taxes	758	1,041
Other assets	399	436
	$80,585	$54,673
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 348	$ 88
Income taxes payable	2,685	--
Accounts payable	430	727
Accrued payroll, payroll taxes and related benefits	23,829	13,881
Workers' compensation claims liabilities	4,977	3,886
Safety incentives liability	4,534	2,007
Other accrued liabilities	606	361
Total current liabilities	37,409	20,950
Long-term debt, net of current portion	1,478	400
Customer deposits	501	455
Long-term workers' compensation claims liabilities	4,576	1,031
Other long-term liabilities	--	45
Deferred gain on sale and leaseback	1,067	1,158
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.01 par value; 20,500 shares authorized, 5,740 and 5,701 shares issued and outstanding	62	62
Additional paid-in capital	3,100	2,903
Employee loan	--	(107)
Other comprehensive loss	(278)	--
Retained earnings	32,670	27,776
	35,554	30,634
	$80,585	$54,673

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

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

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003
Revenues:		
Staffing services	$35,673	$26,727
Professional employer service fees	19,006	8,046
	54,679	34,773
Cost of revenues:		
Direct payroll costs	26,436	19,740
Payroll taxes and benefits	11,376	6,181
Workers' compensation	6,094	2,622
	43,906	28,543
Gross margin	10,773	6,230
Selling, general and administrative expenses	6,404	4,461
Depreciation and amortization	257	256
Income from operations	4,112	1,513
Other income (expense):		
Interest expense	(22)	(55)
Interest income	95	13
Other, net	--	(20)
	73	(62)
Income before provision for income taxes	4,185	1,451
Provision for income taxes	1,737	508
Net income	$ 2,448	$ 943
Basic earnings per share	$ .43	$ .17
Weighted average number of basic shares outstanding	5,739	5,645
Diluted earnings per share	$ .40	$ .16
Weighted average number of diluted shares outstanding	6,144	5,927

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

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

	Nine Months Ended September 30, 2004	2003
Revenues:		
Staffing services	$ 91,197	$ 69,883
Professional employer service fees	51,796	16,189
	142,993	86,072
Cost of revenues:		
Direct payroll costs	67,307	51,617
Payroll taxes and benefits	33,556	14,371
Workers' compensation	15,774	6,029
	116,637	72,017
Gross margin	26,356	14,055
Selling, general and administrative expenses	17,637	11,926
Depreciation and amortization	752	807
Income from operations	7,967	1,322
Other income (expense) :		
Interest expense	(77)	(233)
Interest income	177	69
Other, net	32	28
	132	(136)
Income before provision for income taxes	8,099	1,186
Provision for income taxes	3,205	419
Net income	$ 4,894	$ 767
Basic earnings per share	$ .86	$ .13
Weighted average number of basic shares outstanding	5,720	5,700
Diluted earnings per share	$ .80	$ .13
Weighted average number of diluted shares outstanding	6,140	5,805

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

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

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	Nine Months Ended September 30, 2004	2003
<S>	<C>	<C>

Cash flows from operating activities:		
Net income	$ 4,894	$ 767
Reconciliations of net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	752	807
Gain on sales of marketable securities	--	(48)
Gain recognized on sale and leaseback	(91)	(31)
Deferred income taxes	(2,689)	784
Changes in certain assets and liabilities:		
Income taxes receivable	--	1,923
Trade accounts receivable, net	(12,056)	(7,092)
Prepaid expenses and other	(285)	(709)
Income taxes payable	2,853	--
Accounts payable	(297)	(53)
Accrued payroll, payroll taxes and related benefits	9,948	8,036
Other accrued liabilities	245	21
Workers' compensation claims liabilities	4,636	(2,170)
Safety incentives liability	2,527	275
Customer deposits and other assets, net	83	586
Other long-term liabilities	(45)	(770)
Net cash provided by operating activities	10,475	2,326
Cash flows from investing activities:		
Cash paid for acquisition, including other direct costs	(3,044)	--
Proceeds from sale and leaseback of buildings	--	2,338
Purchase of marketable securities	(4,781)	--
Purchase of equipment, net of amounts purchased in acquisition	(1,801)	(188)
Proceeds from maturities of restricted marketable securities	1,463	4,361
Proceeds from sales of restricted marketable securities	--	2,272
Purchase of restricted marketable securities	(1,591)	(6,362)
Net cash (used in) provided by investing activities	(9,754)	2,421
Cash flows from financing activities:		
Proceeds from issuance of debt	1,475	--
Proceeds from credit-line borrowings	148	38,750
Payments on credit-line borrowings	(148)	(42,263)
Payments on long-term debt	(137)	(434)
Repurchase of common stock	--	(446)
Proceeds from exercise of stock options	165	--
Net cash provided by (used in) financing activities	1,503	(4,393)
Net increase in cash and cash equivalents	2,224	354
Cash and cash equivalents, beginning of period	7,785	96
Cash and cash equivalents, end of period	$ 10,009	$ 450

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

BARRETT BUSINESS SERVICES, INC.
Notes to Consolidated Financial Statements

Note 1 - Basis of Presentation of Interim Period Statements

The accompanying consolidated financial statements are unaudited and have been prepared by Barrett Business Services, Inc. ("Barrett" or 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 consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from such estimates and assumptions. The consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2003 Annual Report on Form 10-K at pages F1 - F26. 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.

During May 2004, the Company formed a wholly-owned subsidiary which acquired an aircraft. The subsidiary incurred debt of $1,475,000 to finance the purchase of the aircraft. The consolidated financial statements include the accounts of the subsidiary, after elimination of intercompany accounts and transactions.

Barrett, a Maryland corporation, is engaged in providing both staffing and professional employer services to a diversified group of customers through a network of branch offices throughout Oregon, Washington, Idaho, California, Arizona, Maryland, Delaware and North Carolina. Staffing services are engaged by customers to meet short-term and long-term personnel needs. Professional employer services ("PEO") are normally used by organizations to satisfy ongoing human resource management needs and typically involve contracts with a minimum term of one year, renewable annually, which cover all employees at a particular work site.

Certain prior period amounts have been reclassified to conform with the current period presentation. Such reclassifications had no impact on operating results or stockholders' equity.

Note 2 - Significant Accounting Policies

Comprehensive Income (Loss)

Comprehensive income (loss) includes all changes in equity during a period except those that resulted from investments by or distributions to a company's stockholders. Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income (loss), but excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity. Barrett's other comprehensive income (loss) is comprised of unrealized holding gains and losses on its publicly traded marketable securities, net of realized gains included in net income.

Note 3 - Acquisition

Effective January 1, 2004, the Company acquired certain assets of Skills Resource Training Center ("SRTC"), a staffing services company with offices in Central Washington, Eastern Oregon and Southern Idaho. The acquisition provides the Company with the opportunity to geographically expand and diversify its business, particularly in the agricultural, food packing and processing industries. The Company paid $3,000,000 in cash for the assets of SRTC and the selling shareholders' noncompete agreements and agreed to issue up to 135,731 shares of its common stock ("Earnout Shares"), with the actual number of Earnout Shares to be issued based upon the level of financial performance achieved by the SRTC offices during calendar 2004. The transaction resulted in $2,989,000 of goodwill (including $44,000 for acquisition-related costs), $40,000 of intangible assets and $15,000 of fixed assets. The Company's consolidated income statements for the three and nine-month periods ended September 30, 2004 includes SRTC's results of operations since January 1, 2004.

Note 4 - Basic and Diluted Earnings Per Share

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

<TABLE>
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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
<S>	<C>	<C>	<C>	<C>
Weighted average number of basic shares outstanding	5,738,702	5,644,946	5,719,290	5,700,366

Stock option plan shares to be issued at prices ranging from $1.45 to $17.75 per share	582,963	643,379	597,252	572,308
Less: Assumed purchase at average market price during the period using proceeds received upon exercise of options and purchase of stock, and using tax benefits of compensation due to premature dispositions	(177,643)	(360,995)	(176,461)	(467,292)
Weighted average number of diluted shares outstanding	6,144,022	5,927,330	6,140,081	5,805,382

</TABLE>

Note 5 - Stock Incentive Plans

The Company's 2003 Stock Incentive Plan (the "2003 Plan"), which provides for stock-based awards to Company employees, non-employee directors and outside consultants or advisors, was approved by shareholders on May 14, 2003. No options have been issued to outside consultants or advisors. The number of shares of common stock reserved for issuance under the 2003 Plan is 400,000. No new grants of stock options may be made under the Company's 1993 Stock Incentive Plan (the "1993 Plan"). At September 30, 2004, there were option awards covering 376,423 shares outstanding under the 1993 Plan, which, to the extent they are terminated unexercised, will be carried over to the 2003 Plan as shares authorized to be issued under the 2003 Plan. Outstanding options under both plans generally become exercisable in four equal annual installments beginning one year after the date of grant and expire ten years after the date of grant. The exercise price of incentive stock options must not be less than the fair market value of the Company's stock on the date of grant.

The following table summarizes options activity in 2004:

	Number of Options	Grant Prices
Outstanding at December 31, 2003	585,459	$ 1.45 to $17.75
Options granted	51,597	$13.23 to $13.91
Options exercised	(47,737)	$ 2.80 to $ 5.91
Options cancelled or expired	(10,750)	$ 3.02 to $13.23
Outstanding at September 30, 2004	578,569	$ 1.45 to $17.75
Exercisable at September 30, 2004	211,406	
Available for grant at September 30, 2004	218,070	

Note 6 - Stock Option Compensation

The Company applies APB Opinion No. 25 and related interpretations in accounting for its stock incentive plan. Accordingly, no compensation expense has been recognized for its stock option grants issued at market price because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of the grant.

If compensation expense for the Company's stock-based compensation plan had been determined based on the fair market value at the grant date for awards under the 2003 Plan consistent with the method of SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net loss and loss per share would have been adjusted to the pro forma amounts indicated below:

Note 6 - Stock Option Compensation (Continued)

(in thousands, except per share amounts)	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Net income, as reported	$2,448	$ 943	$4,894	$ 767
Add back compensation expense recognized under APB No. 25	--	--	--	--
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(56)	(47)	(154)	(125)
Net income, pro forma	$2,392	$ 896	$4,740	$ 642
Basic income per share, as reported	$ .43	$ .17	$ .86	$ .13
Basic income per share, pro forma	.42	.16	.83	.11
Diluted income per share, as reported	.40	.16	.80	.13
Diluted income per share, pro forma	.39	.15	.77	.11

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

Note 7 - Stockholders' Equity

On August 2, 2004, pursuant to the approval of a majority of the Company's independent directors, the Company's President and Chief Executive Officer, William W. Sherertz, paid in full certain obligations owed to the Company by tendering to the Company for cancellation and retirement 8,095 shares of common stock valued at $16.835 per share. This transaction discharged Mr. Sherertz's obligations to the Company totaling $136,274, including an employee loan in the amount of $107,000 reflected on the Company's balance sheet at December 31, 2003.

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 Consolidated Statements of Operations for the three and nine months ended September 30, 2004 and 2003.

	Percentage of Total Revenues			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues:				
Staffing services	65.2 %	76.9 %	63.8 %	81.2 %
Professional employer service fees	34.8	23.1	36.2	18.8
	100.0	100.0	100.0	100.0
Cost of revenues:				
Direct payroll costs	48.4	56.8	47.1	60.0

Payroll taxes and benefits	20.8	17.8	23.5	16.7
Workers' compensation	11.1	7.5	11.0	7.0
Total cost of revenues	80.3	82.1	81.6	83.7
Gross margin	19.7	17.9	18.4	16.3
Selling, general and administrative expenses	11.7	12.8	12.3	13.8
Depreciation and amortization	0.5	0.7	0.5	0.9
Income from operations	7.5	4.4	5.6	1.6
Other income (expense)	0.2	(0.2)	0.1	(0.2)
Pretax income	7.7	4.2	5.7	1.4
Provision for income taxes	3.2	1.5	2.3	0.5
Net income	4.5 %	2.7 %	3.4 %	0.9 %

The Company changed its reporting of PEO revenues from a gross basis to a net basis in 2002 because it was determined that the Company was not the primary obligor for the services provided by employees pursuant to its PEO contracts with its customers. Gross revenue information, although not in accordance with GAAP, is presented below because management believes such information is more informative as to the level of the Company's business activity and more useful in managing its operations.

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

Results of Operations (Continued)

(in thousands)	Unaudited Three Months Ended September 30,		Unaudited Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues:				
Staffing services	$ 35,673	$ 26,727	$ 91,197	$ 69,883
Professional employer services	109,435	46,886	299,139	95,767
Total revenues	145,108	73,613	390,336	165,650
Cost of revenues:				
Direct payroll costs	115,580	57,977	311,337	130,592
Payroll taxes and benefits	11,376	6,181	33,555	14,371
Workers' compensation	7,379	3,225	19,088	6,632
Total cost of revenues	134,335	67,383	363,980	151,595
Gross margin	$ 10,773	$ 6,230	$ 26,356	$ 14,055

A reconciliation of non-GAAP gross PEO revenues to net PEO revenues is as follows:

<TABLE>
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(in thousands)	Unaudited Three Months Ended September 30, Gross Revenue Reporting Method		Reclassification		Net Revenue Reporting Method	
	2004	2003	2004	2003	2004	2003

<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues:						
Staffing services	$ 35,673	$ 26,727	$ --	$ --	$ 35,673	$ 26,727
Professional employer services	109,435	46,886	(90,429)	(38,840)	19,006	8,046
Total revenues	$145,108	$ 73,613	$(90,429)	$(38,840)	$ 54,679	$ 34,773
Cost of revenues:	$134,335	$ 67,383	$(90,429)	$(38,840)	$ 43,906	$ 28,543

</TABLE>

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

Results of Operations (Continued)

<TABLE>
<CAPTION>

	Unaudited Nine Months Ended September 30,					
(in thousands)	Gross Revenue Reporting Method		Reclassification		Net Revenue Reporting Method	
	2004	2003	2004	2003	2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues:						
Staffing services	$ 91,197	$ 69,883	$ --	$ --	$ 91,197	$ 69,883
Professional employer services	299,139	95,767	(247,343)	(79,578)	51,796	16,189
Total revenues	$390,336	$165,650	$(247,343)	$(79,578)	$142,993	$ 86,072
Cost of revenues:	$363,980	$151,595	$(247,343)	$(79,578)	$116,637	$ 72,017

</TABLE>

Three months ended September 30, 2004 and 2003

Net income for the third quarter of 2004 amounted to $2,448,000, an improvement of $1,505,000 over net income of $943,000 for the third quarter of 2003. The improvement for the third quarter of 2004 was primarily due to higher gross margin dollars as a result of significant growth in professional employer ("PEO") services business, partially offset by higher selling, general and administrative expenses. The diluted earnings per share for the third quarter of 2004 was $.40 compared to $.16 for the comparable 2003 period. The Company's improved operating results continue to reflect, in part, the competitive advantage of offering a broad array of human resource management services through its PEO arrangements. This competitive advantage has enabled the Company to significantly increase its business opportunities in California. The Company expects this favorable trend to continue into the foreseeable future, particularly in California.

Revenues for the third quarter of 2004 totaled $54.7 million, an increase of approximately $19.9 million or 57.2% over the $34.8 million for the third quarter of 2003. The increase in revenues primarily reflects significant growth in the Company's PEO service fee revenue, combined with an increase in staffing services revenue.

PEO service fee revenue increased approximately $11.0 million or 136.2% primarily due to increased demand for the Company's broad array of competitively priced human resource management services that satisfy customers' needs. Management believes that the favorable trend in PEO revenues will continue for the foreseeable future.

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

Results of Operations (Continued)

Three months ended September 30, 2004 and 2003 (Continued)

Staffing services revenue increased approximately $8.9 million or 33.5% over the comparable 2003 quarter primarily due to the Company's acquisition of SRTC effective January 1, 2004, as the Company's internal growth rate for staffing services revenue was flat compared to a year ago. Management expects demand for the Company's staffing services will continue to reflect overall economic conditions in its market areas.

Gross margin for the third quarter of 2004 totaled approximately $10.8 million, which represented an increase of $4.5 million or 72.9% over the third quarter of 2003, primarily due to the 57.2% increase in revenues. The gross margin percent increased from 17.9% of revenues for the third quarter of 2003 to 19.7% for the third quarter of 2004. The increase in the gross margin percentage was due to lower direct payroll costs, offset in part by higher payroll taxes and benefits and higher workers' compensation expense, all expressed as a percent of revenues. The decline in direct payroll costs, as a percentage of revenues, from 56.8% for the third quarter of 2003 to 48.4% for the third quarter of 2004 reflects the shift in the relative mix of services to the Company's customer base and the effect of each customer's unique mark-up percent. The increase in payroll taxes and benefits, as a percentage of revenues, from 17.8% for the third quarter of 2003 to 20.8% for the third quarter of 2004, was due in part to higher statutory state unemployment tax rates in various states in which the Company operates as compared to the third quarter of 2003, as well as to the effect of significant growth in PEO services.

Workers' compensation expense for the third quarter of 2004 totaled $6.1 million, which compares to $2.6 million for the third quarter of 2003. The increase in workers' compensation expense was generally due to an increased provision for the future estimated costs of existing claims, as well as to the effect from increased business activity in California, where injury claims are more costly as compared to other states in which the Company operates.

Selling, general and administrative ("SG&A") expenses for the third quarter of 2004 amounted to approximately $6.4 million, an increase of $1.9 million or 43.6% over the third quarter of 2003. The increase over the third quarter of 2003 was primarily attributable to increases in branch management personnel and related expenses as a result of growth in the Company's PEO business and, to a lesser extent, the incremental SG&A expenses associated with the SRTC acquisition. SG&A expenses, as a percent of revenues, declined from 12.8% in the third quarter of 2003 to 11.7% in the third quarter of 2004.

Nine months ended September 30, 2004 and 2003

Net income for the nine months ended September 30, 2004 was $4,894,000, an improvement of $4,127,000 over net income of $767,000 for the first nine months of 2003. The improvement for the first nine months of 2004 was primarily due to increased gross margin dollars as a result of significant growth in PEO business, partially offset by higher SG&A expenses. The diluted earnings per share for the first nine months of 2004 was $.80 as compared to diluted earnings per share of $.13 for the same 2003 period. The Company's

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

Results of Operations (Continued)

Nine months ended September 30, 2004 and 2003 (Continued)

improved operating results for the first nine months of 2004 over the same 2003 period reflect, in part, the same competitive advantage generated from its ability to offer a broad array of human resource management services.

Revenues for the nine months ended September 30, 2004 totaled $143.0 million, an increase of approximately $56.9 million or 66.1% over the $86.1 million for the first nine months of 2003. The increase in revenues primarily reflects significant growth in the Company's PEO service fee revenue, combined with an increase in staffing services revenue.

PEO service fee revenue increased approximately $35.6 million or 219.9% primarily due to increased demand for the Company's broad array of competitively priced human resource management services that satisfy customers' needs.

Staffing services revenue increased approximately $21.3 million or 30.5% primarily due to the Company's acquisition of SRTC effective January 1, 2004 and to improved economic conditions for such services in the majority of areas in which the Company operates. Operations of SRTC accounted for approximately $18.1 million or 85.0% of the increase.

Gross margin for the nine months ended September 30, 2004 totaled approximately $26.4 million, which represented an increase of $12.3 million or 87.5% over the similar period of 2003, primarily due to the 66.1% increase in revenues. The gross margin percent increased to 18.4% of revenues for the first nine months of 2004, up from 16.3% for the similar period of 2003. The increase in the gross margin percentage was due to lower direct payroll costs, offset in part by higher payroll taxes and benefits and higher workers' compensation expense expressed as a percent of revenues. The decline in direct payroll costs, as a percentage of revenues, from 60.0% for the first nine months of 2003 to 47.1% for the first nine months of 2004 reflects the current mix between staffing and PEO services provided to the Company's customer base and the effect of the unique mark-up percent for each customer. The increase in payroll taxes and benefits, as a percentage of revenues, from 16.7% for the first nine months of 2003 to 23.5% for the first nine months of 2004, was due in part to higher statutory state unemployment tax rates in various states in which the Company operates as compared to the first nine months of 2003, as well as to the effect of significant growth in PEO services, for which payroll taxes and benefits represent a higher percentage of revenues.

Workers' compensation expense for the nine months ended September 30, 2004 totaled $15.8 million, which compares to $6.0 million for the first nine months of 2003. The increase in workers' compensation expense was generally due to an increased provision for the future estimated costs of existing claims and to the effect from increased business activity in California, which has higher claim costs as compared to other states in which the Company operates.

Results of Operations (Continued)

Nine months ended September 30, 2004 and 2003 (Continued)

SG&A expenses for the nine months ended September 30, 2004 amounted to approximately $17.6 million, an increase of $5.7 million or 47.9% over the first nine months of 2003. The increase over the first nine months of 2003 was primarily attributable to increases in branch management personnel and related expenses as a result of growth in the Company's PEO business and, to a lesser extent, the incremental SG&A expenses associated with the SRTC acquisition. SG&A expenses, as a percent of net revenues, declined from 13.8% in the first nine months of 2003 to 12.3% in the first nine months of 2004.

Factors Affecting Quarterly Results

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

Liquidity and Capital Resources

The Company's cash position of $10,009,000 at September 30, 2004, increased by $2,224,000 over December 31, 2003, which compares to an increase of $354,000 for the comparable period in 2003. The increase in cash at September 30, 2004, as compared to December 31, 2003, was primarily due to net income of $4,894,000 and increases in accrued payroll, payroll taxes and related benefits and increases in workers' compensation claim liabilities and safety incentives liabilities, offset in part by excess cash used to purchase marketable securities of $4,781,000 for investment purposes, cash used for the acquisition of SRTC of $3,044,000, and an increase in trade accounts receivable.

Net cash provided by operating activities for the nine months ended September 30, 2004 amounted to $10,475,000, as compared to net cash provided by operating activities of $2,326,000 for the comparable 2003 period. For the nine months ended September 30, 2004, cash flow was provided by net income of $4,894,000, together with increases in accrued payroll

and related benefits of $9,948,000 and increases in workers' compensation claims liabilities and safety incentives liabilities totaling $7,163,000, offset in part by an increase of $12,056,000 in trade accounts receivable.

Net cash used in investing activities totaled $9,754,000 for the nine months ended September 30, 2004, compared to net cash provided by investing activities of $2,421,000 for the similar 2003 period. For the 2004 period, the principal uses of cash for investing activities were purchases of marketable securities for investment purposes of $4,781,000, the acquisition of SRTC and related costs totaling $3,044,000, purchases of equipment of $1,801,000 and $1,591,000 of net purchases of restricted marketable securities, offset in part by net proceeds totaling $1,463,000 from maturities of restricted marketable securities. The transactions related to restricted marketable securities were scheduled maturities and the related replacement of such securities held for workers' compensation surety deposit purposes. The Company presently has no material long-term capital commitments.

Net cash provided by financing activities for the nine-month period ended September 30, 2004, was $1,503,000 compared to net cash used in financing activities of $4,393,000 for the similar 2003 period. For the 2004 period, the principal source of cash for financing activities was $1,475,000 of debt incurred in connection with the Company's purchase of an aircraft for use in management's travel to California to oversee its growth in business.

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. As disclosed in Note 3 to the consolidated financial statements included in this report, the Company acquired certain assets of Skills Resource Training Center ("SRTC"), a staffing services company headquartered in Central Washington state, effective January 1, 2004. As consideration for the acquisition, the Company paid $3,000,000 in cash and agreed to issue up to 135,731 shares of its common stock, with the actual number of shares to be issued based upon the level of financial performance achieved by the SRTC offices during calendar year 2004.

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

The revolving credit facility is collateralized by the Company's assets, including, without limitation, its accounts receivable, equipment, intellectual property and bank deposits, and may be prepaid at any time without penalty. Pursuant to the New Credit Agreement, the Company is required to maintain compliance with the following financial covenants: (1) a Current Ratio not less than 1.10 to 1.0 with "Current Ratio" defined as total current assets divided by total current liabilities; (2) Tangible Net Worth not less than $8 million, determined at each fiscal quarter end, with "Tangible Net Worth" defined as the aggregate of total stockholders' equity plus subordinated debt less any intangible assets; (3) Total Liabilities divided by Tangible Net Worth not greater than 5.00 to 1.0, determined at each fiscal quarter end, with "Total Liabilities" defined as the aggregate of current liabilities and non-current liabilities, less subordinated debt and the deferred gain on the Company's sale and leaseback transaction, and with "Tangible Net Worth" as defined above; and (4) net income after taxes not less than $1.00 on an annual basis, determined as of each fiscal year end, and pre-tax profit not less than $1.00 on a quarterly basis, determined as of each fiscal quarter end. The Company was in compliance with all covenants at September 30, 2004.

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

Stock Repurchase Program

During 1999, the Company's board of directors authorized a stock repurchase program to repurchase common shares from time to time in open market purchases. Since inception, the board of directors has approved seven increases in the total number of shares or dollars authorized to be repurchased under the program. As of November 11, 2004, the repurchase program had remaining authorized availability of $443,800 for the repurchase of additional shares. The Company made no share repurchases during the first nine months of 2004. Since the inception of the repurchase program through November 11, 2004, the Company has repurchased 2,053,555 shares for an aggregate price of $9,187,200 and an average price of $4.47 per share. Management anticipates that the capital necessary to continue this program will be provided by existing cash balances, cash generated from operations 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 for and effect of recent and future acquisitions, the effect of changes in the Company's mix of services on gross margin, market conditions for workers' compensation coverage in California, the adequacy of the Company's workers' compensation reserves and allowance for doubtful accounts, the effectiveness of the Company's management information systems, and the

Forward-Looking Information (Continued)

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 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 new customers and clients into the Company's operations, economic trends in the Company's service areas, material deviations from expected future workers' compensation claims experience, the effect of changes in the workers' compensation regulatory environment in one or more of the Company's primary markets, the availability of excess workers' compensation insurance on acceptable terms and conditions, the carrying values of deferred income tax assets and goodwill, which may be affected by the Company's future operating results, the availability of capital or letters of credit necessary to meet state-mandated surety deposit requirements for maintaining the Company's status as a qualified self-insured employer for workers' compensation coverage, and the availability of and costs associated with potential sources of financing. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

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, 2004, the Company had interest-bearing debt obligations of approximately $1.8 million, of which approximately $1.4 million bears interest at a variable rate and approximately $0.4 million at a fixed rate of interest. The variable rate debt is comprised of a $1.475 million note payable with a 10-year term, which bears interest at the three-month LIBOR rate plus 240 basis points. Based on the Company's overall interest exposure at September 30, 2004, a 100 basis point increase 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, 2004, the Company had not entered into any interest rate instruments to reduce its exposure to interest rate risk.

Item 4. Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures as of September 30, 2004 were effective in providing a reasonable level of assurance that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Item 4. Controls and Procedures (Continued)

There were no changes in the Registrant's internal control over financial reporting that occurred during the quarter ended September 30, 2004 that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

Part II - Other Information

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

(e) The following table provides information about reacquisition of common stock by the Company during the quarter ended September 30, 2004.

<TABLE>
<CAPTION>

Total Number of Shares Reacquired (1)	Average Price per Share	Total Number of Shares Purchased as Part of Stock Repurchase Program	Authorized Availability Remaining at Period End that May be Used Under the Stock Repurchase Program
<S> <C>	<C>	<C>	<C>
8,095	$16.84	0	$443,800

</TABLE>

(1) Shares reaquired by the Company during the quarter were tendered to the Company by the Company's President and Chief Executive Officer in full settlement of certain obligations owed to the Company. Shares were valued at the fair market value at the date shares were tendered for cancellation.

(2) During 1999, the Company's board of directors authorized a stock repurchase program to repurchase common shares from time to time in open market purchases. Since inception, the board of directors has approved seven increases in the total number of shares or dollars authorized to be repurchased under the program. Since the inception of the repurchase program through November 11, 2004, the Company has repurchased 2,053,555 shares for an aggregate price of $9,187,200 and an average price of $4.47 per share.

Item 6. Exhibits

(a) The exhibits filed with this Report are listed in the Exhibit Index following the signature page of this Report.

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 11, 2004

/s/ Michael D. Mulholland

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

EXHIBIT INDEX

Exhibit

10.1 Summary of Compensatory Arrangement with William W. Sherertz.

31.1 Certification of the Chief Executive Officer under Rule 13a-14(a).

31.2 Certification of the Chief Financial Officer under Rule 13a-14(a).

32 Certification pursuant to 18 U.S.C. Section 1350.

Exhibit 10.1

SUMMARY OF COMPENSATORY ARRANGEMENT
WITH WILLIAM W. SHERERTZ

The board of directors has approved an annual cash payment totaling approximately $139,500 to William W. Sherertz, President and Chief Executive Officer, to enable him to maintain in force certain life insurance policies.

Certification of the Chief Executive Officer under Rule 13a-14(a)

EXHIBIT 31.1

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 consolidated 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-15(e) and 15d-15(e)) for the Registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 11, 2004

/s/ William W. Sherertz

William W. Sherertz
Chief Executive Officer

Certification of the Chief Financial Officer under Rule 13a-14(a)

EXHIBIT 31.2

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 consolidated 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-15(e) and 15d-15(e)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 11, 2004

/s/ Michael D. Mulholland

Michael D. Mulholland
Chief Financial Officer

EXHIBIT 32

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

In connection with the Quarterly Report of Barrett Business Services, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certify, pursuant to 18 U.S.C. ss. 1350, that:

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

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

/s/ William W. Sherertz	/s/ Michael D. Mulholland
William W. Sherertz	Michael D. Mulholland
Chief Executive Officer	Chief Financial Officer
November 11, 2004	November 11, 2004