BARRETT BUSINESS SERVICES INC
Form 424A
July 18, 2005

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and we are not soliciting an offer to buy these securities, in any jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(a)
Registration No. 333-126496

Subject to completion, dated July 15, 2005

PROSPECTUS

1,900,000 Shares

BARRETT BUSINESS SERVICES, INC.

Common Stock

We are offering 1,700,000 shares of our common stock and the selling stockholders are offering 200,000 shares of our common stock. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholders. Our common stock is quoted on The Nasdaq National Market under the symbol "BBSI." On July 15, 2005, the last reported sale price of our common stock on The Nasdaq National Market was $17.52 per share.

The underwriters may also purchase up to an additional 285,000 shares of our common stock from us at the public offering price, less the underwriting discounts and commissions, within 30 days from the date of this prospectus to cover over-allotments, if any.

Investing in our common stock involves significant risks. See "Risk Factors" beginning on page 6.

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to Barrett Business Services, Inc.	$	$
Proceeds, before expenses, to the selling stockholders	$	$

The underwriters are offering the shares of common stock on a firm commitment basis. The underwriters expect to deliver the shares on or about , 2005.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Roth Capital Partners **The Seidler Companies**
Incorporated

The date of this prospectus is , 2005.

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You should rely only on the information contained in this prospectus. Neither we nor the underwriters in this offering have authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information that may be important to you. You should read the entire prospectus carefully, including the "Risk Factors," the documents referred to in "Where You Can Find More Information" and our consolidated financial statements and related notes appearing at the end of this prospectus, before deciding to invest in shares of our common stock.

Barrett Business Services, Inc.

Our Company

We offer a comprehensive range of human resource management services to help small and medium-sized businesses manage the increasing costs and complexities of a broad array of employment-related issues. Our principal services, professional employer organization ("PEO") services and staffing services, assist our clients in leveraging their investment in human capital. We believe that the combination of these two principal services enables us to provide our clients with a unique blend of services not offered by our competition. Our platform of outsourced human resource management services is built upon our expertise in payroll processing, employee benefits and administration, workers' compensation coverage, effective risk management and workplace safety programs and human resource administration.

In a PEO arrangement, we enter into a contract to become a co-employer of the client's existing workforce and we assume responsibility for some or all of the client's human resource management responsibilities. Staffing services include on-demand or short-term staffing assignments, long-term or indefinite-term contract staffing and comprehensive on-site management. Our staffing services also include direct placement services, which involve fee-based search efforts for specific employee candidates at the request of our PEO clients, staffing customers or other companies.

Our ability to offer clients a broad mix of services allows us to effectively become the human resource department and a strategic business partner for our clients. We believe our approach to human resource management services is designed to positively affect our clients' business results by:

- allowing our clients to focus on core business activities instead of human resource matters;
- increasing our clients' productivity by improving employee satisfaction and generating greater employee retention;
- reducing overall payroll expenses due to lower workers' compensation and health insurance costs; and
- assisting our clients in complying with complex and evolving human resource related regulatory and tax issues.

We serve a growing and diverse client base of small and medium-sized businesses in a wide variety of industries. During the three months ended March 31, 2005, we served approximately 1,000 staffing services customers. In addition, we served approximately 665 PEO clients as of March 31, 2005. We serve our clients, who have employees located in 17 states and the District of Columbia, through a network of 31 branch offices in California, Oregon, Washington, Idaho, Arizona, Maryland, Delaware and North Carolina. We also have several smaller recruiting offices in our general market areas, which are under the direction of a branch office.

Market Opportunity

The human resource outsourcing industry is large and growing rapidly. Some of the key factors driving growth include the desire of businesses to outsource non-core business functions, to reduce regulatory compliance risk, to rationalize the number of service providers that they use and to reduce costs by integrating human resource systems and processes.

The outsourcing of business processes represents a growing trend within the United States. By utilizing the expertise of outsourcing service providers, businesses are able to reduce processing costs and administrative burdens while at the same time offering competitive benefits for their employees. The technical capabilities, knowledge and operational expertise that we have built, along with our broad portfolio of services for clients, has enabled us to capitalize on the growing business processing outsourcing trend.

We believe that the small and medium-sized business segment of the human resource outsourcing market is particularly attractive because:

- this segment is large and has a low penetration rate by providers of outsourced comprehensive human resource services;
- small and medium-sized businesses typically have fewer in-house resources than larger businesses and, as a result, are generally more dependent on their service providers;
- quality of service, ease-of-use and responsiveness to clients' needs are key considerations of this business segment in selecting a service provider;
- small and medium-sized businesses generally do not require customized solutions, enabling service providers to achieve significant economies of scale through an integrated technology and service platform; and
- this segment is generally characterized by a relatively high client retention rate and lower client acquisition costs.

Our Strategic Approach

Our long-term goal is to become the leading provider of human resource outsourcing services for small and medium-sized businesses. We seek to differentiate our strategic position by offering a full spectrum of PEO and staffing services. We believe that the integrated nature of our service platform assists our clients and customers in successfully aligning and strengthening their organizational structure to meet the demands of their businesses. In pursuit of this goal, we have adopted the operating and growth strategies described below to provide the framework for our future growth, while maintaining the quality and integrity of our current service offerings.

Operating Strategy

- *Provide a broad scope of services.* We provide our clients with a broad range of human resource management tools and professional services that address their critical human resource needs. By contrast, we believe that most of our competitors offer discrete services that entail a greater cost in the aggregate and are less efficient for the customer to implement as compared to a single source provider like us.
- *Promote a decentralized and autonomous management philosophy and structure.* We hire senior-level managers to oversee, develop and expand our business at the branch office level. We believe that by making significant investments in the best management talent available within their respective areas of expertise, we can leverage the value of this investment many times over.
- *Motivate employees through a competitive compensation package.* We offer a very competitive base salary structure at the branch office level and provide the opportunity for our employees to earn additional profit sharing on a quarterly basis.

Control workers' compensation costs through effective risk management. We are committed to the proactive mitigation of workers' compensation risk through stringent underwriting and management processes.

Growth Strategy

Support, strengthen and expand branch office operations. We believe that increasing the penetration of our existing markets is an effective and cost-efficient means of growth.

Increase client utilization of our services. We believe that we will be able to continue to improve client retention as our clients more fully utilize our current service offering.

Enhance management information systems. We are continuing to invest in our information technology platform, which we believe gives us a competitive advantage by allowing us to provide a high level of flexibility in meeting a variety of demands of our small and medium-sized business clients on a cost-effective basis.

Penetrate other selected markets. We intend to open additional branch offices in new geographic markets as opportunities arise.

Pursue strategic acquisitions. In order to increase our client base, expand our presence in existing markets, enter new markets and broaden our service offerings, we may continue to pursue strategic acquisitions, particularly in the staffing area.

Corporate Information

We were incorporated in Maryland in 1965. Our principal executive offices are located at 4724 S.W. Macadam Avenue, Portland, Oregon 97239. Our telephone number is (503) 220-0988. We maintain our corporate website at www.barrettbusiness.com. The information contained in, or that can be accessed through or on, our website is not a part of this prospectus.

Recent Developments

In our press release announcing our first quarter 2005 earnings, we disclosed limited financial guidance for the second quarter ending June 30, 2005, including management's expectation that gross revenues for the second quarter would range from $172 million to $174 million. Management believes that gross revenues to be disclosed in our earnings release for the second quarter ended June 30, 2005 will be greater than $174 million. Our corresponding total revenues on a net basis are anticipated to equal or exceed $56 million, after subtracting an estimated cost of gross PEO revenues of $118 million. We currently expect to publish our financial results for the 2005 second quarter in early August 2005.

Our financial statements present our PEO revenues on a net basis, which is in accordance with generally accepted accounting principles in the United States ("GAAP"). See "Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations" for an explanation of the change in our reporting of PEO revenues from a gross basis to a net basis in 2002 and why we continue to use and present gross PEO revenues on a non-GAAP basis.

We have submitted a non-binding letter of intent to purchase an office building in the greater Portland metropolitan area for a purchase price of $8.85 million. The letter of intent specifies a 45-day due diligence period following execution of a purchase and sale agreement to be negotiated. If the transaction is completed, it will be funded from liquid assets and we plan to relocate our headquarters to one floor of the building. We believe the building contains approximately 63,000 square feet of usable office space, of which approximately one-half is currently leased by tenants.

See "Special Note Regarding Forward-Looking Statements" for a discussion of risks and uncertainties associated with forward-looking statements in this prospectus, including the foregoing discussion.

The Offering

Common stock offered by us	1,700,000 shares of common stock
Common stock offered by the selling stockholders	200,000 shares of common stock
Common stock to be outstanding after this offering	10,420,142 shares of common stock
Use of proceeds	We intend to use the net proceeds to us from this offering for general corporate purposes including working capital and potential future acquisitions or investments in complementary businesses. We will not receive any proceeds from the sale of common stock by the selling stockholders.
Nasdaq National Market symbol	BBSI
Risk factors	See "Risk Factors" and other information included in this prospectus for a discussion of factors you should consider before investing in shares of our common stock.

Unless we indicate otherwise, all information contained in this prospectus has been adjusted for a 3-for-2 stock split effected on May 19, 2005 as a 50% stock dividend and assumes:

- 8,720,142 shares of our common stock outstanding as of July 1, 2005;
- no exercise of options to purchase 970,393 shares of our common stock outstanding as of July 1, 2005, with a weighted average exercise price of $5.74 per share;
- no exercise of 114,677 shares of common stock reserved for future grant and issuance as of July 1, 2005 under our stock-based compensation plans;
- no exercise by the underwriters of their over-allotment option to purchase up to 285,000 shares of our common stock in the offering; and
- an assumed public offering price of $17.52 per share.

Unless the context otherwise requires, references in this prospectus to "Barrett," "we," "us" and "our" refer to Barrett Business Services, Inc. and our consolidated subsidiary, BBS I, LLC.

Summary Consolidated Financial Data

The following table presents our summary consolidated historical financial information. The statement of operations data set forth below for each of the years ended December 31, 2002, 2003 and 2004 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The statement of operations data for the three months ended March 31, 2004 and 2005 and the balance sheet data as of March 31, 2005 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. In the opinion of management, these unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of these financial statements. Historical results are not necessarily indicative of the results that may be expected in the future. You should read this information together with the consolidated financial statements and related notes and the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

	Years Ended December 31,			Three Months Ended March 31,	
	2002	**2003**	**2004**	**2004**	**2005**
				(unaudited)	
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Staffing services	$ 96,750	$ 93,544	$ 123,514	$ 25,054	$ 28,542
Professional employer service fees	12,558	29,177	71,447	15,556	20,702
Total revenues	109,308	122,721	194,961	40,610	49,244
Cost of revenues:					
Direct payroll costs	71,515	69,099	91,190	18,320	21,017
Payroll taxes and benefits	14,062	22,916	45,544	11,531	15,697
Workers' compensation	8,766	9,709	21,557	4,036	4,930
Total cost of revenues	94,343	101,724	158,291	33,887	41,644
Gross margin	14,965	20,997	36,670	6,723	7,600
Selling, general and administrative expenses	16,008	16,810	23,844	5,532	5,946
Depreciation and amortization	1,162	1,058	1,008	242	236
Income (loss) from operations	(2,205)	3,129	11,818	949	1,418
Net income (loss)	$ (1,353)	$ 2,085	$ 7,371	$ 606	$ 931
Basic earnings (loss) per share(1)	$ (.15)	$ .24	$ .86	$ .07	$ .11
Diluted earnings (loss) per share(1)	$ (.15)	$ .24	$ .79	$ .07	$ .10
Shares used in computing earnings (loss) per share(1):					
Basic	8,706	8,535	8,587	8,556	8,646
Diluted	8,706	8,814	9,289	9,293	9,352

	March 31, 2005	
	Actual	**As Adjusted(2)**

	March 31, 2005	
	(unaudited) (in thousands)	
Balance Sheet Data:		
Cash and cash equivalents	$ 20,667	$ 48,354
Working capital	18,932	46,619
Total assets	98,322	126,009
Long-term debt, net of current portion	1,204	1,204
Total stockholders' equity	40,476	68,163

(1) All share and per share amounts have been adjusted for a 3-for-2 stock split effected on May 19, 2005 as a 50% stock dividend.

(2) As adjusted to give effect to the sale of 1,700,000 shares of our common stock by us in this offering at an assumed public offering price of $17.52 per share, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

RISK FACTORS

An investment in our common stock involves significant risks. You should carefully consider risks described below and the other information included in this prospectus, including our financial statements and related notes, before deciding to purchase our common stock. Our business, financial condition and results of operations could be harmed by any of the following risks. The trading price of our common stock could decline due to any of these risks, and you could lose part or all of your investment.

Risks Related to Our Business

Our workers' compensation loss reserves may be inadequate to cover our ultimate liability for workers' compensation costs.

We maintain reserves to cover our estimated liabilities for our self-insured workers' compensation program. Workers' compensation reserves are established primarily based upon an independent actuarial estimate of the costs of administration and settlement of known and future claims. The determination of these reserves is based upon a number of factors, including current and historical claims activity, claims payment patterns and medical cost trends and developments in existing claims. Accordingly, reserves do not represent an exact calculation of liability. Reserves can be affected by both internal and external events, such as adverse developments on existing claims or changes in medical costs, claims handling procedures, administrative costs, inflation, and legal trends and legislative changes. Reserves are adjusted from time to time to reflect new claims, claim developments, or systemic changes, and such adjustments are reflected in the results of the periods in which the reserves are changed. Because of the uncertainties that surround estimating workers' compensation loss reserves, we cannot be certain that our reserves are adequate. If our reserves are insufficient to cover our actual losses, we would have to increase our reserves and incur charges to our earnings that could be material.

Changes in the market for workers' compensation insurance in the state of California could adversely affect our business.

Our PEO service revenues in California have grown rapidly over the last two years due in large part to difficult market conditions for workers' compensation insurance in California and our status as a state-approved self-insured employer with respect to workers' compensation coverage in that state. Our California operations represented 51% of our total revenues in 2004 and 54% of our total revenues for the three months ended March 31, 2005. Since 2002, California has enacted several legislative reforms in an attempt to address the crisis in its workers' compensation system, and it may attempt additional legislative or regulatory reforms in the future. Any successful legislative reforms or non-governmental changes in market conditions in California could lessen a key advantage we have in that state, leading to a reduction in our new business opportunities and a potential slowing in the growth of our PEO business in California. Any such slowing would adversely affect our results of operations and likely lead to declines in our stock price.

Because we assume the obligation to make wage, tax and regulatory payments in respect of some employees, we are exposed to client credit risks.

We generally assume responsibility for and manage the risks associated with our clients' employee payroll obligations, including liability for payment of salaries and wages (including payroll taxes), as well as group health and retirement benefits. These obligations are fixed, whether or not the client makes payments required by our services agreement, which exposes us to credit risks. We attempt to mitigate this risk by invoicing our staffing customers weekly and our PEO clients at the end of their specific payroll processing cycle. We also carefully monitor the timeliness of our clients' payments and impose strict credit standards on our customers. If we fail to successfully manage our credit risk, our results of operations and financial condition could be materially and adversely affected.

Our staffing business is vulnerable to economic fluctuations. Companies tend to use fewer temporary employees as economic activity slows, while recruiting employees to fill our customers' needs becomes increasingly difficult during economic booms.

Demand for our staffing services is sensitive to changes in the level of economic activity in the regions in which we do business. As economic activity begins to improve, temporary employees are often added before full time employees are hired as companies cautiously re-enter the labor market. As a result, our revenues derived from staffing services may be highest at the beginning of an economic recovery. During strong economic periods, however, we often experience shortages of qualified employees to meet customer needs. Also, as economic activity begins to slow down, companies often reduce their use of temporary employees before undertaking layoffs of permanent staff, resulting in decreased demand for staffing services. A significant economic downturn, particularly in the Western United States, could have a material adverse effect on our results of operations and financial condition.

If we are determined not to be an "employer" under certain laws and regulations, our clients may stop using our services, and we may be subject to additional liabilities.

We believe that we are an employer of employees provided to our PEO clients on a co-employment basis under the various laws and regulations of the Internal Revenue Service and the U.S. Department of Labor. If we are determined not to be an employer under such laws and regulations and are therefore unable to assume obligations of our clients for employment and other taxes, our clients may be held jointly and severally liable for payment of such taxes. Some clients or prospective clients may view such potential liability as an unacceptable risk, discouraging current clients from continuing a relationship with us or prospective clients from entering into a new relationship with us.

Any determination that we are not an employer for purposes of the Employee Retirement Income Security Act ("ERISA") could adversely affect our cafeteria benefits plan operated under Section 125 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), and result in liabilities to us under the plan.

We may be exposed to employment-related claims and costs and periodic litigation that could adversely affect our business and results of operations.

We either co-employ employees in connection with our PEO arrangements or place our employees in our customers' workplace in connection with our staffing business. As such, we are subject to a number of risks inherent to our status as an employer, including without limitation:

- claims of misconduct or negligence on the part of our employees, discrimination or harassment claims against our employees, or claims by our employees of discrimination or harassment by our clients;
- immigration-related claims;
- claims relating to violations of wage, hour and other workplace regulations;
- claims relating to employee benefits, entitlements to employee benefits, or errors in the calculation or administration of such benefits; and
- possible claims relating to misuse of customer confidential information, misappropriation of assets or other similar claims.

If we experience significant incidents involving any of the above-described risk areas we could face substantial out-of-pocket losses, fines or negative publicity. In addition, such claims may give rise to litigation, which may be time consuming, distracting and costly, and could have a material adverse effect on our business. With respect to claims involving our co-employer relationship with our PEO clients, although our PEO services agreement provides that the client will indemnify us for any liability attributable to the conduct of the client or its employees, we may not be able to enforce such contractual indemnification, or the client may not have sufficient assets to satisfy its obligations to us.

Adverse developments in the market for excess workers' compensation insurance could lead to increases in our costs.

We are a state-approved self-insured employer for workers' compensation coverage in California, Oregon, Delaware and Maryland, as well as in Washington for our non-PEO services. To manage our financial exposure in the event of catastrophic injuries or fatalities, we maintain excess workers' compensation insurance with a current per occurrence retention of $1.0 million, which is significantly higher than our $400,000 retention level in effect in 2001. The increased retention amount may result in higher workers' compensation costs with a corresponding negative effect on our results of operations. Changes in the market for excess workers' compensation insurance may lead to limited availability of such coverage, additional increases in our insurance costs or further increases in our self-insured retention, any of which may have a material adverse effect on our financial condition.

We operate in a complex regulatory environment, and failure to comply with applicable laws and regulations could adversely affect our business.

Corporate human resource operations are subject to a broad range of complex and evolving laws and regulations, including those applicable to payroll practices, benefits administration, employment practices and privacy. Because our clients have employees in many states throughout the United States, we must perform our services in compliance with the legal and regulatory requirements of multiple jurisdictions. Some of these laws and regulations may be difficult to ascertain or interpret and may change from time to time. Violation of such laws and regulations could subject us to fines and penalties, damage our reputation, constitute a breach of our client agreements, impair our ability to obtain and renew required licenses, and decrease our profitability or competitiveness. If any of these effects were to occur, our operating results and financial condition could be adversely affected.

Changes in government regulations may result in restrictions or prohibitions applicable to the provision of employment services or the imposition of additional licensing, regulatory or tax requirements.

Our PEO and staffing businesses are heavily regulated in most jurisdictions in which we operate. We cannot assure you that the states in which we conduct or seek to conduct business will not:

- impose additional regulations that prohibit or restrict employment-related businesses like ours;
- require additional licensing or add restrictions on existing licenses to provide employment-related services; or
- increase taxes or make changes in the way in which taxes are calculated for providers of employment-related services.

Any changes in applicable laws and regulations may make it more difficult or expensive for us to do business, inhibit expansion of our business, or result in additional expenses that limit our profitability or decrease our ability to attract and retain clients.

We may find it difficult to expand our business into additional states due to varying state regulatory requirements.

Future growth in our operations depends, in part, on our ability to offer our services to prospective clients in new states, which may subject us to different regulatory requirements and standards. In order to operate effectively in a new state, we must obtain all necessary regulatory approvals, adapt our procedures to that state's regulatory requirements and modify our service offerings to adapt to local market conditions. In the event that we expand into additional states, we may not be able to duplicate in other markets the financial performance experienced in our current markets.

Acquisitions subject us to various risks, including risks relating to selection and pricing of acquisition targets, integration of acquired companies into our business and assumption of unanticipated liabilities.

We have completed 22 acquisitions since 1993 and may use a portion of the proceeds of this offering to pursue additional acquisitions and investment opportunities. We cannot assure you that we will be able to identify or consummate any additional acquisitions on favorable terms or at all. If we do pursue acquisitions, we may not realize the anticipated benefits of such acquisitions. Acquisitions involve many risks, including risks relating to the assumption of unforeseen liabilities of an acquired business, adverse accounting charges resulting from the acquisition, and difficulties in integrating acquired companies into our business, both from a cultural perspective, as well as with respect to personnel and client retention and technological integration. Acquired liabilities may be significant and may adversely affect our financial condition or results of operations. Our inability to successfully integrate acquired businesses may lead to increased costs, failure to generate expected returns, accounting charges, or even a total loss of amounts invested, any of which could have a material adverse effect on our financial condition and results of operations.

Our business is subject to risks associated with geographic market concentration.

While we currently have 31 branch offices in eight states, our California and Oregon operations accounted for approximately 51% and 21%, respectively, of our total revenues in 2004. For the first three months of 2005, our California and Oregon operations accounted for 75% of our total revenues, with 54% of our total revenues derived from California operations and 21% from Oregon operations. As a result of the current importance of our California and Oregon operations and anticipated continued growth from these operations, our profitability over the next several years is expected to be largely dependent on economic and regulatory conditions in these markets, particularly in California. If these states experience an economic downturn or growth rates slow, or if the regulatory environment changes in a way that adversely affects our ability to do business in these states or limits our competitive advantages in these markets, our profitability and growth prospects may be materially and adversely affected.

We face competition from a number of other companies.

We face competition from various companies that may provide all or some of the services we offer. Our competitors include companies that are engaged in staffing services such as Kelly Services, Inc. and Manpower Inc., companies that are focused on co-employment, such as Administaff, Inc. and Gevity HR, Inc., and companies that primarily provide payroll processing services, such as Automatic Data Processing, Inc. and Paychex, Inc. We also face competition from information technology outsourcing firms and broad-based outsourcing and consulting firms that perform individual projects.

Several of our existing or potential competitors have substantially greater financial, technical and marketing resources than we do, which may enable them to:

- develop and expand their infrastructure and service offerings more quickly and achieve greater cost efficiencies;
- invest in new technologies;
- expand operations into new markets more rapidly;
- devote greater resources to marketing;
- compete for acquisitions more effectively and complete acquisitions more easily; and
- aggressively price products and services and increase benefits in ways that we may not be able to match economically.

In order to compete effectively in our markets, we must target our potential clients carefully, continue to improve our efficiencies and the scope and quality of our services, and rely on our service quality, innovation, education and program clarity. If our competitive advantages are not compelling or sustainable, then we are unlikely to increase or sustain profits and our stock price could decline.

We are dependent upon certain key personnel and recruitment and retention of key employees may be difficult and expensive.

We believe that the successful operation of our business is dependent upon our retention of the services of key personnel, including our chief executive officer, other executive officers and branch managers. We may not be able to retain all of our executives, senior managers and key personnel in light of competition for their services. If we lose the services of one of our executive officers or a significant number of our senior managers, our operations and profitability likely would be adversely affected.

We do not have an expansive in-house sales staff and therefore rely extensively on brokers to make referrals.

We maintain only a minimal internal professional sales force. Instead, we rely heavily on insurance brokers to provide referrals to new business, especially in California, although each branch office manager is expected to be an effective leader in business development, including marketing efforts and sales closures. In connection with these arrangements, we pay a fee to brokers for new clients. As a result of our reliance on brokers, we are dependent on firms and individuals that do not have an exclusive relationship with us. If we are unable to maintain our relationships with brokers, if brokers increase their fees or if brokers lose confidence in our services, we could face declines in our business and additional costs and uncertainties as we attempt to hire and train an internal sales force.

We depend on attracting and retaining qualified employees; during periods of economic growth our costs to do so increase and it becomes more difficult to attract and retain people.

The success of our staffing services depends on our ability to attract and retain qualified employees for placement with our customers. Our ability to attract and retain qualified personnel could be impaired by rapid improvement in economic conditions resulting in lower unemployment and increases in compensation. During periods of economic growth, we face growing competition for retaining and recruiting qualified personnel, which in turn leads to greater advertising and recruiting costs and increased salary expenses. If we cannot attract and retain qualified employees, the quality of our services may deteriorate and our reputation and results of operations could be adversely affected.

Our service agreements may be terminated on short notice, leaving us vulnerable to loss of a significant amount of customers in a short period of time if business or regulatory conditions change or events occur that negatively affect our reputation.

Our PEO services agreements are generally terminable on 30 days notice by either us or the client. As a result, our clients may terminate their agreement with us at any time, making us particularly vulnerable to changing business or regulatory conditions or changes affecting our reputation or the reputation of our industry.

Our industry has at times received negative publicity and had some stigma associated with it that, if it were to predominate, could cause our business to decline.

Both PEOs and staffing services companies periodically have been tarnished by bad publicity or scandals from bad business judgment or even outright fraud. If we or our industry face negative publicity, customers' attitudes towards the use of temporary personnel or co-employed workers may worsen, and they may be unwilling to enter into or continue our staffing or co-employment relationships. If a negative perception were to prevail, it would be more difficult for us to attract and retain customers.

Changes in state unemployment tax laws and regulations could adversely affect our business.

Recently, there has been significant negative publicity relating to the use of staffing or PEO companies to shield employers from poor unemployment history and high unemployment taxes. New legislation enacted at the state or federal level to try to counter this perceived problem could have a material adverse effect on our business by limiting our ability to market our services or making our services less attractive to our customers and potential customers.

We are dependent upon technology services and if we experience damage, service interruptions or failures in our computer and telecommunications systems, or if our security measures are breached, our client relationships and our ability to attract new clients may be adversely affected.

Our business could be interrupted by damage to or disruption of our computer and telecommunications equipment and software systems, and we may lose data. Our clients' businesses may be adversely affected by any system or equipment failure we experience. As a result of any of the foregoing, our relationships with our clients may be impaired, we may lose clients, our ability to attract new clients may be adversely affected and we could be exposed to contractual liability. Precautions in place to protect ourselves from, or minimize the effect of, such events, may not be adequate.

In addition, our business involves the storage and transmission of clients' proprietary information and security breaches could expose us to a risk of loss of this information, litigation and possible liability. If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, and, as a result, someone obtains unauthorized access to client data, our reputation will be damaged, our business may suffer and we could incur significant liability. Techniques used to obtain unauthorized access or to sabotage systems change frequently and are growing increasingly sophisticated. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, we could be liable and the market perception of our services could be harmed.

The compliance costs associated with Section 404 of the Sarbanes-Oxley Act regarding internal control over financial reporting could be substantial, while failure to achieve and maintain compliance could have an adverse effect on our stock price.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and current SEC regulations, beginning with our Annual Report on Form 10-K for the fiscal year ending December 31, 2006, we will be required to furnish a report by our management on our internal control over financial reporting. Such report will contain, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of 2006. We are just beginning the process of documenting and testing our internal control procedures in order to satisfy these requirements, which is likely to result in increased general and administrative expenses and may shift management time and attention from revenue-generating activities to compliance activities. Also, during the course of our internal control testing, we may identify deficiencies which we may not be able to remediate in time to meet the reporting deadline under Section 404. Failure to achieve and maintain an effective internal control environment or complete our Section 404 certifications could have a material adverse effect on our stock price.

Risks Related to Our Common Stock

Future sales of a substantial amount of our common stock may cause our stock price to decline.

Upon completing this offering, we will have approximately 10.4 million shares of common stock outstanding. Our directors and executive officers will own approximately 4.3 million of these shares, or approximately 41.5% of outstanding shares, including 2.7 million shares and 1.6 million shares owned by William Sherertz and Nancy Sherertz, respectively, following their sale of a small portion of their shares in this offering. These stockholders will be free to sell those shares, subject to a 180-day lock-up in the case of Mr. Sherertz and Ms. Sherertz and a 90-day lock-up for all other officers and directors. We cannot predict when any of these stockholders may sell their shares or in what volumes, although we do know that Nancy Sherertz has been an active seller of shares to diversify her assets. The market price of our common stock could decline significantly if any of these stockholders were to sell a large number of shares into the public market or if the market believes that these sales may occur.

Limited trading volume of our common stock may contribute to our price volatility.

For the first six months of 2005, the average daily trading volume for our common stock as reported by The Nasdaq National Market was approximately 35,000 shares. Even if we achieve a wider dissemination of our common stock as a result of this offering, we do not expect that a significantly more active trading market in our common stock will develop. As a result, relatively small trades may have a significant effect on the price of our common stock and stockholders may have difficulty liquidating their investments in our shares.

Our stock price has been and may continue to be volatile.

The market price of our common stock has been, and is likely to continue to be, very volatile. Since July 1, 2004, the market price for our common stock has been as low as $8.66 per share and as high as $18.18 per share. Additionally, the stock market in general has been highly volatile. The volatility in our stock price may result in substantial losses for investors.

We are controlled by our President and Chief Executive Officer, who could have the ability to exert significant influence over matters that might not be favored by other stockholders.

As of July 1, 2005, our President and Chief Executive Officer, William W. Sherertz, beneficially owned or had the right to vote shares representing approximately 33.5% of the outstanding voting power of our capital stock. Our directors and executive officers, as a group, beneficially own or have the right to vote shares representing approximately 54.8% of the outstanding voting power of our capital stock, including 19.7% owned by Nancy Sherertz. As a result, Mr. Sherertz or, if they should decide to act together, Mr. Sherertz and Ms. Sherertz, or our directors and officers as a group, will be able to exercise significant influence over the outcome of any matters submitted to our stockholders for approval, including the election of directors and the authorization of other corporate actions requiring stockholder approval.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and certain documents incorporated by reference into this prospectus contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and include, without limitation, statements regarding future results of operations, discussion of economic conditions in our market areas and effect on revenue growth, the potential for and effect of past and future acquisitions, the effect of changes in our mix of services on gross margin, the adequacy of our workers' compensation reserves and allowance for doubtful accounts, the effectiveness of our management information systems and disclosure controls and internal control, and the availability of financing and working capital to meet our funding requirements. In some cases, you can identify forward-looking statements by terms such as "may," "intend," "anticipate," "might," "will," "should," "could," "would," "expect," "believe," "estimate," "predict," "potential" and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on management's beliefs and assumptions only as of the date of this prospectus and are subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors with respect to our business include factors listed in "Risk Factors" in this prospectus and risks discussed elsewhere in the text of this prospectus and other documents incorporated by reference into this prospectus, as well as risks relating to:

- material deviations from expected future workers' compensation claims experience and the cost development trends of such claims;
- regulatory changes, particularly in California, that could decrease the attractiveness of our services to existing or potential customers;
- economic trends in our service areas;
- potential difficulties associated with integrating acquired businesses and clients into our operations and other unanticipated consequences of acquisitions;
- collectibility of accounts receivable; and
- the availability of and costs associated with potential sources of financing.

Except as required by law, we assume no obligation to update any forward-looking statements, even if new information becomes available to us in the future.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the sale of shares of our common stock in this offering of approximately $27.7 million, assuming a public offering price of $17.52 per share and after deducting estimated underwriting discounts and commissions and offering expenses. If the underwriters exercise their over-allotment option in full, net proceeds to us would increase by approximately $4.7 million to $32.4 million. We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders.

We intend to use the net proceeds from this offering for general corporate purposes, including working capital and potential future acquisitions or investments in complementary businesses. We currently have no commitments with respect to any such acquisitions or investments. Proceeds will also strengthen our balance sheet for purposes of our qualification as a self-insured workers' compensation provider in the five states in which we are a state-approved self-insured employer. Pending use of the net proceeds of this offering, we intend to invest net proceeds of this offering in short-term, interest-bearing investments.

MARKET PRICE RANGE FOR OUR COMMON STOCK

Our common stock is listed under the symbol "BBSI" on The Nasdaq National Market. The following table sets forth for the periods indicated the per share range of high and low sales prices for our common stock on The Nasdaq National Market. All share prices below have been adjusted for a 3-for-2 stock split effected on May 19, 2005 as a 50% stock dividend.

Year Ended December 31, 2003	High	Low
First Quarter	$ 2.50	$ 1.54
Second Quarter	2.43	1.76
Third Quarter	4.94	2.00
Fourth Quarter	10.09	4.67
Year Ended December 31, 2004		
First Quarter	$ 11.84	$ 7.66
Second Quarter	10.14	8.17
Third Quarter	11.79	8.66
Fourth Quarter	11.00	8.83
Year Ending December 31, 2005		
First Quarter	$ 16.59	$ 8.99
Second Quarter	16.45	12.27
Third Quarter (through July 15, 2005)	18.18	14.65

On July 15, 2005, the last reported sale price of our common stock on The Nasdaq National Market was $17.52 per share. As of July 1, 2005, we had 57 holders of record of our common stock.

DIVIDEND POLICY

We have not declared or paid any cash dividends since the closing of our initial public offering of common stock in June 1993, and do not anticipate declaring or paying any cash dividends in the foreseeable future. Any future determination relating to dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition, future prospects and other factors as our board of directors may deem relevant.

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2005:

- on an actual basis; and
- on an as-adjusted basis to give effect to the completion of this offering as if it had been completed on March 31, 2005.

You should read the foregoing table together with "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited and unaudited consolidated financial statements and the related notes and the other financial information included elsewhere in this prospectus.

	March 31, 2005	
	Actual	**As Adjusted**
	(unaudited) (in thousands, except share data)	
Total long-term debt	$ 1,552	$ 1,552
Stockholders' equity:		
Preferred stock, $.01 par value; 500,000 shares authorized; no shares issued and outstanding		
Common stock, $.01 par value; 20,500,000 shares authorized; 8,715,381 shares issued and outstanding; and 10,415,381 shares issued and outstanding, as adjusted	64	81
Additional paid-in capital	4,662	32,332
Other comprehensive loss	(328)	(328)
Retained earnings	36,078	36,078
Total stockholders' equity	40,476	68,163
Total capitalization	$ 42,028	$ 69,715

Our capitalization information set forth above gives effect to a 3-for-2 stock split effected on May 19, 2005 as a 50% stock dividend and assumes:

- no exercise of outstanding options to purchase 970,393 shares of our common stock with a weighted average exercise price of $5.74 per share;
- no exercise of 114,677 shares of common stock reserved for future grant and issuance under our stock-based compensation plans;
- no exercise by the underwriters of their over-allotment option to purchase up to 285,000 shares of our common stock in this offering; and
- an assumed public offering price of $17.52 per share.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth our selected historical consolidated financial data. The statement of operations data set forth below for each of the years ended December 31, 2002, 2003 and 2004 and the balance sheet data as of December 31, 2003 and 2004, are derived from our audited consolidated financial statements included elsewhere in this prospectus, which financial statements have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as indicated in their report included elsewhere in this prospectus. The statement of operations data for the years ended December 31, 2000 and 2001, and the balance sheet data as of December 31, 2000, 2001 and 2002 has been derived from audited consolidated financial statements not included in this prospectus. The statement of operations data for the three months ended March 31, 2004 and 2005 and the balance sheet data as of March 31, 2005, has been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. In the opinion of our management, these unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of these financial statements. It is important that you read this selected consolidated financial data with the consolidated financial statements and related notes to the consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus. Historical results are not necessarily indicative of the results that may be expected in the future.

	Years Ended December 31,					Three Months Ended March 31,	
	2000	**2001**	**2002**	**2003**	**2004**	**2004**	**2005**
						(unaudited)	
Statement of Operations Data:	(in thousands, except per share data)						
Revenues:							
Staffing services	$ 188,500	$ 123,110	$ 96,750	$ 93,544	$ 123,514	$ 25,054	$ 28,542
Professional employer service fees	22,128	16,281	12,558	29,177	71,447		