BARRETT BUSINESS SERVICES INC
Form DEF 14A
April 05, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

SCHEDULE 14A INFORMATION

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

Barrett Business Services, Inc.

(Name of Registrant as Specified In Its Charter)

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):

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¨ 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:

BARRETT BUSINESS SERVICES, INC.

April 5, 2010

Dear Stockholder:

You are cordially invited to attend the annual meeting of stockholders of Barrett Business Services, Inc., to be held at 2:00 p.m., Pacific Time, on Wednesday, May 12, 2010, at 8100 N.E. Parkway Drive, Suite 60, Vancouver, Washington 98662.

Matters to be presented for action at the meeting include the election of directors and such other business as may properly come before the meeting or any adjournment thereof.

We look forward to conversing with those of you who are able to attend the meeting in person. Whether or not you can attend, it is important that you sign, date, and return your proxy as soon as possible. If you do attend the meeting and wish to vote in person, you may withdraw your proxy and vote personally.

Sincerely,

William W. Sherertz

President and Chief Executive Officer

BARRETT BUSINESS SERVICES, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

May 12, 2010

You are invited to attend the annual meeting of stockholders of Barrett Business Services, Inc., to be held at 8100 N.E. Parkway Drive, Suite 60, Vancouver, Washington 98662, on Wednesday, May 12, 2010, at 2:00 p.m., Pacific Time.

Only stockholders of record at the close of business on March 26, 2010, will be entitled to vote at the meeting.

The meeting is being held to consider and act upon the following matters:

1. Election of directors; and

2. Such other business as may properly come before the meeting or any adjournments thereof.

Please sign and date the accompanying proxy, and return it promptly in the enclosed postage-paid envelope to avoid the expense of further solicitation. If you attend the meeting, you may withdraw your proxy and vote your shares in person.

By Order of the Board of Directors

James D. Miller

Secretary

Vancouver, Washington

April 5, 2010

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 12, 2010:

The proxy statement for the 2010 annual meeting of stockholders and 2009 annual report to stockholders are available at http://bbsi2010.investorroom.com.

BARRETT BUSINESS SERVICES, INC.

8100 N.E. Parkway Drive, Suite 200

Vancouver, Washington 98662

(360) 828-0700

PROXY STATEMENT

2010 ANNUAL MEETING OF STOCKHOLDERS

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors (the Board) of Barrett Business Services, Inc. (the Company), to be voted at the annual meeting of stockholders to be held on May 12, 2010 (the Annual Meeting), and any adjournments thereof. The proxy statement and accompanying form of proxy were first mailed to stockholders on approximately April 5, 2010.

VOTING, REVOCATION, AND SOLICITATION OF PROXIES

When a proxy in the accompanying form is properly executed and returned, the shares represented will be voted at the meeting in accordance with the instructions specified in the spaces provided in the proxy. If no instructions are specified, the shares will not be voted with regard to Item 1 in the accompanying Notice of Annual Meeting of Stockholders.

Any proxy given pursuant to this solicitation may be revoked by the person giving the proxy at any time prior to its exercise by written notice to the Secretary of the Company of such revocation, by a later-dated proxy received by the Company, or by attending the Annual Meeting and voting in person. The mailing address of the Company s principal executive offices is 8100 N.E. Parkway Drive, Suite 200, Vancouver, Washington 98662. If your shares are held through a broker or other nominee, please follow their directions on how to vote your shares and, if necessary, change or revoke your voting instructions.

The solicitation of proxies will be made primarily by mail, but proxies may also be solicited personally or by telephone or facsimile by directors and officers of the Company without additional compensation for such services. Brokers and other persons holding shares in their names, or in the names of nominees, will be reimbursed for their reasonable expenses in forwarding soliciting materials to their principals and in obtaining authorization for the execution of proxies. All costs of solicitation of proxies will be borne by the Company.

OUTSTANDING VOTING SECURITIES

The close of business on March 26, 2010, has been fixed as the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting. On the record date, the Company had outstanding 10,466,394 shares of Common Stock, $.01 par value (Common Stock), each share of which is entitled to one vote at the meeting. Common Stock is the only outstanding voting security of the Company. The presence, in person or by proxy, of stockholders entitled to cast a majority of all votes entitled to be cast at the meeting is required to constitute a quorum.

ITEM 1 ELECTION OF DIRECTORS

The directors of the Company are elected at the annual meeting of stockholders in May to serve until the next annual meeting and until their successors are elected and qualified. The Company s Bylaws authorize the Board to set the number of positions on the Board within a range of three and nine. The Board is currently comprised of six directors. Vacancies on the Board, including vacancies resulting from an increase in the number of positions, may be filled by the Board for a term ending with the next annual meeting of stockholders.

All of the nominees for election as directors are members of the present Board.

A nominee will be elected if the nominee receives a plurality of the votes cast by the shares entitled to vote in the election, provided that a quorum is present at the Annual Meeting. A duly executed proxy will be voted FOR the election of the nominees named below, unless authority to vote for a director is withheld or a proxy of a broker or other nominee is expressly not voted on this item (a broker non-vote). Beginning this year, banks and brokers acting as nominees are not permitted to vote proxies for the election of directors without express voting instructions from the beneficial owner of the shares. As such, it is particularly important that you provide voting instructions this year. Votes that are withheld and broker non-votes will have no effect on the outcome of the election of directors.

If for some unforeseen reason a nominee should become unavailable for election, the number of directors constituting the Board may be reduced prior to the Annual Meeting or the proxy may be voted for the election of such substitute nominee as may be designated by the Board.

The following table sets forth information with respect to each person nominated for election as a director, including their current principal occupation or employment and ages as of February 28, 2010:

Name	Principal Occupation	Age	Director Since
Thomas J. Carley	Co-founder, Portal Capital, an investment management company	51	2000
James B. Hicks, Ph.D.	Research Professor, Cold Spring Harbor Laboratory, a nonprofit research institution in New York	63	2001
Roger L. Johnson	Founder and Managing Partner of Summa Global Advisors, LLC, an investment advisory firm	66	2006
Jon L. Justesen	Co-owner and Chief Executive Officer of Justesen Ranches located in eastern Oregon	58	2004
Anthony Meeker	Retired Managing Director of Victory Capital Management, Inc., Cleveland, Ohio, an investment management firm	70	1993
William W. Sherertz	President and Chief Executive Officer of the Company	64	1980

As discussed below under Meetings and Committees of the Board of Directors Nominating Committee, the Nominating Committee evaluates the Board s membership from time to time in determining whether to recommend that existing directors be nominated for re-election. In this regard, the Nominating Committee considers whether the professional and educational background, business experience and expertise represented on the Board as a whole enables it to satisfy its oversight responsibilities in an effective manner. The experience, qualifications, attributes and skills of each nominee that led the Nominating Committee to conclude that the individual should serve as a director of the Company, including his business experience during the past five years, are described below:

Thomas J. Carley was President and Chief Financial Officer of Jensen Securities, a securities and investment banking firm in Portland, Oregon, for eight years until February 1998, when the company was sold to

D.A. Davidson & Co. Thereafter, he was a research analyst covering technology companies and financial institutions at D.A. Davidson & Co. until December 1999. Mr. Carley was a private investor until July 2006, when he co-founded Portal Capital, an investment management company. He brings financial expertise to the Board of Directors through his prior experience in the areas of public accounting and financial analysis, including as chairman of the Board s Audit Committee.

James B. Hicks is Research Professor of Cancer Genetics at Cold Spring Harbor Laboratory and serves as Vice President for Science and director of GenDx, Inc., a cancer diagnostic company based in New York. He is also a co-founder and director of Virogenomics, Inc., a biotechnology company located in the Portland metropolitan area, for which he previously served as Chief Technology Officer. Dr. Hicks was a director of AVI BioPharma, Inc., from 1997 until October 2007. Through his experience with other public companies, including service on other audit committees, Dr. Hicks provides valuable business and financial insight to the Board of Directors.

Roger L. Johnson has held his present position since October 1, 2008. He was a Principal of Coldstream Capital Management, Inc., a wealth management firm headquartered in Bellevue, Washington, from 2005 until 2008. Mr. Johnson was President and CEO of Western Pacific Investment Advisers, Inc., for 15 years until its acquisition by Coldstream in 2005. As a result of his experience in the financial services industry, Mr. Johnson contributes his business, leadership and management perspectives as a director of the Company.

Jon L. Justesen has managed Justesen Ranches in eastern Oregon since 1970. He also serves as President of Buck Hollow Ranch, Inc., and is a private investor. Mr. Justesen brings leadership and management experience to the Board of Directors through his ownership and management of various businesses.

Anthony Meeker retired in 2003 as a Managing Director of Victory Capital Management, Inc. (formerly known as Key Asset Management, Inc.), where he was employed for ten years. Mr. Meeker is Chairman of the Board of First Federal Savings and Loan Association of McMinnville and a director of Oregon Mutual Insurance Company. From 1987 to 1993, he was Treasurer of the State of Oregon. Mr. Meeker s experience in the insurance industry assists the Company in managing its self-insured status with respect to workers compensation, as well as its captive insurance subsidiaries. Mr. Meeker also brings leadership skills and a unique insight as a result of his public service as state treasurer and other board memberships.

William W. Sherertz also serves as Chairman of the Board of Directors. As Chief Executive Officer of the Company since 1980, Mr. Sherertz provides strong leadership, extensive knowledge and experience in the staffing and employment industry, risk management skills, and strategic direction to the Company.

Mr. Johnson and Mr. Justesen are first cousins.

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

The Board held five meetings in 2009. During 2009, each director attended at least 80 percent of the total number of the meetings of the Board and the meetings held by each committee of the Board on which he served during his tenure on such committee or the Board.

The Company does not have a policy regarding directors attendance at the Company s annual meeting of stockholders. Four of the six directors attended last year s annual meeting.

The Board has determined that Messrs. Carley, Hicks, Johnson, Justesen, and Meeker are independent directors as defined in Rule 5605(a)(2) of the listing standards applicable to companies quoted on The Nasdaq Stock Market.

Board Leadership Structure

Mr. Sherertz serves as both Chief Executive Officer and Chairman of the Board of Directors, and has for many years. The Board of Directors believes that this leadership structure has been effective for the Company and serves the best interests of the Company and its stockholders. The Board also has not felt the need to create the position of Lead Director at the present time. Currently, all of our directors other than Mr. Sherertz, including each member of the Board s audit, nominating and compensation committees, are independent directors under the Nasdaq listing rules. The Audit Committee considers issues of importance to the Company when an independent perspective is appropriate. The outside directors also meet from time to time in executive session without the Chairman and Chief Executive Officer or other management being present. Accordingly, the Board has determined that this leadership structure is appropriate in light of the small size of our company and corresponding size of our Board of Directors, the complexity of our business, and the skills, experience, and significant ownership interest of our Chief Executive Officer.

The Board s Role in Risk Oversight

The Company s management is responsible for identifying, assessing and managing the material risks facing the Company. The Board of Directors has historically performed an important role in the review and oversight of risks, and generally oversees risk management practices and processes. The Board, either as a whole or through the Audit Committee and other board committees, periodically discusses with management strategic and financial risks associated with the Company s operations, their potential impact on the Company, and the steps taken to manage these risks.

While the Board is ultimately responsible for risk oversight, the Board s committees assist the Board in fulfilling its oversight responsibilities in certain areas of risk. In particular, the Audit Committee focuses on financial and enterprise risk and discusses with management, outside actuarial consultants, and the Company s independent registered public accounting firm the Company s policies and practices with respect to risk and particular areas of risk exposure, including with respect to the Company s self insurance program for workers compensation coverage. The Audit Committee also assists the Board in fulfilling its duties and oversight responsibilities relating to the Company s compliance and ethics programs.

Audit and Compliance Committee

The Audit and Compliance Committee (the Audit Committee) reviews and pre-approves audit and legally-permitted non-audit services provided by the Company s independent registered public accounting firm (the independent auditors), makes decisions concerning the engagement or discharge of the independent auditors, and reviews with management and the independent auditors the results of their audit, the adequacy of internal accounting controls, and the quality of financial reporting. The Audit Committee also develops and oversees the Company s corporate governance principles and the Company s Code of Business Conduct and Code of Ethics for Senior Financial Officers, and reviews for potential conflicts of interest, and determines whether not to approve, any transaction by the Company with a director or officer (including their family members) that would be required to be disclosed in the Company s proxy statement for the annual meeting of stockholders. The Audit Committee held six meetings in 2009.

The current members of the Audit Committee are Messrs. Carley (chair), Hicks, Johnson, and Meeker. The Board has determined that Thomas J. Carley is qualified to be an audit committee financial expert as defined by the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934 (the Exchange Act). The Board has also determined that each member of the Audit Committee, including Mr. Carley, meets the financial literacy and independence requirements for audit committee membership specified in applicable rules of the SEC under the Exchange Act and in listing standards applicable to companies quoted on The Nasdaq Stock Market. The Audit Committee s activities are governed by a written charter, a copy of which is available on the Company s website at *www.barrettbusiness.com*.

Compensation Committee

The Compensation Committee reviews the compensation of executive officers of the Company and makes recommendations to the Board regarding salary levels and other forms of compensation to be paid to executive officers, including decisions as to grants of options and other stock-based awards. The current members of the Compensation Committee are Messrs. Meeker (chair), Hicks, and Justesen, all of whom are independent as defined in Rule 5605(a)(2) of the listing standards for companies quoted on The Nasdaq Stock Market. The Compensation Committee held three meetings in 2009.

The Compensation Committee does not operate under a formal written charter. The Compensation Committee is charged with carrying out the Board s overall responsibilities relating to compensation of the Company s executive officers and directors. Its specific duties include reviewing the Company s bonus and equity compensation programs, CEO compensation and director compensation arrangements, and recommending changes to the Board as it deems appropriate, as well as recommending to the Board the annual compensation, including salary, bonus and equity awards, for the Company s Chief Executive Officer.

The CEO reviews the performance of each executive officer (other than himself) and makes recommendations to the Compensation Committee periodically regarding salary adjustments and awards of stock options and annually regarding cash incentive bonuses for the executive officers. The Compensation Committee is responsible for annually evaluating the CEO s performance and presenting its conclusions and recommendations regarding his compensation to the full Board for approval. The Compensation Committee exercises its own discretion in accepting or modifying the CEO s recommendations regarding the performance and compensation of the Company s executive officers.

The Compensation Committee does not have express authority to retain outside compensation consultants and other advisors. During 2009, the Compensation Committee did not engage compensation consultants, and it has not made a practice of doing so in the past.

Nominating Committee

The Nominating Committee evaluates and recommends candidates for nomination by the Board in director elections and otherwise assists the Board in determining and evaluating the composition of the Board and its committees. The Nominating Committee also assists in identifying candidates for appointment as officers of the Company. The current members of the Nominating Committee are Messrs. Hicks (chair), Carley, Justesen, and Meeker. The Nominating Committee did not meet during 2009.

The Board has determined that each current member of the Nominating Committee is an independent director as defined in Rule 5605(a)(2) of the listing standards applicable to companies quoted on The Nasdaq Stock Market. The Nominating Committee is governed by a written charter, which is available on the Company s website at *www.barrettbusiness.com*.

The Nominating Committee does not have any specific, minimum qualifications for director candidates. In evaluating potential director nominees, the Nominating Committee will consider:

- The candidate s ability to commit sufficient time to the position;
- Professional and educational background that is relevant to the financial, regulatory, and business environment in which the Company operates;
- Demonstration of ethical behavior;
- Whether the candidate contributes to the goal of bringing diverse perspectives, business experience, and expertise to the Board; and
- The need to satisfy independence and financial expertise requirements relating to Board composition.

The Nominating Committee relies on its periodic evaluations of the Board in determining whether to recommend nomination of current directors for re-election. Whenever the Nominating Committee is required to identify new director candidates, because of a vacancy or a decision to expand the Board, the Nominating Committee will poll current directors for suggested candidates. The Nominating Committee has not hired a third-party search firm to date, but has the authority to do so if it deems such action to be appropriate. The Nominating Committee does not have a policy in place for considering diversity in identifying nominees for director.

Once potential candidates are identified, the Nominating Committee will conduct interviews with the candidates and perform such investigations into the candidates background as the Nominating Committee determines appropriate.

The Nominating Committee will consider director candidates suggested by stockholders for nomination by the Board. Stockholders wishing to suggest a candidate to the Nominating Committee should do so by sending the candidate s name, biographical information, and qualifications to: Nominating Committee Chair c/o James D. Miller, Secretary, Barrett Business Services, Inc., 8100 N.E. Parkway Drive, Suite 200, Vancouver, Washington 98662. Candidates suggested by stockholders will be evaluated by the same criteria and process as candidates from other sources.

DIRECTOR COMPENSATION FOR 2009

The following table summarizes compensation paid to the Company s directors (other than Mr. Sherertz) for services during 2009. No outside director received perquisites or other personal benefits with a total value exceeding $10,000 during 2009.

Name	Fees Earned or Paid in Cash(1)	Option Awards($)(2)	All Other Compensation(3)	Total
Thomas J. Carley	$ 24,000	$ 10,218		$ 34,218
James B. Hicks, Ph.D.	$ 24,000	$ 10,218		$ 34,218
Roger L. Johnson	$ 24,000	$ 10,218		$ 34,218
Jon L. Justesen	$ 24,000	$ 10,218	$ 950	$ 35,168
Anthony Meeker	$ 24,000	$ 10,218		$ 34,218

(1) Directors (other than directors who are full-time employees of the Company, who do not receive directors fees) are entitled to receive an annual retainer payable in cash. Effective July 1, 2007, directors receive an annual retainer of $24,000, payable in cash in two equal installments on January 1 and July 1 of each year. Under the director compensation policy, directors are expected to purchase Common Stock on the open market with 40% of the annual retainer.

(2) The amounts shown represent the grant date fair value computed in accordance with Topic 718 of the Accounting Standards Codification of the Financial Accounting Standards Board. The options will become exercisable in four equal annual installments beginning one year after the date of grant, January 16, 2009. All options have an exercise price equal to fair market value on the date of grant and expire three months following the date on which the holder ceases to be a director other than by reason of death, disability, or retirement. The options expire one year following death or disability and five years following retirement. At December 31, 2009, the Company s outside directors held stock options as follows: Mr. Carley, 9,500 shares; Mr. Hicks, 11,750 shares; Mr. Johnson, 2,000 shares; Mr. Justesen, 5,750 shares; and Mr. Meeker, 12,500 shares.

(3) Represents amount reimbursed to cover income taxes arising out of imputed income from personal use of property in LaQuinta, California that is owned by the Company.

Effective at the close of business on March 4, 2010, directors received an option to purchase up to 2,000 shares of Common Stock subject to the same terms and conditions, including vesting conditions, of options granted in 2009.

CODE OF ETHICS

The Company has adopted a Code of Ethics for Senior Financial Officers (Code of Ethics), which is applicable to the Company s Chief Executive Officer, principal financial officer, and principal accounting officer. The Code of Ethics focuses on honest and ethical conduct, the adequacy of disclosure in financial reports of the Company, and compliance with applicable laws and regulations. The Code of Ethics is included as part of the Company s Code of Business Conduct, which is generally applicable to all of the Company s directors, officers, and employees. The Code of Business Conduct and Code of Ethics for Senior Financial Officers is available on the Company s website at *www.barrettbusiness.com*.

STOCK OWNERSHIP BY PRINCIPAL STOCKHOLDERS

AND MANAGEMENT

Beneficial Ownership Table

The following table gives information regarding the beneficial ownership of Common Stock as of March 26, 2010, by each director, by each executive officer named in the Summary Compensation Table on page 16, and by all directors and executive officers of the Company as a group. In addition, it gives information about each other person or group known to the Company to own beneficially more than 5% of the outstanding shares of Common Stock. Information as to beneficial stock ownership is based on data furnished by the stockholder.

Unless otherwise indicated, all shares listed as beneficially owned are held with sole voting and dispositive powers.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership[2]	Percent of Class
5 Percent Beneficial Owners		
Nancy B. Sherertz[1]	842,006[3]	8.0%
William W. Sherertz[1]	2,694,978[4]	25.5%
Directors and Executive Officers		
Thomas J. Carley	22,500	*
Michael L. Elich	76,248	*
James B. Hicks, Ph.D.	20,608	*
Roger L. Johnson	3,000	*
Jon L. Justesen	16,427	*
Anthony Meeker	16,385	*
James D. Miller	18,300	*
William W. Sherertz[1]	2,694,978[4]	25.5%
Gregory R. Vaughn	68,188	*
All directors and executive officers as a group (9 persons)	2,936,634	27.5%

* Less than 1% of the outstanding shares of Common Stock.

(1) The addresses of persons owning beneficially more than 5% of the outstanding Common Stock are as follows: Nancy B. Sherertz, 27023 Rigby Lot Road, Easton, MD 21601; and William W. Sherertz, 8100 N.E. Parkway Drive, Suite 200, Vancouver, Washington 98662. Nancy B. Sherertz and William W. Sherertz are not related to each other.

(2) Includes options to purchase Common Stock as follows: Mr. Carley, 8,000 shares; Mr. Elich, 33,873 shares; Dr. Hicks, 10,250 shares; Mr. Johnson, 500 shares; Mr. Justesen, 4,250 shares; Mr. Meeker, 11,000 shares; Mr. Miller, 15,800 shares; Mr. Sherertz, 99,197 shares; Mr. Vaughn, 39,449 shares; and all directors and executive officers as a group, 222,319 shares.

(3) Based on information contained in Amendment No. 8 to Schedule 13G filed by Ms. Sherertz on January 26, 2010. The amendment to Schedule 13G reports that Ms. Sherertz has sole voting and dispositive power with respect to the shares shown.

(4) Includes 15,150 shares held by Mr. Sherertz s wife, and 38,749 shares held by Mr. Sherertz for his children, as to each of which he shares voting and dispositive power.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16 of the Exchange Act (Section 16) requires that reports of beneficial ownership of Common Stock and changes in such ownership be filed with the SEC by Section 16 reporting persons, including directors, executive officers, and certain holders of more than 10% of the outstanding Common Stock. To the Company s knowledge, all Section 16 reporting requirements applicable to known reporting persons were complied with for transactions and stock holdings during 2009.

SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected Moss Adams LLP (Moss Adams) as the Company s independent registered public accounting firm to examine the financial statements of the Company for the fiscal year ending December 31, 2010.

Moss Adams was the Company s independent registered public accounting firm with respect to its audited financial statements for the year ended December 31, 2009. The Company expects representatives of Moss Adams to be present at the Annual Meeting and to be available to respond to appropriate questions. They will have the opportunity to make a statement at the Annual Meeting if they desire to do so.

MATTERS RELATING TO OUR

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Fees Paid to Principal Independent Registered Public Accounting Firm

The following fees were billed by Moss Adams for professional fees rendered to the Company in fiscal 2008 and 2009:

	2008	2009
Audit Fees(1)	$ 359,000	$ 334,500
Audit Related Fees(2)	$ 20,000	$ 22,310
Tax Fees(3)	$ 154,000	$ 120,276
All Other Fees	$	$

(1) Consists of fees for professional services rendered for the audit of the Company s annual financial statements for the year shown and for review of financial statements included in quarterly reports on Form 10-Q filed during that year.

(2) Refers to assurance and related services and subsidiary audit services that are reasonably related to the audit or review of a company s financial statements and that are not included in audit fees.

(3) Consists primarily of tax consulting services related to analysis of certain expense deductions and non-business income exclusions from taxable income in various states in which the Company conducts its business.

Pre-Approval Policy

The Company has adopted a policy requiring pre-approval by the Audit Committee of all fees and services of the Company s independent registered public accounting firm (the independent auditors), including all audit, audit-related, tax, and other legally permitted services. Under the policy, a detailed description of each proposed service is submitted to the Audit Committee jointly by the independent auditors and the Company s Chief Financial Officer, together with a statement from the independent auditors that such services are consistent with the SEC s rules on auditor independence. The policy permits the Audit Committee to pre-approve lists of audit, audit-related, tax, and other legally-permitted services. The maximum term of any preapproval is 12 months. Additional pre-approval is required for services not included in the pre-approved categories and for services exceeding pre-approved fee levels. The policy allows the Audit Committee to delegate its pre-approval authority to one or more of its members provided that a full report of any pre-approval decision is provided to the full Audit Committee at its next scheduled meeting. The Audit Committee pre-approved 100% of the fees described above.

AUDIT COMMITTEE REPORT

In discharging its responsibilities, the Audit Committee and its individual members have met with management and with the Company s independent auditors, Moss Adams LLP, to review their audit process and the Company s accounting functions. The Committee discussed and reviewed with the Company s independent auditors all matters that the independent auditors were required to communicate and discuss with the Committee under applicable auditing standards, including those described in Statement on Auditing Standards No. 61, as amended, regarding communications with audit committees. Committee members also discussed and reviewed the results of the independent auditors examination of the financial statements, and the quality and adequacy of the Company s internal controls. The independent auditors provided to the Committee the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding communications with the Committee concerning independence, and the Committee discussed with the independent auditors any relationships that may affect their objectivity and independence.

Based on its review and discussions with management and the Company s independent auditors, the Audit Committee recommended to the Board that the audited financial statements for the fiscal year ended December 31, 2009, be included in the Company s Annual Report on Form 10-K for filing with the SEC.

AUDIT COMMITTEE

Thomas J. Carley, Chair

James B. Hicks, Ph.D.

Roger L. Johnson

Anthony Meeker

EXECUTIVE COMPENSATION

Compensation Committee Report

The Compensation Committee is charged with carrying out the Board s overall responsibilities relating to compensation of the Company s executive officers. The Compensation Committee has reviewed the following section entitled Compensation Discussion and Analysis and has discussed its contents with members of the Company s management. Based on its review and discussions, the Compensation Committee has recommended to the Board of Directors that the following section be included in the proxy statement, as well as in the Company s Annual Report on Form 10-K for the year ended December 31, 2009, through its incorporation by reference from the proxy statement.

Submitted by the Compensation Committee of the Board of Directors:

Anthony Meeker, Chair

James B. Hicks, Ph.D.

Jon L. Justesen

Compensation Discussion and Analysis

Compensation Philosophy and Objectives. The Compensation Committee (for purposes of this section, the Committee) has responsibility for establishing, implementing, and continually monitoring adherence with the Company s compensation philosophy. The goal of the Committee is to ensure that the total compensation paid to the Company s executive officers is fair, reasonable, and competitive.

The Committee believes that the most effective executive compensation program is one that is designed to reward the achievement of specific annual or long-term strategic goals by the Company. The principles underlying our compensation policies are:

- To attract and retain qualified people;
- To provide competitive compensation relative to compensation paid to similarly situated executives; and
- To align the interests of executives to build long-term shareholder value.

2009 Executive Compensation Components. For the fiscal year ended December 31, 2009, the principal components of compensation for executive officers were:

- Base salary;
- Performance-based cash incentive compensation; and
- Grants of employee stock options.

Base Salary

In determining base salaries for executives, the Committee primarily considers:

Available market data;

Recommendations from the Chief Executive Officer;

Scope of responsibilities; and

Individual performance of the executive.

Salary levels of executive officers are reviewed periodically by the Committee and the CEO as part of the performance review process, as well as upon a promotion or other change in job responsibility. Merit-based salary increases for executive officers are based on the Committee s assessment of recommendations put forth by the CEO. In connection with its review of 2009 salary levels, the Compensation Committee reviewed public disclosures regarding executive compensation by Administaff, Inc., and other generally available information, such as national survey data published by the National Association of Corporate Directors. The Committee reviews and analyzes available data for purposes of providing background information regarding the general competitive position of the Company s salary structure and broad compensation trends. It is not used to set target compensation levels or benchmarks for any of the Company s elements of compensation.

Based on this review, the effects of the economic recession on the Company s operating results, and the recommendation of the CEO, the Compensation Committee did not increase base salary levels for the Company s executive officers during 2009.

In February 2010, the Committee conducted a similar review of available data, considered the recommendation of the CEO as to executive officers other than himself, and determined that the Company s officers have guided it through a very difficult economic period and positioned the Company to move forward with the economic recovery. Therefore, the Committee approved increases in executive officer salaries effective March 1, 2010, as follows: Mr. Sherertz, by 28% to $462,000; Mr. Elich, by 13% to $225,000; Mr. Vaughn, by 13% to $215,000; and Mr. Miller, by 9% to $190,000. The Committee increased Mr. Sherertz s salary by a larger amount in order to make up for long delayed increases and to be more competitive. The Committee also determined to increase Mr. Miller s salary by a lower percentage because he was the only officer to receive an increase in 2008.

Performance-Based Cash Incentive Compensation

The Company has in place an Annual Cash Incentive Bonus Award Program for Executive Officers (the Incentive Program). Under the Incentive Program, executive officers are eligible to receive an annual bonus based on the Company s annual Return on Equity (ROE). ROE is calculated by dividing the Company s current year s net income (before taking into account the provision for executive officer bonuses) by the Company s total shareholders equity as of December 31 of the preceding year. In February of each year, after the Company s financial results for the prior year have been finalized, bonuses are determined, in part, by multiplying the officer s salary during the preceding year by the Company s ROE. The Committee, in its discretion, may approve the payment of additional bonus amounts in excess of the amounts calculated under the pre-approved ROE formula.

In February 2010, the Committee determined that the Company s ROE for 2009 for purposes of the Incentive Program was a negative amount and therefore awarded no cash incentive bonuses for 2009.

Long-Term Equity Incentive Compensation

In early 2009, the Committee granted to all executive officers employee stock options under the Company s 2003 Stock Incentive Plan. Additional details regarding the grants are shown under Incentive Compensation below. The Committee believed the option grants were appropriate in light of the fact that no equity-based awards had been made to executive officers in the preceding two years other than to the Company s Chief Financial Officer in connection with his promotion to that position in June 2008. The grant to the Company s Chief Executive Officer was smaller due to his substantial existing equity position in the Company.

On May 13, 2009, the Company s shareholders approved the Company s 2009 Stock Incentive Plan (the 2009 Plan) authorizing the issuance of shares of Common Stock in connection with awards granted under the plan. The 2009 Plan is intended to replace the Company s 2003 Stock Incentive Plan, under which no new grants will be made. The maximum number of shares as to which awards may be granted under the 2009 Plan is 1,000,000 shares.

Stock options have an exercise price equal to or greater than the market value of the Common Stock on the date of grant. The amount of options granted to an executive officer is based on his performance and relative responsibilities and the Company s policies and practices at the time.

Retirement and Other Benefits

Employees, including executive officers, may participate in the Company s 401(k) defined contribution plan. The Company matches each employee s contributions at a rate of 100% on the first 3% of salary deferrals and 50% on the next 2% of salary deferrals, with a maximum Company-paid match of $9,800. Mr. Sherertz is also provided with an automobile allowance and occasionally uses the Company s airplane for personal purposes.

Mr. Elich has an employment agreement with the Company that provides for severance benefits in certain circumstances as described under Potential Payments upon Termination or Change in Control below.

Deductibility of Executive Compensation. The Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which limits the deductibility for federal income tax purposes of annual compensation totaling more than $1,000,000 paid to certain executive officers, with exceptions for qualifying performance-based compensation. The Company believes that compensation paid to its executive officers is fully deductible for federal income tax purposes.

Summary Compensation Table

The following table sets forth information regarding compensation received by the Chief Executive Officer, the Chief Financial Officer, and the other two individuals who served as executive officers during 2009.

Name and Principal Position	Year	Salary	Option Awards(2)	Non-Equity Incentive Plan Compensation(3)	All Other Compensation(4)	Total Compensation
William W. Sherertz	2009	$ 350,000	$ 10,218	$	$ 142,902	$ 503,120
President and Chief Executive Officer	2008	$ 350,000		$ 30,156	$ 142,037	$ 522,193
	2007	$ 350,000		$		