Great Lakes Dredge & Dock CORP
Form DEF 14A
April 07, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Great Lakes Dredge & Dock Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

Great Lakes Dredge & Dock Corporation

2122 York Road

Oak Brook, Illinois 60523

(630) 574-3000

April 7, 2014

To Our Stockholders:

Our Board of Directors joins me in extending to you a cordial invitation to attend the 2014 Annual Meeting of Stockholders of Great Lakes Dredge & Dock Corporation (Great Lakes). The meeting will be held on Wednesday, May 7, 2014, beginning at 9:00 A.M. Central Daylight Time at the DoubleTree Hotel, 1909 Spring Road, Oak Brook, Illinois 60523. The attached Notice of Annual Meeting and Proxy Statement describe the formal business to be transacted at the meeting. For additional information about Great Lakes, please see the enclosed Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

YOUR VOTE IS IMPORTANT, REGARDLESS OF THE NUMBER OF SHARES YOU OWN. On behalf of the Board of Directors, I urge you to please sign, date and return the Proxy in the enclosed postage-paid envelope. Please return the Proxy as soon as possible, even if you now plan to attend the Annual Meeting. This will not prevent you from voting in person, but it will ensure that your vote is counted if you are unable to attend the meeting.

Thank you for your interest and investment in Great Lakes.

Sincerely,

Nathan D. Leight

Chairman of the Board of Directors

Table of Contents

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

MAY 7, 2014

TO THE STOCKHOLDERS OF GREAT LAKES DREDGE & DOCK CORPORATION:

Notice is hereby given that the Annual Meeting of Stockholders of Great Lakes Dredge & Dock Corporation will be held on Wednesday, May 7, 2014, beginning at 9:00 A.M. Central Daylight Time at the DoubleTree Hotel, 1909 Spring Road, Oak Brook, Illinois 60523 for the following purposes:

1. To elect as directors the two nominees named in the attached proxy statement to serve for three-year terms expiring at the 2017 Annual Meeting of Stockholders and to hold office until their respective successors are elected and qualified or until their earlier death, disqualification, resignation or removal;

2. To ratify Deloitte & Touche LLP as the Company s independent registered public accounting firm for the year ending December 31, 2014;

3. To approve, on a non-binding advisory basis, the Company s executive compensation; and

4. To transact such other business as may properly come before the Annual Meeting or any adjournments of the Annual Meeting.

Only holders of record of common stock as of the close of business on March 14, 2014 are entitled to notice of and to vote at the Annual Meeting and any adjournments of the Annual Meeting.

In accordance with Delaware law, a list of the holders of common stock entitled to vote at the 2014 Annual Meeting will be available for examination by any stockholder for at least 10 days prior to the Annual Meeting for any purpose germane to the Annual Meeting. The list may be reviewed during ordinary business hours at our main office, located at 2122 York Road, Oak Brook, Illinois 60523.

YOU ARE CORDIALLY INVITED TO ATTEND THE MEETING. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE, WHICH NEEDS NO POSTAGE IF MAILED IN THE UNITED STATES. IF YOU LATER DESIRE TO REVOKE YOUR PROXY, YOU MAY DO SO AT ANY TIME BEFORE IT IS EXERCISED.

By Order of the Board of Directors,

Maryann A. Waryjas

Corporate Secretary

Oak Brook, Illinois

April 7, 2014

Table of Contents

TABLE OF CONTENTS

Table of Contents

Great Lakes Dredge & Dock Corporation

2122 York Road

Oak Brook, Illinois 60523

(630) 574-3000

PROXY STATEMENT

FOR

ANNUAL MEETING OF STOCKHOLDERS

To Be Held On May 7, 2014

This proxy statement and accompanying proxy card were mailed on or about April 7, 2014 to all stockholders entitled to vote at the Annual Meeting.

INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

The enclosed proxy materials are being sent to you in connection with the solicitation of the enclosed proxy by the Board of Directors of Great Lakes Dredge & Dock Corporation for use at the 2014 Annual Meeting of Stockholders and at any adjournments of the meeting, sometimes referred to as the Annual Meeting or the 2014 Annual Meeting in this proxy statement. Throughout this proxy statement when the terms Great Lakes, the Company, we, our, ours or us are used, they refer to Great Lakes Dredge & Dock Corporation and its subsidiaries. We sometim refer to our Board of Directors as the Board.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 7, 2014

The Great Lakes Dredge & Dock Corporation Proxy Statement and Annual Report to

Stockholders for the year ended December 31, 2013 are available at http://investor.gldd.com.

Where will the Annual Meeting be held?

The 2014 Annual Meeting will be held on Wednesday, May 7, 2014, at 9:00 A.M. Central Daylight Time, at the DoubleTree Hotel, 1909 Spring Road, Oak Brook, Illinois 60523 to consider the matters set forth in the Notice of Annual Meeting of Stockholders.

What materials are being sent along with this Proxy Statement?

This proxy statement is being sent along with our Annual Report to Stockholders for the year ended December 31, 2013 (which is not part of the soliciting materials) and the proxy card.

Table of Contents

Who is entitled to vote at the Annual Meeting?

Only stockholders of record of our common stock, par value $0.0001 per share, at the close of business on March 14, 2014 will be entitled to vote at the 2014 Annual Meeting. As of this record date, there were a total of 59,758,614 shares of our common stock outstanding, each share being entitled to one vote. There is no cumulative voting.

How many votes must be present to hold the Annual Meeting?

The presence at the 2014 Annual Meeting, in person or by proxy, of the holders of a majority of the shares of our outstanding common stock will constitute a quorum for the transaction of business at the Annual Meeting. If a quorum is not present or represented at the Annual Meeting, the stockholders entitled to vote at the Annual Meeting, present in person or represented by proxy, will have the power to adjourn the Annual Meeting without notice, other than the announcement at the Annual Meeting of such adjournment, until a quorum shall be present or represented.

Even if you plan to attend the Annual Meeting, in order to ensure the presence of a quorum at the Annual Meeting, please vote your shares in accordance with the instructions described below. Abstentions and broker non-votes are counted as present for purposes of establishing a quorum. A broker non-vote occurs when a broker or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the broker or nominee does not have discretionary voting power and has not received instructions from the beneficial owner. Shares owned by Great Lakes are not voted and do not count for quorum purposes.

Who is the record holder and what if the shares are held through a broker?

If you are the registered holder of shares, then you are the record holder of those shares, and you should vote your shares as described in the next section.

If you own shares through a broker, the registered holder of those shares is the broker or its nominee. Such shares are often referred to as being held in street name, and you, as the beneficial owner of those shares, do not appear in our stock register. For street name shares, there is a two-step process for distributing our proxy materials and tabulating votes. Brokers inform us how many of their clients own common stock in street name, and the broker forwards our proxy materials to those beneficial owners. If you receive our proxy materials from your broker, including a voting instruction form, you should vote your shares by following the procedures specified on the voting instruction form. Shortly before the Annual Meeting, your broker will tabulate the votes it has received and submit a proxy card to us reflecting the aggregate votes of the street name holders. If you plan to attend the Annual Meeting and vote your street name shares in person, you should contact your broker to obtain a broker s proxy card and bring it to the Annual Meeting.

Under current rules governing brokers registered with the New York Stock Exchange, if you do not instruct your broker how to vote, your broker will have discretionary voting power for ratification of Deloitte & Touche LLP as our independent registered public accounting firm (Proposal 2), but would not have discretionary voting power for the election of directors (Proposal 1) or the advisory vote on executive compensation (Proposal 3).

Table of Contents

How do record holders vote their shares?

You can vote at the Annual Meeting in person or by proxy. We recommend that you vote by proxy even if you plan to attend the Annual Meeting. You can always attend the Annual Meeting and revoke your proxy by voting in person.

There are three ways to vote by proxy:

- by telephone You can vote by touch tone telephone by calling toll-free 1 (866) 894-0537 and following the instructions on our proxy card;
- by Internet You can vote by Internet by going to the website *www.cstproxyvote.com* and following the instructions on our proxy card; or
- by mail You can vote by mail by completing, signing, dating and mailing our enclosed proxy card in the pre-addressed, postage-paid envelope provided.

Votes submitted by telephone or electronically over the Internet must be received by 7:00 P.M., Eastern Daylight Time, on May 6, 2014.

By giving us your proxy, you are authorizing the individuals named on our proxy card, the proxies, to vote your shares in the manner you indicate. You may:

- vote for the election of our director nominees; or
- withhold authority to vote for our director nominees.

You may vote FOR or AGAINST or ABSTAIN from voting on the ratification of Deloitte & Touche LLP as our independent registered public accounting firm for the year ending December 31, 2014 and the approval of the non-binding resolution to approve the Company s executive compensation.

What if I do not vote for some of the matters listed on the proxy?

If you sign and return your proxy without indicating your instructions, your shares will be voted FOR:

- our two director nominees;
- the ratification of Deloitte & Touche LLP as our independent registered public accounting firm for the year ending December 31, 2014; and
- approval of the advisory vote on the Company s executive compensation.

How can I revoke my proxy after it is submitted?

A stockholder may revoke a proxy at any time prior to its exercise:

by giving to our Corporate Secretary a written notice of revocation of the proxy s authority, such notice to be delivered to our principal executive office;

by submitting a duly executed proxy bearing a later date; or

by attending the 2014 Annual Meeting and voting in person.

Table of Contents

Who pays the cost of solicitation of proxies for the Annual Meeting?

We are paying the costs for the solicitation of proxies, including the cost of preparing and mailing this proxy statement. Proxies are being solicited primarily by mail, but the solicitation by mail may be followed-up by solicitation in person, or by telephone or facsimile, by our regular employees without additional compensation for such proxy solicitation activity. We will reimburse brokers, banks and other custodians and nominees for their reasonable out-of-pocket expenses incurred in sending proxy materials to our stockholders. We have also engaged Morrow & Co., LLC to assist in the solicitation of proxies for a fee of approximately $7,500, plus reimbursement for out-of-pocket expenses.

Who should I contact with questions?

Please contact Morrow & Co., LLC, our solicitation agent, at the phone number or address listed below with any questions regarding the Annual Meeting.

Morrow & Co., LLC

470 West Avenue 3rd Floor

Stamford, CT 06902

Banks and Brokerage Firms, please call (203) 658-9400

Stockholders, please call (800) 607-0088

How many votes are necessary for the election of the nominees to the Board of Directors?

The nominees for director for a three-year term will be elected provided that they receive the affirmative vote of a plurality of shares present in person or represented by proxy at the Annual Meeting and entitled to vote thereon. This means that, if a quorum is present, because only two directors are nominated for election at the annual meeting, the nominees will be elected to serve as director as long as they each receive at least one affirmative vote. Withholding authority to vote for a director nominee is the equivalent of abstaining from the vote. Abstentions and broker non-votes are not counted as votes cast for the purposes of the election of directors.

How many votes are necessary to ratify the appointment of our proposed independent registered public accounting firm for 2014?

Deloitte & Touche LLP will be ratified as our independent registered public accounting firm for the year ending December 31, 2014 provided the proposal receives the affirmative vote of a majority of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote thereon. Abstentions will be treated as being present and entitled to vote on the matter and, therefore, will have the effect of votes against the proposal.

How many votes are necessary for the approval of the advisory resolution regarding the Company s executive compensation?

The advisory resolution regarding the compensation of our named executive officers will be approved provided the proposal receives the affirmative vote of a majority of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote thereon. Abstentions will be treated as being present and entitled to vote on the matter and, therefore, will have the effect of votes against the

Table of Contents

proposed resolution. A broker non-vote is treated as not being entitled to vote on the matter and, therefore, is not counted for purposes of determining whether the proposal has been approved. Although the outcome of this advisory vote on the compensation of our named executive officers is non-binding, the Compensation Committee and our Board will review and consider the outcome of this vote when making future compensation decisions for our named executive officers.

What other matters will be acted upon at the Annual Meeting?

As of the date of this proxy statement, our Board of Directors does not know of any business that will be presented for consideration at the 2014 Annual Meeting other than the matters described in this proxy statement. If any other matters are properly brought before the Annual Meeting, the persons named in the enclosed proxy card will vote the proxies in accordance with their best judgment.

What is householding and how does it affect me?

Some banks, brokers, and other record holders may be participating in the practice of householding proxy statements and annual reports. This means that only one copy of our proxy statement and 2013 annual report on Form 10-K may have been sent to multiple stockholders in your household. We will promptly deliver a separate copy of these documents to you if you contact the Broadridge Householding Department at the following address:

Broadridge Householding Department

51 Mercedes Way

Edgewood, NY 11717

Toll-Free Number: 1-800-542-1061

If you want to receive separate copies of our proxy statements and annual reports on Form 10-K in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker, or other record holder, or you may contact Broadridge at the address and phone number shown.

Table of Contents

PROPOSAL 1 ELECTION OF DIRECTORS

Set forth below are the names, years of birth, positions and biographies of our directors as of April 7, 2014. The Board of Directors, at the recommendation of its independent directors, has nominated the two directors identified below for re-election to the Board of Directors for three-year terms expiring at the 2017 Annual Meeting of Stockholders and to hold office until their respective successors are elected and qualified or until their earlier death, disqualification, resignation or removal:

Name	Position
Carl A. Albert	Non-employee Director
Jonathan W. Berger	Chief Executive Officer and Director
Stephen H. Bittel	Non-employee Director
Peter R. Deutsch*	Non-employee Director
Denise E. Dickins	Non-employee Director
Nathan D. Leight*	Non-employee Director and Board Chair
Douglas B. Mackie**	Non-employee Director
Jason G. Weiss	Non-employee Director

* Director nominated for election at the 2014 Annual Meeting.

** Director retiring following expiration of term at the 2014 Annual Meeting.

Composition of the Board of Directors

Our Board is currently composed of eight members divided into three classes. The members of each class are elected to serve three-year terms with the term of office of each class ending in successive years. Messrs. Deutsch, Leight and Mackie are members of the class whose term expires at the 2014 Annual Meeting. Messrs. Bittel and Weiss and Ms. Dickins are members of the class whose term expires at the 2015 Annual Meeting, and Messrs. Albert and Berger are members of the class whose term expires at the 2016 Annual Meeting.

The Board has nominated Messrs. Deutsch and Leight for re-election and the nominees have indicated a willingness to serve. Mr. Mackie provided notice of his retirement following the expiration of his term at the 2014 Annual Meeting and will not be nominated for re-election. Our Board has not filled the vacancy in this class of directors, nor reduced the size of this class of directors or the Board. Proxies, however, may not be voted for more than two nominees. The Board is currently considering whether to add a director to the class of directors whose term expires at this Annual Meeting or whether to add a director to a different class of directors. The members of the two other classes of directors will continue in office for their existing terms. Upon the expiration of the term of a class of directors, the nominees for such class generally will be elected for three-year terms at the Annual Meeting of Stockholders held in the year in which such term expires.

The persons named as proxies in the enclosed proxy card will vote the proxies received by them for the election of Messrs. Deutsch and Leight, unless otherwise directed. In the event that a nominee becomes unavailable for election at the Annual Meeting, the persons named as proxies in the enclosed proxy card may vote for a substitute nominee at their discretion as recommended by the Board.

Table of Contents

Family Relationships

Two of our directors, Jonathan W. Berger, our Chief Executive Officer, and Nathan D. Leight, our Board Chair, are cousins. In addition, Kathleen M. LaVoy, our Vice President, General Counsel Dredging Operations and Assistant Secretary, is the daughter of Douglas B. Mackie, one of our directors who is retiring following expiration of his term at the 2014 Annual Meeting.

Agreements with Respect to Nominees

There are no agreements with respect to the nominees for director.

Vote Required and Recommendation

The nominees for director will be elected for three-year terms provided that they receive the affirmative vote of a plurality of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote thereon. This means that, if a quorum is present, the two persons receiving the greatest number of votes at the Annual Meeting will be elected to serve as directors. As a result, withholding authority to vote for a director nominee, abstentions and broker non-votes with respect to the election of directors will not affect the outcome of the election of directors.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF THE ABOVE NAMED NOMINEES TO THE BOARD OF DIRECTORS.

Table of Contents

Nominees For Election at the 2014 Annual Meeting

Peter R. Deutsch
Age: 57 (b. 1957)
Director since: 2006
Term expires: 2014

Great Lakes Committees:

Audit Committee

Nominating and Corporate Governance Committee

Business Experience:

Mr. Deutsch has been an attorney in private practice since 1983. He was a member of the Board of Directors of Aldabra Acquisition Corporation from Aldabra s inception in 2004 until the completion of the Aldabra merger with Great Lakes. Mr. Deutsch was a member of the United States House of Representatives from January 1993 until January 2005 representing the 20th Congressional District of Florida. He served on the House Energy and Commerce Committee from January 1994 until January 2005. He was the Ranking Democrat on the Oversight and Investigations Subcommittee during the 104th, 107th and 108th Congresses. Mr. Deutsch was the Ranking Democrat in the investigations of Enron Corporation, Martha Stewart Living Omnimedia Inc., Bridgestone/Firestone Tires and the conflict of interest abuses at the National Institutes of Health. He was also a member of the subcommittees on Telecommunications and the Internet, the Environment and Hazardous Materials and Consumer Trade and Protection. Prior to serving in Congress, Mr. Deutsch served in the Florida House of Representatives from November 1982 until November 1992, where he served on the Veterans Affairs Committee, the Health Care Committee and the Criminal Justice Committee, and as Chairman of the Insurance Committee.

Education:

B.S., Swarthmore College

J.D., Yale University Law School

Public Directorships (other than Great Lakes):

None

Skills and Qualifications:

Government/Public Policy. Extensive elected governmental experience, including leadership positions in both the Florida Legislature and the United States Congress; his Congressional District included several ports and one of the largest coastlines of any Congressional District in the United States and in Congress he was a leader in several successful major infrastructure appropriation projects.

Business Ethics. Experience investigating corporate fraud and conflict of interest abuses.

Legal Expertise.

8

Table of Contents

Nathan D. Leight
Age: 54 (b. 1959)
Director since: 2006
Term expires: 2014

Great Lakes Committees:

Nominating and Corporate Governance Committee (Chair)

Business Experience:

Mr. Leight has served as a director of the Company since 2006 and was elected Board Chair in March 2011. Mr. Leight is the Senior Managing Member of Terrapin Partners LLC, a private investment management firm focused on private equity investing, and the managing member and chief investment officer of Terrapin Asset Management LLC, which manages alternative investment vehicles, including hedge funds, venture partnerships, and multi-manager hedge fund portfolios. Mr. Leight served as a member of the Board of Directors of Aldabra Acquisition Corporation from Aldabra s inception in 2004 until the completion of the Aldabra merger with Great Lakes. From 2007 until 2008, Mr. Leight was the Chairman of Aldabra 2 Acquisition Corporation. In 2008, Aldabra 2 acquired the paper and packaging assets of Boise Cascade, LLC (now Boise Inc.). Previously, Mr. Leight served as chief executive officer of e-STEEL LLC, an internet-based steel marketplace, as chief executive officer of VastVideo, Inc., a special interest video content and technology provider, and as a director of both Boise Inc. and TradeStation Group, Inc.

Education:

A.B., Harvard College (cum laude)

Public Directorships (other than Great Lakes):

Boise Inc. a leading manufacturer of packaging and paper products (2007 2012)

TradeStation Group, Inc. on-line brokerage firm serving active trader and certain institutional trader markets (2009 2011)

Private Directorships:

Jerusalem Foundation, Inc. (USA)

Adrienne Arsht Center for the Performing Arts of Miami-Dade County

Skills and Qualifications:

Private Equity, Investment and Asset Management. Over 25 years of experience in asset and hedge fund management, venture capital, and private equity investing.

Corporate Governance. Experience in nominating and compensation committees of other publicly traded companies.

Table of Contents

Directors Whose Term Will Continue Following the 2014 Annual Meeting

Carl A. Albert
Age: 72 (b. 1942)
Director since: 2010
Term expires: 2016

Great Lakes Committees:

Audit Committee

Compensation Committee

Business Experience:

Since 2000, Mr. Albert has served as Board Chair and Chief Executive Officer of Fairchild Venture Capital Corporation, a private investment firm. From 1990 to 2000, he was the majority owner, Chairman and Chief Executive Officer of Fairchild Aerospace Corporation and Fairchild Dornier Luftfahrt, GmbH, both aircraft manufacturers. After providing start-up venture capital, he served from 1981 to 1988 as the Board Chair and Chief Executive Officer of Wings West Airlines, a regional airline that was acquired in 1988 by AMR Corporation, the parent of American Airlines. Mr. Albert also served as Board Chair of Boise, Inc. for five years until October 2013 when Boise, Inc. was acquired by Packaging Corporation of America for an aggregate transaction value of $1.995 billion. Earlier in his career, he was an attorney practicing business, real estate and corporate law.

Education:

B.A., University of California at Los Angeles

L.L.B., University of California at Los Angeles School of Law

Public Directorships (other than Great Lakes):

Boise Inc. a leading manufacturer of packaging and paper products (2007 2013)

Private Directorships:

Fairchild Venture Capital Corporation, a private investment firm (2000 present)

Skills and Qualifications:

Management Experience. Over the last three decades, Mr. Albert has been the CEO of several businesses in the transportation and transportation manufacturing industries.

Corporate Governance. Served on several public boards, including as Chair of another publicly traded company.

International. Particular experience in European companies and transactions.

Finance/Capital Allocation/Strategy. Experience in other capital-intensive industries, and in other service industries.

Table of Contents

Jonathan W. Berger
Age: 55 (b. 1959)
Director since: 2006
Term expires: 2016

Business Experience:

Mr. Berger has served as the Company s Chief Executive Officer since September 2010. He was a member of the Board of Directors of Aldabra Acquisition Corporation from Aldabra s inception in 2004 until the completion of the Aldabra merger with Great Lakes. Mr. Berger was the managing partner at Tellurian Partners, LLC, a consulting firm, from August 2009 until September 2010. From January 2002 until July 2009, Mr. Berger was a managing director and co-head of Corporate Finance for Navigant Consulting, Inc. (NCI), a New York Stock Exchange-listed consulting firm. Mr. Berger was also President of Navigant Capital Advisors, LLC, the wholly owned broker-dealer of NCI during a portion of that time. From January 2000 to March 2001, Mr. Berger was president of DotPlanet.com, an Internet services provider. From 1983 to December 1999, Mr. Berger was employed by KPMG, LLP, an independent public accounting firm, where he served as a partner from August 1991 to December 1999; he was in charge of the corporate finance practice for three of those years. Mr. Berger is a Certified Public Accountant.

Education:

B.S., Cornell University

M.B.A., Emory University

Certified Public Accountant

Public Directorships (other than Great Lakes):

Boise Inc. a leading manufacturer of packaging and paper products (2007 2013)

Skills and Qualifications:

Management Experience. Experience as a senior manager with a large national corporate audit firm, and a prominent consulting firm, and his executive experience with the Company.

Audit/Accounting. Experience as an executive with a prominent investment advisor, and as a leader of a large corporate consultant, with over 25 years of accounting experience.

Acquisitions/Investment. Extensive experience with acquisitions, divestitures, capital raising and allocation.

Corporate Governance. Experience chairing audit and compensation committees of another publicly-traded company; and as a former chair of the Company s Audit Committee before becoming its CEO.

Strategic Planning. Focused on strategic issues for publicly traded companies for many years in the consulting industry.

Table of Contents

Stephen H. Bittel
Age: 57 (b. 1956)
Director since: 2011
Term expires: 2015

Great Lakes Committees:

- Audit Committee
- Compensation Committee

Business Experience:

Mr. Bittel is the Chairman and founder of Terranova Corporation, an owner and operator of commercial real estate. Mr. Bittel founded Terranova in 1980 to specialize in the management, leasing, financing, development and sales of major real estate assets. In 1999, Mr. Bittel founded Petroleum Realty Investment Partners, a venture that invests in the gas station/convenience store industry. Mr. Bittel is a board member of several charitable or non-profit organizations. Mr. Bittel is also an at-large member of the Democratic National Committee, serving on the Rules and Bylaws Committee. Mr. Bittel has also served as trustee member for the Greater Miami Chamber of Commerce, United Way of Miami-Dade and Temple Beth Am. He has written numerous articles on real estate matters and spoken at professional conferences throughout the United States and Europe.

Education:

- B.A., Bowdoin College (magna cum laude)
- J.D., University of Miami School of Law

Public Directorships (other than Great Lakes):

- None

Private Directorships:

- National Jewish Democratic Council
- Florida International University Foundation
- Community Partnership for the Homeless
- Florida International University Business School Advisory Board

Teach for America

Skills and Qualifications:

Management Experience. Previous experience as a Chief Executive Officer in a variety of industries.

Real Estate. Strong background in domestic and international commercial real estate.

Government/Political Processes. First-hand knowledge of, and experience with, political processes and organizations.

Table of Contents

Denise E. Dickins
Age: 52 (b. 1961)
Director since: 2013
Term expires: 2015

Great Lakes Committees:

Audit Committee (Chair)

Business Experience:

Since 2006, Ms. Dickins has been an Associate Professor of Accounting and Auditing for East Carolina University where she currently teaches corporate governance and auditing. From 2002 to 2006, Ms. Dickins was an instructor of various accounting courses at Florida Atlantic University. Prior to 2002, Ms. Dickins served as Partner-in-charge of Arthur Andersen s South Florida audit practice. Ms. Dickins has authored and co-authored numerous articles across a range of domestic and international auditing, compliance and governance topics, which have been published in several academic and professional journals including, *Auditing: A Journal of Practice & Theory*, *International Journal of Auditing*, *International Journal of Disclosure & Governance*, and the *CPA Journal*. Ms. Dickins professional affiliations include Women Corporate Directors (Member); American Accounting Association Auditing Section (Member); Institute of Internal Auditors (Member); and Florida Institute of Certified Public Accountants (Member). Ms. Dickins is a Certified Public Accountant and Certified Internal Auditor.

Education:

B.S., Accounting and Finance, Florida State University

Ph.D., Business Administration, Florida Atlantic University

Certified Public Accountant

Public Directorships (other than Great Lakes):

Watsco, Inc., an independent distributor of heating, air conditioning and refrigeration in the United States, Canada and Puerto Rico (2007 present)

Steiner Leisure LTD, a diversified consumer services company providing spa services and personal care products for men, women and teenagers worldwide (2009 present)

TradeStation Group, Inc., an on-line brokerage firm serving active trader and certain institutional trader markets (2006 2011)

Private Directorships:

Auxis, Inc., a private company providing management consulting and outsourcing services in the United States and Latin America (2012 present)

Table of Contents

Skills and Qualifications:

Management Experience. Experience as a partner in charge of an audit division managing 120 people and responsible for profit and loss of a $120 million business unit.

Audit/Accounting. Ms. Dickins is an Associate Professor of Accounting and Auditing, a Certified Public Accountant and a Certified Internal Auditor, and has authored numerous published articles covering auditing topics. Ms. Dickins qualifies as an Audit Committee Financial Expert.

Corporate Governance. Serves on the Board of three companies, and chairs the Audit Committee of two additional publicly-traded companies. Ms. Dickins teaches courses in Corporate Governance, and has authored numerous published articles covering corporate governance topics.

Table of Contents

Jason G. Weiss
Age: 44 (b. 1969)
Director since: 2006
Term expires: 2015

Great Lakes Committees:

Compensation Committee (Chair)

Business Experience:

Since June 2009, Mr. Weiss has been the managing member and sole owner of Terrapin Palisades Ventures, LLC, a private investment company and the general partner of several California and Uruguay-focused agricultural investment partnerships as well as a New Zealand real estate focused investment partnership. From 1988 to June 2009, Mr. Weiss was a managing member and co-founder of Terrapin Partners LLC, Terrapin Asset Management, LLC and TWF Management Company LLC, all private equity and asset management companies. Mr. Weiss served as Chief Executive Officer, Secretary and a member of the Board of Directors of Aldabra Acquisition Corporation from Aldabra s inception in 2004 until the completion of the Aldabra merger with Great Lakes. From March 2007 until February 2008, Mr. Weiss was the Chief Executive Officer of Aldabra 2 Acquisition Corporation. In February 2008, Aldabra 2 acquired the paper and packaging assets of Boise Cascade, LLC (now Boise Inc.). Mr. Weiss serves as the Vice Chairman of the national board of the Humane Society of the United States (HSUS), the largest animal protection organization in the world. He is the Chairman of HSUS Investment and Pension Trust Committee (which has approximately $200 million of assets), the Chairman of HSUS Risk Management Committee, and he serves on HSUS Executive Committee.

Education:

B.A., University of Michigan (with Highest Distinction)

J.D., Harvard Law School (cum laude)

Public Directorships (other than Great Lakes):

Boise Inc. a leading manufacturer of packaging and paper products (2008 2013)

Private Directorships:

The Humane Society of the United States

Skills and Qualifications:

Private Equity, Investment and Asset Management. Extensive background in private equity, investment and asset management.

Management Experience. Previous experience as a Chief Executive Officer in a variety of industries.

Legal Background.

15

Table of Contents

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Board Leadership Structure

The Board is led by an independent Board Chair. Mr. Nathan D. Leight was elected Board Chair in March 2011. Pursuant to the Company s Bylaws, the Board is permitted to either separate or combine the positions of Chief Executive Officer and Board Chair as it deems appropriate from time to time. We currently separate the roles of Chief Executive Officer and Board Chair in recognition of the differences between the two roles as they are presently defined. At present, the Board believes that separation of the positions of Chief Executive Officer and Board Chair improves the ability of the Board to exercise its oversight role over management, provides multiple opportunities for discussion and evaluation of management decisions and the direction of the Company, and ensures a significant role for the Board s non-management directors in the oversight and leadership of the Company.

The Board understands that maintaining qualified independent and non-management directors on the Board is an integral part of effective corporate governance. In 2013, the Board elected an additional independent director, Ms. Dickins. There are presently six directors who are independent within the meaning of the NASDAQ Marketplace Rules (Messrs. Albert, Bittel, Deutsch, Leight and Weiss and Ms. Dickins), one management director (Mr. Berger) and one director who was the chief executive officer of the Company until September 7, 2010 (Mr. Mackie). Accordingly, the Board believes its current leadership structure strikes an appropriate balance between independent directors and directors affiliated with the Company, which allows the Board to effectively represent the best interests of the Company and its stockholder base.

When the Chief Executive Officer is concurrently serving as the Board Chair, the Board may elect an independent Lead Director.

The position of the independent Board Chair, or the Lead Director when the Chief Executive Officer is concurrently serving as the Board Chair, is intended to provide a check and balance on the role and responsibilities of the Chief Executive Officer. Our independent Board Chair and/or the Lead Director is expected to, among other things:

- chair meetings (including executive sessions) of the independent directors;
- act as principal liaison between the independent directors and our Chief Executive Officer;
- help develop Board agendas with our Chief Executive Officer to ensure that topics deemed important by the independent directors are included in board discussions and sufficient executive sessions are scheduled as needed;
- advise our Chief Executive Officer on quality, quantity and timeliness of information supplied by management to the independent directors and act as the liaison between the independent directors and our Chief Executive Officer to make certain that any additional information requested by directors is included in the materials prepared by management for the Board;
- assist management in the development and execution of a strategic plan;
- support financing and capital spending initiatives;
- represent the Company at meetings with business partners, industry representatives and potential clients;

communicate regularly with each director to be certain that every director s views, competencies and priorities are understood; and

ensure directors and management function as a team in the best interest of all stakeholders.

The Board believes that the independent Board Chair is a strategic role that continues to add value to the Company.

The Board s Role in Risk Management for the Company

As part of our risk management process, senior management discusses and identifies major areas of risk on an ongoing basis and periodically reviews these risks with the Board. In addition, in 2011, the Board adopted an enterprise risk management process designed to enable the Board to best determine our risk management profile and oversee our risk management strategies. The Board delegated oversight of this enterprise risk management process to the Audit Committee. This process employs a framework for identifying and assessing key strategic, operational, financial and compliance risks based upon guidelines of the Committee of Sponsoring Organizations of the Treadway Commission. We have assigned key risks to members of our senior management, who are responsible for ongoing risk assessment, management and reduction.

On a quarterly basis, our management team performs a reassessment of risk, identifies new risks facing the Company and assesses our response activities and controls. The product of this process is a risk management overview that is shared with the Audit Committee. Additional details on these risks are shared with the Audit Committee on request.

On an ongoing basis, the various committees of the Board address risk in the areas relevant to their scope. For example:

the Nominating and Corporate Governance Committee evaluates the Board, individual Board members and the Board committees, oversees compliance with ethics policies and considers matters of corporate governance;

the Compensation Committee reviews and approves corporate goals relating to our chief executive officer s compensation and approves total compensation for our senior executives in a manner that does not encourage excessive risk taking; and

the Audit Committee oversees the integrity of our financial reporting process and systems of internal controls.

The Compensation Committee performs an annual review of the compensation programs and procedures by which compensation decisions are made. The Committee analyzes whether the program encourages unnecessary or excessive risk taking.

We do not believe risks arising from our executive and broad-based compensation policies and practices are reasonably likely to have a material adverse effect on the Company or our business, nor do we believe that the compensation programs encourage unnecessary or excessive risk taking.

The Compensation Committee reviews and approves corporate goals relating to our Chief Executive Officer s compensation and approves total compensation for our senior executives. In addition, as part of our risk management process, senior management periodically identifies and discusses major areas of risk with the Board. As part of its regular reports to the Board, the Committee discusses the potential for unnecessary or excessive risk taking. For more detail on the process by which compensation is set, see page 34, Compensation Philosophy and Objectives.

Specifically, the Board and the Compensation Committee control risks arising from compensation policies and practices in part by controlling the mix of cash and long term equity incentives. Executives base salaries are fixed in amount and thus do not encourage risk-taking. Bonuses are capped for all named executive officers at 200% of target and bonuses for all of our named executive officers are tied to overall corporate performance. The compensation provided to the executive officers in the form of long term equity awards helps further align executives interests with those of the Company s stockholders. The Compensation Committee believes that these awards do not encourage unnecessary or excessive risk-taking because the ultimate value of the awards is tied to the Company s stock price and operating performance and because awards are staggered and subject to long term vesting schedules. Our long term equity awards in combination with our stock ownership requirements help ensure that executives have significant value tied to long term stock price performance and therefore are cognizant of how short term decisions impact the long term health of the organization. In addition, management, the Compensation Committee and the Board each consider the risks associated with accounting and reporting, project cost estimating, compliance and safety.

More specifically, the Compensation Committee retains subjective discretion to adjust short term incentive formulas, which allows the Compensation Committee to review the results from the fiscal year and determine whether, despite achievement of financial goals, the intents and purposes of the Annual Bonus Plan were met. In doing so, the Compensation Committee may consider whether activities taken during that fiscal year comport with the Company s strategic plan and align management objectives with stockholder interests. As a result, the incentive may be adjusted on an individual basis, despite achievement of formulaic targets.

In addition, certain awards granted in 2013 under our long term incentive plan are comprised of equity that vests over a three year period. These equity awards were structured to induce our executive officers to focus on the long term capital appreciation, health and viability of the Company rather than a short term increase in stock price.

Finally, the Compensation Committee adopted a recoupment policy in March 2011, which requires certain compensation to be repaid to the Company if awarded as a result of misstated earnings. The Board will reevaluate and, if necessary, revise the recoupment policy to comply with the Dodd-Frank Wall Street Reform and Consumer Protection Act once the Securities and Exchange Commission (SEC) and the NASDAQ Stock Market finalize the rules implementing recoupment requirements.

Table of Contents

Board Composition and Committee Structure

Our Board of Directors currently consists of eight members and has a separately standing Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee. The following table provides membership information as of April 7, 2014 for each of our Committees of the Board of Directors:

Name	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Carl A. Albert	X	X	
Stephen H. Bittel	X	X	
Peter R. Deutsch	X		X
Denise E. Dickins**	X*		
Nathan D. Leight***			X*
Douglas B. Mackie			X
Jason G. Weiss		X*	

* Denotes Committee Chair.

** Ms. Dickins became a member of our Audit Committee on August 12, 2013.

*** Mr. Leight served as a member of our Compensation Committee until May 8, 2013 and as a member of our Audit Committee until March 12, 2014.

Below is a description of each Committee of our Board of Directors.

Audit Committee. The Audit Committee is comprised of Messrs. Albert, Bittel, Deutsch, and Ms. Dickins, each of whom has been determined to be an independent director according to the rules and regulations of the SEC and the NASDAQ Stock Market. Additionally, our Board has determined that Ms. Dickins is an audit committee financial expert, as such term is defined in Item 407(d)(5) of Regulation S-K. The Audit Committee charter requires that all of its members be independent directors, as such term is defined in Rule 5605(a)(2) of the NASDAQ Marketplace Rules.

The Audit Committee operates under a written charter, a copy of which is available on our website at www.gldd.com or may be obtained by writing to our Corporate Secretary at our principal executive office. Under this charter, the Audit Committee is responsible for:

- monitoring the integrity of our financial reporting process and systems of internal controls regarding finance, accounting and legal compliance;
- monitoring the independence and performance of our independent auditor and monitoring the performance of our internal audit function;
- appointing and/or replacing our auditor and approving any non-audit work performed for us by the auditor;

preparing the report of the Audit Committee required to be included in the Company s annual report or proxy statement;

- providing an avenue of communication among the independent auditor, management and our Board; and
- reviewing its charter and recommending changes to the Board.

The Board also delegated oversight for the enterprise risk management process to the Audit Committee.

The Audit Committee held ten meetings during 2013. The Audit Committee met in executive session at various times throughout the year with the internal audit manager and the independent auditor.

Compensation Committee. The Compensation Committee is comprised of Messrs. Albert, Bittel and Weiss, each of whom has been determined to be an independent director according to the rules and regulations of the NASDAQ Stock Market and each of whom is considered to be a non-employee director under Rule 16b-3 of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act in this proxy statement, and an outside director under section 162(m) of the Internal Revenue Code of 1986, as amended, which we refer to as the Tax Code in this proxy statement.

The Compensation Committee operates under a written charter, a copy of which is available on our website at www.gldd.com or may be obtained by writing to our Corporate Secretary at our principal executive office. Under this charter, the Compensation Committee is responsible for:

- reviewing and approving goals and objectives relevant to the compensation of our Chief Executive Officer, evaluating the Chief Executive Officer s performance according to these goals and objectives and determining and approving the Chief Executive Officer s compensation level based on this evaluation;
- approving total compensation for executive officers, including oversight of all executive officer benefit plans;
- overseeing our general cash-based and equity-based incentive plans;
- retaining and consulting with independent compensation specialists, and making a formal determination of their independence from management;
- producing a Compensation Committee report on executive compensation as required by the SEC to be included in our annual proxy statement; and
- reviewing its charter and recommending changes to the Board.

The Compensation Committee held six meetings during 2013.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is comprised of Messrs. Deutsch, Leight and Mackie. Messrs. Deutsch and Leight have been determined to be independent directors according to the rules and regulations of the NASDAQ Stock Market. Mr. Mackie is not an independent director according to the rules and regulations of the NASDAQ Stock Market. As a result and in accordance with the rules and regulations of the NASDAQ Stock Market, director nominations are recommended to the Board by a majority of the Board s independent directors in a vote in which only independent directors participate.

Table of Contents

The Nominating and Corporate Governance Committee operates under a written charter, a copy of which is available on our website at www.gldd.com or may be obtained by writing to our Corporate Secretary at our principal executive office. Under this charter, the Nominating and Corporate Governance Committee is responsible for:

- developing and reviewing periodically succession plans of the Chief Executive Officer and screening and recommending to the Board candidate(s) qualified to become Chief Executive Officer;
- developing and recommending qualification standards and other criteria for selecting new directors, identifying and evaluating individuals qualified to become Board members consistent with qualification standards and other criteria approved by the Board and recommending to the Board such individuals as nominees to the Board for its approval;
- overseeing evaluations of the Board, individual Board members and the Board committees;
- establishing total compensation for the Board;
- overseeing our compliance with ethics policies and considering matters of corporate governance; and
- reviewing its charter and recommending changes to the Board.

The Nominating and Corporate Governance Committee does not set specific minimum qualifications for director positions. Instead, the Nominating and Corporate Governance Committee believes that nominations for election or re-election to the Board should be based on a particular candidate s merits and our needs after taking into account the current composition of the Board. The Nominating and Corporate Governance Committee considers potential candidates for director who may come to the attention of the Nominating and Corporate Governance Committee through current directors, professional executive search firms, stockholders or other persons. When evaluating candidates annually for nomination for election, the Nominating and Corporate Governance Committee considers all relevant factors regarding the candidates, including an individual s skills, diversity, independence from us, experience in areas that address the needs of the Board and ability to devote adequate time to Board duties. The Nominating and Corporate Governance Committee also seeks to achieve the appropriate balance of industry and business knowledge and experience, including, without limitation, expertise in the dredging industry, the function and needs of the Board, financial expertise, public company experience, personal integrity and reputation.

Whenever a new seat or a vacated seat on the Board is being filled, candidates that appear to best fit our needs are identified and unless such individuals are well known to the Board, they are interviewed and further evaluated by the Nominating and Corporate Governance Committee. Candidates selected by the Nominating and Corporate Governance Committee are then recommended to the Board. After the Board approves a candidate, the Chair of the Nominating and Corporate Governance Committee extends an invitation to the candidate to join the Board.

When evaluating director candidates and considering incumbent directors for re-nomination to the Board, the Nominating and Corporate Governance Committee considers a variety of factors. These include each nominee s independence, financial literacy, industry knowledge, personal and professional accomplishments, experience in light of the needs of the Board and Company and availability. For incumbent directors, the factors include past performance on the Board or in the Company and contributions to their respective committees, if any.

The Nominating and Corporate Governance Committee will consider stockholder recommendations for candidates for membership on the Board, provided that a complete description of such proposed nominee s qualifications, experience and background, together with a statement signed by each proposed nominee in which he or she consents to act as such, accompanies the recommendations, and provided further that any such recommendation must also be made according to the procedures, and within the same time deadlines, applicable under our Bylaws to director nominations. Such recommendations should be submitted in writing to the attention of the Nominating and Corporate Governance Committee, c/o Corporate Secretary, Great Lakes Dredge & Dock Corporation, 2122 York Road, Oak Brook, Illinois 60523 and should not include self-nominations.

The Nominating and Corporate Governance Committee requested the Board s independent directors to consider director nominees, and the independent directors unanimously recommended Messrs. Deutsch and Leight to the Board as director nominees for election at the Annual Meeting. See Proposal 1 Election of Directors.

The Nominating and Corporate Governance Committee held five meetings during 2013.

Attendance at Board of Directors and Committee Meetings. Our current Board of Directors held twelve meetings during 2013. Each member of the Board attended at least 75% of all meetings of the Board and those Board committees on which he/she served in 2013. The members of our Board are encouraged to attend our Annual Meeting of Stockholders. In May 2013, all members of our Board then in office attended our Annual Meeting of Stockholders.

Compensation Committee Interlocks and Insider Participation

None of the members of the Compensation Committee was an officer or employee of Great Lakes or any of our subsidiaries during fiscal 2013, or was a former officer or employee of the same, except that Mr. Weiss was Aldabra s chief executive officer, secretary and a member of Aldabra s board of directors from Aldabra s inception until the completion of the Aldabra merger in December 2006 (the Aldabra merger). As discussed more thoroughly below in *Director Independence* , the Board does not consider Mr. Weiss s service as an officer or director of Aldabra as affecting his independence. No interlocking relationship existed during the fiscal year ended December 31, 2013 between our Board or Compensation Committee and the board or compensation committee of any other company, nor has any such interlocking relationship existed in the past.

Director Independence

The Board of Directors has determined that Messrs. Albert, Bittel, Deutsch, Leight and Weiss and Ms. Dickins, constituting a majority of the Board, are independent directors, as such term is defined in Rule 5605(a)(2) of the NASDAQ Marketplace Rules. In reaching the conclusion that Mr. Leight is independent, the Board considered the fact that he is the cousin of Mr. Berger. The Board concluded that this relationship did not impact the independence of this director under applicable NASDAQ Marketplace Rules.

In reaching the conclusion that Mr. Weiss is independent, the Board considered that he had served as chief executive officer of Aldabra until the date of the completion of the Aldabra merger. Factors influencing the Board s decision included: Aldabra was a blank check company; Mr. Weiss has not been employed by the Company; Mr. Weiss has not been involved in the operations of the Company; and Mr. Weiss does not have any other conflicting relationships or related party transactions with the Company.

Executive Sessions of Non-Management Directors and Independent Directors

The non-management directors of the Board meet periodically in executive sessions without our management present. The independent directors also meet on occasion or as necessary in executive session and met at least twice during 2013. Stockholders wishing to communicate with the independent directors may contact them by writing to: Independent Directors, c/o Corporate Secretary, Great Lakes Dredge & Dock Corporation, 2122 York Road, Oak Brook, Illinois 60523. Any such communication will be promptly distributed to the directors named in the communication in the same manner as described below in Communications with the Board of Directors.

Code of Ethics

We have a written Code of Business Conduct and Ethics (the Code) that applies to all members of the Board and our employees, including our principal executive officer, principal financial officer, controller and persons performing similar functions. The Code is reviewed and updated on a regular basis, and a new version of the Code was adopted by the Board in November 2012. All of our salaried employees have reviewed and certified compliance with the Code. In addition, on an annual basis, each of our salaried employees receives training on the Code. Senior management, as well as individuals with responsibility for foreign operations or purchasing, receive additional training on the Foreign Corrupt Practices Act and other international compliance topics.

Our Code can be found on our website at www.gldd.com. We will post on our website any amendments to or waivers of the Code for executive officers or directors, in accordance with applicable laws, regulations and listing standards. A copy also may be obtained by writing to our Corporate Secretary at our principal executive office.

Communications with the Board of Directors

Stockholders and other interested parties wishing to communicate with our Board of Directors can send communications to one or more members of the Board by writing to the Board or to specific directors (including independent directors or committee chairs) or to a group of directors at the following address:

Great Lakes Dredge & Dock Corporation Board of Directors

c/o Corporate Secretary

Great Lakes Dredge & Dock Corporation

2122 York Road

Oak Brook, Illinois 60523

Any such communication will be promptly distributed by the Corporate Secretary to the individual director or directors named in the communication or to all directors if the communication is addressed to the entire Board of Directors. Every effort has been made to ensure that the views of stockholders are heard by the Board of Directors or individual directors, as applicable, and that appropriate responses are provided to stockholders in a timely manner.

Table of Contents

Compensation of Directors

Non-employee directors receive compensation for Board service which is designed to fairly compensate directors for their Board responsibilities. An employee director receives no additional compensation for Board service. The Nominating and Corporate Governance Committee has the primary responsibility to review and consider any revisions to directors compensation. Director compensation is typically reviewed annually by the Nominating and Corporate Governance Committee, which recommends any changes to the Board for approval. The Compensation Committee bears responsibility for reviewing and approving any grants of common stock to our directors.

The Compensation Committee and the Board reviewed the demands and duties of the Board Chair above and beyond those of other non-employee directors and approved the payment of additional compensation to the Board Chair of $250,000 for each of 2012, 2013 and 2014, payable 100% in fully vested shares of our common stock. The Board Chair s strategic role in matters related to the Company, as well as the increased amount of time in which the Board Chair is expected to work on behalf of the Company, were key factors in the Board s decision.

The Compensation Committee and the Board also reviewed the demands and duties of the non-employee directors of the Board and considered the annual retainers in light of the time, effort and resources required of the non-employee directors in the performance of their Board duties and for service on certain committees. As part of this review, the Compensation Committee considered a competitive analysis prepared in 2012 by the Compensation Committee s independent consultant of our compensation program for non-employee directors of the Board. As a result of this review, on May 9, 2012 the Board increased the annual retainers paid to each non-employee directors of the Board by $30,000 per year. The Board also increased the annual retainer paid to the chair of the Audit Committee by $7,500 per year and the chair of the Compensation Committee by $2,500 per year. The Board approved no increases in director compensation in 2013.

Each of our non-employee directors currently receives an annual retainer of $155,000, payable quarterly in arrears. The retainer is payable 50% in cash and 50% in fully vested shares of our common stock. In addition to the annual retainer, our Board approved the annual retainers for committee service as set forth below. The committee annual retainers are paid in cash to the committee members each quarter in arrears. Non-employee directors are subject to a stock retention requirement and are required to retain common stock in the amount of five times the annual cash retainer received for service as a member of the Board. For 2013, that amount was $387,500 in common stock.

Annual Compensation for Board and Committee Service

	Board	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Chair	$ 250,000(1)	$ 17,500	$ 10,000	$ 5,000
Member	$ 155,000	$ 5,000	$ 3,750	$ 2,500

(1) The annual retainer earned by the Board Chair is in addition to the annual retainer earned for serving as a member of the Board.

24

Table of Contents

The following table sets forth the compensation paid to each of our non-employee directors for the year ended December 31, 2013.

Name(1)	Fees Earned or Paid in Cash ($)	Stock Awards ($)(2)	All Other Compensation ($)	Total ($)
Carl A. Albert	$ 98,772	$ 77,475	$	$ 176,247
Stephen H. Bittel	$ 86,272	$ 77,475	$	$ 163,747
Peter R. Deutsch	$ 85,022	$ 77,475	$	$ 162,497
Denise E. Dickins(3)	$ 31,836	$ 29,894	$	$ 61,730
Nathan D. Leight	$ 88,850	$ 327,480	$	$ 416,330
Douglas B. Mackie(4)	$ 80,022	$ 77,475	$	$ 157,497
Jason G. Weiss	$ 87,522	$ 77,475	$	$ 164,997

(1) As an employee of the Company, Mr. Berger is not entitled to additional compensation for serving on the Board. See the *Summary Compensation Table for Year Ended December 31, 2013* for his employee compensation information.

(2) Messrs. Albert, Bittel, Deutsch, Leight, Mackie and Weiss each received an award of $77,475 in fully vested shares of our common stock equal to $19,369 on March 31, $19,370 on June 30, $19,370 on September 30 and $19,366 on December 31, 2013. Ms. Dickins received an award of $29,894 in fully vested shares of our common stock equal to $10,528 on September 30 and $19,366 on December 31, 2013. In addition, for serving as Board Chair, Mr. Leight received an additional award of fully vested shares of our common stock equal to $62,502 on March 31, $62,497 on June 30, $62,501 on September 30 and $62,505 on December 31, 2013. The shares had a grant date fair value of $6.73 per share on March 31, $7.82 per share on June 30, $7.43 per share on September 30 and $9.20 per share on December 31, 2013, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation Stock Compensation, referred to in this proxy statement as FASB ASC Topic 718. The assumptions used in determining the FASB ASC Topic 718 values are set forth in Note 10 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013.

(3) Ms. Dickins commenced service on the Board on August 12, 2013.

(4) Mr. Mackie also holds 148,204 vested options to purchase shares of our common stock that remained unexercised as of December 31, 2013. Mr. Mackie was awarded these options during his employment with the Company prior to September 2010.

Table of Contents

PROPOSAL 2 RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has appointed Deloitte & Touche LLP as the independent registered public accounting firm to audit our consolidated financial statements for the year ending December 31, 2014. During 2013, Deloitte & Touche LLP also served as our independent registered public accounting firm and, in addition, provided certain tax and other audit-related services. See *Matters Related to Independent Registered Public Accounting Firm Professional Fees*. Representatives of Deloitte & Touche LLP are expected to attend the Annual Meeting, where they will be available to respond to appropriate questions and, if they desire, to make a statement.

Vote Required and Recommendation

Deloitte & Touche LLP will be ratified as our independent registered public accounting firm for the year ending December 31, 2014 provided this proposal receives the affirmative vote of a majority of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote thereon, assuming a quorum is present. Abstentions will be treated as being present and entitled to vote on the matter and, therefore, will have the effect of voting against the proposal.

Although we are not required to seek stockholder ratification of this appointment, the Audit Committee and the Board believe it to be sound corporate practice to do so. If the appointment is not ratified, the Audit Committee will reconsider the appointment. Even if the appointment is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in the best interests of the Company and its stockholders.

THE BOARD OF DIRECTORS AND THE AUDIT COMMITTEE RECOMMEND A VOTE FOR RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2014.

Table of Contents

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors, executive officers and all persons who beneficially own more than 10% of the outstanding shares of our common stock to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock. Executive officers, directors and persons who own more than 10% of our common stock are also required to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of filings with the SEC and/or written representations and materials furnished to us from certain reporting persons, we believe that all filing requirements applicable to our executive officers, directors and persons who own more than 10% of our common stock were complied with in 2013, except that two Forms 4 filed on behalf of David E. Simonelli, our President of Dredging Operations, were filed a day late.

Table of Contents

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table is based on 59,758,614 shares of common stock outstanding as of March 14, 2014, and sets forth certain information with respect to the beneficial ownership of our common stock as of the same date by:

- each person whom we know to own beneficially more than five percent of the outstanding shares of our common stock;
- each of our directors and named executive officers; and
- all of our current directors and executive officers as a group.

Unless otherwise stated, each of the persons in the table has sole voting and investment power with respect to the securities beneficially owned.

	Beneficially Owned	
	Number of Shares of Common Stock	**Percentage of Common Stock**
Jennison Associates LLC(1)	5,390,689	9.02%
Dimensional Fund Advisors LP(2)	4,341,095	7.28%
BlackRock, Inc.(3)	3,492,353	5.84%
Wellington Management Company, LLP(4)	3,242,013	5.44%
Jonathan W. Berger(5)(6)	269,966	*
Kyle D. Johnson(5)(7)	115,860	*
David E. Simonelli(5)(8)	226,385	*
William S. Steckel(5)(9)	10,807	*
Maryann A. Waryjas(5)(10)	22,646	*
Carl A. Albert(5)(11)	45,562	*
Stephen H. Bittel(5)(12)	105,538	*
Peter R. Deutsch(5)	81,433	*
Denise E. Dickins(5)	3,522	*
Nathan D. Leight(5)(13)	2,048,858	3.43%
Douglas B. Mackie(5)(14)	245,730	*
Jason G. Weiss(5)(15)	725,395	1.21%
All directors and executive officers as a group (12 persons)	3,901,702	6.53%

* Denotes less than 1%

(1) Jennison Associates LLC (Jennison) may be deemed to be the beneficial owner of 5,390,689 shares of our common stock. Jennison has the sole power to vote or direct the voting of all such shares and the shared power to dispose or direct the disposition of all such shares. Jennison furnishes investment advice to several investment companies, insurance separate accounts, and institutional clients (Managed Portfolios). As a result of its role as investment adviser of the Managed Portfolios, Jennison may be deemed to be the beneficial owner of the shares of the Company s common stock held by such Managed Portfolios. Prudential Financial, Inc. (Prudential) indirectly owns 100% of equity interests of Jennison. As a result, Prudential may be deemed to have the power to exercise or to direct the exercise of such voting and/or dispositive power that Jennison may have with respect to the

Table of Contents

Company s common stock held by the Managed Portfolios. Jennison does not file jointly with Prudential, as such, shares of the Company s common stock reported on Jennison s Schedule 13G may be included in the shares reported on the Schedule 13G filed by Prudential. The principal business address of Jennison is 466 Lexington Avenue, New York, New York 10017. The information in this footnote (1) was derived from a Schedule 13G/A filed by Jennison with the SEC on February 12, 2014 reporting ownership as of December 31, 2013.

(2) Dimensional Fund Advisors LP (Dimensional LP) may be deemed to be the beneficial owner of 4,341,095 shares of our common stock. Dimensional LP has sole power to vote or direct the voting of 4,270,255 of such shares and the sole power to dispose or direct the disposition of all such shares. Dimensional LP, an investment adviser registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts (such investment companies, trusts and accounts, collectively referred to as the Funds). In certain cases, subsidiaries of Dimensional LP may act as an adviser or sub-adviser to certain Funds. In its role as investment advisor, sub-adviser and/or manager, Dimensional LP nor its subsidiaries (collectively, Dimensional) possess voting and/or investment power over the securities of the Company that are owned by the Funds, and may be deemed to be the beneficial owner of the shares of the Company held by the Funds. However, all securities reported in the Schedule 13G/A filed by Dimensional LP are owned by the Funds. Dimensional disclaims beneficial ownership of such securities. The principal business address of Dimensional LP is Palisades West, Building One, 6300 Bee Cave Road, Austin, Texas 78746. The information in this footnote (2) was derived from a Schedule 13G/A filed by Dimensional LP with the SEC on February 10, 2014 reporting ownership as of December 31, 2013.

(3) BlackRock, Inc. (BlackRock) may be deemed to be the beneficial owner of 3,492,353 shares of our common stock. BlackRock has the sole power to dispose or direct the disposition of all such shares and the sole power to vote or direct the voting of 3,309,608 of such shares. The principal business address of BlackRock is 40 East 52nd Street, New York, New York 10022. The information in this footnote (3) was derived from a Schedule 13G/A filed by BlackRock with the SEC on January 29, 2014 reporting ownership as of December 31, 2013.

(4) Wellington Management Company, LLC (Wellington Management), in its capacity as investment adviser, may be deemed to be the beneficial owner of 3,242,013 shares of our common stock. Wellington Management has shared power to vote or direct the voting of 1,706,252 of such shares and the shared power to dispose or to direct the disposition of all such shares. The principal business address of Wellington Management is 280 Congress Street, Boston, Massachusetts 02210. The information in this footnote (4) was derived from a Schedule 13G filed by Wellington Management with the SEC on February 14, 2014 reporting ownership as of December 31, 2013.

(5) The address for each of the stockholders listed in the above table, unless otherwise noted, is c/o Great Lakes Dredge & Dock Corporation, 2122 York Road, Oak Brook, Illinois 60523.

(6) Includes 155,956 options to purchase Common stock, exercisable within 60 days of March 14, 2014.

(7) Includes 66,048 options to purchase Common stock, exercisable within 60 days of March 14, 2014.

(8) Includes 170,326 options to purchase Common stock, exercisable within 60 days of March 14, 2014.

(9) Includes 10,807 options to purchase Common stock, exercisable within 60 days of March 14, 2014.

(10) Includes 10,807 options to purchase Common stock, exercisable within 60 days of March 14, 2014.

(11) Includes 10,000 shares of common stock held by the Albert-Schaefer Trust, a trust established for the benefit of Mr. Albert and his wife, of which Mr. Albert and his wife are co-trustees.

Weighted average number of diluted shares outstanding		10,150		10,372		10,452		11,120		11,654
Cash dividends per common share	$	.38	$	.33	$	.32	$	.32	$	.29
Selected balance sheet data:										
Cash and marketable securities	$	81,844	$	61,356	$	57,910	$	60,609	$	64,913
Working capital		49,639		44,563		45,301		51,370		52,740
Total assets		223,097		187,884		174,616		172,764		175,466
Long-term debt, net of current portion		0		0		0		0		0
Stockholders equity		101,655		95,365		94,932		104,604		108,031

- 26 -

Table of Contents

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The Company is a leading provider of business management solutions, combining human resource outsourcing and professional management consulting to create a unique operational platform that differentiates us from our competitors. The Company s integrated platform is built upon expertise in payroll processing, employee benefits, workers compensation coverage, risk management and workplace safety programs, and human resource administration.

We provide human resource management services, comprised principally of staffing services and PEO services. We generate staffing services revenues primarily from short-term staffing, contract staffing, on-site management and direct placement services. Our PEO service fees are generated from contractual agreements with our PEO clients under which we become a co-employer of our client s workforce with responsibility for some or all of the client s human resource functions. We recognize revenues from our staffing services for all amounts invoiced, including direct payroll, employer payroll-related taxes, workers compensation coverage and a service fee (equivalent to a mark-up percentage). PEO service fee revenues are recognized on a net basis in accordance with current accounting guidance for revenue recognition and principal/agent considerations. Consequently, our PEO service fee revenues represent the gross margin generated from our PEO services after deducting the amounts invoiced to PEO customers for direct payroll expenses such as salaries, wages, health insurance and employee out-of-pocket expenses incurred incidental to employment. These amounts are also excluded from cost of revenues. PEO service fees also include amounts invoiced to our clients for employer payroll-related taxes and workers compensation coverage.

Through centralized operations at our headquarters in Vancouver, Washington, we prepare invoices weekly for our staffing services customers and following the end of each payroll processing cycle for PEO clients. We invoice our customers and clients as each payroll is processed. Payment terms for staffing customers are generally 30 days, while PEO clients invoices are generally due on the invoice date.

Our business is concentrated in California and Oregon and we expect to continue to derive a majority of our revenues from these markets in the future. Revenues generated in our California and Oregon offices accounted for 75% of our total net revenues in 2011, 69% in 2010 and 67% in 2009. Consequently, any weakness in economic conditions or changes in the regulatory environments in these regions could have a material adverse effect on our financial results.

We offer cash safety incentives to certain PEO clients for maintaining safe-work practices in order to minimize workplace injuries. The cash incentive is based on a percentage of annual payroll and is paid annually to customers who meet predetermined workers compensation claims cost objectives. Safety incentive payments are made only after closure of all workers compensation claims incurred during the customer s contract period. The safety incentive expense is also netted against PEO revenues on our statements of operations.

Table of Contents

Our cost of revenues is comprised of direct payroll costs for staffing services, employer payroll-related taxes and employee benefits and workers compensation. Direct payroll costs represent the gross payroll earned by staffing services employees based on salary or hourly wages. Payroll taxes and employee benefits consist of the employer s portion of Social Security and Medicare taxes, federal and state unemployment taxes, and staffing services employee reimbursements for materials, supplies and other expenses, which are paid by the customer. Workers compensation expense consists primarily of the costs associated with our self-insured workers compensation program, such as claims reserves, claims administration fees, legal fees, state administrative agency fees and excess insurance costs for catastrophic injuries. We also maintain separate workers compensation insurance policies for employees working in states where we are not self-insured.

The largest portion of workers compensation expense is the cost of workplace injury claims. When an injury occurs and is reported to us, our respective independent TPA or our internal claims management personnel analyze the details of the injury and develop a case reserve, which becomes the estimate of the cost of the claim based on similar injuries and their professional judgment. We then record or accrue an expense and a corresponding liability based upon our estimate of the ultimate claim cost. As cash payments are made by our TPA against specific case reserves, the accrued liability is reduced by the corresponding payment amount. The TPA and our in-house claims administrators also review existing injury claims on an on-going basis and adjust the case reserves as new or additional information for each claim becomes available. Our reserve includes a provision for both future anticipated increases in costs (adverse loss development) of the claims reserves for open claims and for claims incurred but not reported related to prior and current periods. This provision of the reserve is based upon an actuarial estimate provided by our third-party actuary. We believe our operational policies and internal claims reporting system help to limit the occurrence of unreported incurred claims.

Selling, general and administrative expenses represent both branch office and corporate-level operating expenses. Branch operating expenses consist primarily of branch office staff payroll and personnel related costs, advertising, rent, office supplies, professional and legal fees and branch incentive compensation. Corporate-level operating expenses consist primarily of executive and office staff payroll and personnel related costs, professional and legal fees, travel, occupancy costs, information systems costs and executive and corporate staff incentive compensation.

Depreciation and amortization represents depreciation of property and equipment and amortization of intangible assets consisting of the amortization of software costs, covenants not to compete, and if material, customer related intangibles. Property and equipment are depreciated using the straight-line method over their estimated useful lives, which generally range from two to 39 years. Intangible assets are amortized using the straight-line method over their estimated useful lives, which range from two to ten years.

Critical Accounting Policies

We have identified the following policies as critical to our business and the understanding of our results of operations. For a detailed discussion of the application of these and other accounting policies, see Note 1 to the audited consolidated financial statements included in Item 15 of this Report. Note that the preparation of this Annual Report on Form 10-K requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Self-Insured Workers Compensation Reserves. We are self-insured for workers compensation coverage in a majority of our employee work sites in Oregon, California, Maryland, Delaware and Colorado and for staffing services and management employees only in Washington. Additionally, effective March 1, 2010, our employees working in Arizona were eligible for coverage through Ecole. The estimated liability for unsettled workers compensation claims represents our best estimate, which includes an evaluation of information provided by our internal claims adjusters and our third-party claims administrators, coupled with management s use of a third-party actuary. These elements serve as the basis for our overall estimate for workers compensation claims liabilities, which include more specifically the following components: case reserve estimates for reported losses, plus additional amounts for estimated future development of reported claims and incurred but not reported claims (together IBNR). Our estimates also include amounts for unallocated loss adjustment expenses, including legal costs. These estimates are continually reviewed and adjustments to liabilities are reflected in current operating results as they become known. We believe that the amounts recorded for our estimated liabilities, which are based upon facts and other trends associated with the Company s historical universe of claims data, are reasonable and objective. Nevertheless, it is possible that adjustments to such estimates may be required in future periods if the development of claim costs varies materially from our estimates and such adjustments, if necessary, could be material to results of operations.

Safety Incentives Liability. Our accrued safety incentives represent cash incentives paid to certain PEO client companies for maintaining safe-work practices in order to minimize workplace injuries. The incentive is based on a percentage of annual payroll and is paid annually to customers who meet predetermined workers compensation claims cost objectives. Safety incentive payments are made only after closure of all workers compensation claims incurred during the customer s contract period. The liability is estimated and accrued each month based upon the expected payout as determined by historical incentive payment trends.

Allowance for Doubtful Accounts. We are required to make estimates of the collectibility of accounts receivables. Management analyzes historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in the customers payment tendencies when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of our customers deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required.

Goodwill. We assess the recoverability of goodwill annually and whenever events or changes in circumstances indicate that the carrying value might be impaired. Factors that are considered include significant underperformance relative to expected historical or projected

Table of Contents

future operating results, significant negative industry trends and significant change in the manner of use of the acquired assets. Management s current assessment of the carrying value of goodwill indicates there was no impairment as of December 31, 2011. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets whenever events or circumstances occur indicating that goodwill might be impaired.

Investments in Marketable Securities. We consider available evidence in evaluating potential impairment of our investments, including the duration and extent to which fair value is less than cost and our ability and intent to hold the investment. Investments in securities classified as trading are reported at fair value, with unrealized gains or losses reported in other income in our consolidated statements of operations. Investments in securities classified as available-for-sale are reported at fair value, with unrealized gains or losses reported net of tax in other comprehensive income (loss) in stockholders equity. In the event a loss on our available-for-sale investments is determined to be other-than-temporary, the loss will be recognized in our statement of operations. Investments in securities classified as held-to-maturity are reported at amortized cost.

Income Taxes. Our income taxes are accounted for using an asset and liability approach. This requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable tax rates. The determination of our provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items and the probability of sustaining uncertain tax positions. The impact of uncertain tax positions would be recorded in our financial statements only after determining a more-likely-than-not probability that the uncertain tax positions would withstand challenge, if any, from taxing authorities. At December 31, 2011, we had deferred income tax assets of $6.0 million We assess the realization of the deferred income tax assets as significant changes in circumstances may require adjustments during future periods. The amount of the deferred income tax assets actually realized could vary, if there are differences in the timing or amount of future reversals of existing deferred income tax assets or changes in the actual amounts of future taxable income as compared to operating forecasts. If our operating forecast is determined to no longer be reliable due to uncertain market conditions, our long-term forecast may require reassessment. As a result, in the future, a valuation allowance may be required to be established for all or a portion of the deferred income tax assets. Such a valuation allowance could have a significant effect on our future results of operations and financial position.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements and their potential effect on the Company s results of operations and financial condition, refer to Note 1 in the Notes to the Consolidated Financial Statements beginning at page F-7 of this Annual Report on Form 10-K.

Table of Contents

Forward-Looking Information

Statements in this Item or in Items 1 and 1A of this Report which are not historical in nature, including discussion of economic conditions in the Company s market areas and effect on revenue levels, the Company s agreement to purchase shares owned by the Estate of William W. Sherertz and certain shares owned by Nancy Sherertz, the effects of those transactions on the Company s liquidity and results, the potential for and effect of past and future acquisitions, the effect of changes in the Company s mix of services on gross margin, the adequacy of the Company s workers compensation reserves and allowance for doubtful accounts, the effect of the Company s formation and operation of two wholly owned fully licensed insurance subsidiaries and becoming self-insured for certain business risks, the financial stability of the Company s excess insurance carrier, the effectiveness of the Company s management information systems, payment of future dividends and the availability of financing and working capital to meet the Company s funding requirements, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors with respect to the Company include difficulties associated with integrating acquired businesses and clients into the Company s operations, the Company s ability to retain current customers, economic trends in the Company s service areas, the potential for material deviations from expected future workers compensation claims experience, the effect of changes in the workers compensation regulatory environment in one or more of the Company s primary markets, collectibility of accounts receivable, the carrying values of deferred income tax assets and goodwill, which may be affected by the Company s future operating results, and the availability of capital or letters of credit necessary to meet state-mandated surety deposit requirements for maintaining the Company s status as a qualified self-insured employer for workers compensation coverage, among others. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Results of Operations

The following table sets forth the percentages of total revenues represented by selected items in the Company s Statements of Operations for the years ended December 31, 2011, 2010 and 2009, included in Item 15 of this report. References to the Notes to Financial Statements appearing below are to the notes to the Company s financial statements included in Item 15 of this report.

Table of Contents

	Percentage of Total Net Revenues Year Ended December 31, 2011	2010	2009
Revenues:			
Staffing services	39.6%	46.0%	49.1%
Professional employer service fees	60.4	54.0	50.9
Total	100.0	100.0	100.0
Cost of revenues:			
Direct payroll costs	30.0	34.9	37.1
Payroll taxes and benefits	39.1	35.4	34.7
Workers compensation	17.1	13.3	16.8
Total	86.2	83.6	88.6
Gross margin	13.8	16.4	11.4
Selling, general and administrative expenses	12.1	13.0	14.2
Depreciation and amortization	0.4	0.5	0.7
Income (loss) from operations	1.3	2.9	(3.5)
Other income	3.5	0.7	0.7
Pretax income (loss)	4.8	3.6	(2.8)
Provision for (benefit from) income taxes	0.3	0.9	(1.1)
Net income (loss)	4.5%	2.7%	(1.7)%

We report PEO revenues on a net basis because we are not the primary obligor for the services provided by our PEO clients to their customers pursuant to our PEO contracts. We present for comparison purposes the gross revenues and cost of revenues information for the years ended December 31, 2011 and 2010 set forth in the table below. Although not in accordance with generally accepted accounting principles in the United States (GAAP), management believes this information is more informative as to the level of our business activity and more illustrative of how we manage our operations, including the preparation of our internal operating forecasts, because it presents our PEO services on a basis comparable to our staffing services.

The presentation of revenues on a net basis and the relative contributions of staffing and PEO revenues can create volatility in our gross margin percentage. The general impact of fluctuations in our revenue mix is described below.

A relative increase in staffing revenues will typically result in a lower gross margin percentage. Staffing revenues are presented at gross with the related direct costs reported in cost of sales. While staffing relationships typically have higher margins than PEO relationships, an increase in staffing revenues and related costs presented at gross dilutes the impact of the net PEO revenue on gross margin percentage.

A relative increase in PEO revenue will result in higher gross margin percentage. Improvement in gross margin percentage occurs because incremental PEO revenue dollars are reported as revenue net of all related direct costs.

Table of Contents

(in thousands)	Year Ended December 31, 2011	2010
Revenues:		
Staffing services	$ 124,761	$ 125,738
Professional employer services	1,402,779	1,111,052
Total revenues	1,527,540	1,236,790
Cost of revenues:		
Direct payroll costs	1,300,481	1,053,748
Payroll taxes and benefits	123,017	96,661
Workers compensation	60,590	41,641
Total cost of revenues	1,484,088	1,192,050
Gross margin	$ 43,452	$ 44,740

A reconciliation of non-GAAP gross revenues to net revenues is as follows for the years ended December 31, 2011 and 2010 (in thousands):

	Gross Revenue Reporting Method 2011	2010	Reclassification 2011	2010	Net Revenue Reporting Method 2011	2010
Revenues:						
Staffing services	$ 124,761	$ 125,738	$ 0	$ 0	$ 124,761	$ 125,738
Professional employer services	1,402,779	1,111,052	(1,212,666)	(963,667)	190,113	147,385
Total revenues	$ 1,527,540	$ 1,236,790	$ (1,212,666)	$ (963,667)	$ 314,874	$ 273,123
Cost of revenues:	$ 1,484,088	$ 1,192,050	$ (1,212,666)	$ (963,667)	$ 271,422	$ 228,383

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

Years Ended December 31, 2011 and 2010

Net income for 2011 amounted to $14.3 million, an improvement of $6.9 million over net income of $7.4 million for 2010. The increase for 2011 was primarily due to the proceeds of a $10.0 million key man life insurance policy the Company carried on William W. Sherertz, the Company s President and Chief Executive Officer, who passed away January 20, 2011 and to a 15.3% increase in revenues, partially offset by higher workers compensation expense. Diluted income per share for 2011 was $1.41 compared to a diluted income per share of $.71 for 2010.

Revenues for 2011 totaled $314.9 million, an increase of approximately $41.8 million or 15.3%, which reflects an increase in the Company s PEO service fee revenue slightly offset by a small decline in staffing services revenue. PEO service fee revenue increased approximately $42.7 million or 29% over 2010 primarily due to growth in new customers as PEO business from new customers during 2011 nearly tripled our lost PEO business from former customers. PEO revenue from continuing customers reflected a small increase on a year-over-year basis. Staffing service revenue decreased approximately $977,000 or 0.8%

from 2010 primarily due to a decrease in demand for our staffing services from existing customers in our intermountain market. During 2011, the Company served approximately 2,355 PEO clients, which compares to approximately 1,820 PEO clients during 2010. During 2011, the Company served approximately 1,815 staffing service customers, which compares to 1,750 during 2010. The decline in economic activity and associated reductions in employment levels in the Company s market areas during the prolonged recession continue to impact our existing client base, resulting in ongoing pressure on demand for the Company s staffing services.

Gross margin for 2011 totaled approximately $43.5 million, which represented a decline of $1.3 million or 3.0% from 2010, primarily due to a $26.4 million or 27.3% increase in payroll taxes and benefits and a $17.6 million or 48.4% increase in workers compensation expense in 2011, offset in part by a $41.8 million or 15.3% increase in revenues. The gross margin percent decreased from 16.4% of revenues for 2010 to 13.8% for 2011. Workers compensation expense, as a percent of revenues, increased from 13.3% in 2010 to 17.1% in 2011. Workers compensation expense for 2011 totaled $53.8 million, which compares to $36.3 million for 2010. Based upon the evaluation of our workers compensation claims at December 31, 2011 by our independent actuary, we recorded an additional workers compensation expense of $8.5 million in the fourth quarter of 2011 to reflect the estimated costs to close workers compensation claims, primarily related to claims incurred during 2005 to 2009. The additional workers compensation expense was primarily due to significant claim development of these claim years caused by the prolonged recession and the slowdown in claim closure rates coupled with higher legal expenses. The increase in payroll taxes and benefits, as a percentage of revenues, from 35.4% for 2010 to 39.1% for 2011, was principally due to higher statutory state unemployment tax rates in various states in which the Company operates in 2011 as compared to 2010 and to a relative shift in business mix to PEO services, as to which payroll taxes and benefits are presented at gross cost while the related direct payroll costs are netted against PEO services revenue. The decrease in direct payroll costs, as a percentage of revenues, from 34.9% for 2010 to 30.0% for 2011 reflects the moderate shift in the overall mix of services from staffing services to PEO services in the Company s customer base and the effect of each customer s unique mark-up percent. We expect gross margin as a percentage of total revenues to continue to be influenced by fluctuations in the mix between staffing and PEO services, as well as changes to our estimates for workers compensation claims liabilities, if necessary.

Selling, general and administrative (SG&A) expenses consist of compensation and other expenses relating to the operation of our headquarters and our branch offices and the marketing of our services. SG&A expenses for 2011 amounted to approximately $38.2 million, an increase of $2.7 million or 7.7% over 2010. The increase in dollars over 2010 was primarily attributable to higher profit sharing, management payroll and travel due to an increased level of business activity. SG&A expenses, as a percentage of revenues, decreased from 13.0% in 2010 to 12.1% in 2011.

Other income for 2011 was $11.2 million compared to other income of $2.0 million for 2010. The increase in other income for 2011 was primarily attributable to the $10.0 million of life insurance proceeds.

Our effective income tax rate for 2011 was 5.5%, as compared to 25.9% for 2010. The provision for income taxes included a favorable benefit from the effect of the non-taxable

Table of Contents

$10.0 million life insurance proceeds, a $451,000 California income tax refund, and employment tax credits. Refer to Note 10 in the Notes to the Consolidated Financial Statements of this Annual Report on Form 10-K regarding income taxes.

Years Ended December 31, 2010 and 2009

Net income for 2010 amounted to $7.4 million, an improvement of $11.3 million over a net loss of $3.9 million for 2009. The increase for 2010 was primarily due to a 15.5% increase in revenues and the recognition of an expense of $11.8 million related to the change in estimate of the workers compensation reserve during 2009. Diluted income per share for 2010 was $.71 compared to a diluted loss per share of $.38 for 2009.

Revenues for 2010 totaled $273.1 million, an increase of approximately $36.7 million or 15.5%, which reflects an increase in both the Company s PEO service fee revenue and staffing service revenue. PEO service fee revenue increased approximately $27.1 million or 22.5% over 2009 primarily due to growth in new customers as PEO business from new customers during 2010 exceeded our lost PEO business from former customers. PEO revenue from continuing customers reflected a small increase on a year-over-year basis. Staffing service revenue increased approximately $9.6 million or 8.3% over 2009 primarily due to an increase in demand for our staffing services from existing customers in our northwest and intermountain markets. During 2010, the Company served approximately 1,820 PEO clients, which compares to approximately 1,620 PEO clients during 2009. During 2010, the Company served approximately 1,750 staffing service customers, which compares to 1,800 during 2009.

Gross margin for 2010 totaled approximately $44.7 million, which represented an increase of $17.8 million or 66.1% over 2009, primarily due to a 15.5% increase in revenues, the inclusion of the $11.8 million additional workers compensation expense adjustment in 2009, and a decline in direct payroll costs, as a percentage of revenues. The gross margin percent increased from 11.4% of revenues for 2009 to 16.4% for 2010. Workers compensation expense, as a percent of revenues, decreased from 16.8% in 2009 to 13.3% in 2010. Workers compensation expense for 2010 totaled $36.3 million, which compares to $39.8 million for 2009. This decrease was primarily due to the $11.8 million additional workers compensation expense adjustment recognized in 2009. The decrease in direct payroll costs, as a percentage of revenues, from 37.1% for 2009 to 34.9% for 2010 reflects the moderate shift in the overall mix of services from staffing services to PEO services in the Company s customer base and the effect of each customer s unique mark-up percent. The increase in payroll taxes and benefits, as a percentage of revenues, from 34.7% for 2009 to 35.4% for 2010, was principally due to higher statutory state unemployment tax rates in various states in which the Company operates in 2010 as compared to 2009 and to a relative shift in business mix to PEO services, as to which payroll taxes and benefits are presented at gross cost while the related direct payroll costs are netted against PEO services revenue.

SG&A expenses consist of compensation and other expenses relating to the operation of our headquarters and our branch offices and the marketing of our services. SG&A expenses for 2010 amounted to approximately $35.4 million, an increase of $1.9 million or 5.8% over 2009. The increase in dollars over 2009 was primarily attributable to higher profit sharing due to improved profitability and to an increased level of business activity. SG&A expenses, as a percentage of revenues, decreased from 14.2% in 2009 to 13.0% in 2010.

Other income for 2010 was $2.0 million compared to other income of $1.6 million for 2009. The increase in other income for 2010 was primarily attributable to increased gains on the sales of certain marketable securities as compared to 2009.

Our effective income tax rate for 2010 was 25.9%, as compared to (39.7%) for 2009. The provision for income taxes included higher current year employment tax credits for 2010, a benefit of $434,000 primarily from a reduction to a deferred tax asset allowance as sales of certain marketable securities during 2010 allowed the Company to apply current year capital losses to 2009 capital gains and to benefit from additional prior year employment tax credits resulting from the Company amending its 2008 federal tax return. Refer to Note 10 in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K regarding income taxes.

Fluctuations in Quarterly Operating Results

We have historically experienced significant fluctuations in our quarterly operating results and expect such fluctuations to continue in the future. Our operating results may fluctuate due to a number of factors such as a seasonality, wage limits on statutory payroll taxes, claims experience for workers compensation, demand for our services and competition and the effect of acquisitions. Payroll taxes, as a component of cost of revenues, generally decline throughout a calendar year as the applicable statutory wage bases for federal and state unemployment taxes and Social Security taxes are exceeded on a per employee basis. Our revenue levels may be higher in the third quarter due to the effect of increased business activity of our customers businesses in the agriculture, food processing and forest products-related industries. In addition, revenues in the fourth quarter may be affected by many customers practice of operating on holiday-shortened schedules. Workers compensation expense varies with both the frequency and severity of workplace injury claims reported during a quarter and the estimated future costs of such claims. In addition, adverse loss development of prior period claims during a subsequent quarter may also contribute to the volatility in the Company s estimated worker s compensation expense.

Liquidity and Capital Resources

The Company s cash position of $49.6 million at December 31, 2011, increased by $18.6 million over December 31, 2010, which compares to a decrease of $5.7 million for the year ended December 31, 2010. The increase in cash at December 31, 2011, as compared to December 31, 2010, was primarily due to net income of $14.3 million (which includes $10.0 million in proceeds from the key man life insurance policy) and an increase in accrued payroll, payroll taxes and benefits of $14.8 million, partially offset by the Company s repurchase of its common stock of $4.8 million, and payment of cash dividends of $3.8 million. The decrease in cash at December 31, 2010, as compared to December 31, 2009, was primarily due to net purchases of marketable securities of $12.1 million, an increase in accounts receivable of $4.5 million, payment of cash dividends of $3.4 million and the Company s repurchase of its common stock of $3.4 million, partially offset by net income of $7.4 million and an increase in accrued payroll, payroll taxes and benefits of $7.3 million and a decrease in income taxes receivable of $3.8 million.

Table of Contents

Net cash provided by operating activities for 2011 amounted to $31.4 million, as compared to net cash provided by operating activities of $17.9 million for 2010. For 2011, cash flow was primarily provided by net income of $14.3 million, an increase of $14.8 million in accrued payroll, payroll taxes and related benefits, and an increase in workers compensation claims liabilities of $12.8 million, partially offset by an increase in accounts receivable of $8.9 million and an increase in prepaid expenses and other of $4.1 million.

Net cash used in investing activities totaled $4.2 million for 2011, compared to net cash used in investing activities of $16.9 million for 2010. For 2011, the cash from investing activities was principally used in purchases of $78.0 million of marketable securities, purchase of property and equipment of $1.2 million and net purchases of $1.2 million of restricted marketable securities, offset in part by proceeds from sales and maturities of marketable securities of $76.3 million. The Company presently has no material long-term capital commitments.

The Company s investment policy strictly defines the types and quantities of investments that can be made by its investment brokers. The general parameters of our investment policy are as follows:

- We make investments in highly rated instruments to reduce our investment risk. Short-term instruments (maturity of less than one year) must be obligations of issuers rated A2/P2 or better by two National Recognized Statistical Rating Organizations. Long-term instruments (maturities of great than one year) must be obligations of issuers rated BBB-/Baa3 or better by two National Recognized Statistical Rating Organizations.

- No more than 5% of our investment portfolio is invested in any one issuer (excluding U.S. Treasury obligations and Federal Agency obligations including Government Sponsored Enterprises).

To monitor our overall investment risk and to assess the fair values of assets within our investment portfolio, we review our investment portfolio on a quarterly basis for significant unrealized gains or losses. We define significant to be in excess of 5% of cost basis. When we identify significant unrealized gains or losses, we inquire as to the reasons with our investment advisor.

Net cash used in financing activities for 2011 was $8.5 million compared to net cash used in financing activities of $6.8 million for 2010. For 2011, the principal uses of cash for financing activities were for the Company s repurchase of 339,000 shares of its common stock for $4.8 million and the Company s cash dividends of $3.8 million paid to holders of the Company s common stock.

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

The Company is a party to a Standby Letter of Credit Agreement dated as of June 30, 2009 (the Credit Agreement) with its principal bank. The Credit Agreement provides for standby letters of credit as to which there were $6.7 million outstanding at December 31, 2011 in connection with various surety deposit requirements for workers compensation purposes.

Pursuant to the Credit Agreement, the Company is required to maintain compliance with the following covenants: (1) to maintain net income after taxes not less than $1.00 (one dollar) on an annual basis, determined as of each fiscal year end; (2) to maintain liquid assets (defined as unencumbered cash, cash equivalents, and publicly traded and quoted marketable securities) having an aggregate fair market value at all times not less than $10.0 million, determined as of the end of each fiscal quarter; and (3) to not borrow or permit to exist indebtedness (other than from or to the bank), or mortgage, pledge, grant, or permit to exist a security interest in, or a lien upon, all or any portion of the Company s assets now owned or hereafter acquired, except for purchase money indebtedness (and related security interests) which does not at any time exceed $500,000. The Company was in compliance with all covenants at December 31, 2011.

The Company is self-insured for certain business insurance risks such as general liability, errors and omissions and umbrella coverage. Management may explore in the future whether to pursue other vehicles to provide coverage including coverages provided by the Company s captive insurance companies.

The Company maintains a Board authorized stock repurchase program to repurchase common shares from time to time in open market purchases. The repurchase program currently permits approximately 1.2 million of additional shares to be repurchased as of December 31, 2011. Management anticipates that the capital necessary to execute this program will be provided by existing cash balances and other available resources.

As disclosed in Note 15 of the Notes to Consolidated Financial Statements contained elsewhere in this report, effective March 9, 2012, the Company entered into definitive agreements to repurchase 2,485,929 shares of the Company s common stock held by the Estate of William W. Sherertz and 500,000 common shares held by Nancy Sherertz. Mr. Sherertz, a founder and former president and CEO of the Company, died January 20, 2011. Nancy Sherertz is also a founder of the Company. The common shares will be repurchased at a price of $20 per share, representing total consideration of $59.7 million. In the closing of the transactions, the Company will pay $24.9 million in cash and issue 34,800 shares of Series A Nonconvertible, Non-Voting Redeemable Preferred Stock with a liquidation preference of $1,000 per share. The preferred stock will be entitled to receive cumulative preferential dividends at the rate of 5% per annum based upon the $1,000 liquidation preference with such rate increasing by 2% on each April 1 beginning April 1, 2013, until all of the outstanding preferred stock has been redeemed. The Company may pay the dividends in cash or in additional shares of preferred stock at its option. The Company may redeem all or a portion of the preferred stock at its option at any time at a price of $1,000 per share. The preferred stock is subject to mandatory redemption five years from the original issue date. Due to the mandatory redemption provision the preferred stock will be classified as a liability on the Company s Consolidated Balance Sheet.

Table of Contents

The transaction, if completed as expected, will have a material effect on cash balances. Notwithstanding that, based upon the anticipated ongoing cash flows generated from operations, the Company does not expect this transaction to have a material effect on its ability to meet its working capital obligations. Although there can be no assurance of its ability to do so, the Company intends to explore other potential sources of financing to fund optional redemption of the preferred stock.

Management expects that current liquid assets, coupled with the funds anticipated to be generated from operations, will be sufficient in the aggregate to fund the Company s working capital needs for the next twelve months.

Contractual Obligations

The Company s contractual obligations as of December 31, 2011, including commitments for future payments under non-cancelable lease arrangements and long-term workers compensation liabilities and other long-term liabilities, are summarized below:

		Payments Due by Period			
(in thousands)	**Total**	**Less than 1 year**	**1 - 3 years**	**4 - 5 years**	**After 5 years**
Operating leases	$ 5,501	$ 2,189	$ 2,263	$ 945	$ 104
Long-term workers compensation claims liabilities for catastrophic injuries	446	56	119	81	190
Other long-term liabilities	500	0	500	0	0
Total contractual cash obligations	$ 6,447	$ 2,245	$ 2,882	$ 1,026	$ 294

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.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company s exposure to market risk for changes in interest rates primarily relates to its investment portfolio of liquid assets. As of December 31, 2011, the Company s investment portfolio consisted principally of approximately $44.5 million in tax-exempt money market funds, $11.4 million in tax-exempt municipal bonds, and approximately $26.6 million in corporate bonds. Based on the Company s overall interest exposure at December 31, 2011, a 100 basis point increase in market interest rates would not have a material effect on the fair value of the Company s investment portfolio of liquid assets or its results of operations because of the predominantly short maturities of the securities within the investment portfolio.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and notes thereto required by this item begin on page F-1 of this report, as listed in Item 15.

Table of Contents

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e) as of December 31, 2011 in connection with the filing of this Annual Report on Form 10-K. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2011, our disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in rules and forms of the SEC and is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

Management s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining for our Company adequate internal control over financial reporting as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011. This evaluation was based on the framework established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based upon this evaluation and the criteria noted above, management has concluded that, as of December 31, 2011, our internal controls over financial reporting were effective.

The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by Moss Adams LLP, the Company s independent registered public accounting firm, as stated in their report which appears on page F-1 of Item 15 in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, other than described below.

Remediation of Material Weakness

As previously described in Item 9A Controls and Procedures in our Annual Report on Form 10-K filed for the year ended December 31, 2010, our management identified a material weakness in internal control over financial reporting as of December 31, 2010.

Table of Contents

Specifically, our management concluded there was a deficiency in the Company s internal control over financial reporting relating to the appropriate selection and implementation of accounting methods with respect to accounting for its legal fees incurred by its captive insurance subsidiary for the administration of workers compensation claims. This material weakness resulted in the adjustment of workers compensation claims liabilities, deferred taxes, workers compensation expense (which is a component of cost of revenues), and income tax expense. The restatement of certain periods of the Company s consolidated financial statements is included in our Annual Report on Form 10-K for the year ended December 31, 2010.

During the fourth quarter ended December 31, 2011, we completed remediation efforts to address the material weakness identified above. Specifically, our management identified and took the following steps during 2011:

- Management has improved the Company s process for reviewing, approving and updating its accounting policies when there are changes in the Company s insurance subsidiaries or when there are changes in accounting principles generally accepted in the United States of America which impact the Company s insurance subsidiaries;

- Management has formalized the Company s process for establishing appropriate accounting policies when forming a new subsidiary; and

- Management has implemented steps to improve the insurance industry specific accounting knowledge of the Company s accounting personnel through the use and advice of outside consultants that are knowledgeable regarding accounting guidance that is specific to the insurance industry.

Management tested the design and operating effectiveness of these new controls during our year-end closing process for 2011, and we have concluded that we have remediated the material weakness as described above, as of December 31, 2011.

Inherent Limitations

Control systems, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control systems objectives are being met. Further, the design of any control systems must reflect the fact that there are resource constraints, and the benefits of all controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple errors or mistakes. Control systems can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Table of Contents

Item 9B. OTHER INFORMATION

None.

Table of Contents

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this Item 10 concerning directors and executive officers of the Company appears under the heading Executive Officers of the Registrant on page 20 of this report or is incorporated into this report by reference to the Company s definitive Proxy Statement for its 2012 Annual Meeting of Stockholders to be filed within 120 days of the Company s fiscal year end of December 31, 2011 (the Proxy Statement). The additional required information is included under the following headings of the Proxy Statement; Item 1 Election of Directors, Stock Ownership by Principal Stockholders and Management Section 16(a) Beneficial Ownership Reporting Compliance, and Code of Ethics.

Audit Committee

The Company has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act known as the Audit and Compliance Committee. The members of the Audit and Compliance Committee are Thomas J. Carley, chairman, James B. Hicks, Ph.D., Anthony Meeker and Roger L. Johnson, each of whom is independent as that term is used in Nasdaq listing standards applicable to the Company.

Audit Committee Financial Expert

The Company s Board of Directors has determined that Thomas J. Carley, an audit committee member, qualifies as an audit committee financial expert as defined by Item 407(d)(5) of Regulation S-K under the Exchange Act and is independent as that term is defined for audit committee members in Nasdaq listing standards applicable to the Company.

Item 11. EXECUTIVE COMPENSATION

Information required by this Item 11 concerning executive and director compensation and participation of compensation committee members is incorporated into this report by reference to the Proxy Statement, in which required information is included under the heading Executive Compensation.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this Item 12 concerning the security ownership of certain beneficial owners and management is incorporated into this report by reference to the Proxy Statement, in which required information is set forth under the headings Stock Ownership of Principal Stockholders and Management Beneficial Ownership Table and Equity Compensation Plan Information.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this Item 13 concerning certain relationships and related transactions and director independence is incorporated into this report by reference to the

Proxy Statement, in which required information is included under the headings Item 1 Election of Directors and Related Person Transactions.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this Item 14 concerning fees paid to our accountants is incorporated into this report by reference to the Proxy Statement, in which required information is included under the heading Matters Relating to Our Independent Registered Public Accounting Firm.

Table of Contents

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial Statements and Schedules

The Financial Statements, together with the report thereon of Moss Adams LLP, are included on the pages indicated below:

No schedules are required to be filed herewith.

Exhibits

Exhibits are listed in the Exhibit Index that follows the signature page of this report.

- 45 -

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Barrett Business Services, Inc.

We have audited the accompanying consolidated balance sheets of Barrett Business Services, Inc. (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive income (loss), stockholders equity and cash flows for each of the three years in the period ended December 31, 2011. We also have audited the Company s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting located in Item 9A. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with the authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Barrett Business Services, Inc. as of December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Barrett Business Services, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Moss Adams LLP

Portland, Oregon

March 15, 2012

Table of Contents

Barrett Business Services, Inc.

Consolidated Balance Sheets

December 31, 2011 and 2010

(In Thousands, Except Par Value)

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 49,571	$ 30,924
Marketable securities	16,878	24,511
Trade accounts receivable, net	46,520	37,596
Income taxes receivable	4,133	2,356
Prepaid expenses and other	5,897	1,798
Deferred income taxes	5,958	6,101
Total current assets	128,957	103,286
Marketable securities	15,395	5,921
Property, equipment and software, net	15,007	15,037
Restricted marketable securities and workers compensation deposits	9,923	8,811
Other assets	3,027	3,094
Workers compensation receivables for insured losses and recoveries	2,968	3,915
Goodwill	47,820	47,820
	$ 223,097	$ 187,884
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,639	$ 964
Accrued payroll, payroll taxes and related benefits	52,340	37,525
Other accrued liabilities	300	442
Workers compensation claims liabilities	18,718	14,768
Safety incentives liability	6,321	5,024
Total current liabilities	79,318	58,723
Long-term workers compensation claims liabilities	30,596	21,847
Long-term workers compensation claims liabilities for insured claims	1,879	2,686
Deferred income taxes	8,152	7,841
Customer deposits and other long-term liabilities	1,497	1,422
Commitments and contingencies (Notes 6, 8 and 13)		
Stockholders equity:		
Preferred stock, $.01 par value; 500 shares authorized; no shares issued and outstanding	0	0
Common stock, $.01 par value; 20,500 shares authorized, 9,871 and 10,202 shares issued and outstanding	99	102
Additional paid-in capital	20,943	25,164
Accumulated other comprehensive loss	(34)	(65)
Retained earnings	80,647	70,164
	101,655	95,365
	$ 223,097	$ 187,884

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

Table of Contents

Barrett Business Services, Inc.

Consolidated Statements of Operations

Years Ended December 31, 2011, 2010 and 2009

(In Thousands, Except Per Share Amounts)

	2011	2010	2009
Revenues:			
Staffing services	$ 124,761	$ 125,738	$ 116,155
Professional employer service fees	190,113	147,385	120,305
	314,874	273,123	236,460
Cost of revenues:			
Direct payroll costs	94,568	95,439	87,679
Payroll taxes and benefits	123,017	96,660	82,077
Workers compensation	53,837	36,284	39,765
	271,422	228,383	209,521
Gross margin	43,452	44,740	26,939
Selling, general and administrative expenses	38,174	35,429	33,481
Depreciation and amortization	1,344	1,395	1,641
Income (loss) from operations	3,934	7,916	(8,183)
Other income:			
Life insurance proceeds	10,000	0	0
Investment income, net	1,174	849	1,003
Other	47	1,162	637
	11,221	2,011	1,640
Income (loss) before income taxes	15,155	9,927	(6,543)
Provision for (benefit from) income taxes	837	2,574	(2,598)
Net income (loss)	$ 14,318	$ 7,353	$ (3,945)
Basic earnings (loss) per share	$ 1.42	$ .71	$ (.38)
Weighted average number of basic shares outstanding	10,083	10,333	10,452
Diluted earnings (loss) per share	$ 1.41	$ .71	$ (.38)
Weighted average number of diluted shares outstanding	10,150	10,372	10,452

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

Table of Contents

Barrett Business Services, Inc.

Consolidated Statements of Comprehensive Income (Loss)

Years Ended December 31, 2011, 2010 and 2009

(In Thousands)

	For the year ended December 31,		
	2011	2010	2009
Net income (loss)	$ 14,318	$ 7,353	$ (3,945)
Reclassification of realized gains on marketable securities, net of tax of $(161) in 2010	0	(245)	0
Unrealized gains (losses) on marketable securities, net of tax of $20, ($50) and $152 in 2011, 2010, and 2009, respectively	31	(76)	231
Comprehensive income (loss)	$ 14,349	$ 7,032	$ (3,714)

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

F-5

Table of Contents

Barrett Business Services, Inc.

Consolidated Statements of Stockholders Equity

Years Ended December 31, 2011, 2010 and 2009

(In Thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
	Shares	Amount				
Balance, December 31, 2008	10,583	$ 106	$ 30,959	$ 25	$ 73,514	$ 104,604
Common stock issued on exercise of options	265	0	23	0	0	23
Tender of common stock related to exercise of options	(69)	0	(162)	0	0	(162)
Stock option compensation expense, net of tax	0	0	100	0	0	100
Tax benefit of stock option exercises	0	0	449	0	0	449
Company repurchase of common stock	(313)	(1)	(3,011)	0	0	(3,012)
Cash dividend on common stock	0	0	0	0	(3,356)	(3,356)
Unrealized holding gains on marketable securities, net of tax	0	0	0	231	0	231
Net loss	0	0	0	0	(3,945)	(3,945)
Balance, December 31, 2009	10,466	105	28,358	256	66,213	94,932
Common stock issued on exercise of options	3	0	17	0	0	17
Stock option compensation expense, net of tax	0	0	192	0	0	192
Tax benefit of stock option exercises	0	0	9	0	0	9
Company repurchase of common stock	(267)	(3)	(3,412)	0	0	(3,415)
Cash dividend on common stock	0	0	0	0	(3,402)	(3,402)
Unrealized holding losses on marketable securities, net of tax	0	0	0	(76)	0	(76)
Reclassification of realized gains on sale of marketable securities, net of tax	0	0	0	(245)	0	(245)
Net income	0	0	0	0	7,353	7,353
Balance, December 31, 2010	10,202	102	25,164	(65)	70,164	95,365
Common stock issued on exercise of options	8	0	54	0	0	54
Stock option compensation expense, net of tax	0	0	473	0	0	473
Tax benefit of stock option exercises	0	0	27	0	0	27
Company repurchase of common stock	(339)	(3)	(4,775)	0	0	(4,778)
Cash dividend on common stock	0	0	0	0	(3,835)	(3,835)
Unrealized holding gains on marketable securities, net of tax	0	0	0	31	0	31
Net income	0	0	0	0	14,318	14,318
Balance, December 31, 2011	9,871	$ 99	$ 20,943	$ (34)	$ 80,647	$ 101,655

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

Table of Contents

Barrett Business Services, Inc.

Consolidated Statements of Cash Flows

Years Ended December 31, 2011, 2010 and 2009

(In Thousands)

	2011	2010	2009
Cash flows from operating activities:			
Net income (loss)	$ 14,318	$ 7,353	$ (3,945)
Reconciliations of net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,344	1,395	1,641
Gains recognized on marketable securities	(52)	(950)	(639)
Gain recognized on sale and leaseback	(122)	(122)	(122)
Deferred income taxes	453	746	676
Share based compensation	472	192	100
Changes in certain assets and liabilities, net of amounts purchased in acquisitions:			
Trade accounts receivable, net	(8,924)	(4,526)	1,319
Income taxes receivable	(1,777)	3,836	(4,346)
Prepaid expenses and other	(4,099)	(819)	461
Accounts payable	675	(153)	236
Accrued payroll, payroll taxes and related benefits	14,815	7,281	(2,214)
Other accrued liabilities	(142)	(182)	(403)
Workers compensation claims liabilities	12,839	3,294	11,567
Safety incentives liability	1,297	587	(189)
Customer deposits, long-term liabilities and other assets, net	258	14	(1,117)
Net cash provided by operating activities	31,355	17,946	3,025
Cash flows from investing activities:			
Cash paid for acquisitions, including other direct costs	0	(375)	0
Purchase of property and equipment, net of amounts purchased in acquisitions	(1,247)	(1,606)	(881)
Proceeds from sales and maturities of marketable securities	76,256	23,119	27,518
Purchase of marketable securities	(78,012)	(35,207)	(29,344)
Proceeds from maturities of restricted marketable securities	7,854	4,697	3,979
Purchase of restricted marketable securities	(9,027)	(7,530)	(3,944)
Net cash used in investing activities	(4,176)	(16,902)	(2,672)
Cash flows from financing activities:			
Proceeds from credit-line borrowings	0	0	323
Payments on credit-line borrowings	0	0	(323)
Proceeds from the exercise of stock options	54	17	23
Dividends paid	(3,835)	(3,402)	(3,356)
Repurchase of common stock	(4,778)	(3,415)	(3,012)
Tax benefit of stock option exercises	27	9	449
Net cash used in financing activities	(8,532)	(6,791)	(5,896)
Net increase (decrease) in cash and cash equivalents	18,647	(5,747)	(5,543)
Cash and cash equivalents, beginning of year	30,924	36,671	42,214
Cash and cash equivalents, end of year	$ 49,571	$ 30,924	$ 36,671
Supplemental schedule of noncash investing activities:			
Acquisitions of other businesses:			

Cost of acquisitions in excess of fair market value of net assets acquired	$	0	$	357	$	0
Intangible assets acquired		0		15		0
Tangible assets acquired		0		3		0
Net cash paid for acquisitions	$	0	$	375	$	0

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

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements

1. Summary of Operations and Significant Accounting Policies

Nature of operations

Barrett Business Services, Inc. (BBSI , the Company , our or we), a Maryland corporation, is engaged in providing both staffing and professiona employer organization (PEO) services to a diversified group of customers through a network of branch offices throughout California, Oregon, Washington, Idaho, Arizona, Utah, Colorado, Maryland, Delaware and North Carolina. Approximately 75%, 69% and 67%, respectively, of our revenue during 2011, 2010 and 2009 were attributable to our California and Oregon operations.

The Company operates a wholly owned captive insurance company, Associated Insurance Company for Excess (AICE). AICE is a fully licensed captive insurance company holding a certificate of authority from the Arizona Department of Insurance. The purpose of AICE is twofold: (1) to provide access to more competitive and cost effective insurance markets and (2) to provide additional flexibility in cost effective risk management. The captive handles the Company s workers compensation claims occurring on or after January 1, 2007. AICE also provides general liability insurance coverage for BBSI on an as requested basis by third parties such as landlords and other vendors.

Effective January 5, 2010, the Company formed a wholly owned insurance company, Ecole Insurance Company (Ecole). Ecole is a fully licensed insurance company holding a certificate of authority from the Arizona Department of Insurance. Ecole provides workers compensation coverage to the Company s employees working in Arizona for claims occurring on or after March 1, 2010. The restricted capital used to capitalize the insurance company was approximately $6.1 million and is included in restricted marketable securities and workers compensation deposits in our consolidated balance sheets as a result of the capital requirement.

Principles of consolidation

The accompanying financial statements are prepared on a consolidated basis. All significant intercompany account balances and transactions between BBSI, AICE, Ecole and BBS I, LLC, the aircraft subsidiary which owns an aircraft for management s operational travel needs, have been eliminated in consolidation.

Reportable Segment

The Company has one principle operating and reporting segment. The chief operating decision maker (currently our Chief Executive Officer) regularly reviews the financial information of our business at a consolidated level in deciding how to allocate resources and assessing performance.

Table of Contents

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

1. Summary of Operations and Significant Accounting Policies (Continued)

Revenue recognition

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

Cost of revenues

Our cost of revenues for staffing services is comprised of direct payroll costs, employer payroll related taxes and employee benefits and workers compensation. Our cost of revenues for PEO services includes employer payroll related taxes and workers compensation. Direct payroll costs represent the gross payroll earned by staffing services employees based on salary or hourly wages. Payroll taxes and employee benefits consist of the employer s portion of Social Security and Medicare taxes, federal and state unemployment taxes and staffing services employee reimbursements for materials, supplies and other expenses, which are paid by our customer. Workers compensation costs consist primarily of the costs associated with our self-insured workers compensation program, such as claims reserves, claims administration fees, legal fees, state administrative agency fees and excess insurance premiums for catastrophic injuries.

We also maintain separate workers compensation insurance policies for employees working in states where the Company is not self-insured. Safety incentives represent cash incentives paid to certain PEO client companies for maintaining safe-work practices in order to minimize workplace injuries. The incentive is based on a percentage of annual payroll and is paid annually to customers who meet predetermined workers compensation claims cost objectives.

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

1. Summary of Operations and Significant Accounting Policies (Continued)

Cash and cash equivalents

We consider 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. A substantial portion of the Company s cash and cash equivalents is invested in tax-exempt money market funds managed by the Company s principal bank. The Company maintains cash balances in bank accounts that normally exceed FDIC insured limits. As of December 31, 2011, cash and cash equivalents exceeded federally insured limits by approximately $48.9 million. The Company has not experienced any losses related to its cash concentration.

Marketable securities

As of December 31, 2011, the Company s marketable securities consisted of tax-exempt municipal securities, equity securities and corporate bonds. We determine the appropriate classification for certain investments in debt and equity securities, and classify our marketable securities as trading, available-for-sale or held-to-maturity. The Company classifies municipal securities and certain of its corporate bonds, as available for sale; they are reported at fair value with unrealized gains and losses, net of taxes, shown as a component of accumulated other comprehensive income (loss) in stockholders equity. Management considers available evidence in evaluating potential impairment of investments, including the duration and extent to which fair value is less than cost and the Company s ability and intent to hold the investments. In the event a loss is determined to be other-than-temporary, the loss will be recognized in the statement of operations. The equity securities are classified as trading and are reported at fair value with unrealized gains and losses, net of taxes, shown as a component of net income. Certain of the Company s corporate bonds are classified as held-to-maturity and are reported at amortized cost.

Restricted marketable securities

At December 31, 2011 and 2010, restricted marketable securities consisted primarily of governmental debt instruments with maturities generally from 180 days to two years (see Note 2, Note 3 and Note 5). At December 31, 2011 and 2010, the approximate fair value of restricted marketable securities equaled their approximate amortized cost. Restricted 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 restricted marketable securities are included in other income (expense) on our consolidated statements of operations.

Allowance for doubtful accounts

We must make estimates of the collectibility of our accounts receivable for services provided to our customers. Our management analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic conditions and changes in customers payment trends when evaluating the adequacy of the allowance for doubtful

Table of Contents

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

1. Summary of Operations and Significant Accounting Policies (Continued)
Allowance for doubtful accounts (Continued)

accounts. If the financial condition of our customers deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required.

Our allowance for doubtful accounts activity is summarized as follows (in thousands):

	2011	2010	2009
Balance at January 1,			
Allowance for doubtful accounts	$ 374	$ 516	$ 409
Charges to expense	100	150	500
Write-offs of uncollectible accounts, net of recoveries	(22)	(292)	(393)
Balance at December 31,			
Allowance for doubtful accounts	$ 452	$ 374	$ 516

Income taxes

Our income taxes are accounted for using an asset and liability approach. This requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable tax rates. A valuation allowance is recorded against deferred tax assets if, based on the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The factors used to assess the likelihood of realization include the Company s forecast of the reversal of temporary differences, future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company s effective tax rate on future earnings.

The determination of our provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items and the probability of sustaining uncertain tax positions. The Company recognizes the tax benefit from uncertain tax positions if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. As facts and circumstances change, we reassess these probabilities and would record any changes in the financial statements as appropriate. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense.

Table of Contents

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

1. Summary of Operations and Significant Accounting Policies (Continued)

Business combinations

We account for business combinations using the acquisition method of accounting. Expenses incurred in connection with a business combination are expensed as incurred. Changes in deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period are recognized in earnings.

Goodwill and intangible assets

Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net assets acquired. Goodwill is not amortized but is evaluated for impairment annually or more frequently if indicators of impairment are present or changes in circumstances suggest that impairment may exist. The Company has one reporting unit and evaluates the carrying value of goodwill annually at December 31. No impairment has been recognized in the periods presented.

Our intangible assets with definite lives are amortized on a straight-line basis over their estimated economic useful lives.

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 improvements 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 consolidated statements of operations.

Depreciation of property and equipment is calculated using either straight-line or accelerated methods over estimated useful lives of the related assets or lease terms, as follows:

	Years
Building	39
Office furniture and fixtures	7
Computer hardware and software	3-10
Aircraft	20
Leasehold improvements	Life of lease

Impairment of long-lived assets

Long-lived assets, such as property and equipment and acquired intangibles subject to amortization, are reviewed for impairment annually, or whenever events or changes in circumstances indicate that the remaining estimated useful life may warrant revision or that the carrying amount of an asset may not be recoverable. Some of the events or changes in circumstances that would trigger an impairment review include, but are not limited to, significant under-performance relative to expected and/or historical results (such as two years of significant sales declines or two years of significant negative

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

1. Summary of Operations and Significant Accounting Policies (Continued)
Impairment of long-lived assets (Continued)

operating cash flows), significant negative industry or economic trends, or knowledge of transactions involving the sale of similar property at amounts below the carrying value.

Assets are grouped for recognition and measurement of impairment at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. If the carrying amount of an asset group exceeds the estimated, undiscounted future cash flows expected to be generated by the asset, then an impairment charge is recognized to the extent the carrying amount exceeds the asset s fair value. In determining fair value, management considers current results, trends, future prospects, and other economic factors.

Workers compensation claims liabilities

The estimated liability for unsettled workers compensation claims represents our best estimate, which includes an evaluation of information provided by our internal claims adjusters and our third-party administrators for workers compensation claims, coupled with an actuarial estimate of future cost development of reported claims and incurred but not reported claims (together, IBNR) provided by the Company s independent actuary. Included in the claims liabilities are case reserve estimates for reported losses, plus additional amounts for estimated future development of reported claims and incurred but not reported claims as well as estimates for unallocated loss adjustment expenses, including legal costs. These estimates are continually reviewed and adjustments to liabilities are reflected in current operating results as they become known.

Safety incentives liability

Safety incentives represent cash incentives paid to certain PEO client companies for maintaining safe-work practices in order to minimize workplace injuries. The incentive is based on a percentage of annual payroll and is paid annually to customers who meet predetermined workers compensation claims cost objectives. Safety incentive payments are made only after closure of all workers compensation claims incurred during the customer s contract period. The liability is estimated and accrued each month based upon contract year-to-date payroll and the then-current amount of the customer s estimated workers compensation claims reserves as established by us and our third party administrator and the expected payout as determined by historical incentive payment trends. Safety incentive expense is netted against PEO services revenue in our consolidated statements of operations.

Customer deposits

We require deposits from certain PEO customers to cover a portion of our accounts receivable due from such customers in the event of default of payment.

Table of Contents

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

1. Summary of Operations and Significant Accounting Policies (Continued)

Comprehensive income (loss)

Comprehensive income (loss) includes all changes in equity during a period except those that resulted from investments by or distributions to the Company s stockholders.

Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income (loss), but excluded from net income (loss) as these amounts are recorded directly as an adjustment to stockholders equity. Our other comprehensive income (loss) is comprised of unrealized holding gains and losses on our publicly traded marketable securities.

Statements of cash flows

Interest paid during 2011, 2010 and 2009 did not materially differ from interest expense. Income taxes paid by the Company in 2011, 2010 and 2009 totaled $4.7 million, $1.8 million and $551,000, respectively.

Basic and diluted earnings per share

Basic earnings per share are computed based on the weighted average number of common shares outstanding for each year using the treasury method. Diluted earnings per share reflect the potential effects of the exercise of outstanding stock options. Basic and diluted shares outstanding are summarized as follows:

	Year Ended December 31,		
	2011	**2010**	**2009**
Weighted average number of basic shares outstanding	10,083,479	10,332,685	10,451,901
Assumed exercise of stock options, net of shares assumed repurchased at average market price during the period using proceeds received upon exercise of options	54,839	39,775	0
Weighted average number of diluted shares outstanding	10,138,318	10,372,460	10,451,901

As a result of the net loss reported for the year ended December 31, 2009, 120,690 potential common shares have been excluded from the calculation of diluted loss per share because their effect would be anti-dilutive.

Accounting estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

Table of Contents

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

1. Summary of Operations and Significant Accounting Policies (Continued)
Accounting estimates (Continued)

Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Estimates are used for carrying values of marketable securities, allowance for doubtful accounts, deferred income taxes, carrying values for goodwill and property and equipment, accrued workers compensation liabilities and safety incentive liabilities. Actual results may or may not differ from such estimates.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05, Comprehensive Income: Presentation of Comprehensive Income. This new guidance requires the components of net income and other comprehensive income to be presented in one continuous statement, referred to as the statement of comprehensive income, or in two separate consecutive statements. The new guidance also eliminates the current option to report other comprehensive income and its components in the statement of stockholders equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. ASU 2011-05 is effective for periods beginning after December 15, 2011; however, the Company has adopted this guidance as of the end of its 2011 reporting period as permitted by the guidance.

In September 2011, the FASB issued ASU No. 2011-08, Intangibles-Goodwill and Other (Topic 350) Testing Goodwill for Impairment. ASU 2011-08 provides companies with a new option when determining whether or not it is necessary to apply the traditional two-step quantitative goodwill impairment test in ASC 350, Intangibles-Goodwill and Other. Under ASU 2011-08 a company is no longer required to calculate the fair value of a reporting unit unless it determines, on the basis of qualitative information, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. ASU 2011-08 is effective for periods beginning after December 15, 2011; however, early adoption is permitted. The Company plans to adopt ASU 2011-08 beginning January 1, 2012. We do not anticipate the adoption will have a material impact on our consolidated financial statements.

2. Fair Value of Financial Instruments and Concentration of Credit Risk

All of our financial instruments are recognized in our balance sheet. Carrying values approximate fair value of most financial assets and liabilities. The fair value of restricted marketable securities consisting primarily of U.S. Treasury bills and municipal bonds was

Table of Contents

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Fair Value of Financial Instruments and Concentration of Credit Risk (Continued)

recorded at amortized cost which approximates market value for similar instruments. The interest rates on our restricted marketable security investments approximate current market rates for these types of investments; therefore, the recorded value of the restricted marketable securities approximates fair value.

Financial instruments that potentially subject us to concentration of credit risk consist primarily of temporary cash investments, marketable securities, restricted marketable securities and trade accounts receivable. We restrict investment of temporary cash investments and marketable securities to financial institutions with high credit ratings, corporate bonds and to investments in governmental debt instruments. Credit risk on trade receivables is minimized as a result of the large and diverse nature of our customer base.

At December 31, 2011, we had significant concentrations of credit risk as follows:

- Cash and cash equivalents approximately $44.5 million of the Company s cash and cash equivalents at December 31, 2011 were invested in tax-exempt money market funds. Fair value was determined using quoted prices in active markets for identital securities.

- Marketable securities All investments are held in publicly-traded securities, which includes $11.4 million, at fair value, in municipal bonds.

3. Fair Value Measurement

The Company has determined that its marketable securities should be presented at their fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Factors used in determining the fair value of our financial assets and liabilities are summarized into three broad categories:

Level 1 quoted prices in active markets for identical securities;

Level 2 other significant observable inputs, including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.; and

Level 3 significant unobservable inputs, including our own assumptions in determining fair value.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

In determining the fair value of our financial assets, the Company predominately uses the market approach. In determining the fair value of all its municipal bonds, corporate

F-16

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

3. Fair Value Measurement (Continued)

bonds, and variable rate demand notes classified as Level 2, the Company utilizes the non-binding quotes provided by our three investment brokers. We receive one non-binding broker quote for each financial asset as of the balance sheet date. To value the Level 2 assets, our investment brokers use proprietary multi-dimensional pricing models that include a variety of inputs, including quoted prices for identical or similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks and default rates that are observable at commonly quoted intervals. There were no assets or liabilities where Level 3 valuation techniques were used and there were no assets and liabilities measured at fair value on a non-recurring basis.

Marketable securities consist of the following (in thousands):

	December 31, 2011			December 31, 2010			
	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	Fair Value Category
Current:							
Trading:							
Equity securities	$ 0	$ 0	$ 0	$ 349	$ 21	$ 370	1
Available-for-sale:							
Municipal bonds	5,804	8	5,812	22,997	(32)	22,965	2
Corporate bonds	11,070	(4)	11,066	861	15	876	2
Variable rate demand notes	0	0	0	300	0	300	2
	$ 16,874	$ 4	$ 16,878	$ 24,507	$ 4	$ 24,511	
Long term:							
Available-for-sale:							
Corporate bonds	$ 14,971	$ (33)	$ 14,938	$ 5,513	$ (39)	$ 5,474	2
Held-to-maturity:							
Corporate bonds	457	0	457	447	0	447	2
	$ 15,428	$ (33)	$ 15,395	$ 5,960	$ (39)	$ 5,921	

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

	December 31, 2011			December 31, 2010			
	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	Fair Value Category

Available-for-sale:							
Municipal bonds	$ 5,580	$ 17	$ 5,597	$ 5,147	$ 0	$ 5,147	2
Corporate bonds	148	(1)	147	323	0	323	2
U.S. treasuries	1,567	0	1,567	1,567	0	1,567	1
	$ 7,295	$ 16	$ 7,311	$ 7,037	$ 0	$ 7,037	

Table of Contents

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

4. Property and Equipment

Property and equipment consist of the following (in thousands):

	December 31, 2011	December 31, 2010
Building	$ 9,756	$ 9,815
Office furniture and fixtures	5,888	4,628
Computer hardware and software	5,098	5,097
Aircraft	4,256	4,186
	24,998	23,726
Less accumulated depreciation and amortization	11,096	9,794
	13,902	13,932
Land	1,105	1,105
	$ 15,007	$ 15,037

5. Workers Compensation Claims

We are a self-insured employer with respect to workers compensation coverage for all our employees (including employees subject to PEO contracts) working in California, Oregon, Maryland, Delaware and Colorado. In the state of Washington, state law allows only our staffing services and management employees to be covered under the Company s self-insured workers compensation program.

Effective January 5, 2010, we formed Ecole, a wholly owned fully licensed insurance company in Arizona. The insurance company provides workers compensation coverage to BBSI s employees working in Arizona for claims occurring on or after March 1, 2010.

The Company has provided a total of $51.2 million and $39.3 million at December 31, 2011 and 2010, respectively, as an estimated future liability for unsettled workers compensation claims liabilities. Included in the foregoing liabilities are insured claims that will be paid by the Company s former excess workers compensation insurer and for which the Company has reported a receivable from the insurer for the insured claims liability. Insured claims totaled $1.9 million and $2.7 million at December 31, 2011 and 2010, respectively. The estimated liability for unsettled workers compensation claims represents management s best estimate based upon an actuarial valuation provided by a third party 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 and anticipated increases in case reserve estimates. These estimates also include amounts for unallocated loss adjustment expenses, including legal costs. Based upon the evaluation of our workers compensation claims at December 31, 2011 by our independent actuary, we recorded an additional workers compensation expense

Table of Contents

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

5. Workers Compensation Claims (Continued)

of $8.5 million and a similar increase in the accrued workers compensation claims liabilities in the fourth quarter of 2011 to reflect a change in the estimated costs to close workers compensation claims, primarily related to claims incurred during 2005 to 2009. These estimates are continually reviewed and adjustments to liabilities are reflected in current operating results as they become known.

Liabilities incurred for work-related employee fatalities and for severely injured workers, as determined by the state in which the accident occurred, 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 expectancy of the beneficiary, discounted at a rate that approximates a long-term, high-quality corporate bond rate. Our excess workers compensation insurance retention is $5.0 million per occurrence in all our self-insured states, except for Maryland and Colorado where our retention is at $1.0 million and $500,000 per occurrence, respectively. We present our accrued liabilities for workers compensation claims on a gross basis along with a corresponding receivable from our insurers, as we are the primary obligor for payment of the related insured claims. We maintain excess workers compensation insurance coverage with Chartis, formerly known as American International Group, between $5.0 million and $15.0 million per occurrence, except in Maryland, where coverage with Chartis is between $1.0 million and $25.0 million per occurrence and in Colorado where the coverage with Chartis is from $500,000 to statutory limits per occurrence.

We continue to evaluate the financial capacity of our insurers to assess the recoverability of the related insurer receivables.

At December 31, 2011, our long-term workers compensation claims liabilities in the accompanying balance sheet included $446,000 for work-related fatalities. The aggregate undiscounted pay-out amount related to the catastrophic injuries and fatalities is $605,000. The discount rates applied to the discounted liabilities range from 4.25% to 9.00%. These rates represented the then-current rates for high quality long-term debt securities available at the date of loss with maturities equal to the length of the pay-out period to the beneficiaries. The actuarially determined pay-out periods to the beneficiaries range from 7 to 32 years.

The states of Oregon, Maryland, Washington, Delaware and Colorado require us to maintain specified investment balances or other financial instruments, totaling $9.0 million at December 31, 2011 and $9.1 million at December 31, 2010, to cover potential claims losses. In partial satisfaction of these requirements, at December 31, 2011, we have provided standby letters of credit and a surety bond totaling $6.8 million. The

investments are included in restricted marketable securities and workers compensation deposits in the accompanying balance sheets. We participate in California s alternative

Table of Contents

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

5. Workers Compensation Claims (Continued)

security program requiring us to pay the State an annual fee, which is determined by several factors, including the amount of a calculated future security deposit and our overall credit rating. The annual fee paid to the State of California for 2011, 2010 and 2009 was $292,000, $209,000, and $73,000, respectively.

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

	Year Ended December 31,		
	2011	**2010**	**2009**
Balance at January 1,			
Workers compensation claims liabilities	$ 39,302	$ 35,958	$ 24,587
Claims expense accrual:			
Current year	26,161	16,850	11,907
Prior years	9,978	880	12,749
	36,139	17,730	24,656
Claims payments related to:			
Current year	5,565	3,814	2,991
Prior years	18,683	10,572	10,294
	24,248	14,386	13,285
Balance at December 31,			
Workers compensation claims liabilities	$ 51,193	$ 39,302	$ 35,958
Incurred but not reported (IBNR)	$ 37,335	$ 27,163	$ 25,409

6. Credit Facility

The Company is a party to a Standby Letter of Credit Agreement dated as of June 30, 2009 (the Credit Agreement) with its principal bank. The Credit Agreement provides for standby letters of credit as to which there were $6.7 million outstanding at December 31, 2011 in connection with various surety deposit requirements for workers compensation purposes.

Pursuant to the Credit Agreement, the Company is required to maintain compliance with the following covenants: (1) to maintain net income after taxes not less than $1.00 (one dollar) on an annual basis, determined as of each fiscal year end; (2) to maintain liquid assets (defined as unencumbered cash, cash equivalents, and publicly traded and quoted marketable securities) having an aggregate fair market value at all times not less than $10.0 million, determined as of the end of each fiscal quarter; and (3) to not borrow or permit to exist indebtedness (other than from or to the bank), or mortgage, pledge, grant, or permit to exist a security interest in, or a lien upon, all or any portion of the

F-20

Table of Contents

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

6. Credit Facility (Continued)

Company s assets now owned or hereafter acquired, except for purchase money indebtedness (and related security interests) which does not at any time exceed $500,000. The Company was in compliance with all financial covenants at December 31, 2011.

7. 401(k) Savings Plan

We have a Section 401(k) Retirement Savings Plan for the benefit of our eligible employees. All staffing and management 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 PEO arrangement may participate in the plan at the sole discretion of the PEO client. The determination of discretionary Company contributions to the plan, if any, is at the sole discretion of our Board of Directors. No discretionary Company contributions were made to the plan for the years ended December 31, 2011, 2010 and 2009.

We make matching contributions to the 401(k) plan under a safe harbor provision, whereby the Company matches 100% of contributions by management and staffing employees up to 3% of each participating employee s annual compensation; and 50% of the employee s contributions up to an additional 2% of annual compensation. We made $494,000, $413,000 and $483,000 in matching contributions during 2011, 2010 and 2009, respectively. Participants interests in Company safe harbor contributions to the plan are fully vested when made.

8. Commitments

Lease commitments

We lease office space for our branch offices under operating lease agreements that require minimum annual payments as follows (in thousands):

Year ending December 31,	
2012	$ 2,189
2013	1,389
2014	874
2015	685
2016	260
Thereafter	104
	$ 5,501

Rent expense for the years ended December 31, 2011, 2010 and 2009 was approximately $2.9 million for each year.

Table of Contents

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

9. Related Party Transactions

During 2009, pursuant to the approval of all disinterested outside directors, the Company purchased 1.25 acres of river front property on the Columbia River in Washougal, Washington for a total cost of $1.5 million. The purchase was financed with cash of $1.0 million and a note payable of $500,000. The note payable is included in other long-term liabilities in the accompanying balance sheet and has been treated as a non-cash transaction for purposes of the statement of cash flows. Prior to his death on January 20, 2011, William W. Sherertz, previously the Company s Chief Executive Officer, had planned to construct and operate a restaurant on the property under a triple net ground lease between the Company and the LLC he had formed with an outside third party. Mr. Sherertz s estate now holds a majority interest in the LLC. The lease requires annual cash payments by the LLC of $25,000 through the end of 2011 and 5% of the restaurant s gross income, if any, thereafter through the end of the lease in December 2020. The cost of the property is included in the Company s other assets at December 31, 2011 and 2010. Mr. Sherertz s estate also holds approximately 25 percent of the outstanding shares of the Company s Common Stock.

10. Income Taxes

The provision for (benefit from) income taxes from continuing operations are as follows (in thousands):

	Year ended December 31,		
	2011	**2010**	**2009**
Current:			
Federal	$ 857	$ 1,211	$ (3,339)
State	(474)	606	71
	383	1,817	(3,268)
Deferred:			
Federal	283	601	623
State	171	156	47
	454	757	670
Total provision (benefit)	$ 837	$ 2,574	$ (2,598)

Table of Contents

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

10. Income Taxes (Continued)

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

	December 31, 2011	December 31, 2010
Gross deferred income tax assets:		
Workers compensation claims liabilities	$ 4,266	$ 3,449
Safety incentives payable	2,064	1,993
Allowance for doubtful accounts	175	148
Deferred compensation	180	837
Tax effect of unrealized losses, net	883	926
Alternative minimum tax credit carryforward	740	0
State credit carryforward	490	63
State loss carryforward	15	11
Other	305	543
	9,118	7,970
Less valuation allowance	1,333	890
	7,785	7,080
Gross deferred income tax liabilities:		
Tax depreciation in excess of book depreciation	(1,851)	(1,636)
Tax amortization of goodwill	(8,128)	(7,184)
	(9,979)	(8,820)
Net deferred income tax liabilities	$ (2,194)	$ (1,740)

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

	Year ended December 31, 2011	2010	2009
Statutory federal tax rate	34.0%	34.0%	(34.0)%
State taxes, net of federal benefit	(4.2)	5.3	1.1
Valuation allowance on loss on impairment of investments	3.1	(4.4)	(1.5)
Adjustment for final positions on filed returns	(.3)	1.5	4.3
Officer life insurance proceeds	(22.4)	0	0
Nondeductible expenses and other, net	3.9	5.8	4.3
Federal tax-exempt interest income	(.9)	(.7)	(2.2)
Federal and state tax credits	(7.7)	(15.6)	(11.7)

	5.5%	25.9%	(39.7)%

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

10. Income Taxes (Continued)

The Company has established a valuation allowance for certain deferred tax assets due to uncertainties regarding the Company s ability to generate future taxable investment gains in order to utilize certain investment impairment losses and investment loss carryforwards for tax purposes. The realization of a significant portion of net deferred tax assets is based in part on our estimates of the timing of reversals of certain temporary differences and on the generation of taxable income before such reversals. At December 31, 2011, we maintained a valuation allowance for approximately $1.3 million of federal and state tax benefits that are not expected to be utilized.

The Company is subject to income taxes in U.S. federal and multiple state and local tax jurisdictions. In the major jurisdictions where the Company operates, it is generally no longer subject to income tax examinations by tax authorities for years before 2007. As of December 31, 2011 and 2010, we had no unrecognized tax benefits. We are currently under exam by the Internal Revenue Service and the State of California.

A portion of the consolidated income the Company generates is not subject to state income tax. Depending on the percentage of this income to total consolidated income, the Company s state effective rate can vary from expectations. As a result of the mix of income subject to state income tax, the state tax benefit was reduced by approximately $502,000 in the current year and approximately $50,000 in 2010 and by approximately $510,000 in 2009.

At December 31, 2011, the Company had capital loss carryforwards of approximately $2.2 million. Unless utilized in earlier tax years, the carryforwards expire in 2015. At December 31, 2011, the Company also had state tax loss carryforwards of $395,000, which expire in 2032.

11. Stock Incentive Plans

The Company s 2009 Stock Incentive Plan (the 2009 Plan), which provides for stock-based awards to Company employees, non-employee directors and outside consultants or advisors, was approved by shareholders on May 13, 2009. No options have been issued to outside consultants or advisors. The number of shares of common stock reserved for issuance under the 2009 Plan is 1,000,000, of which the aggregate number of shares for which incentive stock options may be granted under the Plan is 900,000. No new grants of stock options may be made under the Company s 2003 Stock Incentive Plan (the 2003 Plan). At December 31, 2011, there were option awards covering 671,294 shares outstanding under the 2009 plan, together with the 2003 Plan and its predecessor, the 1993 Stock Incentive Plan. Outstanding options under all the plans generally expire ten years after the date of grant. Options are generally exercisable in four equal annual installments beginning one year after the date of grant.

Table of Contents

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

11. Stock Incentive Plans (Continued)

The Company recognizes compensation expense for options awarded under its stock incentive plans based on the grant-date fair value. Compensation expense is attributed to earnings using the straight-line method over the requisite service period.

A summary of the status of the Company s stock options at December 31, 2011, 2010 and 2009, together with changes during the periods then ended, is presented below:

	Number of options	Weighted average exercise price
Outstanding at December 31, 2008	501,006	
Options granted at market price	79,500	$ 11.06
Options exercised	(265,187)	2.14
Outstanding at December 31, 2009	315,319	
Options granted at market price	87,000	13.43
Options exercised	(2,750)	6.29
Outstanding at December 31, 2010	399,569	
Options granted at market price	289,200	16.06
Options exercised	(7,475)	7.24
Options cancelled	(10,000)	14.39
Outstanding at December 31, 2011	671,294	
Available for grant at December 31, 2011	633,800	

The following table presents information on stock options outstanding as of and for the years ended December 31, 2011 and 2010:

	Year Ended December 31,	
(in thousands, except share data)	2011	2010
Intrinsic value of options exercised in the period	$ 69	$ 22
	As of December 31,	
	2011	2010
Stock options:		
Number of options	671,294	399,569
Weighted average exercise price	$ 13.62	$ 13.66
Aggregate intrinsic value	$ 1,796	$ 494
Weighted average contractual term of options	6.88 years	6.14 years

Table of Contents

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

11. Stock Incentive Plans (Continued)

The aggregate intrinsic value of stock options represents the difference between the Company s closing stock price at the end of the period and the relevant exercise price multiplied by the number of options outstanding at the end of the period at each such price.

The fair value of the stock-based awards as determined under the Black-Scholes option-pricing model was estimated with the following weighted-average assumptions:

	2011	2010	2009
Expected volatility	65.9%	58.8%	61.9%
Risk free interest rate	2.9%	3.0%	1.4%
Expected dividend yield	2.3%	2.4%	2.9%
Expected term	7.3 years	7.0 years	7.1 years
Weighted average fair value per share	$ 7.20	$ 5.59	$ 4.39

There were no options granted during 2011, 2010 or 2009 below market price.

The following table summarizes stock-based compensation expense related to stock option awards (in thousands):

	Year Ended December 31,		
	2011	2010	2009
Stock-based compensation expense included in selling, general and administrative expenses	$ 472	$ 192	$ 100
Deferred income taxes	188	76	40
Stock-based compensation expense related to stock options, net of tax	$ 284	$ 116	$ 60

As of December 31, 2011, unrecognized compensation expense related to stock options was $2.2 million with a weighted average period of 5.4 years.

The following table summarizes information about stock options outstanding at December 31, 2011:

	Options outstanding			Options exercisable	
Exercise price range	Number of shares	Weighted-average exercise price	Weighted-average remaining contractual life (years)	Exercisable at December 31, 2011	Weighted-average exercise price
$2.00 - $ 2.58	8,900	$ 2.09	1.1	8,900	$ 2.09
8.33 - 17.50	662,394	14.65	7.0	274,444	14.00

	671,294	283,344	13.62

Table of Contents

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

12. Stock Repurchase Program

The Company maintains a stock repurchase program approved by the Board of Directors which authorizes the repurchase of shares from time to time in open market purchases. The repurchase program currently allows for the repurchase of approximately 1.2 million additional shares as of December 31, 2011.

During 2011, 2010 and 2009, the Company repurchased 339,384, 266,672 and 312,959 shares for weighted average prices of $14.08, $12.79 and $9.62 per share, respectively.

13. Litigation

The Company is subject to legal proceedings and claims, which arise in the ordinary course of our 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.

14. 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, 2011				
Revenues	$ 68,769	$ 76,013	$ 85,384	$ 84,708
Cost of revenues	63,171	62,732	69,231	86,288
Net (loss) income	5,546	3,449	5,414	(96)
Basic (loss) earnings per share	.54	.34	.54	(.01)
Diluted (loss) earnings per share	.54	.34	.54	(.01)
Common stock market prices:				
Year ended December 31, 2010				
Revenues	$ 58,260	$ 67,432	$ 73,876	$ 73,555
Cost of revenues	52,895	55,700	59,832	59,956
Net (loss) income	(1,703)	2,259	3,669	3,128
Basic (loss) earnings per share	(.16)	.22	.36	.31
Diluted (loss) earnings per share	(.16)	.22	.36	.30
Common stock market prices:				

Table of Contents

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

15. Subsequent Event

Effective March 9, 2012, the Company entered into definitive agreements to repurchase 2,485,929 shares of the Company s common stock held by the Estate of William W. Sherertz and 500,000 common shares held by Nancy Sherertz. Mr. Sherertz, a founder and former president and CEO of the Company, died January 20, 2011. Nancy Sherertz is also a founder of the Company. The common shares will be repurchased at a price of $20 per share, representing total consideration of $59.7 million. In the closing of the transactions, the Company will pay $24.9 million in cash and issue 34,800 shares of Series A Nonconvertible, Non-Voting Redeemable Preferred Stock with a liquidation preference of $1,000 per share. The preferred stock will be entitled to receive cumulative preferential dividends at the rate of 5% per annum based upon the $1,000 liquidation preference with such rate increasing by 2% on each April 1 beginning April 1, 2013, until all of the outstanding preferred stock has been redeemed. The Company may pay the dividends in cash or in additional shares of preferred stock at its option. The Company may redeem all or a portion of the preferred stock at its option at any time at a price of $1,000 per share. The preferred stock is subject to mandatory redemption five years from the original issue date. Due to the mandatory redemption provision the preferred stock will be classified as a liability on the Company s Consolidated Balance Sheet.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	BARRETT BUSINESS SERVICES, INC. Registrant
Date: March 15, 2012	By: /s/ James D. Miller James D. Miller Vice President-Finance, Treasurer and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 15th day of March 2012.

Principal Executive Officer and Director:

/s/ Michael L. Elich Michael L. Elich	President and Chief Executive Officer and Director

Principal Financial and Accounting Officer:

/s/ James D. Miller James D. Miller	Vice President-Finance, Treasurer and Secretary

Majority of Directors:

/s/ Thomas J. Carley Thomas J. Carley	Director
/s/ James B. Hicks James B. Hicks, Ph.D.	Director
/s/ Roger L. Johnson Roger L. Johnson	Director
/s/ Jon L. Justesen Jon L. Justesen	Director
/s/ Anthony Meeker Anthony Meeker	Chairman of the Board and Director

Table of Contents

EXHIBIT INDEX

3.1	Charter of the Registrant, as amended. Incorporated by reference to Exhibit 3 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 (File No. 0-21886).
3.2	Bylaws of the Registrant, as amended, through May 19, 2011. Incorporated by reference to Exhibit 3.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (the 2011 First Quarter 10-Q).
	The Registrant has incurred long-term indebtedness as to which the amount involved is less than 10 percent of the Registrant s total assets. The Registrant agrees to furnish copies of the instruments relating to such indebtedness to the Commission upon request.
10.1	Standby Letter of Credit Agreement dated as of June 30, 2009, between the Registrant and Wells Fargo. Incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.
10.2	Second Amended and Restated 1993 Stock Incentive Plan of the Registrant. Incorporated by reference to Exhibit 10.1 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 0-21886).*
10.3	Form of Indemnification Agreement with each director of the Registrant. Incorporated by reference to Exhibit 10.8 to the Registrant s Registration Statement on Form S-1 (No. 33-61804).*
10.4	Summary of annual cash incentive bonus award program for executive officers of the Registrant. Incorporated by reference to Exhibit 10.3 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2004.*
10.5	2003 Stock Incentive Plan of the Registrant (the 2003 Plan). Incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (File No. 0-21886).*
10.6	Form of Incentive Stock Option Agreement under the 2003 Plan. Incorporated by reference to Exhibit 10.11 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2003 (the 2003 10-K).*
10.7	Form of Nonqualified Stock Option Agreement under the 2003 Plan. Incorporated by reference to Exhibit 10.12 to the 2003 10-K.*
10.8	Form of Incentive Stock Option Agreement relating to July 2005 option grants under the 2003 Plan. Incorporated by reference to Exhibit 10.11 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2005 (the 2005 10-K).*
10.9	Form of Nonqualified Stock Option Agreement relating to July 2005 option grants under the 2003 Plan. Incorporated by reference to Exhibit 10.12 to the 2005 10-K.*
10.10	Form of Annual Director Option Agreement for July 2005 option grants under the 2003 Plan. Incorporated by reference to Exhibit 10.14 to the 2005 10-K.*
10.11	Form of Incentive Stock Option Award Agreement relating to January 2009 option grants under the 2003 Plan. Incorporated by reference to Exhibit 10.16 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2008 (the 2008 10-K).*

10.12	Form of Employee Nonqualified Stock Option Award Agreement relating to January 2009 option grants under the 2003 Plan. Incorporated by reference to Exhibit 10.17 to the 2008 10-K.*
10.13	Form of Non-Employee Director Option Award Agreement relating to January 2009 option grants under the 2003 Plan. Incorporated by reference to Exhibit 10.18 to the 2008 10-K.*
10.14	2009 Stock Incentive Plan of the Registrant (the 2009 Plan). Incorporated by reference to Exhibit 10.2 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.*
10.15	Form of Incentive Stock Option Award Agreement under the 2009 Plan. Incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (the 2010 First Quarter 10-Q).*
10.16	Form of Employee Nonqualified Stock Option Award Agreement under the 2009 Plan. Incorporated by reference to Exhibit 10.2 to the 2010 First Quarter 10-Q.*
10.17	Form of Non-Employee Director Nonqualified Stock Option Award Agreement under the 2009 Plan. Incorporated by reference to Exhibit 10.3 to the 2010 First Quarter 10-Q.*
10.18	Summary of Compensatory Arrangement with William W. Sherertz. Incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.*
10.19	Employment Agreement between the Registrant and Michael L. Elich, dated September 25, 2001. Incorporated by reference to Exhibit 10.17 to the Registrant s Registration Statement on Form S-2 (Registration No. 333-126496) filed July 11, 2005.*
10.20	Summary of compensatory arrangements for non-employee directors of the Registrant.*
10.21	Lease Agreement between the Registrant and the Black Pearl on the Columbia, LLC, as of December 23, 2009. Incorporated by reference to Exhibit 10.18 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2009.
10.22	Form of Incentive Stock Option Award Agreement under the Registrant s 2009 Stock Incentive Plan (the 2009 Plan). Incorporated by reference to Exhibit 10.1 to the 2011 First Quarter 10-Q.*
10.23	Form of Employee Nonqualified Stock Option Award Agreement under the 2009 Plan. Incorporated by reference to Exhibit 10.2 to the 2011 First Quarter 10-Q.*
10.24	Form of Non-Employee Director Nonqualified Stock Option Award Agreement under the 2009 Plan. Incorporated by reference to Exhibit 10.3 to the 2011 First Quarter 10-Q.*
10.25	Change in Control Employment Agreement between the Registrant and Michael L. Elich, dated April 12, 2011. Incorporated by reference to Exhibit 10.4 to the 2011 First Quarter 10-Q.*
10.26	Change in Control Employment Agreement between the Registrant and Gregory R. Vaughn, dated April 12, 2011. Incorporated by reference to Exhibit 10.5 to the 2011 First Quarter 10-Q.*

Table of Contents

10.27	Change in Control Employment Agreement between the Registrant and James D. Miller, dated April 12, 2011. Incorporated by reference to Exhibit 10.6 to the 2011 First Quarter 10-Q.*
14	Code of Business Conduct. Incorporated by reference to Exhibit 14 to the 2003 10-K.
21	Subsidiaries of the Registrant.
23.1	Consent of Moss Adams LLP, Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
32	Certification pursuant to 18 U.S.C. Section 1350.
101.	INS XBRL Instance Document **
101.	SCH XBRL Taxonomy Extension Schema Document **
101.	CAL XBRL Taxonomy Extension Calculation Linkbase Document **
101.	DEF XBRL Taxonomy Extension Definition Linkbase Document **
101.	LAB XBRL Taxonomy Extension Label Linkbase Document **
101.	PRE XBRL Taxonomy Extension Presentation Linkbase Document **

* Denotes a management contract or a compensatory plan or arrangement.
** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended and, otherwise are not subject to liability under those sections.