

BARRETT BUSINESS SERVICES INC
Form 10-Q
August 08, 2014
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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 June 30, 2014

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.)
8100 NE Parkway Drive, Suite 200 Vancouver, Washington (Address of principal executive offices)	98662 (Zip Code)
(360) 828-0700	

(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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of common stock, \$.01 par value, outstanding at July 31, 2014 was 7,177,725 shares.

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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)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 47,869	\$ 93,557
Marketable securities	32,033	19,787
Trade accounts receivable, net	104,008	85,586
Prepaid expenses and other	5,283	3,026
Deferred income taxes	8,944	8,929
Total current assets	198,137	210,885
Marketable securities	10,597	5,909
Property, equipment and software, net	21,786	20,549
Restricted certificates of deposit	20,943	12,789
Restricted marketable securities and workers compensation deposits	34,696	11,205
Other assets	3,979	4,165
Goodwill	47,820	47,820
	\$ 337,958	\$ 313,322
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 220	\$ 220
Accounts payable	2,435	3,252
Accrued payroll, payroll taxes and related benefits	105,710	92,516
Income taxes payable	2,322	1,236
Other accrued liabilities	1,081	313
Workers compensation claims liabilities	39,069	35,841
Safety incentives liability	12,718	13,086
Total current liabilities	163,555	146,464
Long-term workers compensation claims liabilities	83,437	76,603
Long-term debt	4,943	5,053
Deferred income taxes	10,392	10,787
Customer deposits and other long-term liabilities	1,967	1,862
Commitments and contingencies		
Stockholders equity:		
Common stock, \$.01 par value; 20,500 shares authorized, 7,162 and 7,165 shares issued and outstanding	72	72
Additional paid-in capital	5,798	5,781
Accumulated other comprehensive loss	(50)	(26)
Retained earnings	67,844	66,726

73,664 72,553

\$ 337,958 \$ 313,322

The accompanying notes are an integral part of these 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,	
	2014	2013
Revenues:		
Professional employer service fees	\$ 112,503	\$ 93,494
Staffing services	38,566	35,304
Total revenues	151,069	128,798
Cost of revenues:		
Direct payroll costs	29,311	26,611
Payroll taxes and benefits	61,130	53,483
Workers compensation	30,776	24,978
Total cost of revenues	121,217	105,072
Gross margin	29,852	23,726
Selling, general and administrative expenses	17,958	14,494
Depreciation and amortization	613	506
Income from operations	11,281	8,726
Other income (expense):		
Investment income	157	173
Interest expense	(44)	(64)
Other	(7)	1
Other income	106	110
Income before income taxes	11,387	8,836
Provision for income taxes	4,104	2,950
Net income	\$ 7,283	\$ 5,886
Basic earnings per common share	\$ 1.02	\$.83
Weighted average number of basic common shares outstanding	7,173	7,082
Diluted earnings per common share	\$.98	\$.80
Weighted average number of diluted common shares outstanding	7,421	7,374
Cash dividends per common share	\$.18	\$.13

The accompanying notes are an integral part of these 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,	
	2014	2013
Revenues:		
Professional employer service fees	\$ 214,192	\$ 175,312
Staffing services	72,017	65,037
Total revenues	286,209	240,349
Cost of revenues:		
Direct payroll costs	54,728	48,907
Payroll taxes and benefits	133,947	112,606
Workers compensation	58,376	46,799
Total cost of revenues	247,051	208,312
Gross margin	39,158	32,037
Selling, general and administrative expenses	32,327	26,305
Depreciation and amortization	1,197	966
Income from operations	5,634	4,766
Other income (expense):		
Investment income	301	345
Interest expense	(88)	(143)
Other	(17)	(5)
Other income	196	197
Income before income taxes	5,830	4,963
Provision for income taxes	2,130	1,626
Net income	\$ 3,700	\$ 3,337
Basic earnings per common share	\$.52	\$.47
Weighted average number of basic common shares outstanding	7,171	7,052
Diluted earnings per common share	\$.50	\$.45
Weighted average number of diluted common shares outstanding	7,444	7,344
Cash dividends per common share	\$.36	\$.26

The accompanying notes are an integral part of these financial statements

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BARRETT BUSINESS SERVICES, INC.

Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands)

	Three Months Ended June 30,	
	2014	2013
Net income	\$ 7,283	\$ 5,886
Unrealized losses on marketable securities, net of tax of \$(8) and \$(28) in 2014 and 2013, respectively	(13)	(43)
Comprehensive income	\$ 7,270	\$ 5,843

	Six Months Ended June 30,	
	2014	2013
Net income	\$ 3,700	\$ 3,337
Unrealized losses on marketable securities, net of tax of \$(15) and \$(31) in 2014 and 2013, respectively	(24)	(47)
Comprehensive income	\$ 3,676	\$ 3,290

The accompanying notes are an integral part of these financial statements

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BARRETT BUSINESS SERVICES, INC.

Consolidated Statements of Stockholders' Equity

Six Months Ended June 30, 2014 and 2013

(Unaudited)

(In thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other		Retained Earnings	Total
	Shares	Amount		Comprehensive Income (Loss)			
Balance, December 31, 2012	7,017	\$ 70	\$ 913	\$ 23	\$ 52,890	\$ 53,896	
Common stock issued on exercise of options	90	1	1,199	0	0	1,200	
Share based compensation expense, net of tax	0	0	367	0	0	367	
Excess tax benefits from share-based compensation	0	0	1,187	0	0	1,187	
Cash dividends on common stock	0	0	0	0	(1,834)	(1,834)	
Unrealized holding losses on marketable securities, net of tax	0	0	0	(47)		(47)	
Net income	0	0	0	0	3,337	3,337	
Balance, June 30, 2013	7,107	\$ 71	\$ 3,666	\$ (24)	\$ 54,393	\$ 58,106	
Balance, December 31, 2013	7,165	\$ 72	\$ 5,781	\$ (26)	\$ 66,726	\$ 72,553	
Common stock issued on exercise of options	17	0	213	0	0	213	
Share based compensation expense, net of tax	0	0	671	0	0	671	
Excess tax benefits from share-based compensation	0	0	124	0	0	124	
Company repurchase of common stock	(20)	0	(991)	0	0	(991)	
Cash dividends on common stock	0	0	0	0	(2,582)	(2,582)	
Unrealized holding losses on marketable securities, net of tax	0	0	0	(24)	0	(24)	
Net income	0	0	0	0	3,700	3,700	
Balance, June 30, 2014	7,162	\$ 72	\$ 5,798	\$ (50)	\$ 67,844	\$ 73,664	

The accompanying notes are an integral part of these financial statements

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BARRETT BUSINESS SERVICES, INC.

Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 3,700	\$ 3,337
Reconciliations of net income to net cash provided by operating activities:		
Depreciation and amortization	1,197	966
Losses (gains) recognized on marketable securities	1	(1)
Gain recognized on sale and leaseback	0	(61)
Deferred income taxes	(425)	(58)
Share-based compensation	671	367
Excess tax benefit from share-based compensation	(124)	(1,187)
Changes in certain assets and liabilities:		
Trade accounts receivable, net	(18,422)	(16,931)
Income taxes receivable	0	(5,358)
Prepaid expenses and other	(2,257)	1,869
Accounts payable	(817)	815
Accrued payroll, payroll taxes and related benefits	13,194	17,267
Other accrued liabilities	768	330
Income taxes payable	1,210	915
Workers compensation claims liabilities	10,062	13,979
Safety incentives liability	(368)	1,097
Customer deposits, long-term liabilities and other assets, net	291	84
Net cash provided by operating activities	8,681	17,430
Cash flows from investing activities:		
Purchase of property and equipment	(2,434)	(2,410)
Proceeds from sales and maturities of marketable securities	7,045	57,773
Purchase of marketable securities	(23,989)	(40,881)
Purchase of restricted certificates of deposit	(8,154)	(63,944)
Proceeds from maturities of restricted marketable securities	4,017	4,815
Purchase of restricted marketable securities	(27,508)	(5,594)
Net cash used in investing activities	(51,023)	(50,241)
Cash flows from financing activities:		
Proceeds from credit-line borrowings	3,731	132,664
Payments on credit-line borrowings	(3,731)	(137,196)
Payments on long-term debt	(110)	(110)
Repurchase of common stock	(991)	0
Dividends paid	(2,582)	(1,834)
Proceeds from exercise of stock options	213	1,200
Excess tax benefits from share-based compensation	124	1,187
Net cash used in financing activities	(3,346)	(4,089)

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Net decrease in cash and cash equivalents	(45,688)	(36,900)
Cash and cash equivalents, beginning of period	93,557	45,747
Cash and cash equivalents, end of period	\$ 47,869	\$ 8,847

The accompanying notes are an integral part of these financial statements

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited)

Note 1 - Basis of Presentation of Interim Period Statements

The accompanying consolidated financial statements are unaudited and have been prepared by Barrett Business Services, Inc. (Barrett , BBSI , the Company , our or we), 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 2013 Annual Report on Form 10-K at pages F1 F29. The results of operations for an interim period are not necessarily indicative of the results of operations for a full year.

Revenue recognition

We recognize revenue as services are rendered by our workforce. Professional employer services are normally used by organizations to satisfy ongoing human resource management needs and typically involve contracts with a minimum term of one year, which cover all employees at a particular work site. Our client services agreements are renewable on an annual basis and typically require 30 days written notice to cancel or terminate the contract by either party. Our client services agreements provide for immediate termination upon any default of the client regardless of when notice is given. We report professional employer services revenues on a net basis because we are not the primary obligor for the services provided by our co-employed clients to their customers pursuant to our client services agreements. Consequently, our professional employer service revenues represent the gross margin generated from our professional employer services after deducting the amounts invoiced to clients for direct payroll expenses such as salaries and wages and safety incentives. These amounts are also excluded from cost of revenues. Professional employer service revenues also include amounts invoiced to our clients for employer payroll-related taxes and workers compensation coverage. Staffing services are engaged by customers to meet short-term and long-term personnel needs.

Marketable securities

As of June 30, 2014, the Company s marketable securities consisted of tax-exempt municipal securities, U.S. Treasuries, variable rate demand notes (VRDN) and corporate bonds. The Company classifies municipal securities, U.S. Treasuries, VRDN and corporate bonds as available for sale; they are reported at fair value with unrealized gains and losses, net of taxes, shown as a component of accumulated other comprehensive income (loss) in stockholders equity. In the event a loss is determined to be other-than-temporary, the loss will be recognized in the statement of operations.

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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)

Allowance for doubtful accounts

The Company had an allowance for doubtful accounts of \$313,000 and \$242,000 at June 30, 2014 and December 31, 2013, respectively. The Company must make estimates of the collectability of accounts receivable. Management analyzes historical bad debts, customer concentrations, customer creditworthiness, current economic conditions and changes in customers' payment trends when evaluating the adequacy of the allowance for doubtful accounts. The Company deems an account balance uncollectible only after it has pursued all available assets of the customer and, where applicable, the assets of the personal guarantor.

Workers' compensation claims

The Company is a self-insured employer with respect to workers' compensation coverage for all of its employees (including employees co-employed through our client service agreements) working in California, Oregon, Maryland, Delaware and Colorado, except as described below. In the state of Washington, state law allows only the Company's staffing services and internal management employees to be covered under the Company's self-insured workers' compensation program. Additionally, the Company operates a wholly-owned fully licensed insurance company, Ecole Insurance Company (Ecole), in Arizona to provide workers' compensation coverage to our employees in Arizona.

To manage our financial exposure, in the event of catastrophic injuries or fatalities, the Company maintains excess workers' compensation insurance through our wholly owned captive insurance company, Associated Insurance Company for Excess (AICE), with a per occurrence retention of \$5.0 million, except in Maryland and Colorado, where our per occurrence retention is \$1.0 million and \$2.0 million, respectively. AICE maintains excess workers' compensation insurance coverage with ACE Group (ACE), between \$5.0 million and \$15.0 million per occurrence, except in Maryland, where coverage with ACE is between \$1.0 million and \$25.0 million per occurrence, and in Colorado, where the coverage with ACE is between \$2.0 million and statutory limits per occurrence. The Company continues to evaluate the financial capacity of its insurers to assess the recoverability of the related insurer receivables.

The Company has provided a total of \$122.5 million and \$112.4 million at June 30, 2014 and December 31, 2013, respectively, as an estimated future liability for unsettled workers' compensation claims liabilities. The estimated liability for unsettled workers' compensation claims represents management's best estimate, which includes an evaluation of information provided by the Company's internal claims adjusters and our third-party administrators for workers' compensation claims coupled with management's evaluations of historical claims development and other trends. Included in the claims liabilities are case reserve estimates for reported losses, plus additional amounts based on projections for incurred but not reported claims and anticipated increases in case reserve estimates. Also included in these estimates are amounts for unallocated loss adjustment expenses, including legal costs. These estimates are continually reviewed and adjustments to liabilities are reflected in current operating results as they become known.

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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)

In February, 2014, the Company entered into a workers compensation insurance arrangement with ACE to provide coverage to BBSI employees in California beginning in the first quarter of 2014. The agreement will be effective through January 2015 with the potential for annual renewals thereafter.

The arrangement, typically known as a fronted program, provides BBSI a licensed, admitted insurance carrier in California to issue policies on behalf of BBSI without the intention of transferring any of the worker's compensation risk for the first \$5.0 million per claim. The risk of loss up to the first \$5.0 million per claim is retained by BBSI through an indemnity agreement. While this portion of the risk of loss remains with BBSI, ACE assumes credit risk should BBSI be unable to satisfy its indemnification obligations to ACE. ACE also bears the economic burden for all costs in excess of \$5.0 million per claim. The arrangement with ACE addresses the requirements of legislation enacted in California in 2012 (Senate Bill 863) under which the Company cannot continue its self-insurance program in California beyond January 1, 2015.

During the first quarter of 2014, the Company made an initial deposit of \$20.0 million into a trust account established between the Company and ACE related to the new ACE fronted insurance program. The Company began making monthly payments in April 2014 into the trust account comprised of premium costs to be set aside for the payment of future claims. The balance in the trust account as of June 30, 2014 totaled \$21.9 million. The \$21.9 million is included in the \$34.7 million of restricted marketable securities and workers compensation deposits in the accompanying consolidated balance sheet.

Safety incentives liability

Safety incentives represent cash incentives paid to certain client companies under client service agreements for maintaining safe-work practices in order to minimize workplace injuries, thereby meeting agreed-upon loss objectives. The Company has provided \$12.7 million at June 30, 2014 and \$13.1 million at December 31, 2013 as an estimate of the liability for unpaid 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 incentive earned less the then-current amount of the customer's estimated workers compensation claims reserves as established by the Company's internal and third-party claims administrators, and the expected payout as determined by historical incentive payment trends. Safety incentive expense is netted against professional employer services revenue in our consolidated statements of operations.

Statements of cash flows

Interest paid during the six months ended June 30, 2014 and 2013 did not materially differ from interest expense. Income taxes paid by the Company during the six months ended June 30, 2014 and 2013 totaled \$1.3 million and \$5.9 million, respectively.

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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)

Reclassifications

Certain prior year amounts have been reclassified to conform with the 2014 presentation. Such reclassifications had no impact on the Company's financial condition, operating results, cash flows, working capital or stockholders' equity.

Accounting estimates

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Estimates are used for carrying values of marketable securities, allowance for doubtful accounts, deferred income taxes, carrying values for goodwill and property and equipment, accrued workers' compensation liabilities and safety incentive liabilities. Actual results may or may not differ from such estimates.

Note 2 - Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 *Revenue from Contracts with Customers*, which will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method or determined the effect of the standard on its ongoing financial reporting.

Note 3 - Revolving Credit Facility

The Company maintains a credit agreement (the Agreement) with its principal bank, Wells Fargo Bank, National Association (the Bank). The Agreement, which expires October 1, 2017, provides for a revolving credit facility with a current borrowing capacity of up to \$16.5 million. The Company had no outstanding borrowings on its revolving credit facility at June 30, 2014 or at December 31, 2013. The Agreement also provides for the continuance of existing standby letters of credit in connection with various surety deposit requirements for workers' compensation purposes, as to which the amount outstanding totaled approximately \$27.6 million at June 30, 2014.

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

Note 3 - Revolving Credit Facility (Continued)

Advances under the revolving credit facility bear interest, at the Company's option, at either (a) a fixed rate for a term selected by the Company from time-to-time or (b) a fluctuating rate. In each case, the rate is calculated based on LIBOR plus 1.75%. The Agreement also provides for an unused commitment fee of 0.25% per annum on the average daily unused amount of the revolving credit facility.

The credit facility is collateralized by the Company's accounts receivable and other rights to receive payment, general intangibles and equipment. Under the Agreement, the maximum principal amount available is reduced by \$2.5 million every six months commencing April 1, 2013.

The Agreement, as amended, requires the satisfaction of certain financial covenants as follows:

Minimum Fixed Charge Coverage ratio of no less than 1.25:1.0, measured quarterly on a rolling four-quarter basis;

Funded Debt: EBITDA of no more than 1.75:1 through September 30, 2014; 1.5:1 through September 30, 2015; and 1.25:1 thereafter, measured quarterly on a rolling four-quarter basis;

Ratio of restricted and unrestricted cash and marketable securities to workers' compensation and safety incentive liabilities of at least 1.0:1.0, measured quarterly; and

Prohibition on incurring additional indebtedness without the prior approval of the Bank, other than up to \$200,000 per year in purchase money financing.

The Agreement also contains customary events of default. If an event of default under the Agreement occurs and is continuing, the Bank may declare any outstanding obligations under the Agreement to be immediately due and payable. The Company was in compliance with all applicable financial covenants at June 30, 2014.

Note 4 - Basic and Diluted Earnings Per Share

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

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Weighted average number of basic common shares				
Outstanding	7,173	7,082	7,171	7,052
Effect of dilutive securities	248	292	273	292
Weighted average number of diluted common shares outstanding	7,421	7,374	7,444	7,344

Note 5 - Workers Compensation

The following table summarizes the aggregate workers compensation reserve activity (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Beginning balance				
Workers compensation claims liabilities	\$ 120,135	\$ 77,212	\$ 112,444	\$ 70,564
Add: claims expense accrual:				
Current period	17,548	14,752	33,899	27,429
Prior periods	1,303	4,234	5,104	7,686
Total expense accrual	18,851	18,986	39,003	35,115
Less: claim payments related to:				
Current period	2,739	2,448	3,138	2,874
Prior periods	13,741	9,207	25,803	18,262
Total paid	16,480	11,655	28,941	21,136
Ending balance				
Workers compensation claims liabilities	\$ 122,506	\$ 84,543	\$ 122,506	\$ 84,543
Incurred but not reported (IBNR)	\$ 29,871	\$ 56,434	\$ 29,871	\$ 56,434

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

Note 6 - Fair Value Measurement

Marketable securities consist of the following investments (in thousands):

	June 30, 2014			December 31, 2013			Fair Value Category
	Cost	Gross Unrealized Losses	Recorded Basis	Cost	Gross Unrealized Losses	Recorded Basis	
Current:							
Available-for-sale:							
VRDN	22,000	0	22,000	10,000	0	10,000	2
Corporate bonds	10,045	(12)	10,033	9,800	(13)	9,787	2
	\$ 32,045	\$ (12)	\$ 32,033	\$ 19,800	\$ (13)	\$ 19,787	
Long term:							
Available-for-sale:							
Municipal bonds	\$ 4,404	\$ (29)	\$ 4,375	\$ 4,074	\$ (17)	\$ 4,057	2
Corporate bonds	6,285	(63)	6,222	1,879	(27)	1,852	2
	\$ 10,689	\$ (92)	\$ 10,597	\$ 5,953	\$ (44)	\$ 5,909	

The Company's long-term restricted marketable securities component of restricted marketable securities and workers' compensation deposits consists of the following (in thousands):

	June 30, 2014			December 31, 2013			Fair Value Category
	Cost	Gross Unrealized Gains	Recorded Basis	Cost	Gross Unrealized Gains	Recorded Basis	
Available-for-sale:							
Money market funds held in trust	\$ 21,886	\$ 0	\$ 21,886	\$ 0	\$ 0	\$ 0	1
Municipal bonds	4,928	16	4,944	4,742	10	4,752	2
Corporate bonds	2,922	8	2,930	2,849	5	2,854	2
U.S. treasuries	4,267	0	4,267	2,787	0	2,787	1
	\$ 34,003	\$ 24	\$ 34,027	\$ 10,378	\$ 15	\$ 10,393	

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BARRETT BUSINESS SERVICES, INC.

Notes to Consolidated Financial Statements (Unaudited) *(Continued)*

Note 6 - Fair Value Measurement (Continued)

The Company's long-term restricted certificates of deposit are summarized as follows (in thousands):

	June 30, 2014			December 31, 2013			Fair Value Category
	Cost	Gross Unrealized Gains	Recorded Basis	Cost	Gross Unrealized Gains	Recorded Basis	
Restricted certificates of deposit	\$ 20,943	\$ 0	\$ 20,943	\$ 12,789	\$ 0	\$ 12,789	2

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

Overview

Barrett Business Services, Inc. (BBSI, the Company, our or we), is a leading provider of business management solutions for small-and mid-sized companies. The Company has developed a management platform that integrates tools from the human resource outsourcing industry and a knowledge-based approach from the management consulting industry. This platform, through the effective leveraging of human capital, assists our business owner clients in more effectively running their business. We believe this platform, delivered through local teams of professionals, differentiates BBSI from our competitors. BBSI was incorporated in Maryland in 1965.

Business Strategy

Our strategy is to align with the mission of small-and mid-sized business owners, driving value to their business. To do so, BBSI:

aligns with the business owner to frame a three-tiered management platform that brings predictability to their organization;

partners with business owners to leverage their investment in human capital through a high-touch, results-oriented approach; and

enables business owners to focus on their core business by reducing organizational complexity and maximizing productivity.

Business Organization

We operate a decentralized delivery model using locally based teams, typically located within 50 miles of our client companies. We recruit senior level managers to oversee, develop and expand our business at the branch-office level. Additionally, we recruit professionals with expertise in human resources, risk management and workplace safety and various types of administration, including payroll, to field our client delivery teams. This structure fosters autonomous decision-making, allowing local teams of professionals to deliver plans that most closely align with the needs of each business owner client. It also assists us by incubating talent to support increased growth and capacity. We have clients with employees located in 22 states and the District of Columbia, through a network of 52 branch locations in California, Oregon, Washington, Idaho, Arizona, Nevada, Utah, Colorado, Maryland, Delaware and North Carolina. We also have several smaller recruiting locations in our general market areas, which are under the direction of a branch office.

BBSI believes that making significant investments in the best talent available allows us to leverage the value of this investment many times over. We motivate our management employees through a compensation package that includes a competitive base salary and the opportunity for profit sharing. At the branch level, profit sharing is in direct correlation to client performance, reinforcing a culture focused on achievement of client goals.

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

Our Services

BBSI's core purpose is to advocate for business owners, particularly in the small-and mid-sized business segment. Our evolution from an entrepreneurially run company to a professionally managed organization has helped to form our view that all businesses experience inflection points at key stages of growth. The insights gained through our own growth, along with the trends we see in working with more than 3,000 companies each day, define our approach to guiding business owners through the challenges associated with being an employer.

BBSI's business teams align with each business owner client through a structured three-tiered progression. In doing so, business teams focus on the objectives of each business owner and deliver planning, guidance and resources in support of those objectives.

Tier 1: Tactical Alignment

The first stage focuses on the mutual setting of expectations and is essential to a successful client relationship. It begins with a process of assessment and alignment in which the business owners' attitudes, objectives and culture are aligned with BBSI's processes, controls and culture. This stage includes an implementation process, which addresses the administrative components of managing employees.

Tier 2: Dynamic Relationship

The second stage of the relationship focuses on the development of the client's organization. There is a focus on process improvement, development of best practices, supervisor development and leadership training.

Tier 3: Strategic Counsel

With a focus on advocating for the business owner, activities in the third stage of the relationship are more strategic and forward-looking with a goal of cultivating an environment in which all efforts are directed by the mission and objectives of the business owner.

In addition to serving as resource and guide, BBSI has the ability to provide workers' compensation coverage as a means of meeting statutory requirements and protecting our clients from employment-related injury claims. Through our internal claims managers and our third-party administrators, we provide claims management services for our co-employed clients. We work aggressively to manage and reduce job injury claims, identify fraudulent claims and structure optimal work programs, including modified duty employees.

Results of Operations

The following table sets forth 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, 2014 and 2013.

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

	Percentage of Total Revenue		Percentage of Total Revenue	
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Revenues:				
Professional employer service fees	74.5%	72.6%	74.8%	72.9%
Staffing services	25.5	27.4	25.2	27.1
Total revenues	100.0	100.0	100.0	100.0
Cost of revenues:				
Direct payroll costs	19.4	20.7	19.1	20.3
Payroll taxes and benefits	40.4	41.5	46.8	46.9
Workers' compensation	20.4	19.4	20.4	19.5
Total cost of revenues	80.2	81.6	86.3	86.7
Gross margin	19.8	18.4	13.7	13.3
Selling, general and administrative expenses	12.0	11.2	11.4	10.9
Depreciation and amortization	0.4	0.4	0.4	0.4
Income from operations	7.4	6.8	1.9	2.0
Other income	0.1	0.1	0.1	0.1
Income before income taxes	7.5	6.9	2.0	2.1
Provision for income taxes	2.7	2.3	0.7	0.7
Net income	4.8%	4.6%	1.3%	1.4%

We report professional employer services revenues on a net basis because we are not the primary obligor for the services provided by our co-employed clients to their customers pursuant to our client service agreements. The presentation of revenues on a net basis and the relative contributions of staffing and professional employer services revenues can create volatility in our gross margin percentage. The general impact of fluctuations in our revenue mix is described below.

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

A relative increase in professional employer services revenue will generally increase our gross margin percentage. Improvement in gross margin percentage occurs because incremental client services revenue dollars are reported as revenue net of all related direct costs.

A relative increase in staffing revenues will typically decrease our gross margin percentage. Staffing revenues are presented at gross with the related direct costs reported in cost of sales. While staffing relationships typically have higher margins than co-employment relationships, an increase in staffing revenues and related costs presented at gross dilutes the impact of the net professional employer services revenue on gross margin percentage.

We present for comparison purposes the gross revenues and cost of revenues information set forth in the table below. Although not in accordance with GAAP, management believes this information is more informative as to the level of our business activity and more illustrative of how we manage our operations, including the preparation of our internal operating forecasts, because it presents our professional employer services on a basis comparable to our staffing services.

(in thousands)	Unaudited		Unaudited	
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Revenues:				
Professional employer services	\$ 759,838	\$ 639,663	\$ 1,453,764	\$ 1,201,146
Staffing services	38,566	35,304	72,017	65,037
Total revenues	798,404	674,967	1,525,781	1,266,183
Cost of revenues:				
Direct payroll costs	672,078	568,799	1,285,398	1,067,538
Payroll taxes and benefits	61,130	53,483	133,947	112,606
Workers' compensation	35,344	28,959	67,278	54,002
Total cost of revenues	768,552	651,241	1,486,623	1,234,146
Gross margin	\$ 29,852	\$ 23,726	\$ 39,158	\$ 32,037

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

A reconciliation of non-GAAP gross professional employer services revenues to net professional employer services revenues is as follows:

(in thousands)	Gross Revenue		Unaudited Three Months Ended June 30,		Net Revenue	
	Reporting Method		Reclassification		Reporting Method	
	2014	2013	2014	2013	2014	2013
Revenues:						
Professional employer services	\$ 759,838	\$ 639,663	\$ (647,335)	\$ (546,169)	\$ 112,503	\$ 93,494
Staffing services	38,566	35,304	0	0	38,566	35,304
Total revenues	\$ 798,404	\$ 674,967	\$ (647,335)	\$ (546,169)	\$ 151,069	\$ 128,798
Cost of revenues	\$ 768,552	\$ 651,241	\$ (647,335)	\$ (546,169)	\$ 121,217	\$ 105,072

(in thousands)	Gross Revenue		Unaudited Six Months Ended June 30,		Net Revenue	
	Reporting Method		Reclassification		Reporting Method	
	2014	2013	2014	2013	2014	2013
Revenues:						
Professional employer services	\$ 1,453,764	\$ 1,201,146	\$ (1,239,572)	\$ (1,025,834)	\$ 214,192	\$ 175,312
Staffing services	72,017	65,037	0	0	72,017	65,037
Total revenues	\$ 1,525,781	\$ 1,266,183	\$ (1,239,572)	\$ (1,025,834)	\$ 286,209	\$ 240,349
Cost of revenues	\$ 1,486,623	\$ 1,234,146	\$ (1,239,572)	\$ (1,025,834)	\$ 247,051	\$ 208,312

The amount of the reclassification is comprised of direct payroll costs and safety incentives attributable to our co-employed client companies.

Three months ended June 30, 2014 and 2013

Net income for the second quarter of 2014 amounted to \$7.3 million, as compared to a net income of \$5.9 million for the second quarter of 2013. Diluted income per share for the second quarter of 2014 was \$0.98 compared to diluted income per share of \$0.80 for the comparable 2013 period.

Revenues for the second quarter of 2014 totaled \$151.1 million, an increase of approximately \$22.3 million or 17.3% over the second quarter of 2013, which reflects an increase in the Company's professional employer service fee revenue of \$19.0 million or 20.3%, coupled with an increase in staffing services revenue of \$3.3 million or 9.2%.

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

Results of Operations (Continued)

Three months ended June 30, 2014 and 2013 (Continued)

Approximately 76% and 73%, respectively, of our revenue during the three months ended June 30, 2014 and 2013 was attributable to our California operations.

Our growth in professional employer service revenues continues to be primarily attributable to new customers, resulting from continued strength in our referral channels as business from new customers during the second quarter of 2014 nearly doubled our lost business from former customers. Professional employer service revenues from continuing customers reflected a 9.2% increase compared to the second quarter of 2013, primarily resulting from increases in employee headcount and hours worked. The increase in staffing revenues was due primarily to an increase in revenue from the addition of new business, partially offset by lost business from former customers.

Gross margin for the second quarter of 2014 totaled approximately \$29.9 million or an increase of 25.8% over the second quarter of 2013, primarily due to the 17.3% increase in revenues and a decline in direct payroll cost and payroll taxes and benefits, as a percentage of revenues, partially offset by higher workers' compensation expense, as a percentage of revenues.

The decrease in direct payroll costs, as a percentage of revenues, from 20.7% for the second quarter of 2013 to 19.4% for the second quarter of 2014 was primarily due to the increase in our mix of professional employer services in the Company's customer base compared to the second quarter of 2013 and the effect of each customer's unique mark-up percent.

Payroll taxes and benefits, as a percentage of revenues, for the second quarter of 2014 was 40.4% compared to 41.5% for the second quarter of 2013. The percentage rate decrease was primarily due to optimizing the use of prior wages applied against the state statutory unemployment taxable wage basis as new PEO customers are brought on board and to a slight rise in the overall average wage rates which allowed the tax ceilings to be reached sooner in the year 2014 as compared to 2013.

Workers' compensation expense, in terms of dollars and as a percentage of revenues, increased from \$25.0 million or 19.4% in the second quarter of 2013 to \$30.8 million or 20.4% in the second quarter of 2014. The percentage rate increase was primarily due to an increase in the provision for claim costs related to current year claims. Our total provision for current year claims of \$17.5 million was based on the loss rate as a percentage of payroll calculated by our independent actuary at December 31, 2013. We also accrued \$1.3 million in additional expense during the quarter related to prior year claims.

In September 2012, California Senate Bill 863 (SB 863) was signed into law. Under SB 863, the California Director of Self-Insurance was ordered not to issue certificates of consent to self-insure after January 1, 2013 to any employer engaged in the activities of a professional employer organization, a leasing employer, a temporary services employer or any employer the Director determines to be in the business of providing employees to other employers.

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

Results of Operations (Continued)

Three months ended June 30, 2014 and 2013 (Continued)

Additionally, the Director is required to revoke any previously issued certificate of consent to self-insure in favor of any employer engaged in these types of activities not later than January 1, 2015. To address this issue, BBSI entered into an arrangement typically known as a fronted program with ACE Group (ACE) in February 2014. Under this arrangement, the risk of loss up to the first \$5.0 million per claim will be retained by BBSI through an indemnity agreement, although ACE will be responsible for any claims BBSI is unable to satisfy. In addition, ACE continues to be BBSI's carrier for costs in excess of \$5.0 million per claim. During the first quarter of 2014, we began the transition to the ACE program so that by December 31, 2014, all of our employees working in California will be covered by this new arrangement. We expect to incur increased costs during this transition that will likely continue following implementation of the fronted insurance program.

As described in more detail in our Annual Report on Form 10-K for the year ended December 31, 2013, we maintain reserves (recorded as accrued liabilities on our balance sheet) to cover our estimated liabilities for our self-insured workers' compensation claims. The adequacy of reserves can be affected by both internal and external events, including adverse development on existing claims, changes in medical, administrative and legal costs, and legislative or systemic changes. We have undertaken a number of steps during the past two years to improve our workers' compensation claims administration and reserving practices. These steps include hiring additional claim administrators in response to our business growth, and working to close litigated claims more quickly. In order to further refine our reserving practices, the Company has engaged an additional actuarial firm to assist management in gaining an enhanced understanding of actuarial valuation in light of the Company's specific workers' compensation claims experience.

Selling, general and administrative (SG&A) expenses for the second quarter of 2014 totaled approximately \$18.0 million, an increase of \$3.5 million or 23.9% over the second quarter of 2013. The increase was primarily attributable to increases in management payroll, increased information technology (IT) expenses and other variable expense components within SG&A to support our business growth. The increased IT expenses relate to projects designed to enhance access and delivery of information to the field as well as improve efficiencies over time.

The income tax rate for the 2014 second quarter was 36.0% compared to the 2013 second quarter rate of 33.4%. We expect the effective income tax rate for the balance of 2014 to remain at a similar rate to the 2014 second quarter income tax rate.

Six months ended June 30, 2014 and 2013

Net income for the six months ended June 30, 2014 amounted to \$3.7 million, as compared to a net income of \$3.3 million for the first six months of 2013. Diluted income per share for the first six months of 2014 was \$0.50 compared to diluted income per share of \$0.45 for the comparable 2013 period.

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

Results of Operations (Continued)

Six months ended June 30, 2014 and 2013 (Continued)

Revenues for the six months ended June 30, 2014 totaled \$286.2 million, an increase of approximately \$45.9 million or 19.1% over the comparable period in 2013, which reflects an increase in the Company's professional employer service fee revenue of \$38.9 million or 22.2%, coupled with an increase in staffing services revenue of \$7.0 million or 10.7%. Approximately 77% and 74% respectively, of our revenue during the six months ended June 30, 2014 and 2013 was attributable to our California operations.

Our growth in professional employer service revenues continues to be primarily attributable to new customers, resulting from continued strength in our referral channels as business from new customers during the first six months of 2014 nearly doubled our lost business from former customers. Professional employer service revenues from continuing customers reflected a 9.1% increase compared to the first six months of 2013, primarily resulting from increases in employee headcount and hours worked. The increase in staffing revenues was due primarily to an increase in revenue from the addition of new business, partially offset by lost business from former customers.

Gross margin for the six months ended June 30, 2014 totaled approximately \$39.2 million or an increase of 22.2% over the comparable period of 2013, primarily due to the 19.1% increase in revenues and a decline in direct payroll costs, as a percentage of revenues, partially offset by higher workers' compensation expense, as a percentage of revenues.

The decrease in direct payroll costs, as a percentage of revenues, from 20.3% for the first six months of 2013 to 19.1% for the first six months of 2014 was primarily due to the increase in our mix of professional employer services in the Company's customer base compared to the same period of 2013 and the effect of each customer's unique mark-up percent.

Payroll taxes and benefits, as a percentage of revenues, for the first six months of 2014 was 46.8% compared to 46.9% for the comparable period of 2013.

Workers' compensation expense, in terms of dollars and as a percentage of revenues, increased from \$46.8 million or 19.5% in the first six months of 2013 to \$58.4 million or 20.4% in the first six months of 2014. The percentage rate increase was primarily due to an increase in the provision for claim costs related to current year claims. Our total provision for current year claims of \$33.9 million was based on the loss rate as a percentage of payroll calculated by our independent actuary at December 31, 2013. We also accrued \$5.1 million in additional expense during the first six months of 2014 related to prior year claims.

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

Results of Operations (Continued)

Six months ended June 30, 2014 and 2013 (Continued)

Selling, general and administrative (SG&A) expenses for the first six months of 2014 totaled approximately \$32.3 million, an increase of \$6.0 million or 22.9% over the first six months of 2013. The increase was primarily attributable to increases in management payroll, IT expenses and other variable expense components within SG&A to support our business growth.

The income tax rate for the first six months of 2014 was 36.5% compared to the income tax rate for the first six months of 2013 of 32.8%.

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 for the Company's services, competition, 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 co-employed clients in the agriculture, food processing and construction-related industries. As a result, the Company may have greater revenues and net income in the third quarter of its fiscal year. Revenue levels in the fourth quarter may be affected by many customers' practice of operating on holiday-shortened schedules. 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 volatility in the Company's estimated workers' compensation expense.

Liquidity and Capital Resources

The Company's cash position for the six months ended June 30, 2014 decreased \$45.7 million from December 31, 2013, which compares to a decrease of \$36.9 million for the comparable period in 2013. The decrease in cash at June 30, 2014 as compared to December 31, 2013, was primarily due to the purchase of restricted marketable securities and restricted certificates of deposit of \$35.7 million, the purchase of marketable securities of \$24.0 million, and an increase in trade accounts receivable of \$18.4 million, partially offset by net income of \$3.7 million, a \$13.2 million increase in accrued payroll and payroll taxes, and a \$10.1 million increase in workers' compensation claims liabilities.

Net cash provided by operating activities for the six months ended June 30, 2014 amounted to \$8.7 million compared to \$17.4 million for the comparable 2013 period. For the six months ended June 30, 2014, cash flow was principally provided by a net income of \$3.7 million, increases in accrued payroll, payroll taxes and benefits of \$13.2 million and a \$10.1 million increase in workers' compensation claims liabilities, partially offset by an increase in trade accounts receivable of \$18.4 million.

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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 used in investing activities for the six months ended June 30, 2014 was \$51.0 million as compared to \$50.2 million of net cash used by investing activities for the comparable 2013 period. For the 2014 period, cash from investing activities was used primarily to purchase restricted marketable securities and restricted certificates of deposit of \$35.7 million and to purchase marketable securities of \$24.0 million, partially offset by the sale and maturities of marketable securities of \$7.0 million and from the maturities of restricted marketable securities of \$4.0 million.

Net cash used in financing activities for the six months ended June 30, 2014 was \$3.3 million as compared to \$4.1 million used in financing activities for the comparable 2013 period. For the 2014 period, the primary use of cash for financing activities was the payment of regular quarterly cash dividends totaling \$2.6 million to holders of the Company's common stock and the repurchase of common stock totaling \$1.0 million.

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

As disclosed in Note 3 to the Consolidated Financial Statements in this report, the Company maintains a credit agreement (the "Agreement") with its principal bank, Wells Fargo Bank, National Association (the "Bank"). The Agreement, which expires October 1, 2017, provides for a revolving credit facility with a current borrowing capacity of up to \$16.5 million. The Company had no outstanding borrowings on the revolving credit facility as of June 30, 2014 or at December 31, 2013. The Agreement also provides for the continuance of existing standby letters of credit in connection with various surety deposit requirements for workers' compensation purposes, as to which the amount outstanding totaled approximately \$27.6 million as of June 30, 2014.

The states of California, Oregon, Maryland, Washington, Delaware and Colorado require us to maintain specified investment balances or other financial instruments, totaling \$115.1 million at June 30, 2014, to cover potential workers' compensation claims losses relating to the Company's status as a self-insured employer. In partial satisfaction of these requirements, at June 30, 2014, we have provided surety bonds and standby letters of credit totaling \$111.5 million. The State of California requires the Company to maintain a surety deposit of \$104.7 million (which is included in the total of \$111.5 million of surety bonds and standby letters of credit), which the Company satisfied through the posting of third party issued surety bonds, backed by a \$20.9 million letter of credit. In conjunction with this letter of credit, the Company posted \$20.9 million of certificates of deposit with Wells Fargo as collateral. The \$20.9 million letter of credit is included in the total \$27.6 million of standby letters of credit with Wells Fargo.

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

Liquidity and Capital Resources (Continued)

Advances under the revolving credit facility bear interest, at the Company's option, at either (a) a fixed rate for a term selected by the Company from time-to-time or (b) a fluctuating rate. In each case, the rate is calculated based on LIBOR plus 1.75%. The Agreement also provides for an unused commitment fee of 0.25% per annum on the average daily unused amount of the revolving credit facility.

The credit facility is collateralized by the Company's accounts receivable and other rights to receive payment, general intangibles, inventory and equipment. Under the Agreement, the maximum principal amount available is reduced by \$2.5 million every six months commencing April 1, 2013. The maximum principal amount available at June 30, 2014 was \$16.5 million.

The Agreement, as amended, requires the satisfaction of certain financial covenants as follows:

Minimum Fixed Charge Coverage ratio of no less than 1.25:1.0, measured quarterly on a rolling four-quarter basis;

Funded Debt: EBITDA of no more than 1.75:1 through September 30, 2014; 1.5:1 through September 30, 2015; and 1.25:1 thereafter, measured quarterly on a rolling four-quarter basis;

Ratio of restricted and unrestricted cash and marketable securities to workers' compensation and safety incentive liabilities of at least 1.0:1.0, measured quarterly; and

Prohibition on incurring additional indebtedness without the prior approval of the Bank, other than up to \$200,000 per year in purchase money financing.

The Agreement also contains customary events of default. If an event of default under the Agreement occurs and is continuing, the Bank may declare any outstanding obligations under the Agreement to be immediately due and payable. The Company was in compliance with all applicable financial covenants at June 30, 2014.

Management expects that the funds anticipated to be generated from operations and availability under its revolving credit facility will be sufficient in the aggregate to fund the Company's working capital needs for the next twelve months.

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.

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

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 levels, the potential for and effect of 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 the effect of changes in estimate of its claims liabilities, the adequacy of the Company's allowance for doubtful accounts, the effect of the Company's formation and operation of two wholly owned, fully licensed captive insurance subsidiaries and becoming self-insured for certain business risks, the operation and cost of the Company's fronted insurance program with ACE in California, the financial viability of the Company's excess insurance carriers, the effectiveness of the Company's management information systems, payment of future dividends, and the availability of 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 the ability to retain current clients and attract new clients, 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, the effect of changes in the workers' compensation regulatory environment in one or more of the Company's primary markets, collectability 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 effect of conditions in the global capital markets on the Company's investment portfolio, and 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 or its fronted insurance program, among others. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk for changes in interest rates primarily relates to its investment portfolio of liquid assets and its outstanding borrowings on its line of credit and long-term debt. As of June 30, 2014, the Company's investment portfolio consisted principally of approximately \$22.0 million in VRDN, \$21.9 million in money market funds held in trust, \$20.9 million in restricted certificates of deposit, \$19.2 million in corporate bonds, \$9.3 million in municipal bonds and \$4.3 million in U.S. treasuries. The Company's outstanding long-term debt totaled approximately \$5.2 million at June 30, 2014. Based on the Company's overall interest exposure at June 30, 2014, a 100 basis point increase in market interest rates would not have a material effect on the fair value of the Company's investment portfolio of liquid assets, its outstanding borrowings or its results of operations because of the predominantly short maturities of the securities within the investment portfolio and the relative size of the outstanding borrowings.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of June 30, 2014, 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 design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on the evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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Part II Other Information

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our 2013 Annual Report on Form 10-K.

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

The following table summarizes information related to stock repurchases during the quarter ended June 30, 2014.

Month	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plan (1)	Maximum Number of Shares that May Yet Be Repurchased Under the Plan (1)
April	0	\$ 0	0	1,208,213
May	0	0	0	1,208,213
June	19,900	49.82	1,811,687	1,188,313
Total	19,900		1,811,687	

- (1) In November 2006, the Board adopted a stock repurchase program and authorized the repurchase of up to 500,000 shares of the Company's stock from time to time in open market purchases. In November 2007, the Board approved an increase in the authorized shares to be repurchased up to 1.0 million shares. In October 2008, the Board approved a second increase in the authorized shares to be repurchased up to 3.0 million shares.

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 8, 2014

/s/ James D. Miller
James D. Miller
Vice President-Finance, Treasurer and Secretary
(Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit

4.1	Second Amendment to Restated Credit Agreement dated as of December 18, 2013, between the Registrant and Wells Fargo Bank, National Association (Wells Fargo).
4.2	Third Amendment to Restated Credit Agreement dated as of May 16, 2014, between the Registrant and Wells Fargo.
4.3	First Amendment to Security Agreement Specific Rights to Payment dated as of December 18, 2013, between the Registrant and Wells Fargo.
4.4	Second Amendment to Security Agreement Specific Rights to Payment dated as of May 16, 2014, between the Registrant and Wells Fargo.
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.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document