

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2005
Commission File No. 0-21886

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

Maryland
(State or other jurisdiction of
incorporation or organization)

52-0812977
(IRS Employer
Identification No.)

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

97239
(Zip Code)

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

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 ☒ No ☐

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

Number of shares of common stock, \$.01 par value, outstanding at August 10, 2005 was 11,000,379 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)

<TABLE>
<CAPTION>

	June 30, 2005	December 31, 2004
	-----	-----
ASSETS		
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	\$ 21,662	\$ 12,153
Marketable securities	5,568	4,630
Trade accounts receivable, net	36,420	23,840
Prepaid expenses and other	2,074	1,364
Deferred income taxes	5,588	4,100
Workers' compensation receivables for insured claims	213	213
	-----	-----
Total current assets	71,525	46,300
Goodwill, net	22,516	22,516
Intangibles, net	16	25
Property and equipment, net	4,161	4,301
Restricted marketable securities and workers' compensation deposits	2,060	1,702
Marketable securities	391	-
Deferred income taxes	336	582
Other assets	405	401
Workers' compensation receivables for insured claims	4,019	4,158
	-----	-----
	\$ 105,429	\$ 79,985
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 348	\$ 348
Income taxes payable	1,264	--
Accounts payable	585	994
Accrued payroll, payroll taxes and related benefits	32,200	17,427
Workers' compensation claims liabilities	5,648	4,946
Workers' compensation claims liabilities for insured claims	213	213
Safety incentives liability	6,758	4,807
Other accrued liabilities	1,255	414
	-----	-----
Total current liabilities	48,271	29,149
Long-term debt, net of current portion	1,168	1,441
Customer deposits	670	608
Long-term workers' compensation claims liabilities	6,712	4,840
Long-term workers' compensation claims liabilities for insured claims	4,019	4,158
Deferred gain on sale and leaseback	976	1,036
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value; 500,000 shares authorized; no shares issued and outstanding	--	--
Common stock, \$.01 par value; 20,500 shares authorized, 8,720 and 8,611 shares issued and outstanding	87	86
Additional paid-in capital	4,724	3,874
Other comprehensive loss	(181)	(354)

Retained earnings	38,983	35,147
	-----	-----
	43,613	38,753
	-----	-----
	\$ 105,429	\$ 79,985
	=====	=====

</TABLE>

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

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

	Three Months Ended June 30,	
	2005	2004
	-----	-----
Revenues:		
Staffing services	\$35,637	\$30,470
Professional employer service fees	23,994	17,234
	-----	-----
Total revenues	59,631	47,704
	-----	-----
Cost of revenues:		
Direct payroll costs	26,598	22,551
Payroll taxes and benefits	15,303	10,649
Workers' compensation	6,295	5,978
	-----	-----
Total cost of revenues	48,196	39,178
	-----	-----
Gross margin	11,435	8,526
Selling, general and administrative expenses	6,251	5,367
Depreciation and amortization	217	253
	-----	-----
Income from operations	4,967	2,906
	-----	-----
Other (expense) income:		
Interest expense	(27)	(23)
Interest income	200	61
Unrealized loss on marketable securities	(350)	--
Other	(28)	--
	-----	-----
Other (expense) income	(205)	38
	-----	-----
Income before provision for income taxes	4,762	2,944
Provision for income taxes	1,857	1,104
	-----	-----
Net income	\$ 2,905	\$ 1,840
	=====	=====
Basic earnings per share	\$.33	\$.21
	=====	=====
Weighted average number of basic shares outstanding	8,717	8,573
	=====	=====
Diluted earnings per share	\$.31	\$.20
	=====	=====
Weighted average number of diluted shares outstanding	9,398	9,279
	=====	=====

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

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

	Six Months Ended June 30,	
	2005	2004
Revenues:		
Staffing services	\$ 64,179	\$ 55,524
Professional employer service fees	44,696	32,790
	-----	-----
Total revenues	108,875	88,314
	-----	-----
Cost of revenues:		
Direct payroll costs	47,615	40,871
Payroll taxes and benefits	31,000	22,180
Workers' compensation	11,701	10,332
	-----	-----
Total cost of revenues	90,316	73,383
	-----	-----
Gross margin	18,559	14,931
Selling, general and administrative expenses	11,721	10,581
Depreciation and amortization	453	495
	-----	-----
Income from operations	6,385	3,855
	-----	-----
Other (expense) income:		
Interest expense	(54)	(55)
Interest income	347	82
Unrealized loss on marketable securities	(350)	--
Other	(40)	32
	-----	-----
Other (expense) income	(97)	59
	-----	-----
Income before provision for income taxes	6,288	3,914
Provision for income taxes	2,452	1,468
	-----	-----
Net income	\$ 3,836	\$ 2,446
	=====	=====
Basic earnings per share	\$.44	\$.29
	=====	=====
Weighted average number of basic shares outstanding	8,681	8,565
	=====	=====
Diluted earnings per share	\$.41	\$.26
	=====	=====
Weighted average number of diluted shares outstanding	9,375	9,286
	=====	=====

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

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

<TABLE>
<CAPTION>

	Six Months Ended June 30,	
	2005	2004
	-----	-----
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 3,836	\$ 2,446
Reconciliations of net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	453	495
Purchases of marketable securities	(20)	--
Losses recognized on marketable securities	364	--
Gain recognized on sale and leaseback	(60)	(61)
Deferred income taxes	(1,242)	(653)
Changes in certain assets and liabilities, net of amounts purchased in acquisitions:		
Trade accounts receivable, net	(12,580)	(9,471)
Prepaid expenses and other	(710)	(847)
Income taxes payable	1,264	1,577
Accounts payable	(409)	(257)
Accrued payroll, payroll taxes and related benefits	14,773	7,590
Other accrued liabilities	841	805
Workers' compensation claims liabilities	2,574	2,288
Safety incentives liability	1,951	1,780
Customer deposits and other assets, net	58	83
Other long-term liabilities	--	(45)
	-----	-----
Net cash provided by operating activities	11,093	5,730
	-----	-----
Cash flows from investing activities:		
Cash paid for acquisition, including other direct costs	--	(3,044)
Purchase of equipment, net of amounts purchased in acquisitions	(304)	(1,670)
Purchase of marketable securities	(1,500)	(4,724)
Proceeds from maturities of restricted marketable securities	1,400	1,155
Purchase of restricted marketable securities	(1,758)	(1,362)
	-----	-----
Net cash used in investing activities	(2,162)	(9,645)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of debt	--	1,475
Proceeds from credit-line borrowings	700	--
Payments on credit-line borrowings	(700)	--
Payments on long-term debt	(273)	(100)
Proceeds from the exercise of stock options	345	129
Tax benefit of stock option exercises	506	--
	-----	-----
Net cash provided by financing activities	578	1,504
	-----	-----
Net increase (decrease) in cash and cash equivalents	9,509	(2,411)
Cash and cash equivalents, beginning of period	12,153	7,785
	-----	-----
Cash and cash equivalents, end of period	\$21,662	\$ 5,374
	=====	=====
Supplemental schedule of noncash investing activities: Acquisition of other businesses:		
Cost of acquisition in excess of fair market value of net assets acquired	\$ --	\$ 3,807
Tangible assets acquired	--	15
Less stock issued in connection with acquisition	--	(778)
	-----	-----
Net cash paid for acquisition	\$ --	\$ 3,044
	=====	=====

</TABLE>

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

Note 1 - Basis of Presentation of Interim Period Statements

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

The accompanying consolidated financial statements are unaudited and have been prepared by 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 2004 Annual Report on Form 10-K at pages F1 - F25. 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 net income or stockholders' equity.

During May 2004, the Company formed a wholly-owned subsidiary which acquired an aircraft. The subsidiary incurred debt of \$1.5 million to finance the purchase of the aircraft. The consolidated financial statements include the accounts of the subsidiary, after elimination of intercompany accounts and transactions.

Allowance for doubtful accounts

The Company had an allowance for doubtful accounts of \$323,000 and \$273,000 at June 30, 2005 and at December 31, 2004, respectively. The Company must make estimates of the collectibility of accounts receivables. Management analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic conditions and changes in customers' payment trends when evaluating the adequacy of the allowance for doubtful accounts.

Workers' compensation claims

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

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

Note 1 - Basis of Presentation of Interim Period Statements (Continued)

Workers' Compensation Claims (Continued)

Company's self-insured workers' compensation program. The Company maintains excess workers' compensation insurance to limit its self-insurance exposure to \$1.0 million per occurrence in all states.

The Company has provided a total of \$16.6 million and \$14.2 million at June 30, 2005 and December 31, 2004, respectively, as an estimated liability for unsettled workers' compensation claims liabilities. Included in the liability above are insured claims that will be paid by the Company's excess workers' compensation insurer. The Company has reported a corresponding receivable for the insured claims liability. Insured claims total \$4.2 million and \$4.4 million at June 30, 2005 and December 31, 2004, respectively. The estimated liability for unsettled workers' compensation claims represents management's best estimate, which includes, in part, an evaluation of information provided by the

Company's third-party administrators for workers' compensation claims and the Company's independent actuary, who annually assist management to estimate the total future costs of all claims, including potential future adverse loss development. Included in the claims liabilities are case reserve estimates for reported losses, plus additional amounts based on projections for incurred but not reported claims, anticipated increases in case reserve estimates and additional claims administration expenses. These estimates are continually reviewed and adjustments to liabilities are reflected in current operating results as they become known.

Safety incentives liability

Safety incentives represent cash incentives paid to certain PEO client companies for maintaining safe-work practices in order to minimize workplace injuries. The Company has provided \$6.8 million and \$4.8 million at June 30, 2005 and December 31, 2004, respectively, as an estimated liability for safety incentives. The incentive is based on a percentage of annual payroll and is paid annually to customers who meet predetermined workers' compensation claims cost objectives. Safety incentive payments are made only after closure of all workers' compensation claims incurred during the customer's contract period. The liability is estimated and accrued each month based upon the then-current amount of the customer's estimated workers' compensation claims reserves as established by the Company's third party administrator.

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 GAAP 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.

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

Note 2 - Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard ("SFAS") 123(R), "Share-Based Payment," which is a revision of SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123, however, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be expensed in the income statement over the requisite service period based on their grant-date fair values. Pro forma disclosure is no longer an alternative. SFAS 123(R) allows for either prospective or retrospective adoption and requires that the unvested portion of all outstanding awards upon adoption be recognized using the same fair value and attribution methodologies previously determined under SFAS 123. The Company is currently evaluating transition alternatives and valuation methodologies for future grants. As a result, proforma compensation expense, as described in Note 6, may not be indicative of future expense to be recognized under SFAS 123(R). SFAS 123(R) must be adopted no later than January 1, 2006 and the Company expects to adopt SFAS 123(R) by such date. The effect of adoption of SFAS 123(R) on the Company's financial position or results of operations has not yet been determined.

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 provided the Company with the opportunity to geographically expand and diversify its business, particularly in the agricultural, food packing and processing industries. The Company paid \$3.0 million in cash for the assets of SRTC and the selling shareholders' noncompete agreements and agreed to issue up to 203,597 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. Certain contingencies remain unresolved, precluding a final calculation of the number of Earnout Shares to be issued. Effective July 12, 2005, the Company issued 76,222 Earnout Shares to SRTC in partial resolution of the remaining contingencies. Management expects that the final number of Earnout Shares to be issued will be resolved during the third quarter ending September 30, 2005. The Company has recorded estimated total Earnout Shares of 79,200 with a value of \$778,000 on its consolidated balance

sheet as of June 30, 2005 and December 31, 2004.

The transaction resulted in \$3.8 million of goodwill, \$40,000 of intangible assets and \$15,000 of fixed assets. The Company's consolidated income statements include SRTC's results of operations since January 1, 2004.

Note 4 - Basic and Diluted Earnings Per Share

On April 15, 2005, the Company declared a 3-for-2 stock split payable as a 50% stock dividend on May 19, 2005. All share and per share amounts have been adjusted to retroactively give effect to the stock split.

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

Note 4 - Basic and Diluted Earnings Per Share (Continued)

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>
<CAPTION>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
<S>	<C>	<C>	<C>	<C>
Weighted average number of basic shares outstanding	8,716,646	8,573,273	8,681,008	8,564,376
Acquisition earnout shares	79,200	79,200	79,200	79,200
Stock option plan shares to be issued at prices ranging from \$0.97 to \$11.83 per share	761,480	921,611	796,074	906,594
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	(159,803)	(294,621)	(181,738)	(263,805)
Weighted average number of diluted shares outstanding	9,397,523	9,279,463	9,374,544	9,286,365

</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 600,000. No new grants of stock options may be made under the Company's 1993 Stock Incentive Plan (the "1993 Plan"). At June 30, 2005, there were option awards covering 471,283 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.

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

Note 5 - Stock Incentive Plans (Continued)

The following table summarizes options activity in 2005:

	Number of Options	Grant Prices
	-----	-----
Outstanding at December 31, 2004	867,104	\$0.97 to \$ 11.83
Options granted	--	
Options exercised	(109,139)	\$1.40 to \$9.83
Options cancelled or expired	--	

Outstanding at June 30, 2005	757,965	\$0.97 to \$ 11.83
	=====	
Exercisable at June 30, 2005	316,478	
	=====	
Available for grant at June 30, 2005	327,105	
	=====	

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 income and income per share would have been adjusted to the pro forma amounts indicated below:

<TABLE>

<CAPTION>

	Three Months Ended June 30,		Six Months Ended June 30,	
	-----	-----	-----	-----
(in thousands, except per share amounts)	2005	2004	2005	2004
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Net income, as reported	\$ 2,905	\$ 1,840	\$ 3,836	\$ 2,446
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	(50)	(53)	(100)	(98)
	-----	-----	-----	-----
Net income, pro forma	\$ 2,855	\$ 1,787	\$ 3,736	\$ 2,348
	=====	=====	=====	=====
Basic income per share, as reported	\$.33	\$.21	\$.44	\$.29
Basic income per share, pro forma	.33	.21	.43	.27
Diluted income per share, as reported	.31	.20	.41	.26
Diluted income per share, pro forma	.30	.19	.40	.25

</TABLE>

BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

Note 6 - Stock Option Compensation (Continued)

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 - Subsequent Events

The Company entered into a new Credit Agreement (the "Credit Agreement") with its principal bank effective July 1, 2005. The Credit Agreement provides for an unsecured revolving credit facility of up to \$4.0 million, which includes

a subfeature under the line of credit for standby letters of credit up to \$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 financial covenants are less restrictive than the prior credit agreement.

On August 2, 2005, the Company completed a follow-on public offering of 1,864,000 shares of common stock priced to the public at \$16.25 per share. On August 8, 2005, the Company completed the sale of an additional 320,850 shares priced to the public at \$16.25 per share pursuant to the exercise of the underwriters' over-allotment option. In all, the Company sold a total of 2,184,850 shares of common stock in the offering and received total net proceeds of approximately \$33.1 million after deducting underwriting discounts, commissions, and estimated offering expenses.

On August 9, 2005, the Company entered into an agreement providing for purchase by the Company of an office building in the greater metropolitan area of Portland, Oregon for a purchase price of \$8.85 million. If the transaction is completed, the Company intends to relocate its corporate headquarters to the building.

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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 Consolidated Statements of Operations for the three and six months ended June 30, 2005 and 2004.

<TABLE>
<CAPTION>

	Percentage of Total Revenues			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
<S>	<C>	<C>	<C>	<C>
Revenues:				
Staffing services	59.8 %	63.9 %	58.9 %	62.9 %
Professional employer service fees	40.2	36.1	41.1	37.1
Total revenues	100.0	100.0	100.0	100.0
Cost of revenues:				
Direct payroll costs	44.6	47.3	43.7	46.3
Payroll taxes and benefits	25.6	22.3	28.4	25.1
Workers' compensation	10.6	12.5	10.8	11.7
Total cost of revenues	80.8	82.1	82.9	83.1
Gross margin	19.2	17.9	17.1	16.9
Selling, general and administrative expenses	10.5	11.3	10.8	12.0
Depreciation and amortization	0.4	0.5	0.4	0.6
Income from operations	8.3	6.1	5.9	4.3
Other (expense) income	(0.3)	0.1	(0.1)	0.1
Pretax income	8.0	6.2	5.8	4.4
Provision for income taxes	3.1	2.3	2.3	1.6
Net income	4.9 %	3.9 %	3.5 %	2.8 %

</TABLE>

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.

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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)

<TABLE>
<CAPTION>

(in thousands)	Unaudited Three Months Ended June 30,		Unaudited Six Months Ended June 30,	
	2005	2004	2005	2004
<S>	<C>	<C>	<C>	<C>
Revenues:				
Staffing services	\$ 35,637	\$ 30,470	\$ 64,179	\$ 55,524
Professional employer services	147,945	97,984	276,496	189,704
	-----	-----	-----	-----
Total revenues	183,582	128,454	340,675	245,228
	-----	-----	-----	-----
Cost of revenues:				
Direct payroll costs	148,927	102,390	276,324	195,757
Payroll taxes and benefits	15,303	10,648	31,000	22,179
Workers' compensation	7,917	6,890	14,792	12,361
	-----	-----	-----	-----
Total cost of revenues	172,147	119,928	322,116	230,297
	-----	-----	-----	-----
Gross margin	\$ 11,435	\$ 8,526	\$ 18,559	\$ 14,931
	=====	=====	=====	=====

</TABLE>

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

<TABLE>
<CAPTION>

(in thousands)	Unaudited Three Months Ended June 30,					
	Gross Revenue Reporting Method		Reclassification		Net Revenue Reporting Method	
	2005	2004	2005	2004	2005	2004
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues:						
Staffing services	\$ 35,637	\$ 30,470	\$ --	\$ --	\$35,637	\$30,470
Professional employer services	147,945	97,984	(123,951)	(80,750)	23,994	17,234
	-----	-----	-----	-----	-----	-----
Total revenues	\$183,582	\$128,454	\$ (123,951)	\$ (80,750)	\$59,631	\$47,704

	=====	=====	=====	=====	=====	=====
Cost of revenues	\$172,147	\$119,928	\$ (123,951)	\$ (80,750)	\$48,196	\$39,178
	=====	=====	=====	=====	=====	=====

</TABLE>

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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)

<TABLE>
<CAPTION>

	Six Months Ended June 30,					
	Gross Revenue Reporting Method		Reclassification		Net Revenue Reporting Method	
(in thousands)	2005	2004	2005	2004	2005	2004
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues:						
Staffing services	\$ 64,179	\$ 55,524	\$ --	\$ --	\$ 64,179	\$55,524
Professional employer services	276,496	189,704	(231,800)	(156,914)	44,696	32,790
Total revenues	\$340,675	\$245,228	\$ (231,800)	\$ (156,914)	\$108,875	\$88,314
Cost of revenues	\$322,116	\$230,297	\$ (231,800)	\$ (156,914)	\$90,316	\$73,383

</TABLE>

Three months ended June 30, 2005 and 2004

Net income for the second quarter of 2005 amounted to \$2.9 million, an improvement of 61.1% or \$1.1 million over net income of \$1.8 million for the second quarter of 2004. The improvement for the second quarter of 2005 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. Diluted earnings per share for the second quarter of 2005 was \$.31 compared to \$.20 for the comparable 2004 period. The Company's improved operating results continue to reflect, in part, growing market acceptance of the business process outsourcing model, market share gains owing to strong branch-level management and to the competitive advantage of offering a broad array of human resource management services through its PEO arrangements. The Company expects this favorable trend to continue for the foreseeable future, particularly in California, principally due to business opportunities available as a qualified self-insured employer for workers' compensation coverage resulting from ongoing adverse conditions in the workers' compensation insurance market in that state.

Revenues for the second quarter of 2005 totaled \$59.6 million, an increase of approximately \$11.9 million or 24.9%, which 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 \$6.7 million or 39.0% over the 2004 second quarter primarily due to increased demand for the Company's broad array of competitively priced human resource management services that satisfy customers' needs. At June 30, 2005, the Company had approximately 740 PEO clients as compared to approximately 515 PEO clients at June 30, 2004. Management believes that the favorable trend in PEO revenues will continue for the foreseeable future.

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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)

Three months ended June 30, 2005 and 2004 (Continued)

Staffing services revenue increased approximately \$5.2 million or 17.0% over the comparable 2004 quarter primarily due to improved economic conditions for such services in the majority of areas in which the Company operates. During the three months ended June 30, 2005, the Company served approximately 1,000 staffing services customers, which compares to approximately 1,000 customers during the comparable period of 2004. Although the number of customers remained at a similar level in the 2005 period as compared to the comparable period of 2004, the increase in staffing services revenues reflects increased business activity with certain customers owing to their size of operation, as well as with the customers whose demand for the Company's services increased. Management expects demand for the Company's staffing services will continue to reflect overall economic conditions in its market areas.

Gross margin for the second quarter of 2005 totaled approximately \$11.4 million, which represented an increase of \$2.9 million or 34.1% over the second quarter of 2004, primarily due to the 24.9% increase in revenues. The gross margin percent increased from 17.9% of revenues for the second quarter of 2004 to 19.2% for the second quarter of 2005. The increase in the gross margin percentage was due to lower direct payroll costs and lower workers' compensation expense, offset in part by higher payroll taxes and benefits, all expressed as a percent of revenues. The decline in direct payroll costs, as a percentage of revenues, from 47.3 for the second quarter of 2004 to 44.6% for the second quarter of 2005 reflects the shift from staffing services to PEO services in the relative mix of services to the Company's customer base and the effect of each customer's unique mark-up percent. Workers' compensation expense, as a percent of revenues, declined from 12.5% in the second quarter of 2004 to 10.6% in the second quarter of 2005. Workers' compensation expense for the second quarter of 2005 totaled \$6.3 million, which compares to \$6.0 million for the second quarter of 2004. The increase in workers' compensation expense in total dollars was generally due to increased business activity in California, where injury claims are more costly as compared to other states in which the Company operates as well as to the effect from an increased provision for the future estimated costs of existing claims. The increase in payroll taxes and benefits, as a percentage of revenues, from 22.3% for the second quarter of 2004 to 25.6% for the second quarter of 2005, was largely due to the effect of significant growth in PEO services, offset in part by slightly lower effective state unemployment tax rates in various states in which the Company operates as compared to the second quarter of 2004.

Selling, general and administrative ("SG&A") expenses for the second quarter of 2005 amounted to approximately \$6.3 million, an increase of \$884,000 or 16.5% over the second quarter of 2004. The increase over the second quarter of 2004 was primarily attributable to increases in branch management personnel and related expenses as a result of growth in the Company's PEO business. SG&A expenses, as a percent of revenues, declined from 11.3% in the second quarter of 2004 to 10.5% in the second quarter of 2005.

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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)

Three months ended June 30, 2005 and 2004 (Continued)

Other expense for the second quarter of 2005 was \$205,000 compared to other income of \$38,000 for the second quarter of 2004. During second quarter 2005, the Company recognized a \$350,000 other than temporary impairment loss on a bond fund it owns, which fund is comprised of treasury inflation protected securities, commonly known as TIPS.

Six months ended June 30, 2005 and 2004

Net income for the six months ended June 30, 2005 was \$3.8 million an improvement of 58.3% or \$1.4 million over net income of \$2.4 million for the first six months of 2004. The improvement for first six months of 2005 was primarily due to higher gross margin dollars as a result of significant growth in PEO services business, partially offset by higher SG&A expenses. Diluted earnings per share for the first six months of 2005 was \$.41 compared to \$.26 for the comparable 2004 period.

Revenues for the six months ended June 30, 2005 totaled \$108.9 million, an increase of approximately \$20.6 million or 23.3%, which 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 \$11.9 million or 36.3%. Staffing services revenue increased approximately \$8.7 million or 15.7% over the comparable 2004 quarter. Management believes that the trends driving PEO service

fee revenue and staffing services revenue for the six months ended June 30, 2005 are consistent with the trends driving such revenues for the three months ended June 30, 2005, as described above.

Gross margin for the six months ended June 30, 2005 totaled approximately \$18.6 million, which represented an increase of \$3.6 million or 24.2% over the similar period of 2004, primarily due to the 23.3% increase in revenues. The gross margin percent increased from 16.9% of revenues for the first six months of 2004 to 17.1% for the first six months of 2005. The increase in the gross margin percentage was due to lower direct payroll costs and lower workers' compensation expense, offset in part by higher payroll taxes and benefits, all expressed as a percent of revenues. The decline in direct payroll costs, as a percentage of revenues, from 46.3% for the first six months of 2004 to 43.7% for the first six months of 2005 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. Workers' compensation expense, as a percentage of revenues, declined from 11.7% for the first six months of 2004 to 10.8% for the first six months of 2005. Workers' compensation expense for the six months ended June 30, 2005 totaled \$11.7 million, which compares to \$10.3 million for the first six months of 2004. The increase in workers' compensation expense in terms of total dollars 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

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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)

Six months ended June 30, 2005 and 2004 (Continued)

in which the Company operates. The increase in payroll taxes and benefits, as a percentage of revenues, from 25.1% for the first six months of 2004 to 28.4% for the first six months of 2005, was due primarily to the effect of significant growth in PEO services, partially offset by slightly lower effective state unemployment tax rates in various states in which the Company operates as compared to the first six months of 2004.

SG&A expenses for the six months ended June 30, 2005 amounted to approximately \$11.7 million, an increase of \$1.1 million or 10.4% over the similar period of 2004. The increase over the first six months of 2004 was primarily attributable to increases in branch management personnel and related expenses as a result of growth in the Company's PEO business. SG&A expenses, as a percent of revenues, declined from 12.0% in the first six months of 2004 to 10.8% in the first six months of 2005.

Other expense for the six months ended June 30, 2005 was \$97,000 compared to other income of \$59,000 for the comparable period 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 on a per employee basis. 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 \$21.7 million at June 30, 2005, increased by \$9.5 million over December 31, 2004, which compares to a decrease of \$2.4 million for the comparable period in 2004. The increase in cash at June 30, 2005, as compared to December 31, 2004, was primarily due to net cash provided by operating activities.

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

Liquidity and Capital Resources (Continued)

Net cash provided by operating activities for the six months ended June 30, 2005 amounted to \$11.1 million, as compared to net cash provided by operating activities of \$5.7 million for the comparable 2004 period. For the six months ended June 30, 2005, cash flow was provided by net income of \$3.8 million, together with increases in accrued payroll and related benefits of \$14.8 million and increases in workers' compensation claims liabilities and safety incentives liabilities totaling \$4.5 million, offset in part by an increase of \$12.6 million in trade accounts receivable.

Net cash used in investing activities totaled \$2.2 million for the six months ended June 30, 2005, compared to net cash used in investing activities of \$9.6 million for the similar 2004 period. For the 2005 period, the principal uses of cash for investing activities were net purchases of restricted marketable securities of \$1.8 million, purchases of marketable securities of \$1.5 million and purchases of equipment of \$304,000, offset in part by net proceeds totaling \$1.4 million 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, other than its agreement to purchase, subject to a due diligence review, an office building for \$8.85 million as described in Note 7 to the unaudited interim consolidated financial statements included in this report.

Net cash provided by financing activities for the six-month period ended June 30, 2005 was \$578,000 compared to net cash used in financing activities of \$1.5 million for the similar 2004 period. For the 2005 period, the principal source of cash from financing activities was \$851,000 in proceeds from exercise of stock options and the related tax benefit of stock option exercises, partially offset by payments on long-term debt of \$273,000.

As disclosed in Note 3 to the unaudited interim 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 \$3.0 million in cash and agreed to issue up to 203,597 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 year 2004. Certain contingencies remain unresolved, precluding a final calculation of the number of Earnout Shares to be issued. Effective July 12, 2005, the Company issued 76,222 Earnout Shares to SRTC in partial resolution of the remaining contingencies. Management expects that the final number of Earnout Shares to be issued will be resolved during the third quarter ending September 30, 2005. The Company has recorded estimated Earnout Shares of 79,200 with a value of \$778,000 on its consolidated balance sheet as of June 30, 2005 and December 31, 2004.

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 business, 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.

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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)

The Company was in compliance with all covenants at June 30, 2005 for the bank credit agreement that expired on the same date. The Company entered into a new Credit Agreement (the "Credit Agreement") with its principal bank effective July 1, 2005. The Credit Agreement provides for an unsecured revolving credit facility of up to \$4.0 million, which includes a subfeature under the line of credit for standby letters of credit up to \$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 Credit Agreement expires July 1, 2006.

Pursuant to the Credit Agreement, the Company is required to maintain compliance with the following covenants: (1) a Current Ratio not less than 1.10 or 1.0 with "Current Ratio" defined as total current assets divided by total current liabilities; (2) net income after taxes not less than \$1.00 on an annual

basis, determined as of each fiscal year end, and (3) pre-tax profit of not less than \$1.00 on a quarterly basis, determined as of each fiscal quarter end.

In August 2005, the Company completed its follow-on public offering of a total of 2,184,850 shares of its common stock at a price to the public of \$16.25 per share, resulting in net proceeds to the Company of approximately \$33.1 million after deducting underwriting discounts, commissions and estimated offering expenses.

In addition, on August 9, 2005, the Company entered into a purchase and sale agreement pursuant to which it has agreed to acquire an office building for a purchase price of \$8.85 million. If the transaction is completed, the Company plans to move its headquarters to the new building. The acquisition will be funded from available liquid assets.

Management expects that current liquid assets, the funds anticipated to be generated from operations, proceeds from the Company's recent follow-on equity offering and credit available under the Credit Agreement 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 (the "Board") authorized a stock repurchase program to repurchase common shares from time to time in open market purchases. From time to time, since inception, the Board has approved increases in the total number of shares or dollars authorized to be repurchased under the program. The Company has made no share repurchases since August 2003. Since the inception of the repurchase program in 1999, the Company has repurchased 3,080,333 shares for an aggregate price of \$9.2 million and an average price of \$2.98 per share. In July 2005, the Board terminated the repurchase program.

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BARRETT BUSINESS SERVICES, INC.

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

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, the adequacy of the Company's workers' compensation reserves and allowance for doubtful accounts, the effectiveness of the Company's management information systems, and the availability of financing and working capital to meet the Company's funding requirements, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors with respect to the Company include difficulties associated with integrating acquired businesses and clients into the Company's operations, economic trends in the Company's service areas, material deviations from expected future workers' compensation claims experience, collectibility of accounts receivable, 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 effect of the Company's recent follow-on equity offering. 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 June 30, 2005, the Company had interest-bearing debt obligations of approximately \$1.5 million, of which approximately \$1.3 million bears interest at a variable rate and approximately \$0.2 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 June 30, 2005, 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 June 30, 2005, the Company had not entered into any interest rate instruments to reduce its exposure to interest rate risk.

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BARRETT BUSINESS SERVICES, INC.

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 June 30, 2005 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.

There were no changes in the Registrant's internal control over financial reporting that occurred during the quarter ended June 30, 2005 that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

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BARRETT BUSINESS SERVICES, INC.

Part II - Other Information

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Effective July 12, 2005, the Company issued 76,222 shares of its Common Stock (the "SRTC Shares") to Skills Resource Training Center ("SRTC") in partial resolution of the Company's obligations to SRTC under the purchase agreement pursuant to which the Company acquired certain assets of SRTC. The SRTC Shares were issued to SRTC in a transaction that was exempt from the registration requirements of the Securities Act of 1933 under Section 4(2) of such act. Because the shares were issued in partial consideration for the acquisition of business, the Company received no cash proceeds from the issuance of the SRTC Shares.

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its 2005 annual meeting of stockholders on May 12, 2005. The following directors were elected at the annual meeting:

	For	Withheld	Exception
	-----	-----	-----
Thomas J. Carley	5,540,877	109,520	
James B. Hicks, Ph.D.	5,540,737	109,660	
Jon L. Justesen	5,646,477	3,920	
Anthony Meeker	5,598,677	51,720	
Nancy B. Sherertz	5,526,249	124,148	
William W. Sherertz	5,573,949	76,448	

Item 5. Other Information

On August 9, 2005, the board of directors approved amendments to the Company's bylaws intended to modernize the meeting notice provisions of the bylaws, as permitted by amendments to the Maryland General Corporation Law, and to reduce to 24 hours the amount of advance notice required to be given to directors in the event of a special meeting. Other changes reduced the required

number of members of a board committee from two to one and otherwise conformed bylaw language to that of the Maryland General Corporation Law, as amended. The text of amendments to the bylaws are included as Exhibit 3.1 to this report and incorporated herein by reference.

Effective as of August 9, 2005, the Company entered into a Real Estate Purchase and Sale Agreement with Schnitzer Investment Corp. pursuant to which it has agreed to purchase an office building located in the greater Portland, Oregon metropolitan area. The purchase price for the building is \$8.85 million. Under the terms of the purchase and sale agreement, the Company has up to 30 days to complete its due diligence review of the property. If due diligence is completed to the Company's satisfaction and the building purchase is completed, the Company intends to move its corporate headquarters to the new location.

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Item 6. Exhibits

The exhibits filed with this report are listed in the Exhibit Index following the signature page of this report.

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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: August 15, 2005

/s/ Michael D. Mulholland

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

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EXHIBIT INDEX

Exhibit

- 3.1 Amendments to Bylaws of the Company.
- 3.2 Bylaws of the Company, as amended.
- 10.1 Real Estate Purchase and Sale Agreement dated August 9, 2005, between Schnitzer Investment Corp. and the Company.
- 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 A

Amendments to the Bylaws of
Barrett Business Services, Inc.

Section 5 of Article II is hereby amended and restated in its entirety as follows:

" Section 5. Notice; Waiver. Notice of the date, time, and place of any special meeting shall be given at least [24] hours [prior] thereto by written notice delivered personally or given by facsimile transmission, [e-mail], or other form of [electronic transmission], or by mail or private carrier, to each director at his or her business address, [facsimile number, or e-mail address, as applicable].

Such notice shall be deemed effective at the earliest of the following: (a) when received, (b) [when transmitted by facsimile, e-mail, or other form of electronic transmission, (c)] three days after its deposit in the United States mail, as evidenced by the postmark, if mailed postpaid and correctly addressed, and [(d)] on the date shown on the return receipt, if sent by registered or certified mail, return receipt requested, and the receipt is signed [or sent] by or on behalf of the director. A director's attendance at, or participation in, a meeting shall constitute a waiver of notice of such meeting, except where a director at the beginning of the meeting, or promptly upon the director's arrival, objects to holding of the meeting or the transacting of business at the meeting and does not thereafter vote for or assent to action taken at the meeting. A written waiver[, or waiver by e-mail or other form of electronic transmission,] of notice of a meeting signed by a director entitled to such notice, whether before or after the time stated therein, which specifies the meeting for which notice is waived and which is filed with the records of the meeting shall be equivalent to the giving of such notice. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board of directors need be specified in the notice or waiver of notice of such meeting."

Section 2 of Article III is hereby amended and restated in its entirety as follows:

"Section 2. Authority. The executive committee, when the board of directors is not in session, shall have and may exercise all the authority of the board of directors except to the extent, if any, that such authority shall be limited by the resolution appointing the executive committee and except also that neither the executive committee nor any other committee of the board of directors appointed pursuant to Section 9 of this Article III shall have the authority to (a) [authorize] dividends [on stock, except as permitted under the Maryland General Corporation Law; (b) issue stock,

except as provided in Section 10 of this Article III]; (c) recommend to the stockholders any action which requires stockholder approval; (d) amend the bylaws; or (e) approve a merger or share exchange which does not require stockholder approval."

Section 9 of Article III is hereby amended and restated in its entirety as follows:

" Section 9. Appointment of Other Committees of the Board of Directors. The board of directors may from time to time create any other committee or committees of the board of directors and appoint members of the board of directors to serve thereon. Each member of any such committee shall hold office until the next regular annual meeting of the board of directors following his or her appointment and until his or her successor is appointed as a member of such committee. Each committee shall have [one] or more members and, to the extent specified by the board of directors, may exercise the powers of the board subject to the limitations set forth in Section 2 of this Article III."

A new Section 10 of Article III is hereby added as follows and current Sections 10 and 11 of Article III are renumbered accordingly:

" Section 10. [Issuance of Stock. If the board of directors has given general authorization for the issuance of stock providing for or establishing a method or procedure for determining the maximum number of shares to be issued, a committee of the board of directors, in accordance with that general authorization or any stock option plan or other plan or program adopted by the board of directors, may authorize or fix the terms of stock subject to classification or reclassification and the terms on which any stock may be issued, including all terms and conditions required or permitted to be established or authorized by the board of directors

under the Maryland General Corporation Law.]"

[] = New or changed text.

BYLAWS OF BARRETT BUSINESS SERVICES, INC.
As Amended Through August 9, 2005

ARTICLE I. STOCKHOLDERS

Section 1. Annual Meeting. The Annual Meeting of the stockholders shall be held during the third week of May of each year on the date and time or at such other date and time in May of each year as the board of directors may establish, for the purpose of electing directors and for the transaction of such other business as may come before the meeting. The board of directors shall timely establish the annual meeting date and time in conjunction with the notice of meeting requirements of Article I, Section 4, of these Bylaws.

Section 2. Special Meetings. Special meetings of the stockholders, for any purpose or purposes, may be called by the president or by the board of directors, and shall be called by the secretary upon written request by stockholders entitled to cast 25 percent of all votes entitled to be cast at the meeting stating the purpose of the meeting and the matters proposed to be acted upon at the meeting and upon payment by such stockholders to the corporation of the costs of the notice of the meeting. Notwithstanding the foregoing, a special meeting need not be called by the secretary to consider any matter which is substantially the same as a matter voted on at any special meeting of the stockholders held during the preceding 12 months unless requested by stockholders entitled to cast a majority of all votes entitled to be cast at the meeting.

Section 3. Place of Meeting. The place of meeting for all annual and special meetings of the stockholders shall be such place within the United States as shall be determined by the board of directors. In the absence of any such determination, all meetings of stockholders shall be held at the principal office of the corporation in the state of Oregon.

Section 4. Notice of Meeting; Waiver. Written or printed notice stating the place, day, and hour of the meeting and, in case of a special meeting or if otherwise required by law, the purpose or purposes for which the meeting is called, shall be given by the secretary not earlier than 90 nor less than 10 days before the date of the meeting, either personally or by mail, to each stockholder of record entitled to vote at or to receive notice of such meeting. If given personally, such notice shall be effective when delivered to the stockholder or when left at the stockholder's residence or usual place of business. If given by mail, such notice shall be effective when deposited in the United States mail, addressed to the stockholder at his or her address as shown in the corporation's current record of stockholders, with postage thereon prepaid. A stockholder entitled to notice of a meeting waives such notice if he or she is present at the meeting in person or by proxy. A written waiver of notice of a meeting signed by a stockholder entitled to such notice, whether before or after the time stated therein, which is filed with the records of stockholders meetings, shall be equivalent to the giving of such notice. A meeting of stockholders convened on the date for which it was called may be adjourned from time to time without further notice to a date not more than 120 days after the original record date for the meeting.

Section 5. Quorum; Manner of Acting. The presence in person or by proxy of stockholders entitled to cast a majority of all the votes entitled to be cast at the meeting shall

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constitute a quorum. If a quorum is present, a majority of all the votes cast at the meeting is sufficient to approve any matter which properly comes before the meeting unless the vote of a greater proportion of all the votes cast or voting by classes is required by the Maryland General Corporation Law or the charter.

Section 6. Proxies. At all meetings of stockholders, a stockholder may vote by proxy executed in writing by the stockholder or by his or her duly authorized attorney-in-fact. Such proxy shall be filed with the secretary of the corporation before or at the time of the meeting. No proxy shall be valid after 11 months from the date of its execution unless otherwise expressly provided in the proxy.

Section 7. Voting of Shares. Each outstanding share of the corporation's common stock shall be entitled to one vote upon each matter submitted to a vote at a meeting of the stockholders except that shares owned, directly or indirectly, by another corporation in which the corporation owns, directly or indirectly, shares entitled to cast a majority of all the votes entitled to be cast by all shares of such other corporation shall not be voted at any meeting or counted in determining the total number of outstanding shares at any given time.

Section 8. Acceptance of Votes. If the name signed on a vote, consent, waiver, or proxy appointment corresponds to the name of a stockholder, the corporation shall be entitled to accept the vote, consent, waiver, or proxy

appointment and give it effect as the act of the stockholder.

If the name signed on a vote, consent, waiver, or proxy appointment does not correspond to the name of its stockholder, the corporation shall nevertheless be entitled to accept the vote, consent, waiver, or proxy appointment and give it effect as the act of the stockholder if:

a. The stockholder is a corporation, and the name signed purports to be that of the president, a vice-president, or a proxy appointed by either of them or by another person appointed under a bylaw or resolution of the board of directors of such stockholder, a certified copy of which is presented to the corporation.

b. The stockholder is an entity, other than a corporation, and the name signed purports to be that of an officer or agent of the entity.

c. The name signed purports to be that of an administrator, executor, guardian, or conservator representing the stockholder.

d. The name signed purports to be that of a receiver or trustee in bankruptcy of the stockholder.

e. The name signed purports to be that of a pledgee, beneficial owner, or attorney-in-fact of the stockholder.

f. Two or more persons are the stockholder whether as fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety, or otherwise, and the name signed purports to be the name of at least one of the co-owners.

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The corporation shall be entitled to reject a vote, consent, waiver, or proxy if the secretary or other officer or agent authorized to tabulate votes, acting in good faith, has reasonable basis for doubt about the validity of the signature on it or about the signatory's authority to sign for the stockholder.

Section 9. Action Without Meeting. Any action required or permitted by the Maryland General Corporation Law to be taken at a meeting of the stockholders may be taken without a meeting if there are filed with the records of stockholders meetings a consent in writing which sets forth the action so taken signed by each stockholder entitled to vote on the matter and a written waiver of any right to dissent signed by each stockholder entitled to notice of the meeting but not entitled to vote at the meeting.

ARTICLE II. BOARD OF DIRECTORS

Section 1. General Powers. The business and affairs of the corporation shall be managed under the direction of its board of directors.

Section 2. Number, Tenure, and Qualifications. The board of directors shall consist of not more than nine persons and not less than three persons, the exact number within such specified limits to be fixed from time to time by resolution of a majority of the entire board, provided that so long as there are less than three stockholders the number of directors may be fixed at less than three but not less than the number of stockholders. Each director shall hold office until the next annual meeting of the stockholders and until his or her successor shall have been elected and qualified unless sooner removed from office as hereinafter provided. Directors need not be residents of the state of Maryland or stockholders of the corporation.

Section 3. Regular Meetings. A regular meeting of the board of directors shall be held without other notice than this bylaw immediately after, and at the same place as, the annual meeting of stockholders. The board of directors may provide by resolution the time and place, either within or without the state of Maryland, for the holding of additional regular meetings without other notice than such resolution.

Section 4. Special Meetings. Special meetings of the board of directors may be called by or at the request of the president or any two directors. The person or persons authorized to call special meetings of the board of directors may fix any place, either within or without the state of Maryland, as the place for holding any special meeting of the board of directors called by them.

Section 5. Notice; Waiver. Notice of the date, time, and place of any special meeting shall be given at least 24 hours prior thereto by written notice delivered personally or given by facsimile transmission, e-mail, or other form of electronic transmission, or by mail or private carrier, to each director at his or her business address, facsimile number, or e-mail address, as applicable.

Such notice shall be deemed effective at the earliest of the following: (a) when received, (b) when transmitted by facsimile, e-mail, or other form of electronic transmission, (c) three days after its deposit in the United States mail, as evidenced by the postmark, if mailed postpaid and correctly addressed, and (d) on the date shown on the return receipt, if sent by registered

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or certified mail, return receipt requested, and the receipt is signed or sent by or on behalf of the director. A director's attendance at, or participation in, a meeting shall constitute a waiver of notice of such meeting, except where a director at the beginning of the meeting, or promptly upon the director's arrival, objects to holding of the meeting or the transacting of business at the meeting and does not thereafter vote for or assent to action taken at the meeting. A written waiver, or waiver by e-mail or other form of electronic transmission, of notice of a meeting signed by a director entitled to such notice, whether before or after the time stated therein, which specifies the meeting for which notice is waived and which is filed with the records of the meeting shall be equivalent to the giving of such notice. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board of directors need be specified in the notice or waiver of notice of such meeting.

Section 6. Quorum. A majority of the number of directors fixed from time to time pursuant to Section 2 of this Article II shall constitute a quorum for the transaction of business at any meeting of the board of directors, but, if less than such majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

Section 7. Manner of Acting. The action of a majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors.

Section 8. Vacancies. Any vacancy occurring in the board of directors, except a vacancy resulting from an increase in the number of directors, may be filled by the affirmative vote of a majority of the remaining directors, whether or not sufficient to constitute a quorum. A vacancy resulting from an increase in the number of directors may be filled by the affirmative vote of a majority of the entire board of directors. Section 9. Presumption of Assent. A director who is present at a meeting of the board of directors when corporate action is taken shall be presumed to have assented to the action taken unless the director announces his or her dissent at the meeting and (a) the director's dissent is entered in the minutes of the meeting; or (b) the director files his or her written dissent with the secretary of the meeting before its adjournment; or (c) the director forwards his or her written dissent within 24 hours after the meeting is adjourned, by registered or certified mail, to the secretary of the meeting or of the corporation. Such right to dissent shall not apply to a director who voted in favor of such action.

Section 10. Removal of Directors. All or any number of the directors may be removed by the stockholders with or without cause at a meeting expressly called for that purpose by the affirmative vote of a majority of all votes entitled to be cast for the election of directors. The notice of such meeting shall state that the purpose or one of the purposes of the meeting is the removal of the director or directors.

Section 11. Compensation. By resolution of the board of directors, each director may be paid an annual fee as director and, in addition thereto, a fixed sum for attendance at each meeting of the board of directors and executive committee or other committees and his expenses, if any, of attendance at any such meeting. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

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Section 12. Action Without Meeting. Any action required or permitted by the Maryland General Corporation Law to be taken at a meeting of the board of directors may be taken without a meeting if a consent in writing which sets forth the action so taken is signed by each member of the board of directors and filed with the minutes of proceedings of the board of directors.

Section 13. Meetings By Telephone. Meetings of the board of directors may be held by means of conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time, and such participation shall constitute presence in person at the meeting.

Section 14. Chairman and Vice Chairman. The board of directors shall appoint from among its members a chairman and a vice chairman who shall serve at the pleasure of the board of directors. The chairman, or in his absence the vice chairman, shall preside at the meetings of the board of directors.

ARTICLE III.
EXECUTIVE COMMITTEE AND OTHER COMMITTEES

Section 1. Appointment. The board of directors may appoint from among its members an executive committee to consist of a chairman and one or more other directors. The appointment of such committee, the delegation of authority to it or action by it under that authority shall not constitute of itself compliance by any director not a member of the committee with the standard provided in the Maryland General Corporation Law for the performance of duties by directors.

Section 2. Authority. The executive committee, when the board of directors is not in session, shall have and may exercise all the authority of the board of directors except to the extent, if any, that such authority shall be limited by the resolution appointing the executive committee and except also that neither the executive committee nor any other committee of the board of directors appointed pursuant to Section 9 of this Article III shall have the authority to (a) authorize dividends on stock, except as permitted under the Maryland General Corporation Law; (b) issue stock, except as provided in Section 10 of this Article III; (c) recommend to the stockholders any action which requires stockholder approval; (d) amend the bylaws; or (e) approve a merger or share exchange which does not require stockholder approval.

Section 3. Tenure. Each member of the executive committee shall hold office until the next regular annual meeting of the board of directors following his or her appointment and until his or her successor is appointed as a member of the executive committee.

Section 4. Meetings; Notice; Waiver. Regular meetings of the executive committee or any other committee of the board of directors appointed pursuant to Section 9 of this Article III may be held without notice at such times and places as the committee may fix from time to time by resolution. Special meetings of the executive committee or any such other committee may be called by any member thereof upon not less than 24 hours' notice stating the place, date and hour of the meeting. The provisions of Section 5 of Article II shall apply to the method for giving notice of special meetings of the executive committee or any such other

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committee and to the waiver of notice of any such meetings. The notice of a meeting of the executive committee or any such other committee need not state the business proposed to be transacted at the meeting.

Section 5. Quorum; Manner of Acting. A majority of the members of the executive committee or any such other committee shall constitute a quorum for the transaction of business at any meeting thereof, and the act of a majority of the members present at a meeting at which a quorum is present shall be the act of the committee.

Section 6. Vacancies. Any vacancy in the executive committee or any such other committee may be filled by the board of directors.

Section 7. Resignations and Removal. Any member of the executive committee or any such other committee may be removed at any time with or without cause by the board of directors. Any member of the executive committee or any such other committee may resign as a member of the committee at any time by giving written notice to the chairman of the board or secretary of the corporation, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 8. Procedure. The chairman of the executive committee shall be the presiding officer of the executive committee. The executive committee and any such other committee shall fix its own rules of procedure which shall not be inconsistent with these bylaws. The committee shall keep regular minutes of its proceedings and report the same to the board of directors for its information at the meeting thereof held next after the proceedings shall have been taken.

Section 9. Appointment of Other Committees of the Board of Directors. The board of directors may from time to time create any other committee or committees of the board of directors and appoint members of the board of directors to serve thereon. Each member of any such committee shall hold office until the next regular annual meeting of the board of directors following his or her appointment and until his or her successor is appointed as a member of such committee. Each committee shall have one or more members and, to the extent specified by the board of directors, may exercise the powers of the board subject to the limitations set forth in Section 2 of this Article III.

Section 10. Issuance of Stock. If the board of directors has given general authorization for the issuance of stock providing for or establishing a method or procedure for determining the maximum number of shares to be issued, a committee of the board of directors, in accordance with that general authorization or any stock option plan or other plan or program adopted by the

board of directors, may authorize or fix the terms of stock subject to classification or reclassification and the terms on which any stock may be issued, including all terms and conditions required or permitted to be established or authorized by the board of directors under the Maryland General Corporation Law.

Section 11. Action Without a Meeting. Any action that may be taken by the executive committee or any such other committee at a meeting may be taken without a meeting if

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a consent in writing which sets forth the action so taken is signed by each member of the committee and filed with the minutes of proceedings of the committee.

Section 12. Meetings By Telephone. Meetings of any committee of the board of directors may be held by means of conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time, and such participation shall constitute presence in person at the meeting.

ARTICLE IV. OFFICERS

Section 1. Number. The officers of the corporation shall be a president, a secretary and a treasurer, each of whom shall be elected by the board of directors. The board of directors may elect one or more vice presidents (the number thereof to be determined by the board of directors) and such other officers and assistant officers as may be deemed necessary.

Section 2. Election and Term of Office. The officers of the corporation shall be elected annually at the first meeting of the board of directors held after each annual meeting of the stockholders. A person may hold more than one office but may not serve concurrently as both president and vice president of the corporation. Each officer shall hold office until his or her successor shall have been duly elected, or until his or her death, or until he or she shall resign or shall have been removed in the manner hereinafter provided.

Section 3. Removal. The board of directors may remove any officer at any time. The election of an officer shall not of itself create contract rights, and the resignation or removal of an officer shall not affect the contract rights, if any, of the corporation or the officer.

Section 4. Vacancies. A vacancy in any office because of death, resignation, removal, or otherwise may be filled by the board of directors for the unexpired portion of the term.

Section 5. President. The president shall be the chief executive officer of the corporation and, subject to the control of the board of directors, shall in general supervise and control all the business and affairs of the corporation. He or she shall preside at all meetings of the stockholders and, in the absence of the chairman or vice chairman, at all meetings of the board of directors. He or she may sign, with the secretary or any other proper officer of the corporation thereunto authorized by the board of directors, certificates for shares of stock of the corporation and any deeds, mortgages, bonds, contracts, or other instruments which the board of directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the board of directors, or by these bylaws to some other officer or agent of the corporation, or shall be required by law to be otherwise signed or executed; and in general he or she shall perform all duties incident to the office of president and such other duties as may be prescribed by the board of directors from time to time.

Section 6. Vice Presidents. In the absence of the president, or in the event of his or her death, inability, or refusal to act, the vice president (or, in the event there be more than one vice president, the vice presidents in the order designated at the time of their election, or, in the absence of any designation, then in the order of their election) shall perform the duties of the president and, when so acting, shall have all the powers of and be subject to all the restrictions

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upon the president. Any vice president may sign, with the secretary or an assistant secretary, certificates for shares of stock of the corporation; and shall perform such other duties as from time to time may be assigned to him or her by the president or by the board of directors.

Section 7. Secretary. The secretary shall (a) keep the minutes of the stockholders' and of the board of directors' meetings in one or more books

provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these bylaws or as required by law; (c) be custodian of the corporate records and responsible for the authentication of such records; (d) keep or cause to be kept a register of the post office address of each stockholder which shall be furnished to the secretary by such stockholder; (e) sign, with the president or a vice president, certificates for shares of stock of the corporation, the issuance of which shall have been authorized by the board of directors; (f) have general charge of the stock transfer books of the corporation; and (g) in general perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to him or her by the president or by the board of directors.

Section 8. Treasurer. If required by the board of directors, the treasurer shall give a bond for the faithful discharge of his or her duties in such sum and with such surety or sureties as the board of directors shall determine. He or she shall (a) have charge and custody of and be responsible for all funds and securities of the corporation, receive and give receipts for moneys due and payable to the corporation from any source whatsoever, and deposit all such moneys in the name of the corporation in such banks, trust companies, or other depositories as shall be selected in accordance with the provisions of Article V of these bylaws; and (b) in general perform all the duties incident to the office of treasurer and such other duties as from time to time may be assigned to him or her by the president or by the board of directors.

Section 9. Assistant Secretaries and Assistant Treasurers. The assistant secretaries, when authorized by the board of directors, may sign, with the president or a vice president, certificates for shares of stock of the corporation, the issuance of which shall have been authorized by the board of directors. The assistant treasurers shall, respectively, if required by the board of directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the board of directors shall determine. The assistant secretaries and assistant treasurers, in general, shall perform such duties as shall be assigned to them by the secretary or the treasurer, respectively, or by the president or the board of directors.

Section 10. Salaries. The salaries of the officers shall be fixed from time to time by the board of directors and no officer shall be prevented from receiving such salary by reason of the fact that he or she is also a director of the corporation.

ARTICLE V. CONTRACTS, LOANS, CHECKS, AND DEPOSITS

Section 1. Contracts. The board of directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the corporation; and such authority may be general or confined to specific instances.

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Section 2. Loans. No loans shall be contracted on behalf of the corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the board of directors. Such authority may be general or confined to specific instances.

Section 3. Checks, Drafts, Etc. All checks, drafts, or other orders for the payment of money, notes, or other evidences of indebtedness issued in the name of the corporation shall be signed by such officer or officers, agent or agents, of the corporation and in such manner as shall from time to time be determined by resolution of the board of directors.

Section 4. Deposits. All funds of the corporation not otherwise employed shall be deposited from time to time to the credit of the corporation in such banks, trust companies, or other depositories as selected by the officer or officers authorized by the board of directors to make such selection.

ARTICLE VI. CERTIFICATES FOR SHARES AND THEIR TRANSFER

Section 1. Certificates for Shares. Certificates representing shares of stock of the corporation shall be in such form as shall be determined by the board of directors. Such certificates shall be signed manually by the president or a vice president and by the secretary or an assistant secretary and may be sealed with the corporate seal or a facsimile thereof. The signatures of such officers on a certificate may be facsimiles if the certificate is countersigned by a transfer agent, or registered by a registrar, other than the corporation itself or an employee of the corporation. All certificates for shares or stock shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the corporation. All certificates surrendered to the corporation for transfer shall be canceled and no new certificates shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except that in case of a lost, stolen, destroyed, or mutilated certificate a new

certificate may be issued therefor on such terms and indemnity to the corporation as the board of directors may prescribe.

Section 2. Transfer of Shares. Transfer of shares of stock of the corporation shall be made only on the stock transfer books of the corporation by the holder of record thereof or by his or her legal representative, who shall furnish proper evidence of authority to transfer, or by his or her attorney thereunto authorized by power of attorney duly executed and filed with the secretary of the corporation, and on surrender for cancellation of the certificate for such shares. The person in whose name shares of stock stand on the books of the corporation shall be deemed by the corporation to be the owner thereof for all purposes.

ARTICLE VII. AMENDMENTS

The bylaws may be adopted, altered, or repealed solely by the board of directors.

REAL ESTATE PURCHASE AND SALE AGREEMENT

SCHNITZER INVESTMENT CORP., SELLER

and

BARRETT BUSINESS SERVICES, INC.

Dated: August 9, 2005

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REAL ESTATE PURCHASE AND SALE AGREEMENT

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REAL ESTATE PURCHASE AND SALE AGREEMENT

THIS REAL ESTATE PURCHASE AND SALE AGREEMENT (the "Agreement"), is made as of the 9th day of August, 2005 (the "Agreement Date") by and between SCHNITZER INVESTMENT CORP., an Oregon corporation ("Seller"), and BARRETT BUSINESS SERVICES, INC., a Maryland corporation ("Buyer").

R E C I T A L S:

WHEREAS, Seller desires to sell certain improved real property along with

certain related personal and intangible property, and Buyer desires to purchase said real, personal and intangible property on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the foregoing and the mutual undertakings set forth herein, and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Buyer and Seller hereby agree as follows:

1. Property Included in Sale. Seller hereby agrees to sell and convey to Buyer, and Buyer hereby agrees to purchase from Seller, the following:

(a) the improved real property commonly known as: 8100 NE Parkway Drive, Vancouver, Washington, and legally described on Exhibit A (the "Real Property");

(b) Seller's interest in all rights, privileges and easements appurtenant to the Real Property, including, without limitation, all minerals, oil, gas and other hydrocarbon substances as well as all development rights, air rights, water, water rights (and water stock, if any) relating to the Real Property and any easements, rights-of-way or other appurtenances used in connection with the beneficial use and enjoyment of the Real Property;

(c) Seller's interest in all improvements and fixtures located on the Real Property, including all buildings and structures presently located on the Real Property, all apparatus, equipment and appliances used in connection with the operation or occupancy of the Real Property, such as heating and air conditioning systems and facilities used to provide any utility services, refrigeration, ventilation, garbage disposal, recreation or other services on the Real Property (all of which are collectively referred to as the "Improvements");

(d) Seller's interest in any tangible or intangible personal property owned by Seller and used in the ownership, use and operation of the Real Property and Improvements, (excepting those including the name "Schnitzer") now used in connection with the Real Property (the "Personal Property") and any contract or lease rights, agreements, utility contracts, maintenance and service contracts or other rights relating to the ownership, use and operation of the Real Property.

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(e) All of the items referred to in subparagraphs (a), (b), (c) and (d) above are hereinafter collectively referred to as the "Property."

2. Purchase Price/Remedies.

(a) The total purchase price (the "Purchase Price") for the Property is Eight Million Eight Hundred Fifty Thousand and No/100 Dollars (\$8,850,000.00). The Purchase Price is payable by wire transfer of immediately available funds in U.S. dollars by the federal bank wire transfer system deliverable no later than 12:00 p.m. Pacific on the Closing Date (as defined herein) to Pacific Northwest Title of Oregon, Inc., 111 SW Columbia, Ste. 1280, Portland, Oregon 97201, Attn: Yvonne Clifford (telephone: (503) 350-5040) (the "Escrow Agent").

(b) Within two (2) business days of the Agreement Date, Buyer shall deposit into escrow with the Escrow Agent a promissory note in the amount of Two Hundred Thousand and No/100 Dollars (\$200,000.00) as earnest money (the "Earnest Money Note"). If Buyer elects to proceed with the transaction, then upon giving its Approval Notice (as defined in Section 4(d) below), Buyer will convert the Earnest Money Note to cash and deposit the same into escrow with the Escrow Agent (the "Deposit"). Any interest earned on the Deposit shall be considered part of the Deposit. Except as otherwise provided in this Agreement, the Deposit shall be held by the Escrow Agent in a federally insured interest bearing account and applied against the cash portion of the Purchase Price at Closing.

(c) IF BUYER FAILS, WITHOUT LEGAL EXCUSE, TO COMPLETE THE PURCHASE OF THE PROPERTY PURSUANT TO THIS AGREEMENT, THE DEPOSIT (INCLUDING ALL INTEREST EARNED FROM THE INVESTMENT THEREOF) SHALL BE PAID TO AND/OR RETAINED BY SELLER AS LIQUIDATED DAMAGES. THE PARTIES ACKNOWLEDGE THAT SELLER'S ACTUAL DAMAGES IN THE EVENT THAT THE SALE IS NOT CONSUMMATED WOULD BE EXTREMELY DIFFICULT OR IMPRACTICABLE TO DETERMINE. THEREFORE, BY SEPARATELY EXECUTING THIS SECTION BELOW, THE PARTIES ACKNOWLEDGE THAT THE DEPOSIT HAS BEEN AGREED UPON, AFTER NEGOTIATION, AS THE PARTIES' REASONABLE ESTIMATE OF SELLER'S DAMAGES AND AS SELLER'S EXCLUSIVE REMEDY AGAINST BUYER IN THE EVENT OF A BREACH BY BUYER AND THE CLOSING DOES NOT OCCUR AND AS SELLER'S SOLE AND EXCLUSIVE REMEDY AGAINST BUYER ARISING FROM SUCH DEFAULT. NOTWITHSTANDING THE FOREGOING, IN NO EVENT SHALL THIS PARAGRAPH 2(c) LIMIT THE DAMAGES RECOVERABLE BY EITHER PARTY AGAINST THE OTHER PARTY DUE TO THE OTHER PARTY'S OBLIGATION TO INDEMNIFY SUCH PARTY IN ACCORDANCE WITH THIS AGREEMENT. MOREOVER, THIS SECTION SHALL NOT PRECLUDE SELLER FROM RECOVERING ADDITIONAL DAMAGES FROM BUYER PURSUANT TO PARAGRAPH 9.

/s/ AUP

/s/ MDM

(d) In the event that Seller shall be in default hereunder, Buyer's sole and exclusive remedy shall be either: (i) deliver a written notice to Seller within three (3) business days of learning of such default, stating with particularity the alleged default of Seller and the action required by Seller to cure such default, and stating Buyer's intent to terminate this Agreement if the default is not cured, whereupon Seller shall have seven (7) business days after receipt of such written notice in which to cure the alleged default to Buyer's reasonable satisfaction and to thereby prevent termination of this Agreement (and the Closing Date shall be delayed, if necessary, until the end of such seven (7) business day period), or in the event such default is not cured within such seven (7) business day period, terminate this Agreement by written notice to Seller and the Escrow Agent, in which case the Deposit shall be returned to Buyer; or (ii) if Seller's default results from its failure to transfer possession and title to the Property to Buyer at Closing, enforce specific performance; provided, however, that if specific performance is not obtained within thirty (30) days of the scheduled Closing Date, Seller shall be liable to Buyer for Buyer's actual out-of-pocket costs and expenses (including, without limitation reasonable attorneys' fees and costs) incurred in connection with this Agreement or as a result of Seller's default hereunder. In no event under (i) or (ii) above shall Seller be liable to Buyer for any punitive, speculative, consequential or other damages.

3. Title to the Property. At the Closing, Seller shall convey to Buyer and Buyer shall accept marketable and insurable fee simple title to the Real Property, all rights, privileges and easements appurtenant thereto, and to the Improvements, by duly executed and acknowledged Statutory Warranty Deed in the form attached as Exhibit B (the "Deed"). Evidence of delivery of marketable and insurable fee simple title shall be the issuance of a current ALTA Owner's Extended Coverage Policy of Title Insurance (Form 1970-B) containing no exceptions to coverage other than the Permitted Exceptions (the "Title Policy") by Pacific Northwest Title of Oregon, Inc. (the "Title Company"), in the allocable amount of the Purchase Price, insuring fee simple title to the Real Property, Improvements, and appurtenant rights, privileges and easements, in the Buyer.

4. Buyer's Due Diligence. On or before the date five (5) business days after mutual execution of this Agreement by Seller and Buyer (the "Delivery Date"), Seller shall deliver the following documents and instruments relating to the Property, all to the extent the same exist and are in Seller's possession or control (collectively "Seller Information"): (a) leases or occupancy agreements for any portion of the Property (including any parking area) and any amendments or other agreements relating to the leases (collectively the "Leases"); (b) any environmental reports in Seller's possession or control relating to the Property; (c) operating statements for the Property for the calendar years 2003 and 2004 to date; (d) current rent roll; (e) any existing surveys in Seller's possession or control; (f) occupancy permits and certificates of occupancy for the Improvements; (g) service and maintenance contracts which would remain in effect after Closing; (h) the most recent tax bills for the Property; and (i) pleadings, correspondence and other documentation relating to any litigation affecting the Property.

Buyer shall be allowed to conduct the following due diligence prior to purchasing the Property ("Buyer's Due Diligence Review"):

(a) Buyer's review of title to the Property as shown on an existing preliminary commitment for an ALTA (Form 1970-B) Owner's Extended Coverage title insurance policy and copies of all recorded documents referenced therein (collectively, the "Title Report") from the Title Company issued with respect to the Real Property and a current as-built ALTA/ACSM land survey showing the location of all improvements and recorded easements and other matters affecting title to the Property and certified to Buyer and Title Company (the "Survey"), all of which shall be delivered by Seller with the other Due Diligence Items. Within ten (10) business days after Buyer's receipt of the Title Report and Survey (the "Title Documents"), Buyer may approve or disapprove (in its sole and absolute discretion) the Title Documents for the Property by delivering written notice to Seller ("Buyer's Title Notice") specifying each title defect or matter for which Buyer is requesting a cure by Seller ("Title Defect") and each Title Company requirement ("Title Requirement") which Buyer is requesting Seller to satisfy in order for the Title Policy to be issued for the Property at Closing. Buyer's failure to deliver Buyer's Title Notice to Seller within the time period specified above shall be a conclusive presumption that Buyer has approved the Title Documents and this Agreement shall remain in full force and effect. Within five (5) business days after Buyer's Title Notice is given, Seller shall deliver to Buyer written notice ("Seller's Title Notice") of those Title Defects which Seller covenants and agrees to either eliminate or cure to Buyer's satisfaction

by the Closing Date and those Title Requirements which Seller agrees to satisfy by the Closing Date. Seller's failure to deliver Seller's Title Notice to Buyer within the time period specified above shall be deemed to constitute Seller's election not to eliminate or cure any such Title Defect or to satisfy any such Title Requirements. If Seller elects (or is deemed to have elected) not to eliminate or cure any Title Defects or to not satisfy any Title Requirements, the Buyer shall have the right, by written notice delivered to Seller within five (5) business days of Seller's Title Notice or within five (5) business days after the expiration of the time period during which Seller is entitled to deliver Seller's Title Notice, whichever occurs first, to either (i) waive its prior notice as to the Title Defects which Seller has elected not to cure and those Title Requirements which Seller has elected not to satisfy; or (ii) terminate this Agreement as provided later in this section. Buyer's failure to deliver any written notice within such five (5) business day period shall be a conclusive presumption that Buyer has approved the Title Documents and this Agreement shall remain in full force and effect.

(b) Buyer's review of the Seller Information provided to Buyer as set forth above.

(c) Buyer's review of the physical and environmental characteristics and condition of the Property. Seller agrees to provide Buyer access to the Property following the Agreement Date for the purpose of performing, at Buyer's sole cost and expense, studies, physical inspections, investigations and tests on the Property (the "Studies"), provided that no such tests shall be conducted without at least two (2) business days prior notice to Seller (which may be oral) and Seller's prior approval of such Studies, which approval shall not be

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unreasonably withheld, conditioned or delayed. Buyer's access is further conditioned on Seller having a representative accompany Buyer and Buyer's consultants and Buyer providing Seller with certificates of insurance evidencing that Buyer's agents or contractors performing said Studies have insurance in types and amounts satisfactory to Seller as determined by Seller in its reasonable discretion. Buyer shall be required to conduct such Studies in a manner as to not disturb or interfere with the current use of the Property (which may require more than two (2) business days' notice for certain types of invasive testing), and upon completion of such Studies, Buyer agrees at its sole cost to restore the Property to the condition it was in immediately prior to such Studies, including, but not limited to, the immediate removal of anything placed on the Property in connection with such Studies. Copies of any reports, letters or other written information generated as a result of such Studies shall be provided to Seller. Buyer shall indemnify, defend (with counsel reasonably satisfactory to Seller), protect, and hold Seller harmless from and against any and all liability, loss, cost, damage, or expense (including, without limitation, attorneys' fees and costs) which Seller may sustain or incur by reason of or in connection with any Studies made by Buyer or Buyer's agents or contractors relating to or in connection with the Property, or entries by Buyer or its agents or contractors onto the Property; provided, however, that such indemnity obligation shall not include any liability, loss, cost, damage or expense (including attorneys' fees and costs) incurred by or asserted against Seller because of any existing environmental condition discovered or disclosed by such Studies. Notwithstanding any provision to the contrary in this Agreement, the indemnity obligations of Buyer under this Agreement shall survive any termination of this Agreement or the delivery of the deed and the transfer of title pursuant to this Agreement.

(d) Seller shall use its good faith diligent efforts to arrange a meeting between Buyer and a representative of each tenant. Seller shall use its good faith diligent efforts to obtain from all tenants of the Property estoppel certificates in the form attached as Exhibit C and to deliver same to Buyer prior to the Approval Date, as such term is defined immediately below. Buyer's Due Diligence period shall include Buyer's review and satisfaction with the form and content of such estoppels.

If on or before 5:00 p.m. Pacific time on the date that is thirty (30) days after the date this Agreement has been fully executed by both parties (the "Approval Date"), Buyer notifies Seller in writing of Buyer's satisfaction with the results of Buyer's Due Diligence Review (the "Approval Notice"), then this Agreement shall remain in full force and effect and the Deposit shall be held by the Escrow Agent and credited to the Purchase Price at Closing as provided herein. In the event Buyer fails to notify Seller in writing of Buyer's satisfaction with the results of Buyer's Due Diligence Review or in the event Buyer notifies Seller that it disapproves any aspect of its Due Diligence Review, on or before 5:00 p.m. Pacific time on the Approval Date, then this Agreement shall terminate without any liability on the part of either party, except for Buyer's indemnity obligations set forth in paragraph 4 above. In the event of such termination, the Earnest Money Note shall be returned to Buyer.

5. Buyer's Conditions to Closing. The following conditions are conditions precedent to Buyer's obligation to purchase the Property:

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(a) Seller maintaining the Property in its present condition until Closing, reasonable wear and tear excepted. In the event that prior to Closing the Property, or any part thereof, is destroyed or materially damaged, and such damage exceeds \$250,000.00, or if condemnation proceedings (including any conveyance in lieu of condemnation) are commenced against the Property, Buyer shall have the right, exercisable by giving notice of such decision to Seller within ten (10) business days after receiving written notice of such damage, destruction or condemnation proceedings, to terminate this Agreement, in which case neither party shall have any further rights or obligations hereunder. In the event of such termination, the Deposit shall be returned to Buyer. If Buyer elects to accept the Property in its then condition, all proceeds of insurance or condemnation awards payable to Seller by reason of such damage, destruction or condemnation shall be paid or assigned to Buyer and Seller shall credit the Purchase Price to the extent of any deductible under any policies of insurance, which credit shall not exceed the amount of such damages. In the event the casualty damage to the Property is \$250,000.00 or less, Buyer shall accept the Property in its then condition and proceed with the purchase, in which case Buyer shall accept payment or assignment of applicable insurance proceeds, if any, from policies of insurance maintained and paid for by Seller covering the Property up to the amount necessary to make the necessary repairs or restorations and Seller shall credit the Purchase Price to the extent of any deductible under any policies of insurance, which credit shall not exceed the amount of such damages.

(b) Delivery by Seller at Closing of the Deed.

(c) Delivery by Seller of the Assignment and Assumption of Leases in the form attached as Exhibit D.

(d) Delivery by Seller of an Assignment of Warranties, Guaranties and Service Contracts in the form attached as Exhibit E.

(e) Performance by Seller as and when required by this Agreement of each and every term, covenant, condition and agreement required to be performed by Seller pursuant to this Agreement.

In the event that the conditions set forth above in this paragraph 5 are not satisfied (and Buyer is not otherwise in default of this Agreement), Buyer may terminate this Agreement, subject to paragraph 2(d) hereof, or waive satisfaction of the condition and close escrow, in either instance by giving written notice to Seller. In the event of such termination for reasons described in (a) - (e) above, the Deposit shall be returned to Buyer.

6. Seller's Conditions to Closing. The following conditions are conditions precedent to Seller's obligation to sell the Property:

(a) Delivery by Buyer at Closing of the Purchase Price, the executed Assignment and Assumption of Leases in the form attached as Exhibit D and the executed Assignment of Warranties, Guaranties and Service Contracts in the form attached as Exhibit E.

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(b) Performance by Buyer as and when required by this Agreement of each and every term, covenant, condition and agreement required to be performed by Buyer pursuant to this Agreement.

In the event that the conditions in this paragraph 6 are not satisfied, Seller may elect, at its sole discretion, to terminate this Agreement or waive satisfaction of the condition and close escrow. In the event of such termination, the Deposit shall be retained by Seller and shall be non-refundable to the Buyer.

7. The Closing.

(a) The Closing hereunder shall be held and delivery of all items to be made at the Closing under the terms of this Agreement shall be made at the offices of the Escrow Agent within ten (10) business days after the Approval Date, or such other date prior thereto as Buyer and Seller may mutually agree in writing (the "Closing Date"). If the Closing does not occur on or before the Closing Date, the Escrow Agent shall, subject to the provisions of paragraph 2, and unless it is notified by both parties to the contrary, within three (3) business days after the Closing Date, return to the depositor thereof items which may have been deposited pursuant to this Agreement (other than the Deposit which shall be distributed as required above). Any such return shall not, however, relieve either party hereto of any liability it may have for its wrongful failure to close.

(b) At or before the Closing, Seller shall deliver to escrow the following:

(i) the Deed;

(ii) originals or copies of all Leases and New Leases (and amendments thereto, if any) in Seller's actual and physical possession covering any portion of the Property, any security deposits relating thereto in Seller's possession, and an executed Assignment and Assumption of Leases in the form attached as Exhibit D;

(iii) Seller's Non-Foreign Certification in the form attached as Exhibit F;

(iv) notices to the tenants in the form attached as Exhibit G;

(v) the executed Assignment of Warranties, Guaranties and Service Contracts in the form attached as Exhibit E; and

(vi) if applicable, an executed Bill of Sale in the form attached as Exhibit H.

Buyer may waive compliance on Seller's part under any of the foregoing items by an instrument in writing.

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(c) At or before the Closing, Buyer shall deliver to escrow the Purchase Price, the executed Assignment and Assumption of Leases in the form attached as Exhibit D and the executed Assignment of Warranties, Guaranties and Service Contracts in the form attached as Exhibit E.

(d) Seller and Buyer shall each deposit such other instruments as are reasonably required by the Escrow Agent to close the escrow and consummate the purchase of the Property in accordance with the terms hereof.

(e) Prorations

(i) The following items shall be apportioned between Seller and Buyer effective at 12:01 a.m. on the date the Deeds are recorded and pro-rated on the basis of a 365-day year.

(A) Collected Rent. All collected rent (excluding tenant reimbursements for Operating Costs) and other collected income (and any applicable state or local tax on rent) under Leases in effect on the Closing Date shall be prorated as of the Closing. Buyer shall be credited with any rent and other income collected by Seller before Closing but applicable to any period of time after Closing. Any rent received by Seller after the Closing with respect to time periods after the Closing shall be delivered to Buyer within ten (10) days of Seller's receipt. Buyer shall apply rent and other income from tenants that are collected after the Closing first to the current obligations then owing to Buyer for its period of ownership and then remitting sums owing to Seller with respect to periods prior to Closing, if any, to Seller. Buyer will make reasonable efforts, without suit, to collect any rents from tenants in occupancy at Closing owed to Seller with respect to any period prior to Closing. Seller may pursue collection as to any rent not collected by Buyer within six (6) months following the Closing Date, provided that Seller shall have no right to terminate any Lease or any tenant's occupancy under any Lease in connection therewith. Seller is not restricted in any way from collecting any rent or other income owed by past tenants who are no longer in occupancy at Closing.

(B) Operating Costs. Seller, as landlord under the Leases, may be currently collecting from tenants under the Leases additional rent to cover taxes, insurance, utilities (to the extent not paid directly by tenants), common area maintenance and other operating costs and expenses (collectively, "Operating Costs") in connection with the ownership, operation, maintenance and management of the Real Property. Seller and Buyer shall each receive a debit or credit, as the case may be, for the difference between the tenants' current account balances for Operating Costs and amount of Operating Costs reimbursable to Seller. The parties shall reasonably estimate Operating Costs for Seller's period of ownership if final bills are not available. Those Operating Costs being paid directly by a tenant shall not be prorated. Operating Costs that are not payable by tenants either directly or reimbursable under the Leases shall be prorated between Seller and Buyer on an accrual basis.

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(C) Taxes and Assessments. Real estate taxes and assessment installments imposed by governmental authority that are not yet due and payable and that are not reimbursable by tenants under the Leases as Operating Costs shall be prorated as of the Closing based upon the most recent ascertainable assessed values and tax rates. Seller shall receive a credit for any taxes and assessments paid by Seller and applicable to any period after the Closing. All

refunds or tax savings relating to real estate taxes shall inure to the benefit of Seller if such refunds or tax savings relate to any period for which Seller owned the Property. Buyer shall remit to Seller any such refund or tax savings relating to such period immediately upon Buyer's receipt, after deducting any amounts due to tenants under the Leases. Any additional taxes relating to the year of Closing arising out of a change in the use of the Property or a change in ownership shall be assumed by Buyer effective as of Closing and paid by Buyer when due and payable, and Buyer shall indemnify Seller from and against any and all such taxes, which indemnification obligation shall survive Closing.

(D) Final Adjustment After Closing. If final prorations cannot be made at Closing for any item being prorated under this section, then Buyer and Seller agree to allocate such items on an accrual basis as soon as invoices or bills are available and applicable reconciliation with tenants have been completed, with final adjustment to be made no later than sixty (60) days after Closing. Income and expenses shall be received and paid by the parties on an accrual basis with respect to their period of ownership. Seller shall not, however, be charged for any increase in Operating Costs due to increased costs incurred by Buyer in respect of such subsequent to the Closing. Payments in connection with the final adjustment shall be due within thirty (30) days of written notice. Each party shall have reasonable access to, and the right to inspect and audit the other party's supporting documentation to confirm the final prorations; provided at least three (3) business days advance notice is given by the auditing party to the audited party.

(ii) Leasing Commissions and Cost of Tenant Finish. At Closing, Buyer shall assume the obligation to pay all leasing commissions and the costs of tenant finish due after the Closing Date or that become due during the pendency of this Agreement with respect to the portion of the term of any Lease, expansion or renewal after the Closing Date. Leasing commissions or tenant finish costs that are payable on a monthly or other periodic basis during the Lease terms shall be prorated between the parties in the same manner as Operating Costs. Any leasing commissions and costs of tenant finish with regard to new leases of the Property entered into subsequent to the Agreement Date and prior to Closing (the "New Leases") shall be prorated between Buyer and Seller at Closing based upon the revenue from such New Leases received by Seller prior to Closing and the revenue to be received by Buyer for the term of the New Leases after Closing.

(iii) Tenant Deposits. All tenant security deposits actually received by Seller (and interest thereon if required by law or contract to be earned thereon) and not theretofore applied to tenant obligations under the Leases or New Leases shall be transferred or credited to Buyer at Closing. As of the Closing, Buyer shall assume Seller's obligations related to tenant security deposits. Buyer shall indemnify, defend, and hold Seller harmless from and against

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all demands and claims made by tenants with respect to any security deposits actually transferred or credited to Buyer and shall reimburse Seller for all attorneys' fees incurred or that may be incurred as a result of any such claims or demands as well as for all loss, expenses, verdicts, judgments, settlements, interest, costs and other expenses incurred or that may be incurred by Seller as a result of any such claims or demands by tenants. Seller shall indemnify, defend, and hold Buyer harmless from and against all demands and claims made by tenants with respect to any security deposits not actually transferred or credited to Buyer and shall reimburse Buyer for all attorneys' fees incurred or that may be incurred as a result of any such claims or demands as well as for all loss, expenses, verdicts, judgments, settlements, interest, costs and other expenses incurred or that may be incurred by Buyer as a result of any such claims or demands by tenants.

(iv) Utility Deposits. Buyer shall take all steps necessary to effectuate the transfer of all utilities to its name as of the Closing Date, and where necessary, post deposits with the utility companies. Seller shall use good faith diligent efforts to cause all utility meters are read as of the Closing Date. Seller shall be entitled to recover any and all deposits held by any utility company as of the Closing.

(v) Insurance. The fire, hazard, and other insurance policies relating to the Property shall be cancelled by Seller as of the Closing Date and shall not, under any circumstances, be assigned to Buyer. All unearned premiums for fire and any additional hazard insurance premium or other insurance policy premiums with respect to the Property shall be retained by Seller.

(f) The costs incurred in this transaction shall be allocated as follows:

(i) Seller shall pay the portion of the Title Policy premium for an ALTA standard coverage owner's policy. Buyer shall pay for any special endorsements to the title policy and any ALTA extended coverage and recording fees applicable to the sale.

(ii) Seller shall pay the cost of any transfer taxes.

(iii) Buyer shall pay the cost of any update of the Survey.

(iv) Each party shall pay its own legal fees and expenses.

(v) Seller and Buyer shall each pay one-half (1/2) of the Escrow Agent's fee.

8. Representations and Warranties.

(a) Seller hereby represents and warrants to Buyer as follows:

(i) Seller is a corporation duly organized and validly existing under the laws of the State of Oregon and is in good standing under the laws of Oregon.

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(ii) All closing documents executed by Seller which are to be delivered to Buyer at the Closing are or at the Closing will be duly authorized, executed, and delivered by Seller, are or at the Closing will be legal, valid, and binding obligations of Seller, are sufficient to convey title, and do not violate any provisions of any agreement to which Seller is a party or to which it is subject.

(iii) To the best of Seller's knowledge, there are no parties or trespassers in possession or that have a right to possession of the Property, other than those tenants that have possession rights according to the Lease or New Leases.

(iv) Seller has not received any written notice of any pending condemnation or similar proceeding affecting the Property, nor, to Seller's knowledge, is there any such proceeding or assessment contemplated by any governmental authority.

(v) Seller has not received, nor is aware of any written notification from any governmental authority requiring any work to be done on the Property or advising of any condition (including, without limitation, hazardous substances or wastes) that would render the Property unusable or affect the usability of the Property or any part thereof for the purposes of Buyer.

(vi) Seller has not granted, nor is Seller aware of, any right of first refusal or option to acquire any interest in the Property or any part thereof, and Seller has not sold or contracted to sell the Property or any part thereof, in favor of any person or entity other than Buyer and which is in effect as of the Agreement Date.

(vii) Seller is the sole legal fee owner of the Property, and is not holding fee title as a nominee for any other person or entity.

(viii) Except as included in the Seller Information or otherwise disclosed by Seller to Buyer, there exists no employment, union, purchase, service or maintenance contracts or any other contracts which would be binding on the Property after Closing.

(ix) To the best of Seller's knowledge, Seller is not in default, and there has occurred no uncured event that, with notice, the passage of time or both would be a default, under any contract, agreement, lease, encumbrance, or instrument pertaining to the Property.

(x) To the best of Seller's knowledge, there is no litigation or threatened litigation that could now or in the future in any way constitute a lien, claim, or obligation of any kind on the Property, affect the use, ownership or operation of the Property or otherwise adversely affect the Property. For purposes of this Section, litigation includes lawsuits, actions, administrative proceedings, governmental investigations and all other proceedings before any tribunal having jurisdiction over the Property.

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(xi) To the best of Seller's knowledge, the Property is not in violation of any law, ordinance, rule or regulation relating to the environmental conditions thereon. Moreover, Seller represents and warrants that, except as set forth in any environmental report(s) provided to, or made available for review by, Buyer, Seller has not used, generated, manufactured, produced, stored, released, discharged or disposed of on, under or about the Property (or off-site of the Property that might affect the Property) or transported from the Property, any Hazardous Substance (as defined below) in violation of any applicable Environmental Laws (as defined below), nor to the best of Seller's knowledge has any Hazardous Substance been used, generated, manufactured, produced, stored, released, discharged or disposed of on, under or

about the Property (or off-site of the Property that might affect the Property). To the best of Seller's knowledge, except as disclosed in any environmental report(s) provided to, or made available for review by, Buyer, no underground storage tanks have been removed from the Property, and no underground storage tanks are located on the Property. The term "Hazardous Substance" means any hazardous or toxic substance, material or waste, pollutants or contaminants, as defined, listed or regulated now or in the future by any federal, state or local law, ordinance, code, regulation, rule, order or decree regulating, relating to or imposing liability or standards of conduct concerning, any environmental conditions, health or industrial hygiene (collectively, "Environmental Laws"), including without limitation, (i) chlorinated solvents, (ii) petroleum products or by-products, (iii) asbestos, (iv) polychlorinated biphenyls, and (v) anything that would be a hazardous waste, material or substance, toxic substance or pollutant, as defined under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. ss. 9601 et. seq.; Hazardous Materials Transportation Act, 49 U.S.C. ss. 1801 et. seq.; Resource Conservation and Recovery Act, 42 U.S.C. ss. 6901 et. seq., the Clean Water Act, 42 U.S.C. ss. 1251 et. seq., and the regulations promulgated thereunder.

(xii) To the best of Seller's knowledge, no labor, material or services have been furnished in, on, or about the Property or any part thereof as a result of which any mechanic's, laborer's or materialmen's liens or claims might arise.

When used herein, the term "to the best of Seller's knowledge" shall mean and be limited to the current actual knowledge of current employees of each of Seller and its property management affiliate, Schnitzer Northwest, at the times indicated only, and not any implied, imputed or constructive knowledge, and without any express or implied duty of such individuals to conduct any independent inquiry or investigation and without any personal liability.

(b) Buyer hereby represents and warrants to Seller as follows: (i) Buyer is a corporation duly organized and validly existing under the laws of the State of Maryland; (ii) all documents executed by Buyer which are to be delivered to Seller at Closing are or at the Closing will be duly authorized, executed, and delivered by Buyer, and are or at the Closing will be legal, valid, and binding obligations of Buyer, and do not and at the Closing will not violate any provisions of any agreement to which Buyer is a party or to which it is subject; (iii) Buyer shall furnish all of the funds for the purchase of the Property (other than funds supplied by institutional lenders which will hold valid mortgage liens against the Property) and such funds will not be from sources of funds or properties derived from any unlawful activity; and (iv)

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Buyer is a sophisticated investor with substantial experience in investing in assets of the same type as the Property and has such knowledge and experience in financial and business matters that Buyer is capable of evaluating the merits and risks of an investment in the Property.

(c) The above representations of Seller and Buyer shall be true and correct as of the date such parties execute this Agreement and shall be deemed to be re-certified by Seller and Buyer as of the Closing Date. Each of Seller and Buyer shall defend, indemnify and hold harmless the other and their respective directors, officers, employees, agents, partners, subsidiaries, successors and assigns from any loss, damages, costs, expenses or liabilities (including reasonable attorneys' fees and costs) directly or indirectly arising from or attributable to the breach of any representation or warranty set forth in this Section 8 by such indemnifying party; provided, however, that all claims of Seller and Buyer against the other based on any such representation or warranty being false or based on any indemnity obligations of such party pursuant to this Agreement, must be made, if at all, no later than eighteen (18) months after the Closing Date, after which date the representations, warranties and indemnification obligations of the parties hereunder shall terminate and be of no further force or effect.

9. Leasing and Indemnification. Buyer acknowledges that Seller may continue its leasing activity in the ordinary course of its business through the Approval Date. Seller shall submit any prospective leases and any modifications, amendments, renewals (which are not pre-approved per the terms of the lease) or terminations (other than the pre-described end of term) of existing leases to Buyer and shall arrange for Buyer to interview tenants and prospective tenants of the Property; provided, that Seller shall be entitled to have a representative present during any such interviews. All such prospective leases, modifications, amendments, renewals and terminations shall be subject to Buyer's reasonable consent which shall be deemed given if written notice of object is not given to Seller within three (3) business days of Seller's written request for consent and Buyer's interview of the tenant or prospective tenant. Any costs of tenant finish and lease commissions with regard to New Leases or renewal of current Leases of the Property entered into subsequent to the Agreement Date and prior to Closing shall be prorated between Buyer and Seller at Closing, provided the leases are approved in accordance with this paragraph, and subject to the prorations provisions of paragraph 7(e) above. Buyer shall indemnify Seller and

Seller shall be fully released from any and all liability arising as a result of any Future Leasing Commissions due under any leasing commission agreements affecting the Property. "Future Leasing Commissions" shall be limited to those commissions resulting from the renewal or extension of any existing Lease, the exercise of any options under an existing Lease or the execution of a new lease after the Closing Date, and shall not include any commissions due and owing on or before the Agreement Date under the terms of any Leases or New Leases or leasing commission agreements in existence on the Agreement Date. Seller shall indemnify Buyer and Buyer shall be fully released from all liability arising as a result of any commissions due and owing on or before the Agreement Date under the terms of any leases or leasing commission agreements in existence on the Agreement Date. Notwithstanding the above, Seller and Buyer acknowledge that, in the event Seller presents to Buyer for approval a lease of any remaining vacant space in the building located on the Property and Buyer declines or fails to approve the same, then, in the event this transaction fails to close for any reason other than Seller's default or inability to convey the property to Buyer hereunder, Buyer shall pay

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Seller within ten (10) days of demand, a sum equal to six (6) months rent under such proposed lease to reimburse Seller for loss of rentals from such proposed lease for a six (6) month period.

10. Condition of Property. At or before the Approval Date, Buyer will have approved the physical and environmental characteristics and condition of the Property, as well as the economic characteristics of the Property. By waiver of its Due Diligence Review condition pursuant to paragraph 4, Buyer hereby waives any and all defects in the physical, environmental and economic characteristics and condition of the Property which would be disclosed by such inspection. Buyer further acknowledges that neither Seller nor any of Seller's officers or directors, nor Seller's employees, agents, representatives, nor any other person or entity acting on behalf of Seller (hereafter, for the purpose of this paragraph, such persons and entities are individually and collectively referred to as the "Seller"), except as otherwise expressly provided in paragraphs 8(a) and 14(b) herein, have made any representations, warranties or agreements (express or implied) by or on behalf of Seller as to any matters concerning the Property, the economic results to be obtained or predicted, or the present use thereof or the suitability for Buyer's intended use of the Property, including, without limitation, the following: suitability of the topography; the availability of water rights or utilities; the present and future zoning, subdivision and any and all other land use matters; the condition of the soil, subsoil, or groundwater; the purpose(s) to which the Property is suited; drainage; flooding; access to public roads; or proposed routes of roads or extensions thereof. Buyer acknowledges and agrees that the Property is to be purchased, conveyed and accepted by Buyer in its present condition, "as is" and that no patent or latent defect in the physical or environmental condition of the Property whether or not known or discovered, shall affect the rights of either party hereto. Any documents furnished to Buyer by Seller relating to the Property including, without limitation, rent rolls, service agreements, management contracts, maps, surveys, studies, pro formas, reports and other information, including but not limited to the Due Diligence Items, shall be deemed furnished as a courtesy to Buyer but without warranty from Seller. All work done in connection with preparing the Property for the uses intended by Buyer including any and all fees, studies, reports, approvals, plans, surveys, permits, and any expenses whatsoever necessary or desirable in connection with Buyer's acquiring, developing, using and/or operating the Property shall be obtained and paid for by, and shall be the sole responsibility of Buyer. Buyer has investigated and has knowledge of operative or proposed governmental laws and regulations including land use laws and regulations to which the Property may be subject and shall acquire the Property upon the basis of its review and determination of the applicability and effect of such laws and regulations. Buyer has neither received nor relied upon any representations concerning such laws and regulations from Seller.

Except for claims of fraud or willful misrepresentation by Seller, and except for those representations and warranties expressly set forth herein, Buyer, on behalf of itself and its employees, agents, successors and assigns attorneys and other representatives, and each of them, hereby releases Seller from and against any and all claims, demands, causes of action, obligations, damages and liabilities of any nature whatsoever, whether alleged

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under any statute, common law or otherwise, directly or indirectly, arising out of or related to the condition, operation or economic performance of the Property.

By signing in the space provided below in this paragraph 10, Buyer acknowledges that it has read and understood the provisions of this paragraph 10.

Buyer: BARRETT BUSINESS SERVICES, INC.,

a Maryland corporation

By: /s/ Michael D. Mulholland

Name: Michael D. Mulholland

Its: VP-Finance and Secretary

11. Possession. Subject to the rights of tenants and other occupants, Buyer shall have the right of possession on the Closing Date, provided, however, that Seller shall allow authorized representatives of Buyer reasonable access to the Property for the purposes of satisfying Buyer with respect to satisfaction of any conditions precedent to the Closing contained herein.

12. Tax-Deferred Exchange. Buyer and Seller agree that, at either Buyer's or Seller's sole election, this transaction shall be structured as an exchange of like-kind properties under Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations and proposed regulations thereunder. The parties agree that if either wishes to make such election, it must do so prior to the Closing Date. If either so elects, the other shall reasonably cooperate, provided any such exchange is consummated pursuant to an agreement that is mutually acceptable to Buyer and Seller and which shall be executed and delivered on or before the Closing Date. The electing party shall in all events be responsible for all costs and expenses related to the Section 1031 exchange and shall fully indemnify, defend and hold the other harmless from and against any and all liability, claims, damages, expenses (including reasonable attorneys' and paralegal fees and reasonable attorneys' and paralegal fees on appeal), proceedings and causes of action of any kind or nature whatsoever arising out of, connected with or in any manner related to such 1031 exchange that would not have been incurred by the non-electing party if the transaction were a purchase for cash. The provisions of the immediately preceding sentence shall survive closing and the transfer of title to subject Property to Buyer. Notwithstanding anything to the contrary contained in this paragraph, any such Section 1031 exchange shall be consummated through the use of a facilitator or intermediary so that Buyer shall in no event be requested or required to acquire title to any property other than the Property.

13. Confidentiality. Buyer agrees not to disclose the terms of this Agreement or any "Confidential Information" (as defined below) to any party, other than such Buyer's agents, accountants, attorneys, employees, consultants and lender ("Buyer's Representatives") who have a need to know such information, without the Seller's prior written consent, except as may be required by law. Seller agrees not to disclose the terms of this Agreement to any party, other

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than such Seller's agents, accountants, attorneys, employees and consultants who have a need to know such information, without the Buyer's prior written consent except as may be required by law. Buyer will cause Buyer's Representatives to observe the terms of this paragraph, and Buyer will be responsible for any breach of this provision by Buyer or any of Buyer's Representatives. If Buyer or any of Buyer's Representatives are requested pursuant to, or become compelled by applicable law, regulation or legal process to disclose any Confidential Information, Buyer or Buyer's Representative(s) (as applicable) will provide Seller with prompt notice thereof and agree to assist Seller, at Seller's expense, to obtain protection of the Confidential Information by court order or otherwise. If Buyer elects under rights granted in this Agreement to terminate this Agreement, Buyer will deliver to Seller promptly after its termination notice copies of all written Confidential Information in Buyer's and Buyer's Representatives' possession or control, excepting information independently developed by or for or on behalf of Buyer which it may retain, subject to its obligation of confidentiality hereunder.

For purposes of this provision, the term "Confidential Information" shall mean all written information given by Seller to Buyer or Buyer's Representatives, including environmental reports, analyses, cost information, reports, names of prospective tenants, existing tenant lists, license agreements, leases, contracts, agreements, studies, plans and specifications, and other items described in paragraph 4. Confidential Information shall not include information which (i) is or becomes generally available to and is known by the public (other than as a result of a disclosure by Buyer or Buyer's Representatives without written permission from Seller); (ii) is or becomes available to Buyer on a nonconfidential basis from any source (other than Seller or Seller's representatives), provided that such source is not prohibited from disclosing the information by legal, contractual or fiduciary obligation to Seller or another party; or (iii) is independently developed by Buyer.

14. Miscellaneous.

(a) Notices. Any notice required or permitted to be given under this Agreement shall be in writing and shall be deemed to be an adequate and sufficient notice if given in writing and service is made either by (i) personal delivery, in which case the service shall be deemed received the date of such

personal delivery or refusal of delivery by the addressee; or (ii) nationally recognized overnight air courier service, next day delivery, prepaid, in which case the notice shall be deemed to have been received one (1) business day following delivery to such nationally recognized overnight air courier service, and to the following addresses:

If to Seller:

Anton U. Pardini
Schnitzer Investment Corp.
3200 NW Yeon Avenue
Portland, OR 97210

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If to Buyer:

William W. Sherertz
Barrett Business Services, Inc.
4724 SW Macadam Avenue
Portland, OR 97239

or such other address as either party may from time to time specify in writing to the other.

(b) Brokers and Finders. Neither party has had any contact or dealings regarding the Property, or any communication in connection with the subject matter of this transaction, through any licensed real estate broker, entity, agent, commission salesperson, or other person who will claim a right to compensation or a commission or finder's fee as a procuring cause of the sale contemplated herein other than Columbia Commercial Properties, LLC, who represented Buyer and who will be paid a three percent (3%) commission by Seller. In the event that any other company, firm, broker, agent, commission salesperson or finder perfects a claim for a commission or finder's fee based upon any such contract, dealings or communication, the party through whom the company, firm, broker, agent, commission salesperson or finder makes his claim shall be responsible for said commission or fee and all costs and expenses (including reasonable attorneys' fees) incurred by the other party in defending against the same. No commission shall be paid or become payable unless the Closing actually occurs. The provisions of this subparagraph (b) shall survive Closing and any termination, cancellation or rescission of this Agreement.

(c) Successors and Assigns. This Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors, heirs, administrators and assigns, and may be assigned by Buyer to an entity owned or controlled by Buyer, provided that Seller is given prior written notice and copies of the applicable documentation confirming such assignment; and provided further that any assignee by accepting assignment of this Agreement expressly agrees to assume all of Buyer's obligations under this Agreement and that no such assignment shall relieve Buyer from its primary liability under this Agreement.

(d) Amendments and Terminations. Except as otherwise provided herein, this Agreement may be amended or modified only by a written instrument executed by Seller and Buyer.

(e) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the state of Washington.

(f) Merger of Prior Agreements. This Agreement supersedes all prior agreements and understandings between the parties hereto relating to the subject matter hereof.

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(g) Enforcement. In the event either party hereto fails to perform any of its obligations under this Agreement or if a dispute arises concerning the meaning or interpretation of any provision of this Agreement, the party not prevailing in such dispute shall pay any and all costs and expenses incurred by the prevailing party in enforcing or establishing its rights hereunder, including, without limitation, court costs and reasonable attorneys' fees, whether incurred in mediation or arbitration, at trial or on appeal, or in any bankruptcy proceeding. Each of Buyer and Seller acknowledge that it has been advised by counsel as to its respective rights, duties and obligations in this Agreement and have had ample opportunity to negotiate same. Thus, both Buyer and Seller acknowledge that any ambiguity in this Agreement should not necessarily be resolved against the drafter of this Agreement.

(h) Time of the Essence. Time is of the essence of this Agreement.

(i) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but such counterparts when taken

together shall constitute but one Agreement.

(j) No Recordation. Neither Seller nor Buyer shall record this Agreement or any memorandum thereof in or among the land or chattel records of any jurisdiction.

(k) Proper Execution. The submission by Seller to Buyer of this Agreement in unsigned form shall have no binding force and effect, shall not constitute an option, and shall not confer any rights upon Buyer or impose any obligations on Seller irrespective of any reliance thereon, change of position or partial performance until Seller shall have executed this Agreement and the Earnest Money Note shall have been received by the Escrow Agent.

(l) Computation of Time. The time in which any act is to be done under this Agreement is computed by excluding the first day, and including the last day, unless the last day is a holiday or Saturday or Sunday, and then that day is also excluded. Unless expressly indicated otherwise, (a) all references to time shall be deemed to refer to Pacific time; and (b) all time periods shall expire at 5:00 p.m. Pacific time.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

Seller:

SCNNITZER INVESTMENT CORP.,
an Oregon corporation

By: /s/ Anton U. Pardini

Name: Anton U. Pardini
Its: Vice President

Buyer:

BARRETT BUSINESS SERVICES, INC.,
a Maryland corporation

By: /s/ Michael D. Mulholland

Name: Michael D. Mulholland
Its: VP-Finance and Secretary

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SCHEDULE OF EXHIBITS

Exhibit A	Legal Description of the Property
Exhibit B	Statutory Warranty Deed
Exhibit C	Estoppel Certificate
Exhibit D	Assignment of Leases
Exhibit E	Assignment of Warranties, Guaranties and Service Contracts
Exhibit F	Non-Foreign Certification
Exhibit G	Notice to Tenants
Exhibit H	Bill of Sale

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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: August 15, 2005

/s/ William W. Sherertz

William W. Sherertz
Chief Executive Officer

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: August 15, 2005

/s/ Michael D. Mulholland

Michael D. Mulholland
Chief Financial Officer

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 June 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certify, pursuant to 18 U.S.C. ss. 1350, that:

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

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

/s/ William W. Sherertz

William W. Sherertz
Chief Executive Officer
August 15, 2005

/s/ Michael D. Mulholland

Michael D. Mulholland
Chief Financial Officer
August 15, 2005