

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 1995

Commission File No. 0-21886

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

Maryland 52-0812977

(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification No.)

4724 SW Macadam Avenue  
Portland, Oregon 97201

(Address of principal executive offices) (Zip Code)

(503) 220-0988

(Registrant's telephone number, including area code)

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

Yes [ X ] No [ ]

Number of shares of Common Stock, \$.01 par value outstanding at April 30, 1995 was 6,479,067 shares.

BARRETT BUSINESS SERVICES, INC.

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PART I - Financial Information	
Item 1. Financial Statements	

BARRETT BUSINESS SERVICES, INC.  
Balance Sheets  
(Unaudited)  
(In thousands)

	March 31, 1995 -----	December 31, 1994 -----
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,578	\$ 2,214
Trade accounts receivable, net	11,127	9,631
Prepaid expenses and other	830	599
Deferred tax asset (Note 3)	1,165	914
	-----	-----
Total current assets	16,700	13,358
Intangibles, net (Note 2)	4,791	4,936
Property and equipment, net	2,132	2,110
Restricted marketable securities and workers' compensation deposits	4,178	4,196
Other assets	70	65
	-----	-----
	\$ 27,871	\$ 24,665
	=====	=====
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 31	\$ 31
Income taxes payable (Note 3)	435	-
Accounts payable	635	218
Accrued payroll, payroll taxes and related benefits	5,865	5,057
Accrued workers' compensation claims liabilities	3,002	2,358
Customer safety incentives payable	814	805
	-----	-----
Total current liabilities	10,782	8,469
	-----	-----
Long-term debt, net of current portion	903	908
Customer deposits	750	669
Long-term workers' compensation liabilities	164	164
	-----	-----
	12,599	10,210
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.01 par value; 20,500 shares authorized, 6,478 and 6,367 shares issued and outstanding, respectively	65	64
Additional paid-in capital	9,450	8,978
Retained earnings	5,757	5,413
	-----	-----
	15,272	14,455
	-----	-----
	\$ 27,871	\$ 24,665
	=====	=====

The accompanying notes are an integral part of these financial statements.  
BARRETT BUSINESS SERVICES, INC.  
Statements of Operations  
(Unaudited)  
(In thousands, except per share amounts)

	Three Months Ended March 31, -----	
	1995 ----	1994 ----
Revenues:		
Temporary staffing services	\$ 20,604	\$ 11,761
Professional employer services	18,694	15,306
	-----	-----

	39,298	27,067
Cost of revenues:		
Direct payroll costs	29,744	20,396
Payroll taxes and benefits	3,581	12,566
Workers' compensation	2,307	884
Safety incentives	187	250
	-----	-----
	35,819	24,096
	-----	-----
Gross margin	3,479	2,971
Selling, general and administrative expenses	2,875	1,984
Amortization of intangibles	145	67
	-----	-----
Income from operations	459	920
Other income (expense):		
Interest expense	(14)	(27)
Interest income	107	55
Other, net	3	31
	-----	-----
	96	59
	-----	-----
Income before provision for income taxes	555	979
Provision for income taxes (Note 3)	211	371
	-----	-----
Net income	\$ 344	\$ 608
	=====	=====
Primary earnings per share (Note 5)	\$ .05	\$ .09
	=====	=====
Primary weighted average number of common stock equivalent shares outstanding	6,723	6,542
	=====	=====

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

BARRETT BUSINESS SERVICES, INC.

Statements of Cash Flows

(Unaudited)

(In thousands)

	Three Months Ended	
	March 31,	
	1995	1994
	----	----
Cash flows from operating activities:		
Net income	\$ 344	\$ 608
Reconciliation of net income to cash from operations:		
Depreciation and amortization	200	110
Changes in certain assets and liabilities:		
Marketable securities	-	2,244
Accounts receivable, net	(1,496)	(2,803)
Prepaid expenses and other	(231)	(307)
Deferred tax asset	(251)	67
Accounts payable	417	75
Accrued payroll and benefits	808	2,114
Accrued workers' compensation claims	644	(166)
Customer safety incentives payable	9	71
Income taxes payable	435	198
Customer deposits and other, net	76	22
	-----	-----
Net cash provided by operating activities	955	2,233
	-----	-----
Cash flows from investing activities:		
Increase in intangibles through acquisitions	-	(4,498)
Purchase of fixed assets	(77)	(157)
Proceeds from sales of marketable securities	18	4,062
	-----	-----
Net cash used in investing activities	(59)	(593)

Cash flows from financing activities:		
Payments on long-term debt	(5)	(109)
Proceeds from exercise of stock options and warrants	473	-
Net cash provided by (used in) financing activities	468	(109)
Net increase in cash and cash equivalents	1,364	1,531
Cash and cash equivalents, beginning of period	2,214	1,127
Cash and cash equivalents, end of period	\$ 3,578	\$ 2,658
Supplemental non-cash disclosure:		
Issues of common stock to acquire intangibles		\$ 228

The accompanying notes are an integral part of these financial statements.  
 BARRETT BUSINESS SERVICES, INC.  
 Notes to Financial Statements

NOTE 1 - BASIS OF PRESENTATION OF INTERIM PERIOD STATEMENTS:

The accompanying financial statements are unaudited and have been prepared by Barrett Business Services, Inc. (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures typically included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. The financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 1994 Annual Report on Form 10-K at pages 21-38. The results of operations for an interim period are not necessarily indicative of the results of operations for a full year.

NOTE 2 - ACQUISITIONS:

On February 27, 1994, the Company purchased substantially all of the assets of Personnel Management & Consulting, Inc., a company engaged in the temporary services business in Maryland and Delaware. Of the \$270,000 purchase price, the Company paid \$42,000 in cash and issued 12,000 shares of its common stock with a then-fair market value of \$228,000. The acquisition was accounted for under the purchase method of accounting which resulted in approximately \$241,000 of intangible assets and \$29,000 of fixed assets.

On March 7, 1994, the Company purchased certain assets of Golden West Temporary Services ("Golden West"), a company in the temporary services business with four offices in northern California. The cash purchase price of \$4,514,000 was paid by liquidating a portion of the Company's short-term marketable securities. The Company accounted for the acquisition under the purchase method of accounting which resulted in approximately \$4,425,000 of intangible assets and \$89,000 of fixed assets.

On December 26, 1994, the Company purchased certain assets of Max Johnson Enterprises, Inc., operating as Construction Workforce, a company located in Spokane, Washington which specializes in providing highly skilled temporary craftsmen to the commercial construction industry. Of the \$300,000 purchase price, the Company paid \$60,000 in cash and issued 17,142 shares of its common stock with a then-fair market value of \$240,000. The acquisition was accounted for under the purchase method of accounting which resulted in \$285,000 of intangible assets and \$15,000 of fixed assets.

On December 29, 1994, the Company purchased for \$51,000 cash certain assets of Advanced Temporary Systems, Inc., a company engaged in the temporary staffing business in Kent, Washington. The Company accounted for the acquisition under the purchase method of accounting which resulted in \$51,000 of intangible assets.

NOTE 3 - PROVISION FOR INCOME TAXES:

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

	March 31, 1995 -----	December 31, 1994 -----
Accrued workers' compensation claim liabilities . . . . .	\$ 1,244	\$ 982
Allowance for doubtful accounts . . . . .	25	25
Tax depreciation in excess of book depreciation . . . . .	(104)	(93)
	-----	-----
	\$ 1,165	\$ 914
	=====	=====

The provision for income taxes for the three months ended March 31, 1995 and 1994, is as follows (in thousands):

	Three Months Ended March 31, 1995 -----	Three Months Ended March 31, 1994 -----
Current:		
Federal . . . . .	\$ 380	\$ 251
State . . . . .	82	53
	-----	-----
	462	304
Deferred:		
Federal . . . . .	(209)	56
State . . . . .	(42)	11
	-----	-----
	(251)	67
	-----	-----
Provision for income taxes	\$ 211	\$ 371
	=====	=====

NOTE 4 - STOCK INCENTIVE PLAN:

In 1993, the Company adopted a stock incentive plan (the "Plan") which provides for stock-based awards to the Company's employees, directors and outside consultants or advisers. The number of shares of common stock reserved for issuance under the Plan is 800,000.

The following table summarizes options granted under the Plan in 1995:

	No. of Options -----	Range of Prices -----
Outstanding at December 31, 1994	306,575	\$ 3.50 to \$ 13.56
Options granted	21,500	\$ 14.00
Options exercised	(1,000)	\$ 9.50
Options canceled or expired	-	
	-----	
Outstanding at March 31, 1995	327,075	\$ 3.50 to \$ 14.00
	=====	
Available for grant at March 31, 1995	445,750	
	=====	

The options listed in the table will become exercisable in equal annual installments beginning one year after the date of grant.

NOTE 5 - NET INCOME PER SHARE:

Net income per share is computed based on the weighted average number of common stock and common stock equivalent shares outstanding during the period.

NOTE 6 - SUBSEQUENT EVENT:

Subsequent to the end of the first quarter, on May 8, 1995, an employee of the Company was fatally injured. Pursuant to the Company's self-

insured workers' compensation arrangements, this event will result in an after-tax charge of not more than \$217,000 in the second quarter ended June 30, 1995.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

The following table sets forth the percentages of total revenues represented by selected items in the Company's Statements of Operations for the three months ended March 31, 1995 and 1994.

	Percentage of Total Revenues Three Months Ended March 31,	
	1995	1994
Revenues:		
Temporary staffing services	52.4%	43.4%
Professional employer services	47.6	56.6
	-----	-----
Total revenues	100.0	100.0
	-----	-----
Cost of revenues:		
Direct payroll costs	75.7	75.3
Payroll taxes and benefits	9.1	9.5
Workers' compensation	5.8	3.3
Safety incentives	.5	9
	-----	-----
Total cost of revenues	91.1	89.0
	-----	-----
Gross margin	8.9	11.0
Selling, general and administrative expenses	7.7	7.6
	-----	-----
Income from operations	1.2	3.4
Other income (expense)	.2	.2
	-----	-----
Pretax income	1.4	3.6
Provision for income taxes	.5	1.4
	-----	-----
Net income	.9	2.2
	=====	=====

Three Months Ended March 31, 1995 and 1994

Net income for the first quarter of 1995 was \$344,000, a decrease of \$264,000 or 43.4% from the same period in 1994. The decline in net income was due to a lower gross margin percent which was the direct result of an increase in workers' compensation expense. Earnings per share for the first quarter of 1995 were \$.05 as compared to \$.09 for the comparable 1994 quarter.

Revenues for the first quarter of 1995 totaled approximately \$39.3 million, an increase of approximately \$12.2 million or 45.2% over the first quarter of 1994. The quarter-over-quarter internal growth rate of revenues was 19.1%. The growth rate of total revenues exceeded the internal growth rate due to the acquisition of two temporary staffing businesses during the first quarter of 1994. These two acquisitions also account for the principal factors which increased the mix of temporary staffing services for the first quarter of 1995 to 52.4% of total revenues, up from 43.4% of total revenues for the comparable 1994 period. Professional employer (staff leasing) services had a correlative decline in sales mix for the first quarter of 1995 to 47.6% of total revenues as compared to 56.6% of total revenues for the same period in 1994.

Gross margin for the first quarter of 1995 totaled approximately \$3.5 million or 8.9% of revenues. Although gross margin dollars for the first quarter of 1995 increased approximately \$0.5 million over the first quarter of 1994, the 1995 gross margin of 8.9%, expressed as a percent of revenues, declined 210 basis points from the comparable 1994 rate of 11.0%. This decline was solely attributable to an increase in self-insured workers' compensation expense from 3.3% to 5.8% as a percent of sales. The higher expense for the 1995 period of approximately \$1.4 million over the comparable period a year ago was due to increases in workers' compensation claims and adverse development of previously reserved claims, coupled with a \$350,000 pre-tax charge related to one claim arising from a serious injury to an employee.

As previously reported, it is management's belief that the Company has taken the necessary corrective actions internally to more effectively manage its self-insured workers' compensation risks and to further ensure continuing compliance with safe-work standards by the Company's customers.

Selling, general and administrative expenses (including the amortization of intangibles) amounted to 7.7% of revenues for the first quarter of 1995 as compared to 7.6% of revenues for the comparable 1994 period. The increase for 1995 over the 1994 period was primarily due to (i) the acquisition of two temporary staffing businesses in the first quarter of 1994, which have higher administrative overhead requirements as compared to staff leasing services and (ii) additional management staff to support the increased business activity.

#### Seasonal Fluctuations

The Company's revenues historically have been subject to some seasonal fluctuation, particularly in its temporary services business. Demand for the Company's temporary employees and certain staff leasing clients decline during the year-end holiday season and periods of inclement weather. Correspondingly, demand for temporary services and the operations of some staff leasing clients, particularly agricultural and forest products-related companies, increase during the second and third quarters. As staff leasing revenues increase in comparison to total revenues, the effect of seasonal fluctuations on the Company's revenues may diminish.

#### Liquidity and Capital Resources

The Company's cash position of \$3,578,000 at March 31, 1995 increased \$1,364,000 from December 31, 1994. This increase over the year-end balance was principally due to cash provided by operating activities and proceeds received from the exercise of warrants to purchase shares of common stock.

Net cash provided by operating activities for the three months ended March 31, 1995 amounted to \$955,000 as compared to \$2,233,000 for the comparable 1994 period. For the 1995 period, cash flow generated by increases in accounts payable, accrued payroll and benefits and workers' compensation claims were offset in part by a \$1,496,000 increase in accounts receivable. The increase in the March 31, 1995 accounts receivable balance was due in part to higher revenues for the first quarter of 1995 over the first quarter of 1994, together with an increase in the number of days' sales in receivables to 22.8 days at March 31, 1995 from 20.7 days at March 31, 1994. This increase was attributable to the increase in the mix of temporary staffing revenues which have longer credit terms as compared to the cash terms of professional employer services.

Net cash used in investing activities totaled \$59,000 for the three months ended March 31, 1995 as compared to \$593,000 for the similar 1994 period. For the 1995 period, the principal use of cash for investing activities was the purchase of fixed assets. The Company presently has no material long-term capital commitments. During the comparable 1994 quarter, the \$4.5 million increase in intangibles was a result of certain business acquisitions which were funded in part by \$4.1 million of proceeds from the sale of marketable securities.

Net cash provided by financing activities for the three months ended March 31, 1995 was \$468,000, which compares to \$109,000 used in financing activities for the comparable 1994 period. The principal source of cash provided by financing activities arose from the exercise of warrants to purchase 110,000 shares of the Company's common stock at \$4.20 per share. Such warrants were received by the Company's underwriters in connection with its June 1993 initial public offering of common stock. As of the date of this filing, such underwriters continue to hold warrants to purchase 90,000 shares of common stock at \$4.20 per share.

The Company's business strategy continues to include growth through the expansion of operations at existing offices and through the acquisition of additional personnel-related businesses, both in its existing markets and other strategic geographic areas. The Company actively explores proposals for various acquisition opportunities on an ongoing basis, but there can be no assurance that any additional transactions will be consummated.

As previously reported, the Company was granted self-insured employer status for workers' compensation purposes by the state of California during the first quarter of 1995. To satisfy that state's surety deposit requirements, the Company provided the state of California with a letter of credit in the amount of \$1,572,000.

The Company presently has an unsecured \$4.0 million revolving credit facility which expires on May 31, 1995. There was no outstanding balance at March 31, 1995. Management believes that the renewal of such credit facility will be in an amount and on such terms and conditions that will be not less favorable than the current credit arrangement. Management also believes that the new credit facility and other sources of financing, together with anticipated funds generated from operations, will be sufficient in the aggregate to fund the Company's working capital needs for the foreseeable future.

## Inflation

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

### Part II - Other Information

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

##### (a) Exhibits

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

##### (b) Reports on Form 8-K

On March 23, 1995, the Company filed a Current Report on Form 8-K dated March 20, 1995, to report that the Company had obtained self-insured employer status for workers' compensation purposes in the state of California and that the Company would incur a pre-tax charge of \$350,000 for workers' compensation expense in the first quarter of 1995 in connection with a serious work-related injury sustained by an employee.

Subsequent to quarter end, on May 3, 1995, the Company filed a Current Report on Form 8-K dated April 26, 1995, to report that the Company expects lower net earnings of approximately \$.05 per share for the first quarter of 1995 as compared to \$.09 per share for the first quarter of 1994. The reduction in expected net income is attributable to substantially higher workers' compensation expense which more than offset the benefit of a 45% increase in revenues for the first quarter of 1995 over the comparable 1994 quarter.

#### 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: May 11, 1995

By: /s/Michael D. Mulholland  
Michael D. Mulholland  
Vice President-Finance  
(Principal Financial Officer)

#### EXHIBIT INDEX

#### Exhibit

- |    |  |
|----|--|
| 11 | Statement of Calculation of Average<br>Common Shares Outstanding |
| 27 | Financial Data Schedule  |



EXHIBIT 11  
 BARRETT BUSINESS SERVICES, INC.  
 STATEMENT SHOWING CALCULATION OF AVERAGE  
 COMMON SHARES OUTSTANDING

	Three Months Ended Mar. 31, 1995 -----
Primary Earnings Per Share:	
Weighted average number of shares	6,443,317
Stock option plan shares to be issued at prices ranging from \$3.50 to \$14.00 per share	327,631
Warrant issues at a price of \$4.20 per share	124,444
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	(171,911) -----
Total Primary Shares	6,723,481 =====
Fully Diluted Earnings Per Share:	
Weighted average number of shares	6,443,317
Stock option plan shares to be issued at prices ranging from \$3.50 to \$14.00 per share	327,631
Warrant issues at a price of \$4.20 per share	124,444
Less: Assumed purchase at the higher of ending or 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 pre- mature dispositions	(171,911) -----
Total Diluted Shares	6,723,481 =====

Note: As the effect of common stock equivalents upon the weighted average common stock earnings per share calculation is greater than 3%, earnings per share are based on the weighted average number of common stock and common stock equivalents outstanding during the period.

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