

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13  
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended March 31, 2010**

**Commission File No. 0-21886**

**BARRETT BUSINESS SERVICES, INC.**

**(Exact name of registrant as specified in its charter)**

**Maryland**  
**(State or other jurisdiction of  
incorporation or organization)**

**52-0812977**  
**(IRS Employer  
Identification No.)**

**8100 NE Parkway Drive, Suite 200**  
**Vancouver, Washington**  
**(Address of principal executive offices)**

**98662**  
**(Zip Code)**

**(360) 828-0700**  
**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares of common stock, \$.01 par value, outstanding at April 30, 2010 was 10,461,329 shares.

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BARRETT BUSINESS SERVICES, INC.

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## Part I - Financial Information

## Item 1. Financial Statements

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

	March 31, 2010	December 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 28,094	\$ 36,671
Marketable securities	15,255	13,766
Trade accounts receivable, net	44,517	33,070
Income taxes receivable	3,861	4,274
Prepaid expenses and other	2,550	979
Deferred income taxes	5,265	4,071
Total current assets	99,542	92,831
Marketable securities	7,602	7,473
Property, equipment and software, net	14,915	14,795
Restricted marketable securities and workers' compensation deposits	8,896	2,666
Other assets	3,108	3,104
Workers' compensation receivables for insured losses and recoveries	3,675	3,865
Goodwill, net	47,820	47,338
	<u>\$ 185,558</u>	<u>\$ 172,072</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 494	\$ 1,117
Accrued payroll, payroll taxes and related benefits	46,256	30,244
Other accrued liabilities	564	499
Workers' compensation claims liabilities	10,400	10,509
Safety incentives liability	4,159	4,437
Total current liabilities	61,873	46,806
Long-term workers' compensation claims liabilities	15,493	14,560
Long-term workers' compensation claims liabilities for insured claims	2,702	2,729
Deferred income taxes	6,323	6,323
Customer deposits and other long-term liabilities	1,506	1,527
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value; 500 shares authorized; no shares issued and outstanding	—	—
Common stock, \$.01 par value; 20,500 shares authorized, 10,461 and 10,466 shares issued and outstanding	105	105
Additional paid-in capital	28,325	28,358
Accumulated other comprehensive income	346	256
Retained earnings	68,885	71,408
	<u>97,661</u>	<u>100,127</u>
	<u>\$ 185,558</u>	<u>\$ 172,072</u>

The accompanying notes are an integral part of these financial statements

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

	Three Months Ended	
	March 31,	
	2010	2009
Revenues:		
Staffing services	\$27,062	\$24,042
Professional employer service fees	31,198	27,030
Total revenues	58,260	51,072
Cost of revenues:		
Direct payroll costs	20,436	18,069
Payroll taxes and benefits	24,628	22,627
Workers' compensation	7,819	6,687
Total cost of revenues	52,883	47,383
Gross margin	5,377	3,689
Selling, general and administrative expenses	8,224	8,040
Depreciation and amortization	377	386
Loss from operations	(3,224)	(4,737)
Other income:		
Investment income, net	184	250
Other	101	(135)
Other income	285	115
Loss before income taxes	(2,939)	(4,622)
Benefit from income taxes	(1,253)	(1,448)
Net income	<u>\$ (1,686)</u>	<u>\$ (3,174)</u>
Basic loss per share	<u>\$ (.16)</u>	<u>\$ (.30)</u>
Weighted average number of basic shares outstanding	10,466	10,497
Diluted loss per share	<u>\$ (.16)</u>	<u>\$ (.30)</u>
Weighted average number of diluted shares outstanding	10,466	10,497

The accompanying notes are an integral part of these financial statements

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

	Three Months Ended	
	March 31,	
	2010	2009
Cash flows from operating activities:		
Net loss	\$ (1,686)	\$(3,174)
Reconciliations of net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	377	386
(Gains) losses recognized on marketable securities	(102)	134
Gain recognized on sale and leaseback	(30)	(31)
Deferred income taxes	(1,253)	(1,448)
Share based compensation	32	25
Changes in certain assets and liabilities, net of amounts purchased in acquisitions:		
Trade accounts receivable, net	(11,447)	(1,990)
Income taxes receivable	413	—
Prepaid expenses and other	(1,571)	(1,300)
Accounts payable	(623)	325
Accrued payroll, payroll taxes and related benefits	16,012	7,369
Other accrued liabilities	(60)	(227)
Workers' compensation claims liabilities	987	817
Safety incentives liability	(278)	(111)
Customer deposits, long-term liabilities and other assets, net	10	(68)
Net cash provided by operating activities	<u>781</u>	<u>707</u>
Cash flows from investing activities:		
Cash paid for acquisitions	(375)	—
Purchase of property and equipment, net of amounts purchased in acquisitions	(484)	(359)
Proceeds from sales and maturities of marketable securities	399	6,004
Purchase of marketable securities	(5,078)	—
Proceeds from maturities of restricted marketable securities	1,409	1,207
Purchase of restricted marketable securities	(4,327)	(1,638)
Net cash (used in) provided by investing activities	<u>(8,456)</u>	<u>5,214</u>
Cash flows from financing activities:		
Proceeds from credit-line borrowings	—	323
Payments on credit-line borrowings	—	(323)
Proceeds from exercise of stock options	—	9
Dividends paid	(837)	(844)
Repurchase of common stock	(65)	(2,174)
Tax benefit of stock option exercises	—	13
Net cash used in financing activities	<u>(902)</u>	<u>(2,996)</u>
Net (decrease) increase in cash and cash equivalents	(8,577)	2,925
Cash and cash equivalents, beginning of period	<u>36,671</u>	<u>42,214</u>
Cash and cash equivalents, end of period	<u>\$ 28,094</u>	<u>\$ 45,139</u>
Supplemental schedule of noncash investing activities:		
Acquisitions of other businesses:		
Cost of acquisitions in excess of fair market value of net assets acquired	\$ 357	\$ —
Intangible assets acquired	15	—
Tangible assets acquired	3	—
Net cash paid for acquisitions	<u>\$ 375</u>	<u>\$ —</u>

The accompanying notes are an integral part of these financial statements

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

**Note 1 - Basis of Presentation of Interim Period Statements**

The accompanying consolidated financial statements are unaudited and have been prepared by Barrett Business Services, Inc. ("Barrett", "BBSI" or the "Company"), pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures typically included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from such estimates and assumptions. The consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2009 Annual Report on Form 10-K at pages F1 - F28. The results of operations for an interim period are not necessarily indicative of the results of operations for a full year. Certain prior year amounts have been reclassified to conform with the current year presentation. Such reclassifications had no impact on net income or stockholders' equity.

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 cost to capitalize the insurance company was approximately \$6.1 million and is included in restricted marketable securities and workers' compensation deposits in the consolidated balance sheet.

**Marketable securities**

As of March 31, 2010, the Company's marketable securities consisted of tax-exempt municipal securities, variable rate demand notes ("VRDN"), closed-end bond funds, equity securities and corporate bonds. The Company classifies municipal securities, VRDN, the closed-end bond funds 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 other comprehensive income (loss) in stockholders' equity. In the event a loss is determined to be other-than-temporary, the loss will be recognized in the statement of operations. The equity securities are classified as trading and are reported at fair value with unrealized gains and losses 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.

**Allowance for doubtful accounts**

The Company had an allowance for doubtful accounts of \$537,000 and \$516,000 at March 31, 2010 and December 31, 2009, respectively. The Company must make estimates of the collectibility of accounts receivable. Management analyzes historical bad debts, customer concentrations, customer creditworthiness, current economic conditions and changes in customers' payment trends when evaluating the adequacy of the allowance for doubtful accounts. The Company deems an account balance uncollectible only after it has pursued all available assets of the customer and, where applicable, the assets of the personal guarantor.

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

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

**Workers' compensation claims**

The Company is a self-insured employer with respect to workers' compensation coverage for all of its employees (including employees subject to Professional Employer Organization ("PEO") contracts) working in California, Oregon, Maryland, Delaware and Colorado. In the state of Washington, state law allows only the Company's staffing services and internal management employees to be covered under the Company's self-insured workers' compensation program. Additionally, effective January 5, 2010, we incorporated a wholly-owned fully licensed insurance company in Arizona to provide workers' compensation coverage to our employees in Arizona.

To manage our financial exposure, in the event of catastrophic injuries or fatalities, we maintain excess workers' compensation insurance through our wholly owned captive insurance company, Associated Insurance Company for Excess ("AICE"), with a per occurrence retention of \$5.0 million, except in Maryland and Colorado, where our per occurrence retention is \$1.0 million and \$500,000, respectively. AICE maintains excess workers' compensation insurance coverage with AIG between \$5.0 million and \$15.0 million per occurrence, except in Maryland, where coverage with AIG is between \$1.0 million and \$25.0 million per occurrence, and in Colorado, where the coverage with AIG is between \$500,000 and statutory limits per occurrence. AIG's exposure to subprime mortgage securities and disruptions in the U.S. financial markets has adversely impacted AIG. However, AIG's commercial insurance subsidiary continues to be a fully accepted insurance carrier for all major brokers. As a result, we do not expect these developments to have a material impact on our insurance coverage with AIG. However, we will continue to evaluate the financial capacity of our insurers to assess the recoverability of the related insurer receivables.

The Company has provided a total of \$28.6 million and \$27.8 million at March 31, 2010 and December 31, 2009, 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 \$2.7 million at March 31, 2010 and December 31, 2009, 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 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, thereby meeting certain established loss objectives. The Company has provided \$4.2 million at March 31, 2010 and \$4.4 million at December 31, 2009 as an estimate of the liability for unpaid safety incentives. The incentive is based on a percentage of annual payroll and is paid annually to customers who meet predetermined workers' compensation claims cost objectives. Safety incentive payments are made only after closure of all workers' compensation claims incurred during the customer's

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

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

**Safety incentives liability (Continued)**

contract period. The liability is estimated and accrued each month based upon the incentive earned less the then-current amount of the customer's estimated workers' compensation claims reserves as established by the Company's internal and third-party claims administrators, adjusted for expected future development of claims reserves.

**Comprehensive income (loss)**

Comprehensive income (loss) includes all changes in equity during a period except those that resulted from investments by or distributions to a company's stockholders. Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under GAAP are included in comprehensive income (loss), but are excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity. The Company's other comprehensive income (loss) is comprised of unrealized holding gains and losses on its publicly traded marketable securities designated as "available-for-sale", net of realized gains or losses included in net income.

**Note 2 - Recent Accounting Pronouncements**

**Business Combinations and Identification of Reporting Units** - On January 1, 2009, the Company adopted authoritative guidance on accounting for business combinations. The guidance establishes principles and requirements for determining how an enterprise recognizes and measures the fair value of assets and liabilities acquired in a business combination, including noncontrolling interests, contingent consideration, and certain acquired contingent liabilities. The guidance also requires acquisition-related transaction and restructuring costs to be expensed as incurred rather than capitalized as a component of the business combination. Any changes in the Company's valuation allowances for acquired deferred tax assets attributable to prior business combinations will generally be reflected in income tax expense in the period in which the change occurs.

Additionally, the newly adopted authoritative guidance changes the definition of a "business" which can have impacts on the identification of reporting units used to measure goodwill for impairment. The Company has assessed this impact and has determined there are no material impacts to the identified reporting units to which goodwill is assigned and the related impairment testing of such goodwill.

**Variable Interest Entities** - In June 2009, the FASB amended previously issued authoritative guidance on the consolidation of variable interest entities. The amended guidance is effective for reporting periods beginning after November 15, 2009. The new guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of the primary beneficiary who exercises control over such entities and is required to consolidate the variable interest entity and additional disclosure when the reporting entity holds a variable interest in a variable interest entity but is not the primary beneficiary. Determinations of whether the Company holds a variable interest in a variable interest entity and the determination of who was the primary beneficiary that were made previously are not allowed to be carried forward. The adoption of the new authoritative guidance effective for the first year quarter of 2010 has not a material effect on our consolidated financial statements.



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

**Note 3 - Basic and Diluted Earnings Per Share**

Basic earnings per share are computed based on the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the potential effects of the exercise of outstanding stock options. Basic and diluted shares outstanding are summarized as follows:

	Three Months Ended	
	March 31,	
	2010	2009
Weighted average number of basic shares outstanding	10,465,662	10,496,521
Stock option plan shares to be issued at prices ranging from \$2.00 to \$17.50 per share	—	—
Less: Assumed purchase at average market price during the period using proceeds received upon exercise of options and purchase of stock, and using tax benefits of compensation due to premature dispositions	—	—
Weighted average number of diluted shares outstanding	<u>10,465,662</u>	<u>10,496,521</u>

As a result of the net loss reported for the three months ended March 31, 2010 and 2009, 28,282 and 191,457 potential common shares have been excluded from the calculation of diluted loss per share, respectively, because their effect would be anti-dilutive.

**Note 4 - Stock Incentive Plans and Stock-Based Compensation**

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 March 31, 2010, there were option awards covering 315,319 shares outstanding under the 2003 Plan and its predecessor, the 1993 Stock Incentive Plan. Outstanding options under both 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.

In accordance with the current accounting guidance for share-based payments, the Company recognizes compensation expense for options awarded under its stock incentive plans. Current accounting guidance requires the grant-date fair value of all share-based payment awards, including employee stock options, to be recognized as employee compensation expense over the requisite service period.

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

**Note 4 - Stock Incentive Plans and Stock-Based Compensation (Continued)**

The following table summarizes options activity in 2010:

	Number of Options	Grant Prices
Outstanding at December 31, 2009	315,319	\$ 2.00 to \$ 17.50
Options granted	62,000	\$13.38
Options exercised	—	
Options cancelled or expired	—	
Outstanding at March 31, 2010	<u>377,319</u>	\$ 2.00 to \$ 17.50
Exercisable at March 31, 2010	<u>248,194</u>	
Available for grant at March 31, 2010	<u>938,000</u>	

The following table presents information on stock options outstanding for the periods shown:

<u>(\$ in thousands, except per share data)</u>	Three Months Ended March 31,	
	2010	2009
Intrinsic value of options exercised in the period	\$ —	\$ 33

  

	As of March 31,	
	2010	2009
Stock options:		
Number of options	377,319	575,819
Options fully vested and currently exercisable	248,194	486,319
Weighted average exercise price	\$ 13.60	\$ 8.14
Aggregate intrinsic value	\$ 329	\$ 2,067
Weighted average contractual term of options	6.67 years	5.48 years

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.

Stock-based compensation expense for the three months ended March 31, 2010 and 2009 was \$32,000 and \$25,000, respectively.

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

**Note 4 - Stock Incentive Plans and Stock-Based Compensation (Continued)**

The fair value of the stock-based awards, as determined under the Black-Scholes model, granted in the three months ended March 31, 2010 and 2009 were \$344,000 and \$349,000 or \$5.54 and \$4.39 per share, respectively, estimated with the following weighted-average assumptions:

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Stock options:		
Risk-free interest rate	3.00%	1.36%
Expected dividend yield	2.39%	2.93%
Expected term	7.0 years	7.1 years
Expected volatility	58.83%	61.94%

The following table summarizes stock-based compensation expense related to stock option awards for the three months ended March 31, 2010 and 2009 (in thousands):

	Three Months Ended March 31,	
	2010	2009
Stock-based compensation expense included in selling, general and administrative expenses	\$ 32	\$ 25
Income tax benefit related to stock-based compensation	13	10
Stock-based compensation expense related to stock options, net of tax	<u>\$ 19</u>	<u>\$ 15</u>

As of March 31, 2010 unamortized compensation expense related to stock options was \$604,000.

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

**Note 5 - Workers' Compensation**

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

	Three Months Ended March 31,	
	2010	2009
Beginning balance		
Workers' compensation claims liabilities	\$27,798	\$15,084
Add: claims expense accrual	4,036	3,419
Less: claim payments related to:		
Current year	187	100
Prior years	3,052	2,664
Total paid	<u>3,239</u>	<u>2,764</u>
Ending balance		
Workers' compensation claims liabilities	<u>\$28,595</u>	<u>\$15,739</u>
Incurred but not reported (IBNR)	<u>\$17,679</u>	<u>\$ 6,539</u>

During the second quarter of 2009, the Company engaged a new actuary to review its workers' compensation liabilities. While the Company historically obtained an actuarial study, management determined the study was not the best estimate of the workers' compensation liability. Based upon discussions with the new actuary and a thorough review of the Company's reserving process and consideration of recent developments, management determined the actuarial estimate as of June 30, 2009 was the best estimate of the ultimate cost to settle open claims. Our primary considerations included the significant erosion in the economy, the increasing complexity and uncertainty surrounding healthcare costs, unexpected development in open claims and growth in our business. The change in estimate resulted in the Company increasing its workers' compensation claims liabilities by approximately \$11.8 million at June 30, 2009.

**Note 6 - 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.

The Company has determined that its closed-end bond funds and equity securities components of its marketable securities fall into the Level 1 category. The Company has also determined its municipal bonds, VRDN and corporate bonds components fall into the Level 2 category.

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Notes to Consolidated Financial Statements (Unaudited) (Continued)**Note 6 - Fair Value Measurement (Continued)**

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 investments (in thousands):

	March 31, 2010			December 31, 2009		
	Cost Basis	Gross Unrealized Gains (Losses)	Recorded Basis	Cost Basis	Gross Unrealized Gains (Losses)	Recorded Basis
Current:						
Trading:						
Equity securities	\$ 349	\$ (25)	\$ 324	\$ 349	\$ (24)	\$ 325
Available-for-sale:						
Municipal bonds	13,773	—	13,773	11,637	—	11,637
Variable rate demand notes	400	—	400	400	—	400
Closed-end bond funds	349	409	758	491	402	893
U.S. treasuries	—	—	—	511	—	511
	<u>\$14,871</u>	<u>\$ 384</u>	<u>\$15,255</u>	<u>\$13,388</u>	<u>\$ 378</u>	<u>\$13,766</u>
Long term:						
Available-for-sale:						
Corporate bonds	\$ 6,928	\$ 235	\$ 7,163	\$ 6,947	\$ 89	\$ 7,036
Held-to-maturity:						
Corporate bonds	439	—	439	437	—	437
	<u>\$ 7,367</u>	<u>\$ 235</u>	<u>\$ 7,602</u>	<u>\$ 7,384</u>	<u>\$ 89</u>	<u>\$ 7,473</u>

During the first quarter ended March 31, 2010, the Company realized a \$103,000 gain on the sale of certain closed-end bond funds.

BARRETT BUSINESS SERVICES, INC.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Overview

Barrett Business Services, Inc. ("Barrett", the "Company" or "we"), a Maryland corporation, offers a comprehensive range of human resource management services to help small and medium-sized businesses manage the increasing costs and complexities of a broad array of employment-related issues. The Company's principal services, professional employer organization ("PEO") services and staffing services, assist its clients in leveraging their investment in human capital. The Company believes that the combination of these two principal services enables it to provide clients with a unique blend of services not offered by the Company's competition. Barrett's platform of outsourced human resource management services is built upon expertise in payroll processing, employee benefits and administration, workers' compensation coverage, effective risk management and workplace safety programs, and human resource administration.

To provide PEO services to a client, the Company enters into a contract to become a co-employer of the client's existing workforce and Barrett assumes responsibility for some or all of the client's human resource management responsibilities. 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, renewable annually, which cover all employees at a particular work site. Staffing services include on-demand or short-term staffing assignments, long-term or indefinite-term contract staffing and comprehensive on-site management. The Company's staffing services also include direct placement services, which involve fee-based search efforts for specific employee candidates at the request of PEO clients, staffing customers or other companies.

The Company's ability to offer clients a broad mix of services allows Barrett to effectively become the human resource department and a strategic business partner for its clients. The Company believes its approach to human resource management services is designed to positively affect its clients' business results by:

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

The Company serves a growing and diverse client base of small and medium-sized businesses in a wide variety of industries through a network of branch offices in California, Oregon, Washington, Idaho, Arizona, Utah, Colorado, Maryland, Delaware and North Carolina. Barrett also has several smaller recruiting offices in its general market areas, which are under the direction of a branch office.

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## BARRETT BUSINESS SERVICES, INC.

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

The following table sets forth percentages of total revenues represented by selected items in the Company's Consolidated Statements of Operations for the three months ended March 31, 2010 and 2009.

	Percentage of Total Revenues Three Months Ended	
	March 31,	
	2010	2009
Revenues:		
Staffing services	46.4%	47.1%
Professional employer service fees	53.6	52.9
Total revenues	<u>100.0</u>	<u>100.0</u>
Cost of revenues:		
Direct payroll costs	35.1	35.4
Payroll taxes and benefits	42.3	44.3
Workers' compensation	13.4	13.1
Total cost of revenues	<u>90.8</u>	<u>92.8</u>
Gross margin	9.2	7.2
Selling, general and administrative expenses	14.1	15.7
Depreciation and amortization	0.6	0.8
Loss from operations	(5.5)	(9.3)
Other income	0.5	0.3
Loss before income taxes	(5.0)	(9.0)
Benefit from income taxes	(2.1)	(2.8)
Net loss	<u>(2.9)%</u>	<u>(6.2)%</u>

We report PEO revenues in accordance with the current accounting guidance for revenue recognition, which requires us to report such 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 set forth in the table below. Although not in accordance with GAAP, management believes this information is more informative as to the level of our business activity and more illustrative of how we manage our operations, including the preparation of our internal operating forecasts, because it presents our PEO services on a basis comparable to our staffing services.

## BARRETT BUSINESS SERVICES, INC.

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

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 a 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.

<u>(in thousands)</u>	<u>Unaudited Three Months Ended March 31,</u>	
	<u>2010</u>	<u>2009</u>
Revenues:		
Staffing services	\$ 27,062	\$ 24,042
Professional employer services	<u>235,495</u>	<u>203,825</u>
Total revenues	<u>262,557</u>	<u>227,867</u>
Cost of revenues:		
Direct payroll costs	223,547	193,556
Payroll taxes and benefits	24,628	22,626
Workers' compensation	<u>9,005</u>	<u>7,996</u>
Total cost of revenues	<u>257,180</u>	<u>224,178</u>
Gross margin	<u>\$ 5,377</u>	<u>\$ 3,689</u>



## BARRETT BUSINESS SERVICES, INC.

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

A reconciliation of non-GAAP gross PEO revenues to net PEO revenues is as follows:

<u>(in thousands)</u>	Unaudited					
	Gross Revenue		Reclassification		Net Revenue	
	Reporting Method		Reporting Method		Reporting Method	
	2010	2009	2010	2009	2010	2009
Revenues:						
Staffing services	\$ 27,062	\$ 24,042	\$ —	\$ —	\$ 27,062	\$ 24,042
Professional employer services	235,495	203,825	(204,297)	(176,795)	31,198	27,030
Total revenues	<u>\$262,557</u>	<u>\$227,867</u>	<u>\$ (204,297)</u>	<u>\$ (176,795)</u>	<u>\$ 58,260</u>	<u>\$ 51,072</u>
Cost of revenues	<u>\$257,180</u>	<u>\$224,178</u>	<u>\$ (204,297)</u>	<u>\$ (176,795)</u>	<u>\$ 52,883</u>	<u>\$ 47,383</u>

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

**Three months ended March 31, 2010 and 2009**

Net loss for the first quarter of 2010 amounted to \$1.7 million, an improvement of \$1.5 million over the net loss of \$3.2 million for the first quarter of 2009. The improvement for the first quarter of 2010 was primarily due to a 14.1% increase in revenues and a decline in payroll taxes and benefits as a percentage of revenues. Diluted loss per share for the first quarter of 2010 was \$.16 compared to diluted loss per share of \$.30 for the comparable 2009 period.

Revenues for the first quarter of 2010 totaled \$58.3 million, an increase of approximately \$7.2 million or 14.1%, which reflects an increase in the Company's PEO service fee revenue of \$4.2 million or 15.4% and an increase in staffing services revenue of \$3.0 million or 12.6%. Our growth in PEO revenues was attributable to new customers as PEO business from new customers during the first quarter of 2010 exceeded the sum of our lost PEO business compared to the first quarter of 2009 from former customers and the decline in hours worked at existing PEO customer worksites. Staffing revenues increased as a result of an increased demand for our staffing services from existing customers in our northwest and intermountain markets as our new staffing business during the quarter nearly offset the loss of business from former customers. Management expects demand for the Company's staffing services will continue to reflect overall economic conditions in its market areas.

Gross margin for the first quarter of 2010 totaled approximately \$5.4 million or an increase of \$1.7 million over the first quarter of 2009, primarily due to a 14.1% increase in revenues and lower payroll taxes and benefits, as a percentage of revenues. The decrease in payroll taxes and benefits, as a percentage of revenues, from 44.3% for the first quarter of 2009 to 42.3% for the first quarter of 2010, was primarily a result of the Company changing to client

BARRETT BUSINESS SERVICES, INC.

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

Results of Operations (Continued)

*Three months ended March 31, 2010 and 2009 (Continued)*

specific state unemployment wage reporting in California for all our PEO clients. The change resulted in a decline in the Company's overall average effective California state unemployment tax rate. These wages were previously all reported under BBSI's account which generally has a higher unemployment tax rate due to the impact of our staffing employee population.

Workers' compensation expense, as a percent of revenues, increased from 13.1% in the first quarter of 2009 to 13.4% in the first quarter of 2010. Workers' compensation expense for the first quarter of 2010 totaled \$7.8 million, compared to \$6.7 million for the first quarter of 2009. The increase in dollars was primarily due to an increase in the number of injury claims incurred during the 2010 quarter.

The decrease in direct payroll costs, as a percentage of revenues, from 35.4% for the first quarter of 2009 to 35.1% for the first quarter of 2010 was primarily due to the increase in our mix of PEO services over the first quarter of 2009 where PEO service fee revenue is reflected net of direct payroll costs.

Selling, general and administrative ("SG&A") expenses for the first quarter of 2010 amounted to approximately \$8.2 million, an increase of \$184,000 or 2.3% over the first quarter of 2009. The slight increase over the first quarter of 2009 was primarily attributable to an increased level of business activity.

Other income for the first quarter of 2010 was \$285,000 compared to other income of \$115,000 for the first quarter of 2009. The increase in other income for the first quarter of 2010 was primarily attributable to a gain of \$103,000 on the sale of certain closed-end bond funds.

The benefit from income taxes for the first quarter of 2010 included an additional benefit of \$248,000 primarily from a reduction to a deferred tax asset allowance as sales of certain closed-end bond funds during the first quarter of 2010 allowed the Company to apply current year capital losses to 2009 capital gains.

Factors Affecting Quarterly Results

The Company has historically experienced significant fluctuations in its quarterly operating results and expects such fluctuations to continue in the future. The Company's operating results may fluctuate due to a number of factors such as seasonality, wage limits on statutory payroll taxes, claims experience for workers' compensation, demand and competition for the Company's services and the effect of acquisitions. The Company's revenue levels may fluctuate from quarter to quarter primarily due to the impact of seasonality on its staffing services business and on certain of its PEO clients in the agriculture, food processing and construction-related industries. As a result, the Company may have greater revenues and net income in the third quarter of its fiscal year. Revenue levels in the fourth quarter may be affected by many customers' practice of operating on holiday-shortened schedules. Payroll taxes and benefits fluctuate with the level of direct payroll costs, but tend to represent a smaller percentage of revenues and direct payroll later in the Company's fiscal year as federal and state

BARRETT BUSINESS SERVICES, INC.

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

Factors Affecting Quarterly Results

statutory wage limits for unemployment and social security taxes are exceeded on a per employee basis. Workers' compensation expense varies with both the frequency and severity of workplace injury claims reported during a quarter and the estimated future costs of such claims. Adverse loss development of prior period claims during a subsequent quarter may also contribute to the volatility in the Company's estimated workers' compensation expense.

Liquidity and Capital Resources

The Company's cash position for the three months ended March 31, 2010 decreased \$8.6 million from December 31, 2009, which compares to an increase of \$2.9 million for the comparable period in 2009. The decrease in cash at March 31, 2010 as compared to December 31, 2009, was primarily due to purchases of marketable securities of \$5.1 million, net purchases of restricted marketable securities of \$2.9 million and cash dividends paid of \$837,000.

Net cash provided by operating activities for the three months ended March 31, 2010 amounted to \$781,000 compared to \$707,000 for the comparable 2009 period. For the three months ended March 31, 2010, cash flow was principally provided by an increase in accrued payroll, payroll taxes and related benefits of \$16.0 million, partially offset by a net loss of \$1.7 million, an increase in trade accounts receivable of \$11.4 million and an increase in prepaid expenses and other of \$1.6 million.

Net cash used in investing activities for the three-month period ended March 31, 2010 was \$8.5 million as compared to cash provided by investing activities of \$5.2 million for the similar 2009 period. For the 2010 period, cash from investing activities was principally used in the purchase of marketable securities totaling \$5.1 million and the purchases of restricted marketable securities of \$4.3 million, partially offset by the proceeds from the sales and maturities of restricted marketable securities of \$1.4 million. Approximately \$2.8 million of the purchases of restricted marketable securities coupled with \$3.3 million of existing marketable securities were used to capitalize the Company's wholly-owned fully licensed insurance company in Arizona. The remaining transactions related to restricted marketable securities were scheduled maturities and the related replacement of such securities held for workers' compensation surety deposit purposes. The Company presently has no material long-term capital commitments.

Net cash used in financing activities for the three-month period ended March 31, 2010 was \$902,000 as compared to cash used in financing activities of \$3.0 million for the similar 2009 period. For the 2010 period, the principal use of cash for financing activities was the payment of regular quarterly cash dividends totaling \$837,000 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 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.

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

Liquidity and Capital Resources (Continued)

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 March 31, 2010 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 March 31, 2010.

Management expects that current liquid assets and 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.

Inflation

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

Forward-Looking Information

Statements in this report which are not historical in nature, including discussion of economic conditions in the Company's market areas and effect on revenue levels, the potential for and effect of 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 the effect of changes in estimate of its claims liabilities, the adequacy of the Company's allowance for doubtful accounts, the effect of the Company's formation of a wholly owned, fully licensed captive insurance subsidiary and becoming self-insured for certain business risks, the financial viability of the Company's excess insurance carriers, the effectiveness of the Company's management information systems, payment of future dividends, and the availability of 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

BARRETT BUSINESS SERVICES, INC.

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

Company include the ability to retain current customers, difficulties associated with integrating acquired businesses and clients into the Company's operations, economic trends in the Company's service areas, material deviations from expected future workers' compensation claims experience, the effect of changes in the workers' compensation regulatory environment in one or more of the Company's primary markets, 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, 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, and the use of \$43.3 million in cash and current marketable securities, among others. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company's exposure to market risk for changes in interest rates primarily relates to its investment portfolio of liquid assets. As of March 31, 2010, the Company's investment portfolio consisted principally of approximately \$26.4 million in tax-exempt money market funds, \$13.8 million in tax-exempt municipal bonds with an average maturity of 132 days, and approximately \$8.4 million in bond funds and corporate bonds. Based on the Company's overall interest exposure at March 31, 2010, 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 4. Controls and Procedures**

Evaluation of Disclosure Controls and Procedures

As of March 31, 2010, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on the evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

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BARRETT BUSINESS SERVICES, INC.

Part II – Other Information

**Item 1A. Risk Factors**

There have been no material changes in our risk factors from those disclosed in our 2009 Annual Report on Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table summarizes information related to stock repurchases during the quarter ended March 31, 2010.

<u>Month</u>	<u>Total Number of Shares Repurchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Repurchased as Part of Publicly Announced Plan (1)</u>	<u>Maximum Number of Shares that May Yet Be Repurchased Under the Plan (1)</u>
January	—	\$ —	—	—
February	—	—	—	—
March	<u>5,065</u>	12.78	<u>5,065</u>	1,809,200
Total	<u><u>5,065</u></u>		<u><u>5,065</u></u>	

- (1) In November 2006, the Board adopted a stock repurchase program and authorized the repurchase of up to 500,000 shares of the Company's stock from time to time in open market purchases. In November 2007, the Board approved an increase in the authorized shares to be repurchased up to 1.0 million shares. In October 2008, the Board approved a second increase in the authorized shares to be repurchased up to 3.0 million shares.

**Item 6. Exhibits**

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

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SIGNATURES

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

Date: May 10, 2010

BARRETT BUSINESS SERVICES, INC.  
(Registrant)

/s/ James D. Miller

James D. Miller  
Vice President-Finance, Treasurer and Secretary  
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

<u>Exhibit</u>	
10.1	Form of Incentive Stock Option Award Agreement under the Registrant's 2009 Stock Incentive Plan (the "2009 Plan").
10.2	Form of Employee Nonqualified Stock Option Award Agreement under the 2009 Plan.
10.3	Form of Non-Employee Director Nonqualified Stock Option Award Agreement under the 2009 Plan.
31.1	Certification of the Chief Executive Officer under Rule 13a-14(a).
31.2	Certification of the Chief Financial Officer under Rule 13a-14(a).
32	Certification pursuant to 18 U.S.C. Section 1350.



**AWARD AGREEMENT  
Under The  
Barrett Business Services, Inc.  
2009 Stock Incentive Plan**

**INCENTIVE STOCK OPTION**

Corporation: **BARRETT BUSINESS SERVICES, INC.**  
8100 N.E. Parkway Drive, Suite 200  
Vancouver, Washington 98662

Participant: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Date: \_\_\_\_\_, 20\_\_

Corporation maintains the Barrett Business Services, Inc., 2009 Stock Incentive Plan (the "Plan").

This Award Agreement evidences the grant of an Incentive Stock Option (the "Option") to Participant.

The parties agree as follows:

**1. Defined Terms**

When used in this Agreement, the following terms have the meaning specified below:

(a) "**Acquiring Person**" means any person or related person or related persons which constitute a "group" for purposes of Section 13(d) and Rule 13d-5 under the Securities Exchange Act of 1934 (the "Exchange Act"), as such Section and Rule are in effect as of the Grant Date; provided, however, that the term Acquiring Person shall not include (i) Corporation or any of its Subsidiaries, (ii) any employee benefit plan of Corporation or any of its Subsidiaries, (iii) any entity holding voting capital stock of Corporation for or pursuant to the terms of any such employee benefit plan, or (iv) any person or group solely because such person or group has voting power with respect to capital stock of Corporation arising from a revocable proxy or consent given in response to a public proxy or consent solicitation made pursuant to the Exchange Act.

(b) "**Change in Control**" means:

(i) A change in control of Corporation of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A as in effect on the Grant Date pursuant to the Exchange Act; provided that, without limitation, such a change in control shall be deemed to have occurred at

such time as any Acquiring Person hereafter becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 30 percent or more of the combined voting power of Voting Securities; or

(ii) During any period of 12 consecutive calendar months, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof unless the election, or the nomination for election, by Corporation shareholders of each new director was approved by a vote of at least a majority of the directors then in office who were directors at the beginning of the period; or

(iii) There shall be consummated (i) any consolidation or merger of Corporation in which Corporation is not the continuing or surviving corporation or pursuant to which Voting Securities would be converted into cash, securities, or other property, other than a merger of Corporation in which the holders of Voting Securities immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (ii) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of Corporation; or

(iv) Approval by the shareholders of Corporation of any plan or proposal for the liquidation or dissolution of Corporation.

(c) “**Change in Control Date**” means the first date following the Grant Date on which a Change in Control has occurred.

(d) “**Employer**” means Corporation or a Subsidiary of Corporation.

(e) “**Grant Date**” means the date the Option is granted, which is reflected as the date of this Agreement.

(f) “**Voting Securities**” means Corporation’s issued and outstanding securities ordinarily having the right to vote at elections for director.

Capitalized terms not otherwise defined in this Agreement have the meanings given them in the Plan.

## **2. Grant of Option**

Subject to the terms and conditions of this Agreement and the Plan, Corporation grants to Participant the Option to purchase \_\_\_\_\_ Shares of Corporation’s common stock at \$\_\_\_\_\_ per share. *[100 percent of the Fair Market Value of a Share on the date of the grant]*

## **3. Terms of Option**

The Option is subject to all the provisions of the Plan and to the following terms and conditions:

3.1 Term. The term of the Option is ten years from the Grant Date and will automatically terminate on \_\_\_\_\_, 20\_\_\_\_, to the extent not exercised, unless terminated earlier in accordance with this Agreement.

3.2 Time of Exercise. Unless the Option is otherwise terminated or the time of its exercisability is accelerated in accordance with this Agreement, the Option may be exercised from time to time to purchase Shares up to the following limits (based on years after the Grant Date and including any Shares previously purchased pursuant to the Option):

- (a) During the first year - none;
- (b) During the second year - up to 25 percent of the total Shares;
- (c) During the third year - up to 50 percent of the total Shares;
- (d) During the fourth year - up to 75 percent of the total Shares; and
- (e) After the fourth year - 100 percent.

3.3 Employment Requirement. Except as otherwise provided in subsection 3.4 of this Agreement, the Option may not be exercised unless Participant is employed by an Employer continuously for at least one year following the Grant Date, unless employment is terminated by death, Disability, or Retirement. For purposes of this Agreement, "employment" includes periods of illness or other leaves of absence authorized by the Employer. If Participant ceases to be an active employee, the Option will remain exercisable, to the extent the Option had become exercisable on or before the termination date, and the right to exercise the Option will expire at the end of the following periods:

<u>After Termination On Account Of</u>	<u>Period</u>
Death	1 year
Retirement	3 months
Disability	1 year
Any other reason	3 months

3.4 Acceleration of Exercisability. Notwithstanding the schedule provided in subsection 3.2, the Option will become fully exercisable (unless Participant chooses to decline accelerated Vesting of all or any portion of the Option) upon the occurrence of either:

- (a) Participant's death or termination of employment by reason of Disability or Retirement; or
- (b) A Change in Control Date.

3.5 Method of Exercise. The Option, or any portion thereof, may be exercised, to the extent it has become exercisable pursuant to this Agreement, by delivery of written notice to Corporation stating the number of Shares, form of payment, and proposed date of closing.

3.6 Other Documents. Participant will be required to furnish to Corporation before closing such other documents or representations as Corporation may require to assure compliance with applicable laws and regulations.

3.7 Payment. The exercise price for the Shares purchased upon exercise of the Option must be paid in full at or before closing by one or a combination of the following:

- (a) Payment in cash;
- (b) Delivery of previously acquired Shares having a Fair Market Value equal to the exercise price; or
- (c) Delivery (in a form approved by the Committee) of an irrevocable direction to a securities broker acceptable to the Committee:
  - (i) To sell Shares subject to the Option and to deliver all or a part of the sales proceeds to Corporation in payment of all or a part of the exercise price and withholding taxes due; or
  - (ii) To pledge Shares subject to the Option to the broker as security for a loan and to deliver all or a part of the loan proceeds to Corporation in payment of all or a part of the exercise price and withholding taxes due.

3.8 Previously Acquired Shares. Delivery of previously acquired Shares in full or partial payment for the exercise of the Option will be subject to the following conditions:

- (a) The Shares tendered must be in good delivery form;
- (b) The Fair Market Value of the Shares tendered, together with the amount of cash, if any, tendered must equal or exceed the exercise price of the Option;
- (c) Any Shares remaining after satisfying the payment for the Option will be reissued in the same manner as the Shares tendered; and
- (d) No fractional Shares will be issued and cash will not be paid to the Participant for any fractional Share value not used to satisfy the Option exercise price.

#### **4. Tax Reimbursement**

In the event any withholding or similar tax liability is imposed on Corporation in connection with or with respect to any exercise of the Option or the disposition by Participant of the Shares acquired upon exercise of the Option, Participant agrees to pay to Corporation an amount sufficient to provide for such tax liability.

#### **5. Conditions Precedent**

Corporation will use its best efforts to obtain approval of the Plan and this Option by any state or federal agency or authority that Corporation determines has jurisdiction. If Corporation determines that any required approval cannot be obtained, this Option will terminate on notice to the Participant to that effect. Without limiting the foregoing, Corporation will not be required to issue any Shares upon exercise of the Option, or any portion thereof, until Corporation has taken any action required to comply with all applicable federal and state securities laws.

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## **6. Termination for Cause; Competition**

6.1 Annulment of Awards. The grant of the Option governed by this Agreement is revocable until Participant becomes entitled to a certificate for Shares in settlement thereof. In the event the employment of Participant is terminated for cause (as defined below), any portion of the Option which is revocable will be annulled as of the date of such termination for cause. For the purpose of this Section 6.1, the term "for cause" will have the meaning set forth in Participant's employment agreement, if any, or otherwise means any discharge (or removal) for material or flagrant violation of the policies and procedures of the Employer or for other performance or conduct which is materially detrimental to the best interests of Corporation, as determined by the Committee.

6.2 Engaging in Competition With Corporation. If Participant terminates employment with an Employer for any reason whatsoever, and within 18 months after the date thereof accepts employment with any competitor of (or otherwise engages in competition with) Corporation, the Committee, in its sole discretion, may require Participant to return to Corporation the economic value of this Option that is realized or obtained (measured at the date of exercise) by Participant at any time during the period beginning on the date that is six months prior to the date of Participant's termination of employment with an Employer.

## **7. Successorship**

Subject to restrictions on transferability set forth in the Plan, this Agreement will be binding upon and benefit the parties, their successors and assigns.

## **8. Notices**

Any notices under this Option must be in writing and will be effective when actually delivered personally or, if mailed, when deposited as registered or certified mail directed to the address of Corporation's records or to such other address as a party may certify by notice to the other party.

## **9. Arbitration**

Any dispute or claim that arises out of or that relates to this Agreement or to the interpretation, breach, or enforcement of this Agreement, must be resolved by mandatory arbitration in accordance with the then effective arbitration rules of Arbitration Service of Portland, Inc., and any judgment upon the award rendered pursuant to such arbitration may be entered in any court having jurisdiction thereof.

## **10. Attorney Fees**

In the event of any suit or action or arbitration proceeding to enforce or interpret any provision of this Agreement (or which is based on this Agreement), the prevailing party will be entitled to recover, in addition to other costs, reasonable attorney fees in connection with such suit, action, arbitration, and in any appeal. The determination of who is the prevailing party and the amount of reasonable attorney fees to be paid to the prevailing party will be decided by the

arbitrator or arbitrators (with respect to attorney fees incurred prior to and during the arbitration proceedings) and by the court or courts, including any appellate courts, in which the matter is tried, heard, or decided, including the court which hears any exceptions made to an arbitration award submitted to it for confirmation as a judgment (with respect to attorney fees incurred in such confirmation proceedings).

**BARRETT BUSINESS SERVICES, INC.**

By \_\_\_\_\_  
Name \_\_\_\_\_  
Its \_\_\_\_\_

\_\_\_\_\_  
Participant

**AWARD AGREEMENT  
Under The  
Barrett Business Services, Inc.  
2009 Stock Incentive Plan**

**EMPLOYEE NONQUALIFIED STOCK OPTION**

Corporation: **BARRETT BUSINESS SERVICES, INC.**  
8100 N.E. Parkway Drive, Suite 200  
Vancouver, Washington 98662

Participant: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Date: \_\_\_\_\_, 20\_\_

Corporation maintains the Barrett Business Services, Inc., 2009 Stock Incentive Plan (the "Plan").

This Award Agreement evidences the grant of a Nonqualified Option (the "Option") to Participant.

The parties agree as follows:

**1. Defined Terms**

When used in this Agreement, the following terms have the meaning specified below:

(a) "**Acquiring Person**" means any person or related person or related persons which constitute a "group" for purposes of Section 13(d) and Rule 13d-5 under the Securities Exchange Act of 1934 (the "Exchange Act"), as such Section and Rule are in effect as of the Grant Date; provided, however, that the term Acquiring Person shall not include (i) Corporation or any of its Subsidiaries, (ii) any employee benefit plan of Corporation or any of its Subsidiaries, (iii) any entity holding voting capital stock of Corporation for or pursuant to the terms of any such employee benefit plan, or (iv) any person or group solely because such person or group has voting power with respect to capital stock of Corporation arising from a revocable proxy or consent given in response to a public proxy or consent solicitation made pursuant to the Exchange Act.

(b) "**Change in Control**" means:

(i) A change in control of Corporation of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A as in effect on the Grant Date pursuant to the Exchange Act; provided that, without limitation, such a change in control shall be deemed to have occurred at

such time as any Acquiring Person hereafter becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 30 percent or more of the combined voting power of Voting Securities; or

(ii) During any period of 12 consecutive calendar months, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof unless the election, or the nomination for election, by Corporation shareholders of each new director was approved by a vote of at least a majority of the directors then in office who were directors at the beginning of the period; or

(iii) There shall be consummated (1) any consolidation or merger of Corporation in which Corporation is not the continuing or surviving corporation or pursuant to which Voting Securities would be converted into cash, securities, or other property, other than a merger of Corporation in which the holders of Voting Securities immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (2) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of Corporation; or

(iv) Approval by the shareholders of Corporation of any plan or proposal for the liquidation or dissolution of Corporation.

(c) “**Change in Control Date**” means the first date following the Grant Date on which a Change in Control has occurred.

(d) “**Employer**” means Corporation or a Subsidiary of Corporation.

(e) “**Grant Date**” means the date the Option is granted, which is reflected as the date of this Agreement.

(f) “**Voting Securities**” means Corporation’s issued and outstanding securities ordinarily having the right to vote at elections for director.

Capitalized terms not otherwise defined in this Agreement have the meanings given them in the Plan.

## **2. Grant of Option**

Subject to the terms and conditions of this Agreement and the Plan, Corporation grants to Participant the Option to purchase \_\_\_\_\_ Shares of Corporation’s common stock at \$ \_\_\_\_\_ per share. *[100 percent of the Fair Market Value of a Share on the date of grant]*



### 3. Terms of Option

The Option is subject to all the provisions of the Plan and to the following terms and conditions:

3.1 Term. The term of the Option is ten years from the Grant Date and will automatically terminate on \_\_\_\_\_, 20\_\_\_\_, to the extent not exercised, unless terminated earlier in accordance with this Agreement.

3.2 Time of Exercise. Unless the Option is otherwise terminated or the time of its exercisability is accelerated in accordance with this Agreement, the Option may be exercised from time to time to purchase Shares up to the following limits (based on years after the Grant Date and including any Shares previously purchased pursuant to the Option):

- (a) During the first year - none;
- (b) During the second year - up to 25 percent of the total Shares;
- (c) During the third year - up to 50 percent of the total Shares;
- (d) During the fourth year - up to 75 percent of the total Shares; and
- (e) After the fourth year - 100 percent.

3.3 Employment Requirement. Except as otherwise provided in subsection 3.4 of this Agreement, the Option may not be exercised unless Participant is employed by an Employer continuously for at least one year following the Grant Date, unless employment is terminated by death, Disability, or Retirement. For purposes of this Agreement, "employment" includes periods of illness or other leaves of absence authorized by the Employer. If Participant ceases to be an active employee, the right to exercise the Option, to the extent the Option had become exercisable on or before the termination date, will expire at the end of the following periods:

<u>After Termination On Account Of</u>	<u>Period</u>
Death	1 year
Retirement	3 months
Disability	1 year
Any other reason	3 months

3.4 Acceleration of Exercisability. Notwithstanding the schedule provided in subsection 3.2, the Option will become fully exercisable (unless Participant chooses to decline accelerated Vesting of all or any portion of the Option) upon the occurrence of either:

- (a) Participant's death or termination of employment by reason of Disability or Retirement; or
- (b) A Change in Control Date.

3.5 Method of Exercise. The Option, or any portion thereof, may be exercised, to the extent it has become exercisable pursuant to this Agreement, by delivery of written notice to Corporation stating the number of Shares, form of payment, and proposed date of closing.

3.6 Other Documents. Participant will be required to furnish to Corporation before closing such other documents or representations as Corporation may require to assure compliance with applicable laws and regulations.

3.7 Payment. The exercise price for the Shares purchased upon exercise of the Option must be paid in full at or before closing by one or a combination of the following:

- (a) Payment in cash;
- (b) Delivery of previously acquired Shares having a Fair Market Value equal to the exercise price;
- (c) Withholding of Shares issuable to Participant upon exercise of the Option, with a Fair Market Value on the date of delivery equal to the aggregate purchase price of the Shares as to which the Option is exercised; or
- (d) Delivery (in a form approved by the Committee) of an irrevocable direction to a securities broker acceptable to the Committee:
  - (i) To sell Shares subject to the Option and to deliver all or a part of the sales proceeds to Corporation in payment of all or a part of the exercise price and withholding taxes due; or
  - (ii) To pledge Shares subject to the Option to the broker as security for a loan and to deliver all or a part of the loan proceeds to Corporation in payment of all or a part of the exercise price and withholding taxes due.

3.8 Previously Acquired Shares. Delivery of previously acquired Shares in full or partial payment for the exercise of the Option will be subject to the following conditions:

- (a) The Shares tendered must be in good delivery form;
- (b) The Fair Market Value of the Shares tendered, together with the amount of cash, if any, tendered must equal or exceed the exercise price of the Option;
- (c) Any Shares remaining after satisfying the payment for the Option will be reissued in the same manner as the Shares tendered; and
- (d) No fractional Shares will be issued and cash will not be paid to the Participant for any fractional Share value not used to satisfy the Option exercise price.

#### **4. Tax Withholding and Reimbursement**

Corporation is authorized to withhold from Participant's other compensation any withholding and payroll taxes imposed on Corporation in connection with or with respect to the exercise or other settlement of the Option (the "Payroll Taxes"). In the event Participant is no longer an employee of an Employer at the time of exercise or there is insufficient other income from which to withhold Payroll Taxes, Participant agrees to pay Corporation an amount sufficient to provide for payment of all Payroll Taxes. Such payment may be in cash, in Shares owned by Participant, duly endorsed for transfer, with a Fair Market Value equal to the sums

required to be withheld, in Shares issuable to Participant upon exercise of the Option with a Fair Market Value equal to the sums required to be withheld, or in any combination of the foregoing methods of payment.

#### **5. Conditions Precedent**

Corporation will use its best efforts to obtain approval of the Plan and this Option by any state or federal agency or authority that Corporation determines has jurisdiction. If Corporation determines that any required approval cannot be obtained, this Option will terminate on notice to the Participant to that effect. Without limiting the foregoing, Corporation will not be required to issue any Shares upon exercise of the Option, or any portion thereof, until Corporation has taken any action required to comply with all applicable federal and state securities laws.

#### **6. Termination for Cause; Competition**

6.1 Annulment of Awards. The grant of the Option governed by this Agreement is revocable until Participant becomes entitled to a certificate for Shares in settlement thereof. In the event the employment of Participant is terminated for cause (as defined below), any portion of the Option which is revocable will be annulled as of the date of such termination for cause. For the purpose of this Section 6.1, the term "for cause" will have the meaning set forth in Participant's employment agreement, if any, or otherwise means any discharge (or removal) for material or flagrant violation of the policies and procedures of the Employer or for other performance or conduct which is materially detrimental to the best interests of Corporation, as determined by the Committee.

6.2 Engaging in Competition With Corporation. If Participant terminates employment with an Employer for any reason whatsoever, and within 18 months after the date thereof accepts employment with any competitor of (or otherwise engages in competition with) Corporation, the Committee, in its sole discretion, may require Participant to return to Corporation the economic value of this Option that is realized or obtained (measured at the date of exercise) by Participant at any time during the period beginning on the date that is six months prior to the date of Participant's termination of employment with an Employer.

#### **7. Successorship**

Subject to restrictions on transferability set forth in the Plan, this Agreement will be binding upon and benefit the parties, their successors and assigns.

#### **8. Notices**

Any notices under this Option must be in writing and will be effective when actually delivered personally or, if mailed, when deposited as registered or certified mail directed to the address of Corporation's records or to such other address as a party may certify by notice to the other party.

#### **9. Arbitration**

Any dispute or claim that arises out of or that relates to this Agreement or to the interpretation, breach, or enforcement of this Agreement, must be resolved by mandatory

arbitration in accordance with the then effective arbitration rules of Arbitration Service of Portland, Inc., and any judgment upon the award rendered pursuant to such arbitration may be entered in any court having jurisdiction thereof.

**10. Attorney Fees**

In the event of any suit or action or arbitration proceeding to enforce or interpret any provision of this Agreement (or which is based on this Agreement), the prevailing party will be entitled to recover, in addition to other costs, reasonable attorney fees in connection with such suit, action, arbitration, and in any appeal. The determination of who is the prevailing party and the amount of reasonable attorney fees to be paid to the prevailing party will be decided by the arbitrator or arbitrators (with respect to attorney fees incurred prior to and during the arbitration proceedings) and by the court or courts, including any appellate courts, in which the matter is tried, heard, or decided, including the court which hears any exceptions made to an arbitration award submitted to it for confirmation as a judgment (with respect to attorney fees incurred in such confirmation proceedings).

**BARRETT BUSINESS SERVICES, INC.**

By \_\_\_\_\_  
Name \_\_\_\_\_  
Its \_\_\_\_\_

\_\_\_\_\_  
Participant

**AWARD AGREEMENT  
Under The  
Barrett Business Services, Inc.  
2009 Stock Incentive Plan**

**NON-EMPLOYEE DIRECTOR NONQUALIFIED STOCK OPTION**

Corporation: **BARRETT BUSINESS SERVICES, INC.**  
8100 N.E. Parkway Drive, Suite 200  
Vancouver, Washington 98662

Participant: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Date: \_\_\_\_\_, 20\_\_

Corporation maintains the Barrett Business Services, Inc., 2009 Stock Incentive Plan (the "Plan").

This Award Agreement evidences the grant of a Nonqualified Option (the "Option") to Participant.

The parties agree as follows:

**1. Defined Terms**

When used in this Agreement, the following terms have the meaning specified below:

(a) "**Acquiring Person**" means any person or related person or related persons which constitute a "group" for purposes of Section 13(d) and Rule 13d-5 under the Securities Exchange Act of 1934 (the "Exchange Act"), as such Section and Rule are in effect as of the Grant Date; provided, however, that the term Acquiring Person shall not include (i) Corporation or any of its Subsidiaries, (ii) any employee benefit plan of Corporation or any of its Subsidiaries, (iii) any entity holding voting capital stock of Corporation for or pursuant to the terms of any such employee benefit plan, or (iv) any person or group solely because such person or group has voting power with respect to capital stock of Corporation arising from a revocable proxy or consent given in response to a public proxy or consent solicitation made pursuant to the Exchange Act.

(b) "**Change in Control**" means:

(i) A change in control of Corporation of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A as in effect on the Grant Date pursuant to the Exchange Act; provided that, without limitation, such a change in control shall be deemed to have occurred at such time as any Acquiring Person hereafter becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 30 percent or more of the combined voting power of Voting Securities; or

(ii) During any period of 12 consecutive calendar months, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof unless the election, or the nomination for election, by Corporation shareholders of each new director was approved by a vote of at least a majority of the directors then in office who were directors at the beginning of the period; or

(iii) There shall be consummated (1) any consolidation or merger of Corporation in which Corporation is not the continuing or surviving corporation or pursuant to which Voting Securities would be converted into cash, securities, or other property, other than a merger of Corporation in which the holders of Voting Securities immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (2) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of Corporation; or

(iv) Approval by the shareholders of Corporation of any plan or proposal for the liquidation or dissolution of Corporation.

(c) "**Change in Control Date**" means the first date following the Grant Date on which a Change in Control has occurred.

(d) "**Grant Date**" means the date the Option is granted, which is reflected as the date of this Agreement.

(e) "**Retirement**" means ceasing to be a member of the Board for any reason (other than by removal) after service on the Board for at least 10 years.

(f) "**Voting Securities**" means Corporation's issued and outstanding securities ordinarily having the right to vote at elections for director.

Capitalized terms not otherwise defined in this Agreement have the meanings given them in the Plan.

## **2. Grant of Option**

Subject to the terms and conditions of this Agreement and the Plan, Corporation grants to Participant the Option to purchase \_\_\_\_\_ Shares of Corporation's common stock at \$\_\_\_\_\_ per share [*100 percent of the Fair Market Value of a Share on the date of grant*].

### 3. Terms of Option

The Option is subject to all the provisions of the Plan and to the following terms and conditions:

3.1 Term. The term of the Option is ten years from the Grant Date and will automatically terminate on \_\_\_\_\_, 20\_\_\_\_, to the extent not exercised, unless terminated earlier in accordance with this Agreement.

3.2 Time of Exercise. Unless the Option is otherwise terminated or the time of its exercisability is accelerated in accordance with this Agreement, the Option may be exercised from time to time to purchase Shares up to the following limits (based on years after the Grant Date and including any Shares previously purchased pursuant to the Option):

- (a) During the first year - none;
- (b) During the second year - up to 25 percent of the total Shares;
- (c) During the third year - up to 50 percent of the total Shares;
- (d) During the fourth year - up to 75 percent of the total Shares; and
- (e) After the fourth year - 100 percent.

3.3 Continuation as Director. If Participant ceases to be a member of the Board for any reason, the right to exercise the Option, to the extent the Option had become exercisable on or before the termination date, will expire at the end of the following periods:

<u>After Termination On Account of</u>	<u>Period</u>
Death	1 year
Retirement	5 years
Disability	1 year
Any other reason	3 months

3.4 Acceleration of Exercisability. Notwithstanding the schedule provided in subsection 3.2, the Option will become fully exercisable upon the occurrence of either:

- (a) Participant's death or withdrawal from the Board by reason of Disability or Retirement; or
- (b) A Change in Control Date.

3.5 Method of Exercise. The Option, or any portion thereof, may be exercised, to the extent it has become exercisable pursuant to this Agreement, by delivery of written notice to Corporation stating the number of Shares, form of payment, and proposed date of closing.

3.6 Other Documents. Participant will be required to furnish to Corporation before closing such other documents or representations as Corporation may require to assure compliance with applicable laws and regulations.

3.7 Payment. The exercise price for the Shares purchased upon exercise of the Option must be paid in full at or before closing by one or a combination of the following:

- (a) Payment in cash;
- (b) Delivery of previously acquired Shares having a Fair Market Value equal to the exercise price;
- (c) Withholding of Shares issuable to Participant upon exercise of the Option, with a Fair Market Value on the date of delivery equal to the aggregate purchase price of the Shares as to which the Option is exercised; or
- (d) Delivery (in a form approved by the Committee) of an irrevocable direction to a securities broker acceptable to the Committee:
  - (i) To sell Shares subject to the Option and to deliver all or a part of the sales proceeds to Corporation in payment of all or a part of the exercise price; or
  - (ii) To pledge Shares subject to the Option to the broker as security for a loan and to deliver all or a part of the loan proceeds to Corporation in payment of all or a part of the exercise price.

3.8 Previously Acquired Shares. Delivery of previously acquired Shares in full or partial payment for the exercise of the Option will be subject to the following conditions:

- (a) The Shares tendered must be in good delivery form;
- (b) The Fair Market Value of the Shares tendered, together with the amount of cash, if any, tendered must equal or exceed the exercise price of the Option;
- (c) Any Shares remaining after satisfying the payment for the Option will be reissued in the same manner as the Shares tendered; and
- (d) No fractional Shares will be issued and cash will not be paid to the Participant for any fractional Share value not used to satisfy the Option exercise price.

#### **4. Tax Reimbursement**

In the event any withholding or similar tax liability is imposed on Corporation in connection with or with respect to any exercise of the Option, Participant agrees to pay to Corporation an amount sufficient to provide for such tax liability.

#### **5. Conditions Precedent**

Corporation will use its best efforts to obtain approval of the Plan and this Option by any state or federal agency or authority that Corporation determines has jurisdiction. If Corporation determines that any required approval cannot be obtained, this Option will terminate on notice to Participant to that effect. Without limiting the foregoing, Corporation will not be required to issue any Shares upon exercise of the Option, or any portion thereof, until Corporation has taken any action required to comply with all applicable federal and state securities laws.



**6. Successorship**

Subject to restrictions on transferability set forth in the Plan, this Agreement will be binding upon and benefit the parties, their successors and assigns.

**7. Notices**

Any notices under this Option must be in writing and will be effective when actually delivered personally or, if mailed, when deposited as registered or certified mail directed to the address of Corporation's records or to such other address as a party may certify by notice to the other party.

**8. Arbitration**

Any dispute or claim that arises out of or that relates to this Agreement or to the interpretation, breach, or enforcement of this Agreement, must be resolved by mandatory arbitration in accordance with the then effective arbitration rules of Arbitration Service of Portland, Inc., and any judgment upon the award rendered pursuant to such arbitration may be entered in any court having jurisdiction thereof.

**9. Attorney Fees**

In the event of any suit or action or arbitration proceeding to enforce or interpret any provision of this Agreement (or which is based on this Agreement), the prevailing party will be entitled to recover, in addition to other costs, reasonable attorney fees in connection with such suit, action, arbitration, and in any appeal. The determination of who is the prevailing party and the amount of reasonable attorney fees to be paid to the prevailing party will be decided by the arbitrator or arbitrators (with respect to attorney fees incurred prior to and during the arbitration proceedings) and by the court or courts, including any appellate courts, in which the matter is tried, heard, or decided, including the court which hears any exceptions made to an arbitration award submitted to it for confirmation as a judgment (with respect to attorney fees incurred in such confirmation proceedings).

**BARRETT BUSINESS SERVICES, INC.**

By \_\_\_\_\_  
Name \_\_\_\_\_  
Its \_\_\_\_\_

\_\_\_\_\_  
Participant

I, William W. Sherertz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Barrett Business Services, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
  - d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most-recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 10, 2010

/s/ William W. Sherertz

William W. Sherertz  
Chief Executive Officer

I, James D. Miller, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Barrett Business Services, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
  - d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most-recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 10, 2010

/s/ James D. Miller

James D. Miller  
Chief Financial Officer

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

In connection with the Quarterly Report of Barrett Business Services, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certify, pursuant to 18 U.S.C. § 1350, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William W. Sherertz

William W. Sherertz  
Chief Executive Officer  
May 10, 2010

/s/ James D. Miller

James D. Miller  
Chief Financial Officer  
May 10, 2010