STATE OF ARIZONA
CORPORATION COMMISSION
CORPORATION ANNUAL REPORT & CERTIFICATE OF DISCLOSURE

Arizona Corporation Commission
00324174

DUE ON OR BEFORE 08/26/2001 FY01-02 FILING FEE $45.00

The following information is required by A.R.S. §§10-1622 & 10-11622 for all corporations organized pursuant to Arizona Revised Statutes, Title 10. The Commission's authority to prescribe this form is A.R.S. §§10-121.A. & 10-3121.A. YOUR REPORT MUST BE SUBMITTED ON THIS ORIGINAL FORM. Make changes or corrections where necessary. Information for the report should reflect the current status of the corporation. See instructions for proper format. REFER TO THE INSTRUCTIONS ON PAGE 4.

1. F-0794947-2
BARRETT BUSINESS SERVICES, INC.
% JENIFFER HULL
4724 SW MACADAM AVE
PORTLAND, OR 97201

RECEIVED
JUL 2 - 2001
ARIZONA CORP. COMMISSION
CORPORATIONS DIVISION

Business Phone: (503) 220-0988 (Business phone is optional.)
State of Domicile: MARYLAND Type of Corporation: BUSINESS

2. Arizona Statutory Agent: DEBBIE ~~BRENDON~~ LEBER
Street Address: 5303 E BROADWAY BLVD
TUCSON, AZ 85711
City, State, Zip:

ACC USE ONLY	
Fee	$45
Penalty	$
Reinstate	$
Expedite	$
Resubmit	$

Use this box only if appointing a new Statutory Agent

PR 25

If appointing a new statutory agent, the new agent MUST consent to that appointment by signing below.

I, (individual) or We, (corporation or limited liability company) having been designated the new Statutory Agent, do hereby consent to this appointment until my removal or resignation pursuant to law.

Debbie Leber
Signature of *new* Statutory Agent

3. Secondary Address: (Foreign Corporations are REQUIRED to complete this section.)
% ~~NANCY PREBLE~~ Barrett Business Services, Inc.
~~5303 E BROADWAY BLVD~~ 4724 SW Macadam Avenue
~~PHOENIX, AZ 85711~~ Portland, OR 97201

4. Check the one category below which best describes the CHARACTER OF BUSINESS of your corporation.

BUSINESS CORPORATIONS

__ 1. Accounting
__ 2. Advertising
__ 3. Aerospace
__ 4. Agriculture
__ 5. Architecture
__ 6. Banking/Finance
__ 7. Barbers/Cosmetology
__ 8. Construction
__ 9. Contractor
__ 10. Credit/Collection
__ 11. Education
__ 12. Engineering
__ 13. Entertainment
__ 14. General Consulting
__ 15. Health Care
__ 16. Hotel/Motel
__ 17. Import/Export
__ 18. Insurance
__ 19. Legal Services
__ 20. Manufacturing
__ 21. Mining
__ 22. News Media
__ 23. Pharmaceutical
__ 24. Publishing/Printing
__ 25. Ranching/Livestock
__ 26. Real Estate
__ 27. Restaurant/Bar
__ 28. Retail Sales
__ 29. Science/Research
__ 30. Sports/Sporting Events
__ 31. Technology(Computers)
__ 32. Technology(General)
__ 33. Television/Radio
__ 34. Tourism/Convention Services
__ 35. Transportation
__ 36. Utilities
__ 37. Veterinary Medicine/Animal Care
X 38. Other HR Mgmt & Staffing

NON-PROFIT CORPORATIONS

1. __ Charitable
2. __ Benevolent
3. __ Educational
4. __ Civic
5. __ Political
6. __ Religious
7. __ Social
8. __ Literary
9. __ Cultural
10. __ Athletic
11. __ Science/Research
12. __ Hospital/Health Care
13. __ Agricultural
14. __ Animal Husbandry
15. __ Homeowner's Association
16. __ Professional, commercial industrial or trade association
17. __ Other________

5. CAPITALIZATION: (Business Corporations and Business Trusts are **REQUIRED** to complete this section.)
Business trusts must indicate the number of transferable certificates held by trustees evidencing their beneficial interest in the trust estate.

Number of Shares/Certificates Authorized	Class	Series Within Class (if any)
20,500,000	Common Stock	$.01 par value

Number of Shares/Certificates Issued	Class	Series Within Class (if any)
6,260,898	Common Stock	$.01 par value

6. SHAREHOLDERS: (Business Corporations and Business Trusts are **REQUIRED** to complete this section.)
List shareholders holding more than 20% of any class of shares issued by the corporation, or having more than a 20% beneficial interest in the corporation. **Please Type or Print Clearly.**

NONE ☐

Name: William W. Sherertz **Name:** Nancy B. Sherertz

Name: **Name:**

7. OFFICERS **Please Type or Print Clearly.**

Name: SEE ATTACHED SHEET
Title:
Address:

Date taking office:

Name:
Title:
Address:

Date taking office:

Name:
Title:
Address:

Date taking office:

Name:
Title:
Address:

Date taking office:

8. DIRECTORS **Please Type or Print Clearly.**

Name: SEE ATTACHED SHEET
Address:

Date taking office:

Name:
Address:

Date taking office:

Name:
Address:

Date taking office:

Name:
Address:

Date taking office:

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BALANCE SHEETS

(in thousands, except par value)

December 31,	2000	1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 516	$ 550
Trade accounts receivable, net	20,660	30,216
Prepaid expenses and other	1,222	1,219
Deferred tax assets	2,702	1,658
Total current assets	25,100	33,643
Intangibles, net	20,982	21,945
Property and equipment, net	7,177	7,027
Restricted marketable securities and workers' compensation deposits	4,254	6,281
Unrestricted marketable securities	1,386	-
Deferred tax assets	839	712
Other assets	1,374	1,132
	$ 61,112	$ 70,740
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ -	$ 865
Current portion of long-term debt	2,939	2,783
Line of credit	2,628	4,882
Accounts payable	1,013	1,356
Accrued payroll, payroll taxes and related benefits	7,893	11,437
Workers' compensation claims and safety incentive liabilities	5,274	4,219
Other accrued liabilities	1,622	413
Total current liabilities	21,369	25,955
Long-term debt, net of current portion	1,508	4,232
Customer deposits	614	815
Long-term workers' compensation claims liabilities	682	699
Other long-term liabilities	2,022	1,710
	26,195	33,411
Commitments and contingencies (Notes 9, 10 and 14)		
Stockholders' equity:		
Common stock, $.01 par value; 20,500 shares authorized, 6,451 and 7,461 shares issued and outstanding	64	75
Additional paid-in capital	5,387	9,889
Retained earnings	29,466	27,365
	34,917	37,329
	$ 61,112	$ 70,740

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

hardware and software for the Company's new management information system, which was implemented on March 1, 2000. Additionally, during 2000, the Company paid $1,122,000 representing the final contingent payment and acquisition costs related to the TSS acquisition. For 1999, cash used in investing activities was primarily for the acquisitions of TSS, TPM and TSU totaling $13,157,000 and for capital expenditures of $2,024,000. The Company presently has no material long-term capital commitments.

Net cash used in financing activities for 2000 amounted to $10,200,000, which compares to $8,525,000 of net cash provided by financing activities in 1999. For 2000, the principal use of cash for financing activities was for common stock repurchases totaling $4,541,000, scheduled payments on long-term debt of $2,568,000 and net repayments on the Company's credit-line totaling $2,254,000. For 1999, the primary source of cash provided by financing activities was an $8,000,000 term loan obtained from the Company's principal bank and $4,882,000 of net borrowings on the Company's credit-line, offset in part by payments on long-term debt of $1,722,000 and common stock repurchases of $1,498,000. The term loan was obtained to provide financing for the TSU acquisition and, at December 31, 2000, had an outstanding principal balance of $4,000,000.

The Company renewed its loan agreement (the "Agreement") with its principal bank in May 2000, which provided for an unsecured revolving credit facility of $15.0 million and an $8.0 million 3-year term loan. This Agreement, which expires May 31, 2001, also includes a subfeature for standby letters of credit in connection with certain workers' compensation surety arrangements, as to which approximately $2.6 million were outstanding as of December 31, 2000. The Company had an outstanding balance of $2,628,000 on the revolving credit facility at December 31, 2000. (See Note 7 of the Notes to Financial Statements.) Effective September 30, 2000, the Company negotiated an accommodation to reduce the restrictiveness of one of the quarterly financial covenants and, in consideration, agreed to the imposition of an additional financial covenant. As a result of a financial covenant violation as of December 31, 2000, the Company, subsequent to year end, renegotiated with its bank several material amendments to the provisions of the Agreement in consideration for the bank's agreement to waive the covenant violation. Effective, March 12, 2001, the principal terms and conditions of the Agreement, as amended, include (1) a reduction in the total amount available under the revolving credit facility from $15 million to the lesser of (i) $13 million or (ii) 65 percent of total trade accounts receivable at the end of any fiscal quarter, and (2) a security interest in all trade accounts receivable. Due to the bank's secured position, the bank agreed to reduce the restrictiveness of certain financial covenants. It is management's belief that these new terms and conditions will not be restrictive in the Company's normal course of operation. As a result of the bank-provided waiver, the Company was in compliance with the financial covenants of the Agreement, as amended, at December 31, 2000. Management expects that the funds anticipated to be generated from operations, together with the bank-provided credit facility and other potential sources of financing, will be sufficient in the aggregate to fund the Company's working capital needs for the foreseeable future. Although the Agreement, as amended, expires on May 31, 2001, management expects this arrangement to be renewed with its current principal bank on terms and conditions which will not be materially less favorable to the Company than the present terms. If, however, the terms and conditions for renewal are unacceptable to the Company, management will seek the most favorable terms available in the market.

During 1999, the Company's Board of Directors authorized a stock repurchase program to repurchase common shares from time to time in open market purchases. Since inception, the Board of Directors have approved four increases in the total number of shares or dollars authorized to be repurchased under the program. The repurchase program currently provides $1,584,000 to be used for the repurchase of additional shares at December 31, 2000. During 2000, the Company repurchased 1,017,300 shares at an aggregate price of $4,541,000. Management anticipates that the capital necessary to execute this program will be provided by existing cash balances and other available resources.

INFLATION

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

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STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

Years Ended December 31,	2000	1999	1998
Revenues:			
Staffing services	$ 188,500	$ 194,991	$ 165,443
Professional employer services	133,966	152,859	137,586
	322,466	347,850	303,029
Cost of revenues:			
Direct payroll costs	251,015	270,049	235,265
Payroll taxes and benefits	27,007	28,603	25,550
Workers' compensation	12,639	11,702	10,190
	290,661	310,354	271,005
Gross margin	31,805	37,496	32,024
Selling, general and administrative expenses	24,583	25,957	23,012
Merger expenses	-	-	750
Depreciation and amortization	3,192	2,461	1,785
Income from operations	4,030	9,078	6,477
Other (expense) income:			
Interest expense	(830)	(634)	(173)
Interest income	341	357	441
Other, net	6	32	(1)
	(483)	(245)	267
Income before provision for income taxes	3,547	8,833	6,744
Provision for income taxes	1,446	3,684	2,923
Net income	$ 2,101	$ 5,149	$ 3,821
Basic earnings per share	$ .29	$ .68	$ .50
Weighted average number of basic shares outstanding	7,237	7,581	7,664
Diluted earnings per share	$ .29	$ .68	$ .50
Weighted average number of diluted shares outstanding	7,277	7,627	7,711

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

STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

	Common Stock		Additional paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balance, December 31, 1997	7,638	$ 76	$ 11,760	$ 18,395	$ 30,231
Common stock issued on exercise of options and warrants	38	1	168	-	169
Distribution to dissenting shareholder in connection with merger	-	-	(519)	-	(519)
Net income	-	-	-	3,821	3,821
Balance, December 31, 1998	7,676	77	11,409	22,216	33,702
Common stock issued on exercise of options and warrants	9	-	34	-	34
Repurchase of common stock	(219)	(2)	(1,496)	-	(1,498)
Payment to shareholder	-	-	(58)	-	(58)
Common stock cancelled	(5)	-	-	-	-
Net income	-	-	-	5,149	5,149
Balance, December 31, 1999	7,461	75	9,889	27,365	37,329
Common stock issued on exercise of options and warrants	7	-	28	-	28
Repurchase of common stock	(1,017)	(11)	(4,530)	-	(4,541)
Net income	-	-	-	2,101	2,101
Balance, December 31, 2000	6,451	$ 64	$ 5,387	$ 29,466	$ 34,917

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

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STATEMENTS OF CASH FLOWS

(in thousands)

Years Ended December 31,	2000	1999	1998
Cash flows from operating activities:			
Net income	$ 2,101	$ 5,149	$ 3,821
Reconciliations of net income to net cash provided by operating activities:			
Depreciation and amortization	3,192	2,461	1,785
Deferred taxes	(1,171)	156	(323)
Changes in certain assets and liabilities, net of amounts purchased in acquisitions:			
Trade accounts receivable, net	9,556	(5,568)	(856)
Prepaid expenses and other	(3)	(57)	128
Income taxes payable	-	(438)	438
Accounts payable	(343)	261	(188)
Accrued payroll, payroll taxes and related benefits	(3,544)	2,030	(788)
Other accrued liabilities	1,209	(153)	100
Workers' compensation claims and safety incentive liabilities	1,038	(198)	204
Customer deposits, other liabilities and other assets, net	(443)	(522)	(443)
Other long-term liabilities	312	312	368
Net cash provided by operating activities	11,904	3,433	4,246
Cash flows from investing activities:			
Cash paid for acquisitions, including other direct costs	(1,122)	(13,157)	(693)
Purchase of property and equipment, net of amounts purchased in acquisitions	(1,257)	(2,024)	(1,077)
Proceeds from maturities of marketable securities	1,329	2,415	5,532
Purchase of marketable securities	(688)	(2,671)	(5,441)
Net cash used in investing activities	(1,738)	(15,437)	(1,679)
Cash flows from financing activities:			
Payment of credit line assumed in acquisition	-	(1,113)	-
Net (payments on) proceeds from credit-line borrowings	(2,254)	4,882	(887)
Proceeds from issuance of long-term debt	-	8,000	-
Payments on long-term debt	(2,568)	(1,722)	(740)
Payment of notes payable	(865)	-	-
Distribution to dissenting shareholder	-	-	(519)
Payment to shareholder	-	(58)	-
Repurchase of common stock	(4,541)	(1,498)	-
Proceeds from the exercise of stock options and warrants	28	34	169
Net cash (used in) provided by financing activities	(10,200)	8,525	(1,977)
Net (decrease) increase in cash and cash equivalents	(34)	(3,479)	590
Cash and cash equivalents, beginning of year	550	4,029	3,439
Cash and cash equivalents, end of year	$ 516	$ 550	$ 4,029
Supplemental schedule of noncash activities:			
Acquisition of other businesses:			
Cost of acquisitions in excess of fair market value of net assets acquired	$ 1,122	$ 12,304	$ 683
Tangible assets acquired	-	3,364	10
Liabilities assumed	-	1,646	-
Note payable issued in connection with acquisition	-	865	-

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Operations and Significant Accounting Policies

Nature of operations

Barrett Business Services, Inc. ("Barrett" or the "Company"), a Maryland corporation, is engaged in providing staffing and professional employer services to a diversified group of customers through a network of branch offices throughout Oregon, Washington, Idaho, California, Arizona, Maryland, Delaware and North Carolina. Approximately 81%, 79% and 81%, respectively, of the Company's revenues during 2000, 1999 and 1998 were attributable to its Oregon and California operations. On June 29, 1998, the Company merged with Western Industrial Management, Inc. and Catch 55, Inc. (collectively "WIMI"). The transaction was accounted for as a pooling-of-interests pursuant to Accounting Principles Board ("APB") Opinion No. 16 and, accordingly, the Company's financial statements have been restated for all prior periods to give effect to the merger, as more fully described in Note 2.

Revenue recognition

The Company recognizes revenue as services are rendered by its workforce. Staffing services are engaged by customers to meet short-term and long-term personnel needs. 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, renewable annually, which cover all employees at a particular worksite.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," ("SAB 101"), and further amended it to defer the effective date. This pronouncement summarizes certain of the SEC staff's views on applying generally accepted accounting principles to revenue recognition. The Company was required to adopt the provisions of SAB 101 no later than December 31, 2000. The adoption of SAB 101 has had no effect on the Company's financial statements.

Cash and cash equivalents

The Company considers non-restricted short-term investments, which are highly liquid, readily convertible into cash, and have original maturities of less than three months, to be cash equivalents for purposes of the statements of cash flows.

Allowance for doubtful accounts

The Company had an allowance for doubtful accounts of $528,000 and $335,000 at December 31, 2000 and 1999, respectively.

Marketable securities

At December 31, 2000 and 1999, marketable securities consisted primarily of governmental debt instruments with maturities generally from 90 days to 28 years (see Note 6). Marketable securities have been categorized as held-to-maturity and, as a result, are stated at amortized cost. Realized gains and losses on sales of marketable securities are included in other (expense) income on the Company's statements of operations.

Intangibles

Intangible assets consist primarily of identifiable intangible assets acquired and the cost of acquisitions in excess of the fair value of net assets acquired (goodwill). Intangible assets acquired are recorded at their estimated fair value at the acquisition date.

The Company uses a 15-year estimate as the estimated economic useful life of goodwill. This life is based on an analysis of industry practice and the factors influencing the acquisition decision. Other intangible assets are amortized on the straight-line method over their estimated useful lives, ranging from 2 to 15 years. (See Note 4.)

The Company reviews for asset impairment when events or changes in circumstances indicate that the carrying amount of intangible assets may not be recoverable. To perform that review, the Company estimates the sum of expected future undiscounted net cash flows from the intangible assets. If the estimated net cash flows are less than the carrying amount of the intangible asset, the Company recognizes an impairment loss in an amount necessary to write down the intangible asset to a fair value as determined from expected future discounted cash flows. No write-down for impairment loss was recorded for the years ended December 31, 2000, 1999 and 1998.

Property and equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to operating expense as incurred, and expenditures for additions and betterments are capitalized. The cost of assets sold or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is reflected in the statements of operations.

Depreciation of property and equipment is calculated using either straight-line or accelerated methods over estimated useful lives, which range from 3 years to 31.5 years.

Customer deposits

The Company requires deposits from certain professional employer services customers to cover a portion of its accounts receivable due from such customers in the event of default of payment.

Statements of cash flows

Interest paid during 2000, 1999 and 1998 did not materially differ from interest expense.

Income taxes paid by the Company in 2000, 1999 and 1998 totaled $2,331,000, $4,181,000 and $2,623,000, respectively.

Net income per share

Basic earnings per share are computed based on the weighted average number of common shares outstanding for each year. Diluted earnings per share reflect the potential

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BARRETT BUSINESS SERVICES, INC.
DIRECTORS AND OFFICERS

Directors' Name	Date Office Taken	Address
Robert R. Ames	June, 1993	4724 SW Macadam Avenue Portland, Oregon 97201
Thomas J. Carley	November, 2000	4724 SW Macadam Avenue Portland, Oregon 97201
Richard W. Godard	April, 2000	4724 SW Macadam Avenue Portland, Oregon 97201
James B. Hicks, Ph.D.	April, 2001	4724 SW Macadam Avenue Portland, Oregon 97201
Anthony Meeker	June, 1993	4724 SW Macadam Avenue Portland, Oregon 97201
Nancy B. Sherertz	May, 1998	4724 SW Macadam Avenue Portland, Oregon 97201
William W. Sherertz	June, 1980	4724 SW Macadam Avenue Portland, Oregon 97201

Officers' Name	Date Office Taken	Address
William W. Sherertz President and Chief Executive Officer	June, 1980	4724 SW Macadam Avenue Portland, Oregon 97201
Michael D. Mulholland Vice President-Finance and Secretary	August, 1994	4724 SW Macadam Avenue Portland, Oregon 97201
Gregory R. Vaughn Vice President-Operations	January, 1998	4724 SW Macadam Avenue Portland, Oregon 97201
James D. Miller Controller and Assistant Secretary	March, 1995	4724 SW Macadam Avenue Portland, Oregon 97201
James L. Donahue Area Vice President	May, 2001	4724 SW Macadam Avenue Portland, Oregon 97201
Judith L. Gabriel Area Vice President	January, 2000	4724 SW Macadam Avenue Portland, Oregon 97201
Richard W. Godard Area Vice President	April, 1998	4724 SW Macadam Avenue Portland, Oregon 97201
Elaine M. Guard Area Vice President	April, 1998	4724 SW Macadam Avenue Portland, Oregon 97201

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Barrett Business Services, Inc.:

In our opinion, the accompanying balance sheets and the related statements of operations, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Barrett Business Services, Inc. (the Company) at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 6, 2001, except for the second paragraph of Note 7,
as to which the date is March 12, 2001.

DIRECTORS

WILLIAM W. SHERERTZ
President and Chief Executive Officer

ROBERT R. AMES
Retired Vice Chairman,
First Interstate Bank or Oregon, N.A.

THOMAS J. CARLEY
Private Investor

RICHARD W. GODARD
Area Vice President

JAMES B. HICKS, Ph.D.
Partner,
TekSTART Consulting Group

ANTHONY MEEKER
Director,
Key Asset Management

NANCY B. SHERERTZ
Private Investor

OFFICERS

WILLIAM W. SHERERTZ
President and Chief Executive Officer

MICHAEL D. MULHOLLAND
Vice President-Finance and Secretary

GREGORY R. VAUGHN
Vice President

JUDITH L. GABRIEL
Area Vice President

RICHARD W. GODARD
Area Vice President

ELAINE M. GUARD
Area Vice President

SHAREHOLDER INFORMATION

ANNUAL MEETING

The annual meet of shareholders will be held on Thursday, May 17, 2001 at 2:00 p.m. Pacific Time, at the Multnomah Athletic Club in Portland, Oregon. All shareholders are invited to attend the annual meeting, however, only shareholders of record on March 30, 2001 will be entitled to vote at the meeting.

STOCK LISTING

The common stock of Barrett Business Services, Inc. is traded on The Nasdaq Stock Market under the symbol "BBSI." The Company had 66 shareholders of record and approximately 466 beneficial owners at February 28, 2001. The Company has paid no cash dividends since its initial public offering in June 1993.

FINANCIAL REPORTS

Copies of the Company's published financial reports, including its Annual Report on Form 10-K, are available upon request and without charge by contacting Investor Relations at the address listed below or through our website at www.barrettbusiness.com

SHAREHOLDER ACCOUNT ASSISTANCE

Mellon Investor Services acts as transfer agent and registrar for the Company. For assistance regarding stock certificates (including transfers), address or name changes, or lost stock certificates, please contact:

Mellon Investor Services LLC
85 Challenger Road
Ridgefield Park, New Jersey 07660
Telephone: (800) 522-6645
Internet: www.mellon-investor.com

CORPORATE HEADQUARTERS • 4724 SW Macadam Avenue • Portland, OR 97201 • (503) 220-0988

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11. Income Taxes (Continued)

The effective tax rate differed from the U.S. statutory federal tax rate due to the following:

	Year ended December 31,		
	2000	1999	1998
Statutory federal tax rate	34.0%	34.0%	34.0%
State taxes, net of federal benefit	7.2	5.6	6.1
Nondeductible expenses	1.6	0.8	3.4
Nondeductible amortization of intangibles	5.0	1.9	2.5
Federal tax-exempt interest income	(2.3)	(0.9)	(1.0)
Federal tax credits	(4.0)	(1.4)	-
Other, net	(0.7)	1.7	(1.7)
	40.8%	41.7%	43.3%

12. Stock Incentive Plan

The Company has a Stock Incentive Plan (the "Plan") which provides for stock-based awards to Company employees, non-employee directors and outside consultants or advisors. Since inception, the Company's stockholders have approved two increases in the total number of shares of common stock reserved for issuance under the Plan. Currently, the total shares of common stock reserved for issuance under the Plan is 1,550,000.

The options generally become exercisable in four equal annual installments beginning one year after the date of grant and expire ten years after the date of grant. Under the terms of the Plan, the exercise price of incentive stock options must not be less than the fair market value of the Company's stock on the date of grant.

In addition, certain of the Company's zone and branch management employees have elected to receive a portion of their quarterly cash bonus in the form of nonqualified deferred compensation stock options. Such options are awarded at a sixty percent discount from the then-fair market value of the Company's stock and are fully vested and immediately exercisable upon grant. During 2000, the Company awarded deferred compensation stock options for 25,466 shares at an average exercise price of $2.22 per share. During 1999, the Company awarded deferred compensation stock options for 38,613 shares at an average exercise price of $3.11 per share. During 1998, the Company awarded deferred compensation stock options for 51,417 shares at an average exercise price of $4.26 per share. In accordance with Accounting Principles Board ("APB") Opinion No. 25, the Company recognized compensation expense of $85,000, $180,000 and $213,000 for the years ended December 31, 2000, 1999 and 1998, respectively, in connection with the issuance of these discounted options.

A summary of the status of the Company's stock options at December 31, 2000, 1999 and 1998, together with changes during the periods then ended, are presented below.

	Number of options	Weighted average exercise price
Outstanding at December 31, 1997	595,119	$ 13.50
Options granted at market price	217,601	10.91
Options granted below market price	51,417	4.26
Options exercised	(7,250)	5.91
Options canceled or expired	(71,592)	14.50
Outstanding at December 31, 1998	785,295	12.15
Options granted at market price	152,971	8.79
Options granted below market price	38,613	3.11
Options exercised	(9,059)	3.74
Options canceled or expired	(74,102)	13.60
Outstanding at December 31, 1999	893,718	11.16
Options granted at market price	171,056	6.57
Options granted below market price	25,466	2.22
Options exercised	(7,000)	4.01
Options canceled or expired	(127,578)	9.03
Outstanding at December 31, 2000	955,662	10.44
Available for grant at December 31, 2000	369,904	

The Company applies APB Opinion No. 25 and related interpretations in accounting for the Plan. Accordingly, no compensation expense has been recognized for its stock option grants issued at market price because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant. If compensation expense for the Company's stock-based compensation plan had been determined based on the fair market value at the grant date for awards under the Plan, consistent with the method of Statement of Financial Accounting Standards ("SFAS") No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	2000	1999	1998
	(in thousands, except per share amounts)		
Net income, as reported	$ 2,101	$ 5,149	$ 3,821
Net income, pro forma	1,332	4,265	3,117
Basic earnings per share, as reported	.29	.68	.50
Basic earnings per share, pro forma	.18	.56	.41
Diluted earnings per share, as reported	.29	.68	.50
Diluted earnings per share, pro forma	.18	.56	.41

The effects of applying SFAS No. 123 for providing pro forma disclosures for 2000, 1999 and 1998 are not likely to be representative of the effects on reported net income for future years, because options vest over several years and additional awards generally are made each year.

12. Stock Incentive Plan (Continued)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions used for grants in 2000, 1999 and 1998:

	2000	1999	1998
Expected volatility	50%	46%	43%
Risk free rate of return	6.20%	5.75%	5.50%
Expected dividend yield	0%	0%	0%
Expected life (years)	7.0	7.0	8.0

Total fair value of options granted at market price was computed to be $673,921, $768,863 and $1,364,155 for the years ended December 31, 2000, 1999 and 1998, respectively. Total fair value of options granted at 60% below market price was computed to be approximately $111,000, $232,000 and $432,000 for the years ended December 31, 2000, 1999 and 1998 respectively. The weighted average value of all options granted in 2000, 1999 and 1998 was $3.94, $5.22 and $6.64, respectively.

The following table summarizes information about stock options outstanding at December 31, 2000:

Options outstanding				Options exercisable	
Exercise Price Range	Number of Shares	Weighted-average exercise price	Weighted-average remaining contractual life (years)	Exercisable at Dec. 31, 2000	Weighted-average exercise price
$ 1.93 - 6.00	128,833	$ 3.68	7.7	109,733	$ 3.30
6.50 - 9.50	298,151	7.88	7.7	90,360	9.18
10.13 - 12.50	225,419	11.29	6.8	143,139	11.36
13.38 - 14.88	159,500	14.40	5.6	137,750	14.40
15.00 - 17.94	143,759	16.10	5.0	138,027	16.05
	955,662			619,009	

At December 31, 2000, 1999 and 1998, 619,009, 509,834 and 363,295 options were exercisable at weighted average exercise prices of $11.33, $11.56 and $11.97, respectively.

In March 2000, the FASB issued FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation — an Interpretation of APB Opinion No. 25," which provides interpretive guidance on several implementation issues related to APB Opinion No. 25 "Accounting for Stock Issued to Employees." FIN 44 was effective July 1, 2000, but certain conclusions must be applied earlier. The adoption of FIN 44 had no effect on the Company's financial statements.

13. Stock Repurchase Program

During 1999, the Company's Board of Directors authorized a stock repurchase program to purchase common shares from time to time in open market purchases. Since inception, the Board has approved four increases in the total number of shares or dollars authorized to be repurchased under the program. The repurchase program currently allows for $1,584,000 to be used for the repurchase of additional shares as of December 31, 2000. During 2000, the Company repurchased 1,017,300 shares at an aggregate price of $4,541,000. During 1999, the Company repurchased 219,000 shares at an aggregate price of $1,498,000.

14. Litigation

The Company is subject to legal proceedings and claims, which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to currently pending or threatened actions is not expected to materially affect the financial position or results of operations of the Company.

15. Quarterly Financial Information (Unaudited)

(in thousands, except per share amounts and market price per share)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year ended December 31, 1998				
Revenues	$ 69,241	$ 76,651	$ 81,969	$ 75,168
Cost of revenues	62,467	68,524	73,002	67,012
Net income	387	600	1,599	1,235
Basic earnings per share	.05	.08	.21	.16
Diluted earnings per share	.05	.08	.21	.16
Common stock market prices:				
High	$ 12.00	$ 13.38	$ 10.88	$ 9.38
Low	10.25	9.13	7.88	6.00
Year ended December 31, 1999				
Revenues	$ 71,015	$ 84,707	$ 95,875	$ 96,253
Cost of revenues	63,700	75,565	84,927	86,159
Net income	740	1,216	1,835	1,359
Basic earnings per share	.10	.16	.24	.18
Diluted earnings per share	.10	.16	.24	.18
Common stock market prices:				
High	$ 9.06	$ 9.25	$ 10.25	$ 8.38
Low	5.25	5.88	7.75	5.50
Year ended December 31, 2000				
Revenues	$ 87,122	$ 86,502	$ 80,744	$ 68,098
Cost of revenues	78,519	77,724	72,830	61,588
Net income	744	794	500	63
Basic earnings per share	.10	.11	.07	.01
Diluted earnings per share	.10	.11	.07	.01
Common stock market prices:				
High	$ 7.63	$ 7.50	$ 6.44	$ 5.25
Low	5.00	5.00	5.00	2.50

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8. Long-Term Debt

Long-term debt consists of the following:

	December 31, 2000	1999
	(in thousands)	
Term loan payable in monthly installments of $222,222 plus interest at LIBOR plus 1.35% through 2002 (Note 7)	$ 4,000	$ 6,444
Mortgage note payable in monthly installments of $6,408, including interest at 7.40% per annum through 2003, with a principal payment of $325,000 due in 2003, secured by land and building (Note 7)	442	491
Note payable, assumed in acquisition, payable in monthly installments of $5,116, including interest at 8.25% per annum through 2001	5	64
Capitalized equipment leases, assumed in acquisition, with variable monthly installments, including interest at 11.5% per annum through 2000, secured by equipment	-	16
	4,447	7,015
Less portion due within one year	2,939	2,783
	$ 1,508	$ 4,232

Maturities on long-term debt are summarized as follows at December 31, 2000 (in thousands):

Year ending December 31,	
2001	$ 2,939
2002	1,160
2003	348
2004	-
2005	-
	$ 4,447

9. Savings Plan

The Company has a Section 401(k) employee savings plan for the benefit of its eligible employees. All employees 21 years of age or older become eligible to participate in the savings plan upon completion of 1,000 hours of service in any consecutive 12-month period following the initial date of employment. Employees covered under a co-employer ("PEO") contract receive credit for prior employment with the PEO client for purposes of meeting savings plan service eligibility. The determination of Company contributions to the plan, if any, is subject to the sole discretion of the Company.

Participants' interests in Company contributions to the plan vest over a seven-year period. Company contributions to the plan, before participants' forfeitures, were $102,000, $125,000 and $104,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

Recent attention has been placed by the Internal Revenue Service (the "IRS") and the staff leasing industry on Internal Revenue Code Section 401(k) plans sponsored by staff leasing companies. As such, the tax-exempt status of the Company's plan is subject to continuing scrutiny and approval by the IRS and to the Company's ability to support to the IRS the Company's employer-employee relationship with leased employees. In the event the tax-exempt status were to be discontinued and the plan were to be disqualified, the operations of the Company could be adversely affected. The Company has not recorded any provision for this potential contingency, as the Company and its legal counsel cannot presently estimate either the likelihood of disqualification or the resulting range of loss, if any.

10. Commitments

Lease commitments

The Company leases its offices under operating lease agreements that require minimum annual payments as follows (in thousands):

Year ending December 31,	
2001	$ 1,515
2002	964
2003	307
2004	88
2005	82
	$ 2,956

Rent expense for the years ended December 31, 2000, 1999 and 1998 was approximately $1,871,000, $1,780,000 and $1,369,000, respectively.

11. Income Taxes

The provisions for income taxes are as follows

(in thousands)	Year ended December 31, 2000	1999	1998
Current:			
Federal	$ 2,019	$ 2,796	$ 2,571
State	598	732	675
	2,617	3,528	3,246
Deferred:			
Federal	(965)	135	(255)
State	(206)	21	(68)
	(1,171)	156	(323)
Total provision	$ 1,446	$ 3,684	$ 2,923

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

	2000	1999
Gross deferred tax assets:		
Workers' compensation claims and safety incentive liabilities	$ 2,206	$ 1,640
Allowance for doubtful accounts	205	130
Amortization of intangibles	519	380
Deferred compensation	408	167
Other	289	147
	3,627	2,464
Gross deferred tax liabilities:		
Tax depreciation in excess of book depreciation	(86)	(94)
Net deferred tax assets	$ 3,541	$ 2,370

6. Workers' Compensation Claims and Safety Incentive Liabilities (Continued)

the United States Department of Labor for longshore and harbor ("USL&H") workers' coverage.

The Company has provided $5,274,000 and $4,219,000 at December 31, 2000 and 1999, respectively, as an estimated liability for unsettled workers' compensation claims and safety incentive liabilities. The estimated liability for unsettled workers' compensation claims represents management's best estimate, which includes, in part, an evaluation of information actuary. Included in the claims liabilities are case reserve estimates for reported losses, plus additional amounts based on projections for incurred but not reported claims, anticipated increases in case reserve estimates and additional claims administration expenses. The estimated liability for safety incentives represents management's best estimate for future amounts owed to PEO client companies as a result of maintaining workers' compensation claims costs below certain agreed-upon amounts, which are based on a percentage of payroll. These estimates are continually reviewed and adjustments to liabilities are reflected in current operating results as they become known. The Company believes that the difference between amounts recorded for its estimated liabilities and the possible range of costs of settling related claims is not material to results of operations; nevertheless, it is reasonably possible that adjustments required in future periods may be material to results of operations.

Liabilities incurred for work-related employee fatalities are recorded either at an agreed lump-sum settlement amount or the net present value of future fixed and determinable payments over the actuarially determined remaining life of the beneficiary, discounted at a rate that approximates a long-term, high-quality corporate bond rate. The Company has obtained excess workers' compensation insurance to limit its self-insurance exposure to $350,000 per occurrence in all states, except $500,000 per occurrence for USL&H exposure. The excess insurance provides unlimited coverage above the aforementioned exposures.

At December 31, 2000, the Company's long-term workers' compensation claim liabilities in the accompanying balance sheet include $682,000 for work-related catastrophic injuries and fatalities. The aggregate undiscounted pay-out amount of the catastrophic injuries and fatalities is $1,515,000. The actuarially determined pay-out periods to the beneficiaries range from 6 to 41 years. As a result, the five-year cash requirements related to these claims are immaterial.

The United States Department of Labor and the states of Oregon, Maryland, Washington, and California require the Company to maintain specified investment balances or other financial instruments, totaling $6,241,000 at December 31, 2000 and $7,735,000 at December 31, 1999, to cover potential claims losses. In partial satisfaction of these requirements, at December 31, 2000, the Company has provided standby letters of credit in the amount of $1,952,000 and surety bonds totaling $457,000. The investments are included in restricted marketable securities and workers' compensation deposits in the accompanying balance sheets.

7. Credit Facility

Effective May 31, 2000, the Company renewed its loan agreement (the "Agreement") with its principal bank, which provided for (a) an unsecured revolving credit facility for working capital purposes and standby letters of credit up to $15,000,000, (b) a term real estate loan (Note 8) and (c) a three-year term loan (Note 8) in the amount of $8,000,000. The Agreement expires on May 31, 2001. The interest rate options available on outstanding balances under the revolving credit facility at December, 31, 2000, included (i) prime rate, (ii) Federal Funds Rate plus 1.25% or (iii) LIBOR plus 1.00%. The interest rate options available under the three-year term loan include (i) prime rate or (ii) LIBOR plus 1.35%.

Terms and conditions of the Agreement included, among others, certain restrictive quarterly financial covenants relating to the Company's current ratio, earnings before interest, taxes, depreciation and amortization ("EBITDA"), a ratio of borrowed funds plus capitalized lease obligations to EBITDA and an EBITDA coverage ratio. Effective September 30, 2000, the Company negotiated an accommodation to reduce the restrictiveness of one quarterly financial covenant and, in consideration, agreed to the imposition of an additional financial covenant. As a result of a financial covenant violation as of December 31, 2000, the Company, subsequent to year end, renegotiated with its bank several amendments to the provisions of the Agreement in exchange for the bank's agreement to waive the covenant violation. Effective March 12, 2001, the principal terms and conditions of the Agreement, as amended, include a reduction in the total amount available under the revolving credit facility from $15 million to the lesser of (i) $13 million or (ii) 65 percent of total trade accounts receivable at the end of any fiscal quarter, a security interest in all trade accounts receivable, and the conversion of an interest rate option from Federal Funds Rate plus 1.25% to prime rate less 1.70%, which management believes should not be materially adverse to the Company. Due to the bank's secured position, the bank agreed to reduce the restrictiveness of certain financial covenants. As a result of the bank-provided waiver, the Company was in compliance with all financial covenants as of December 31, 2000.

During the year ended December 31, 2000, the maximum balance outstanding under the revolving credit facility was $8,754,000, the average balance outstanding was $3,404,000, and the weighted average interest rate during the period was 7.70%. The weighted average interest rate during 2000 was calculated using daily weighted averages.

Please Enter Corporation Name: Barrett Business Services, Inc.

P-0794942-2

9. FINANCIAL DISCLOSURE (A.R.S. §§10-1622.B & 10-11622.A.9)
Nonprofit corporations **must attach** a financial statement (balance sheet including assets, liabilities and equity). All other forms of corporations are exempt from filing a financial disclosure.

9A. MEMBERS (A.R.S. § 10-11622.A.6) Nonprofit Corporations Only.
This corporation **does** ☐ **does not** ☐ have members.

10. CERTIFICATE OF DISCLOSURE (A.R.S. §§10-1622.A.8 & 10-11622.A.7)
Has ANY person serving either by election or appointment as an officer, director, trustee, incorporator and person controlling or holding more than 10% of the issued and outstanding common shares or 10% of any other proprietary, beneficial or membership interest in the corporation been:
[Underlined portion pertains to profit corporations only]

1. Convicted of a felony involving a transaction in securities, consumer fraud or antitrust in any state or federal jurisdiction within the seven year period immediately preceding the execution of this certificate?
2. Convicted of a felony, the essential elements of which consisted of fraud, misrepresentation, theft by false pretenses or restraint of trade or monopoly in any state or federal jurisdiction within the seven year period immediately preceding execution of this certificate?
3. Or are subject to an injunction, judgment, decree or permanent order of any state or federal court entered within the seven year period immediately preceding execution of this certificate where such injunction, judgment, decree or permanent order involved the violation of:

(a) fraud or registration provisions of the securities laws of that jurisdiction, or
(b) the consumer fraud laws of that jurisdiction, or
(c) the antitrust or restraint of trade laws of that jurisdiction?

One box **must** be marked: **YES** ☐ **NO** ☒

If "YES", the following information must be submitted as an attachment to this report for each person subject to one or more of the actions stated in Items 1. through 3. above.

1. Full name and prior names used.
2. Full birth name.
3. Present home address.
4. Prior addresses (for immediate preceding 7 year period).
5. Date and location of birth.
6. Social Security Number
7. The nature and description of each conviction or judicial action; the date and location; the court and public agency involved, and the file or cause number of the case.

11. STATEMENT OF BANKRUPTCY (A.R.S. §§10-202.D.2 & 10-3202.02)
Has ANY person serving either by election or appointment as an officer, director, trustee, incorporator and person controlling or holding more than 20% of the issued and outstanding common shares or 20% of any other proprietary, beneficial or membership interest in the corporation served in such capacity or held a 20% interest in any other corporation during the bankruptcy, receivership, or charter revocation of the other corporation? **[Underlined portion pertains to profit corporations only]**

One box **must** be marked: **YES** ☐ **NO** ☒

Chapter ____________ Date Filed __________ Case Number ______________

If "YES", the following information must be submitted as an attachment to this report for each person subject to the statement above. 1) The names and addresses of each corporation and the person or persons involved. 2) The state in which each corporation was a) incorporated b) transacted business. 3) The dates of corporate operation.

12. SIGNATURES

CAUTION: Annual Reports must be signed by a duly authorized officer. Annual Reports submitted with incorrect signatures will be rejected.

I DECLARE, UNDER PENALTY OF LAW, THAT ALL CORPORATE INCOME TAX RETURNS REQUIRED BY TITLE 43 OF THE ARIZONA REVISED STATUTES HAVE BEEN FILED WITH THE ARIZONA DEPARTMENT OF REVENUE.

I further declare under penalty of law that I (we) have examined this report and the certificate, including any attachments, and to the best of my (our) knowledge and belief they are true, correct and complete.

Name Michael D. Mulholland Date 6-14-01 Name ____________ Date ________
Signature [signature] Signature ____________
Title Vice President-Finance & Secretary Title ____________

(Signator(s) must be duly authorized corporate officer(s) listed in section 7 of this report.)