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 March 31, 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 ☐

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 April 30, 2014 was 7,175,847 shares.

[Table of Contents](#)

BARRETT BUSINESS SERVICES, INC.

INDEX

Table of Contents

Part I - Financial Information

Item 1. Financial Statements

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

	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 66,268	$ 93,557
Marketable securities	31,013	19,787
Trade accounts receivable, net	95,956	85,586
Income taxes receivable	1,596	0
Prepaid expenses and other	4,621	3,026
Deferred income taxes	8,936	8,929
Total current assets	208,390	210,885
Marketable securities	6,680	5,909
Property, equipment and software, net	21,779	20,549
Restricted certificates of deposit	12,789	12,789
Restricted marketable securities and workers' compensation deposits	31,133	11,205
Other assets	4,028	4,165
Goodwill	47,820	47,820
	$332,619	$ 313,322
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 220	$ 220
Accounts payable	2,382	3,252
Accrued payroll, payroll taxes and related benefits	112,000	92,516
Income taxes payable	0	1,236
Other accrued liabilities	411	313
Workers' compensation claims liabilities	38,306	35,841
Safety incentives liability	12,192	13,086
Total current liabilities	165,511	146,464
Long-term workers' compensation claims liabilities	81,829	76,603
Long-term debt	4,998	5,053
Deferred income taxes	10,392	10,787
Customer deposits and other long-term liabilities	1,799	1,862
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.01 par value; 20,500 shares authorized, 7,173 and 7,165 shares issued and outstanding	72	72
Additional paid-in capital	6,203	5,781
Accumulated other comprehensive loss	(37)	(26)
Retained earnings	61,852	66,726
	68,090	72,553
	$332,619	$ 313,322

The accompanying notes are an integral part of these financial statements

Table of Contents

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Revenues:		
Professional employer service fees	$101,689	$ 81,818
Staffing services	33,451	29,733
Total revenues	135,140	111,551
Cost of revenues:		
Direct payroll costs	25,417	22,296
Payroll taxes and benefits	72,817	59,123
Workers' compensation	27,600	21,821
Total cost of revenues	125,834	103,240
Gross margin	9,306	8,311
Selling, general and administrative expenses	14,369	11,811
Depreciation and amortization	584	460
Loss from operations	(5,647)	(3,960)
Other income (expense):		
Investment income	144	173
Interest expense	(44)	(80)
Other	(10)	(6)
Other income	90	87
Loss before income taxes	(5,557)	(3,873)
Benefit from income taxes	(1,974)	(1,324)
Net loss	$ (3,583)	$ (2,549)
Basic loss per common share	$ (.50)	$ (.36)
Weighted average number of basic common shares outstanding	7,170	7,022
Diluted loss per common share	$ (.50)	$ (.36)
Weighted average number of diluted common shares outstanding	7,170	7,022
Cash dividends per common share	$ .18	$ .13

The accompanying notes are an integral part of these financial statements

Table of Contents

BARRETT BUSINESS SERVICES, INC.
Consolidated Statements of Comprehensive Loss
(Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2014	2013
Net loss	$(3,583)	$(2,549)
Unrealized losses on marketable securities, net of tax of $(7) and $(2) in 2014 and 2013, respectively	(11)	(4)
Comprehensive loss	$(3,594)	$(2,553)

The accompanying notes are an integral part of these financial statements

Table of Contents

BARRETT BUSINESS SERVICES, INC.
Consolidated Statements of Stockholders' Equity
Three Months Ended March 31, 2014 and 2013
(Unaudited)
(In thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount				
Balance, December 31, 2012	7,017	$ 70	$ 913	$ 23	$52,890	$53,896
Common stock issued on exercise of options	24	0	204	0	0	204
Share based compensation expense, net of tax	0	0	183	0	0	183
Excess tax benefit of stock option exercises	0	0	280	0	0	280
Cash dividends on common stock	0	0	0	0	(912)	(912)
Unrealized holding losses on marketable securities, net of tax	0	0	0	(4)	—	(4)
Net loss	0	0	0	0	(2,549)	(2,549)
Balance, March 31, 2013	7,041	$ 70	$ 1,580	$ 19	$49,429	$51,098
Balance, December 31, 2013	7,165	$ 72	$ 5,781	$ (26)	$66,726	$72,553
Common stock issued on exercise of options	8	0	76	0	0	76
Share based compensation expense, net of tax	0	0	331	0	0	331
Excess tax benefits from share-based compensation	0	0	15	0	0	15
Cash dividends on common stock	0	0	0	0	(1,291)	(1,291)
Unrealized holding losses on marketable securities, net of tax	0	0	0	(11)	0	(11)
Net loss	0	0	0	0	(3,583)	(3,583)
Balance, March 31, 2014	7,173	$ 72	$ 6,203	$ (37)	$61,852	$68,090

The accompanying notes are an integral part of these financial statements

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Cash flows from operating activities:		
Net loss	$ (3,583)	$ (2,549)
Reconciliations of net loss to net cash provided by operating activities:		
Depreciation and amortization	584	460
Losses recognized on marketable securities	1	0
Gain recognized on sale and leaseback	0	(30)
Deferred income taxes	(409)	(4)
Share-based compensation	331	183
Excess tax benefit from share-based compensation	(15)	(280)
Changes in certain assets and liabilities:		
Trade accounts receivable, net	(10,370)	(6,371)
Income taxes receivable	(1,596)	(7,179)
Prepaid expenses and other	(1,595)	818
Accounts payable	(870)	487
Accrued payroll, payroll taxes and related benefits	19,484	19,925
Other accrued liabilities	98	162
Income taxes payable	(1,221)	0
Workers' compensation claims liabilities	7,691	6,648
Safety incentives liability	(894)	446
Customer deposits, long-term liabilities and other assets, net	74	240
Net cash provided by operating activities	7,710	12,956
Cash flows from investing activities:		
Purchase of property and equipment	(1,814)	(1,199)
Proceeds from sales and maturities of marketable securities	2,934	7,651
Purchase of marketable securities	(14,936)	(11,269)
Proceeds from maturities of restricted marketable securities	1,010	673
Purchase of restricted marketable securities	(20,938)	(1,530)
Net cash used in investing activities	(33,744)	(5,674)
Cash flows from financing activities:		
Proceeds from credit-line borrowings	0	78,057
Payments on credit-line borrowings	0	(82,589)
Payments on long-term debt	(55)	(54)
Dividends paid	(1,291)	(912)
Proceeds from exercise of stock options and vesting of restricted stock units	76	204
Excess tax benefits from share-based compensation	15	280
Net cash used in financing activities	(1,255)	(5,014)
Net (decrease) increase in cash and cash equivalents	(27,289)	2,268
Cash and cash equivalents, beginning of period	93,557	45,747
Cash and cash equivalents, end of period	$ 66,268	$ 48,015

The accompanying notes are an integral part of these financial statements

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 March 31, 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.

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

Allowance for doubtful accounts

The Company had an allowance for doubtful accounts of $264,000 and $242,000 at March 31, 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 $120.1 million and $112.4 million at March 31, 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.

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 will begin making monthly payments in April 2014 into the trust account comprised of premium costs to be set aside for payment of future claims.

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 $12.2 million at March 31, 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 three months ended March 31, 2014 and 2013 did not materially differ from interest expense. Income taxes paid by the Company during the three months ended March 31, 2014 and 2013 totaled $1.2 million and $5.9 million, respectively.

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.

Note 2 - 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 $19.0 million. The Company had no outstanding borrowings on its revolving credit facility at March 31, 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 $19.4 million at March 31, 2014.

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.

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

Note 2 - Revolving Credit Facility (Continued)

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 March 31, 2014.

Note 3 - 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):

	Three Months Ended March 31,	
	2014	2013
Weighted average number of basic common shares outstanding	7,170	7,022
Effect of dilutive securities	0	0
Weighted average number of diluted common shares outstanding	7,170	7,022
	7,170	7,022

As a result of the net loss reported for the three months ended March 31, 2014 and 2013, 298 and 291 potential common shares, respectively, have been excluded from the calculation of diluted loss per common share because their effect would be anti-dilutive.

Table of Contents

Note 4 - Workers' Compensation

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

	Three Months Ended March 31,	
	2014	2013
Beginning balance		
Workers' compensation claims liabilities	$112,444	$70,564
Add: claims expense accrual:		
Current period	16,351	12,677
Prior periods	3,801	3,452
Total expense accrual	20,152	16,129
Less: claim payments related to:		
Current period	399	426
Prior periods	12,062	9,055
Total paid	12,461	9,481
Ending balance		
Workers' compensation claims liabilities	$120,135	$77,212
Incurred but not reported (IBNR)	$ 69,185	$51,838

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

Note 5 - Fair Value Measurement

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

	March 31, 2014			December 31, 2013			
	Cost	Gross Unrealized Losses	Recorded Basis	Cost	Gross Unrealized Losses	Recorded Basis	Fair Value Category
Current:							
Available-for-sale:							
VRDN	20,000	0	20,000	10,000	0	10,000	2
Corporate bonds	11,028	(15)	11,013	9,800	(13)	9,787	2
	$31,028	$ (15)	$31,013	$19,800	$ (13)	$19,787	
Long term:							
Available-for-sale:							
Municipal bonds	$ 4,325	$ (27)	$ 4,298	$ 4,074	$ (17)	$ 4,057	2
Corporate bonds	2,422	(40)	2,382	1,879	(27)	1,852	2
	$ 6,747	$ (67)	$ 6,680	$ 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):

	March 31, 2014			December 31, 2013			
	Cost	Gross Unrealized Gains	Recorded Basis	Cost	Gross Unrealized Gains	Recorded Basis	Fair Value Category
Available-for-sale:							
Money market funds held in trust	$20,003	$ 0	$20,003	$ 0	$ 0	$ 0	1
Municipal bonds	5,026	14	5,040	4,742	10	4,752	2
Corporate bonds	2,608	8	2,616	2,849	5	2,854	2
U.S. treasuries	2,787	0	2,787	2,787	0	2,787	1
	$30,424	$ 22	$30,446	$10,378	$ 15	$10,393	

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

	March 31, 2014			December 31, 2013			
	Cost	Gross Unrealized Gains	Recorded Basis	Cost	Gross Unrealized Gains	Recorded Basis	
Restricted certificates of deposit	$12,789	$ 0	$12,789	$12,789	$ 0	$12,789	2

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.

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 months ended March 31, 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 Three Months Ended March 31,	
	2014	2013
Revenues:		
Professional employer service fees	75.2%	73.3%
Staffing services	24.8	26.7
Total revenues	100.0	100.0
Cost of revenues:		
Direct payroll costs	18.8	20.0
Payroll taxes and benefits	53.9	53.0
Workers' compensation	20.4	19.6
Total cost of revenues	93.1	92.6
Gross margin	6.9	7.4
Selling, general and administrative expenses	10.6	10.6
Depreciation and amortization	0.5	0.4
Loss from operations	(4.2)	(3.6)
Other income	0.1	0.1
Loss before income taxes	(4.1)	(3.5)
Benefit from income taxes	(1.4)	(1.2)
Net loss	(2.7)%	(2.3)%

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 Three Months Ended March 31, 2014	Unaudited Three Months Ended March 31, 2013
Revenues:		
Professional employer services	$693,926	$561,483
Staffing services	33,451	29,733
Total revenues	727,377	591,216
Cost of revenues:		
Direct payroll costs	613,320	498,738
Payroll taxes and benefits	72,817	59,123
Workers' compensation	31,934	25,044
Total cost of revenues	718,071	582,905
Gross margin	$ 9,306	$ 8,311

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)	Unaudited Three Months Ended March 31, Gross Revenue Reporting Method 2014	Gross Revenue Reporting Method 2013	Reclassification 2014	Reclassification 2013	Net Revenue Reporting Method 2014	Net Revenue Reporting Method 2013
Revenues:						
Professional employer services	$693,926	$561,483	$(592,237)	$(479,665)	$101,689	$ 81,818
Staffing services	33,451	29,733	0	0	33,451	29,733
Total revenues	$727,377	$591,216	$(592,237)	$(479,665)	$135,140	$111,551
Cost of revenues	$718,071	$582,905	$(592,237)	$(479,665)	$125,834	$103,240

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

Three months ended March 31, 2014 and 2013

Net loss for the first quarter of 2014 amounted to $3.6 million, as compared to a net loss of $2.5 million for the first quarter of 2013. Diluted loss per share for the first quarter of 2014 was $0.50 compared to diluted loss per share of $0.36 for the comparable 2013 period.

Revenues for the first quarter of 2014 totaled $135.1 million, an increase of approximately $23.6 million or 21.1% over the first quarter of 2013, which reflects an increase in the Company's professional employer service fee revenue of $19.9 million or 24.3%, coupled with an increase in staffing services revenue of $3.7 million or 12.5%. Approximately 78% and 75% respectively, of our revenue during the three months ended March 31, 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 quarter of 2014 doubled our lost business from former customers. Professional employer service revenues from continuing customers reflected a 9.0% increase compared to the first 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.

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

Results of Operations (Continued)

Three months ended March 31, 2014 and 2013 (Continued)

Gross margin for the first quarter of 2014 totaled approximately $9.3 million or an increase of 12.0% over the first quarter of 2013, primarily due to the 21.1% increase in revenues and a decline in direct payroll costs, as a percentage of revenues, partially offset by higher workers' compensation expense and payroll taxes and benefits, as a percentage of revenues.

The decrease in direct payroll costs, as a percentage of revenues, from 20.0% for the first quarter of 2013 to 18.8% for the first 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 first 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 first quarter of 2014 was 53.9% compared to 53.0% for the first quarter of 2013. The percentage rate increase was largely due to the effect of significant growth in professional employer services, where payroll taxes and benefits are presented at gross cost, whereas the related direct payroll costs are netted against professional employer services revenue. Management expects the trend in payroll taxes and benefits, as a percentage of revenues, to continue to increase as a result of continued growth in professional employer services on a quarter-over-quarter basis.

Workers' compensation expense, in terms of dollars and as a percentage of revenues, increased from $21.8 million or 19.6% in the first quarter of 2013 to $27.6 million or 20.4% in the first quarter of 2014. The percentage rate increase was primarily due to an increase in the provision for claim costs related to current year claims of $4.3 million. Our total provision for current year claims of $16.4 million was based on the loss rate as a percentage of payroll calculated by our independent actuary at December 31, 2013. We also accrued $3.8 million in additional expense during the quarter related to prior year claims.

Selling, general and administrative ("SG&A") expenses for the first quarter of 2014 totaled approximately $14.4 million, an increase of $2.6 million or 21.7% over the first quarter of 2013. The increase was primarily attributable to increases in management payroll and other variable expense components within SG&A to support our business growth.

The income tax rate for the 2014 first quarter was 35.5% compared to the 2013 first quarter rate of 34.2%. We expect the effective income tax rate for the balance of 2014 to remain at a similar rate to the 2014 first quarter income tax rate.

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. 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 has entered into an arrangement typically known as a

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

Results of Operations (Continued)

Three months ended March 31, 2014 and 2013 (Continued)

"fronted" program with ACE Group ("ACE"). 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, working to close litigated claims more quickly, and establishing higher specific reserves for both new claims and open prior year claims. In order to further refine our reserving practices, the Company is in the process of engaging 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.

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.

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

Liquidity and Capital Resources

The Company's cash position for the three months ended March 31, 2014 decreased $27.3 million from December 31, 2013, which compares to an increase of $2.3 million for the comparable period in 2013. The decrease in cash at March 31, 2014 as compared to December 31, 2013, was primarily due to the net loss of $3.6 million, net purchases of restricted marketable securities of $19.9 million, net purchases of marketable securities of $12.0 million and an increase in trade accounts receivable of $10.4 million, partially offset by a $19.5 million increase in accrued payroll and payroll taxes and a $7.7 million increase in workers' compensation claims liabilities.

Net cash provided by operating activities for the three months ended March 31, 2014 amounted to $7.7 million compared to $13.0 million for the comparable 2013 period. For the three months ended March 31, 2014, cash flow was principally provided by a $19.5 million increase in accrued payroll and payroll taxes and a $7.7 million increase in workers' compensation claims liabilities, partially offset by the net loss of $3.6 million and an increase in trade accounts receivable of $10.4 million.

Net cash used in investing activities for the three months ended March 31, 2014 was $33.7 million as compared to $5.7 million of net cash used by investing activities for the comparable 2013 period. For the 2014 period, cash from investing activities was used to purchase restricted marketable securities of $20.9 million and to purchase marketable securities of $14.9 million, partially offset by the sale and maturities of marketable securities of $2.9 million and from the maturities of restricted marketable securities of $1.0 million. Included in the $20.9 million purchases of restricted marketable securities was a $20.0 million initial deposit into a trust account established between the Company and ACE related to the new ACE fronted insurance program. The Company will begin making monthly payments in April 2014 into the trust account comprised of premium costs to be set aside for payment of future claims.

Net cash used in financing activities for the three months ended March 31, 2014 was $1.3 million as compared to $5.0 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 the regular quarterly cash dividend totaling $1.3 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 2 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 $19.0 million. The Company had no outstanding borrowings on the revolving credit facility as of March 31, 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 $19.4 million as of March 31, 2014.

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

Liquidity and Capital Resources (Continued)

The states of California, Oregon, Maryland, Washington, Delaware and Colorado require us to maintain specified investment balances or other financial instruments, totaling $72.9 million at March 31, 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 March 31, 2014, we have provided surety bonds and standby letters of credit totaling $70.8 million. The State of California requires the Company to maintain a surety deposit of $63.9 million (which is included in the total of $70.8 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 $12.8 million letter of credit. In conjunction with this letter of credit, the Company posted $12.8 million of certificates of deposit with Wells Fargo as collateral. The $12.8 million letter of credit is included in the total $19.4 million of standby letters of credit with Wells Fargo.

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 March 31, 2014 was $19.0 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 March 31, 2014.

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

Liquidity and Capital Resources (Continued)

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.

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, 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.

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 March 31, 2014, the Company's investment portfolio consisted principally of approximately $20.0 million in VRDN, $20.0 million in money market funds held in trust, $16.0 million in corporate bonds, $12.8 million restricted certificates of deposit, $9.3 million in municipal bonds and $2.8 million in U.S. treasuries. The Company's outstanding long-term debt totaled approximately $5.2 million at March 31, 2014. Based on the Company's overall interest exposure at March 31, 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 March 31, 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 March 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

There were no common stock repurchases during the quarter ended March 31, 2014. In November 2006, the Board adopted a stock repurchase program and authorized the repurchase of up to 500,000 common shares of the Company's common 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 common shares. In October 2008, the Board approved a second increase in the authorized common shares to be repurchased up to 3.0 million shares. At March 31, 2014 1,208,200 shares could be repurchased under the program.

Item 6. Exhibits

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

SIGNATURES

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

	BARRETT BUSINESS SERVICES, INC. (Registrant)
Date: May 12, 2014	/s/ James D. Miller
	James D. Miller Vice President-Finance, Treasurer and Secretary (Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit	
10.1	Barrett Business Services, Inc. Annual Cash Incentive Award Plan, Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on March 13, 2014.
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

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

EXHIBIT 31.1

I, Michael L. Elich, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Barrett Business Services, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this 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
    d. 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 (or persons performing the equivalent functions):
    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: May 12, 2014

/s/ Michael L. Elich
Michael L. Elich
Chief Executive Officer

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

EXHIBIT 31.2

I, James D. Miller, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Barrett Business Services, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 report is being prepared;
   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this 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
   d. 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 (or persons performing the equivalent functions):
   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: May 12, 2014

/s/ James D. Miller

James D. Miller
Chief Financial Officer

EXHIBIT 32

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

In connection with the Quarterly Report of Barrett Business Services, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned certify, pursuant to 18 U.S.C. § 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/ Michael L. Elich
Michael L. Elich
Chief Executive Officer
May 12, 2014

/s/ James D. Miller
James D. Miller
Chief Financial Officer
May 12, 2014

A signed original of this written statement has been provided to Barrett Business Services, Inc. and will be retained by Barrett Business Services, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.