

**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 September 30, 2012

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 October 31, 2012 was 7,012,431 shares.

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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)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 22,181	\$ 49,571
Marketable securities	15,575	16,878
Trade accounts receivable, net	71,018	46,520
Income taxes receivable	3,432	4,133
Prepaid expenses and other	1,536	5,897
Deferred income taxes	<u>5,943</u>	<u>5,958</u>
Total current assets	119,685	128,957
Marketable securities	12,991	15,395
Property, equipment and software, net	16,601	15,007
Restricted marketable securities and workers' compensation deposits	9,967	9,923
Other assets	3,140	3,027
Workers' compensation receivables for insured losses and recoveries	1,568	2,968
Goodwill	<u>47,820</u>	<u>47,820</u>
	<u>\$ 211,772</u>	<u>\$ 223,097</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,135	\$ 1,639
Accrued payroll, payroll taxes and related benefits	77,533	52,340
Income taxes payable	2,969	0
Other accrued liabilities	355	300
Workers' compensation claims liabilities	20,839	18,718
Safety incentives liability	<u>8,678</u>	<u>6,321</u>
Total current liabilities	112,509	79,318
Long-term workers' compensation claims liabilities	39,931	30,596
Long-term workers' compensation claims liabilities for insured claims	858	1,879
Deferred income taxes	8,152	8,152
Customer deposits and other long-term liabilities	1,655	1,497
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value; 500 shares authorized; no shares issued and outstanding	0	0
Common stock, \$.01 par value; 20,500 shares authorized, 7,013 and 9,871 shares issued and outstanding	70	99
Additional paid-in capital	595	20,943
Accumulated other comprehensive loss	(10)	(34)
Retained earnings	<u>48,012</u>	<u>80,647</u>
	<u>48,667</u>	<u>101,655</u>
	<u>\$ 211,772</u>	<u>\$ 223,097</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 September 30,	
	2012	2011
Revenues:		
Staffing services	\$ 36,195	\$34,589
Professional employer service fees	<u>74,874</u>	<u>50,795</u>
Total revenues	<u>111,069</u>	<u>85,384</u>
Cost of revenues:		
Direct payroll costs	27,158	26,292
Payroll taxes and benefits	42,915	30,321
Workers' compensation	<u>19,432</u>	<u>12,618</u>
Total cost of revenues	<u>89,505</u>	<u>69,231</u>
Gross margin	21,564	16,153
Selling, general and administrative expenses	12,745	9,879
Depreciation and amortization	<u>372</u>	<u>334</u>
Income from operations	<u>8,447</u>	<u>5,940</u>
Other income:		
Investment income, net	162	340
Other	<u>(6)</u>	<u>(8)</u>
Other income	<u>156</u>	<u>332</u>
Income before income taxes	8,603	6,272
Provision for income taxes	<u>2,791</u>	<u>858</u>
Net income	<u>\$ 5,812</u>	<u>\$ 5,414</u>
Basic earnings per common share	<u>\$.83</u>	<u>\$.54</u>
Weighted average number of basic common shares outstanding	<u>7,007</u>	<u>10,060</u>
Diluted earnings per common share	<u>\$.81</u>	<u>\$.54</u>
Weighted average number of diluted common shares outstanding	<u>7,184</u>	<u>10,100</u>
Dividends declared per common share	<u>\$.11</u>	<u>\$.09</u>

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

	Nine Months Ended September 30,	
	2012	2011
Revenues:		
Staffing services	\$ 92,793	\$ 93,439
Professional employer service fees	<u>196,198</u>	<u>136,727</u>
Total revenues	<u>288,991</u>	<u>230,166</u>
Cost of revenues:		
Direct payroll costs	69,653	70,833
Payroll taxes and benefits	125,239	90,970
Workers' compensation	<u>49,637</u>	<u>33,331</u>
Total cost of revenues	<u>244,529</u>	<u>195,134</u>
Gross margin	44,462	35,032
Selling, general and administrative expenses	33,058	27,577
Depreciation and amortization	<u>1,076</u>	<u>1,000</u>
Income from operations	<u>10,328</u>	<u>6,455</u>
Other income:		
Life insurance proceeds	0	10,000
Investment income, net	590	968
Other	<u>(22)</u>	<u>84</u>
Other income	<u>568</u>	<u>11,052</u>
Income before income taxes	10,896	17,507
Provision for income taxes	<u>3,554</u>	<u>3,098</u>
Net income	<u>\$ 7,342</u>	<u>\$ 14,409</u>
Basic earnings per common share	<u>\$.92</u>	<u>\$ 1.42</u>
Weighted average number of basic common shares outstanding	<u>7,959</u>	<u>10,152</u>
Diluted earnings per common share	<u>\$.91</u>	<u>\$ 1.41</u>
Weighted average number of diluted common shares outstanding	<u>8,069</u>	<u>10,198</u>
Dividends declared per common share	<u>\$.33</u>	<u>\$.27</u>

The accompanying notes are an integral part of these financial statements

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BARRETT BUSINESS SERVICES, INC.
Consolidated Statements of Comprehensive Income
(Unaudited)
(In thousands)

	Three Months Ended September 30,	
	2012	2011
Net income	\$5,812	\$ 5,414
Unrealized losses on marketable securities, net of tax of \$(12) and \$(60) in 2012 and 2011, respectively	<u>(19)</u>	<u>(96)</u>
Comprehensive income	<u>\$5,793</u>	<u>\$ 5,318</u>

	Nine Months Ended September 30,	
	2012	2011
Net income	\$7,342	\$14,409
Unrealized gains (losses) on marketable securities, net of tax of \$15 and \$(38) in 2012 and 2011, respectively	<u>24</u>	<u>(61)</u>
Comprehensive income	<u>\$7,366</u>	<u>\$14,348</u>

The accompanying notes are an integral part of these financial statements

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BARRETT BUSINESS SERVICES, INC.
Consolidated Statements of Stockholders' Equity
Nine Months Ended September 30, 2012 and 2011
(In thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount				
Balance, December 31, 2010	10,202	\$ 102	\$ 25,164	\$ (65)	\$ 70,164	\$ 95,365
Common stock issued on exercise of options	3	0	5	0	0	5
Stock option compensation expense, net of tax	0	0	332	0	0	332
Tax benefit of stock option exercises	0	0	13	0	0	13
Repurchase of common stock	(271)	(3)	(3,824)	0	0	(3,827)
Cash dividends on common stock	0	0	0	0	(2,748)	(2,748)
Unrealized holding losses on marketable securities, net of tax	0	0	0	(61)	0	(61)
Net income	0	0	0	0	14,409	14,409
Balance, September 30, 2011	<u>9,934</u>	<u>99</u>	<u>21,690</u>	<u>(126)</u>	<u>81,825</u>	<u>103,488</u>
Balance, December 31, 2011	9,871	99	20,943	(34)	80,647	101,655
Common stock issued on exercise of options	128	1	1,767	0	0	1,768
Stock option compensation expense, net of tax	0	0	490	0	0	490
Tax benefit of stock option exercises	0	0	259	0	0	259
Repurchase of common stock	(2,986)	(30)	(22,864)	0	(37,338)	(60,232)
Cash dividends on common stock	0	0	0	0	(2,639)	(2,639)
Unrealized holding gains on marketable securities, net of tax	0	0	0	24	0	24
Net income	0	0	0	0	7,342	7,342
Balance, September 30, 2012	<u>7,013</u>	<u>70</u>	<u>\$ 595</u>	<u>\$ (10)</u>	<u>\$ 48,012</u>	<u>\$ 48,667</u>

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)

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 7,342	\$ 14,409
Reconciliations of net income to net cash provided by operating activities:		
Depreciation and amortization	1,076	1,000
Gains recognized on marketable securities	(1)	(99)
Gain recognized on sale and leaseback	(92)	(92)
Deferred income taxes	30	166
Share based compensation	490	332
Changes in certain assets and liabilities:		
Trade accounts receivable, net	(24,498)	(13,274)
Income taxes receivable	701	0
Prepaid expenses and other	4,361	(10)
Accounts payable	496	342
Accrued payroll, payroll taxes and related benefits	25,193	15,164
Other accrued liabilities	55	160
Income taxes payable	2,969	1,517
Workers' compensation claims liabilities	11,835	4,209
Safety incentives liability	2,357	836
Customer deposits, long-term liabilities and other assets, net	133	115
Net cash provided by operating activities	<u>32,447</u>	<u>24,775</u>
Cash flows from investing activities:		
Purchase of property and equipment	(2,666)	(836)
Proceeds from sales and maturities of marketable securities	32,676	55,590
Purchase of marketable securities	(28,959)	(60,745)
Proceeds from maturities of restricted marketable securities	6,495	5,942
Purchase of restricted marketable securities	<u>(6,539)</u>	<u>(6,876)</u>
Net cash provided by (used in) investing activities	<u>1,007</u>	<u>(6,925)</u>
Cash flows from financing activities:		
Proceeds from credit-line borrowings	12,186	0
Payments on credit-line borrowings	(12,186)	0
Redemption of mandatorily redeemable preferred stock	(34,800)	0
Proceeds from exercise of stock options	1,768	5
Dividends paid	(2,639)	(2,748)
Repurchase of common stock	(25,432)	(3,827)
Tax benefit of stock option exercises	259	13
Net cash used in financing activities	<u>(60,844)</u>	<u>(6,557)</u>
Net (decrease) increase in cash and cash equivalents	(27,390)	11,293
Cash and cash equivalents, beginning of period	<u>49,571</u>	<u>30,924</u>
Cash and cash equivalents, end of period	<u>\$ 22,181</u>	<u>\$ 42,217</u>
Supplemental schedule of noncash financing activities:		
Issuance of mandatorily redeemable preferred stock	<u>\$ 34,800</u>	<u>\$ 0</u>

The accompanying notes are an integral part of these financial statements

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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”, the “Company”, “our” or “we”), 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 2011 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.

Revenue recognition

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

Marketable securities

As of September 30, 2012, the Company’s marketable securities consisted of tax-exempt municipal securities, corporate bonds and U.S. treasuries. The Company classifies municipal securities, U.S. treasuries, and certain of its corporate bonds as available for sale; they are reported at fair value with unrealized gains and losses, net of taxes, shown as a component of accumulated other comprehensive income (loss) in stockholders’ equity. In the event a loss is determined to be other-than-temporary, the loss will be recognized in the statement of operations. Certain of the Company’s corporate bonds are classified as held-to-maturity and are reported at amortized cost.

Note 1 – Basis of Presentation of Interim Period Statements (Continued)

Allowance for doubtful accounts

The Company had an allowance for doubtful accounts of \$363,000 and \$452,000 at September 30, 2012 and December 31, 2011, 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.

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 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, the Company operates a wholly-owned fully licensed insurance company, Ecole Insurance Company ("Ecole"), 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, the Company maintains 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 American Insurance Group, Inc. ("AIG"), formerly known as Chartis 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. The Company continues to evaluate the financial capacity of our insurers to assess the recoverability of the related insurer receivables.

The Company has provided a total of \$61.6 million and \$51.2 million at September 30, 2012 and December 31, 2011, 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. These insured claims totaled \$858,000 at September 30, 2012 and \$1.9 million at December 31, 2011. 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. Also included in these estimates are amounts for unallocated loss adjustment expenses, including legal costs. These estimates are continually reviewed and adjustments to liabilities are reflected in current operating results as they become known.

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

Note 1 – Basis of Presentation of Interim Period Statements (Continued)

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 agreed-upon loss objectives. The Company has provided \$8.7 million at September 30, 2012 and \$6.3 million at December 31, 2011 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 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, and the expected payout as determined by historical incentive payment trends. Safety incentive expense is netted against PEO services revenue in our consolidated statements of operations.

Note 2 – Stock Repurchase

Effective March 28, 2012, the Company repurchased 2,485,929 shares of the Company's common stock held by the Estate of William W. Sherertz and 500,000 common shares held by Nancy Sherertz. Mr. Sherertz, a founder and former president and CEO of the Company, died January 20, 2011. Nancy Sherertz is also a founder of the Company. The common shares were repurchased at a price of \$20 per share, representing total consideration of \$59.7 million. The Company used a combination of \$24.9 million in cash and issued 34,800 shares of Series A Nonconvertible, Non-Voting Redeemable Preferred Stock with a liquidation preference of \$1,000 per share. Additionally, the Company incurred professional and legal fees totaling \$514,000 related to the transaction.

Effective September 21, 2012, the Company redeemed all of the outstanding shares of its Series A Nonconvertible, Non-Voting Redeemable Preferred Stock for \$34.8 million using a combination of cash on hand and availability under a new revolving credit facility provided by its principal bank. By redeeming the preferred stock within six months of issuance, the Company was not required to pay a semi-annual dividend of approximately \$870,000 due September 28, 2012.

Note 3 – Revolving Credit Facility

Effective September 18, 2012, the Company entered into a new credit agreement (the "Agreement") with its principal bank, Wells Fargo Bank, National Association (the "Bank"). The Agreement, which expires October 1, 2017, provides for a revolving credit facility with initial borrowing capacity of up to \$24.0 million. The Company had no outstanding borrowings on the revolving credit facility at September 30, 2012. The Agreement also provides for the continuance of existing standby letters of credit in connection with various surety deposit requirements for workers' compensation purposes, as to which the amount outstanding totaled approximately \$23.8 million at September 30, 2012.

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

Note 3 – Revolving Credit Facility (Continued)

Advances under the revolving credit facility bear interest, at the Company's option, at either (a) a fixed rate for a term selected by the Company from time-to-time or (b) a fluctuating rate. In each case, the rate is calculated based on LIBOR plus 1.75%. The Agreement also provides for an unused commitment fee of 0.25% per annum on the average daily unused amount of the revolving credit facility.

The credit facility is collateralized by the Company's accounts receivable and other rights to receive payment, general intangibles, inventory and equipment. Under the Agreement, the maximum principal amount available will be reduced by \$2.5 million every six months commencing April 1, 2013.

The Agreement, as amended, requires the satisfaction of certain financial covenants as follows:

- Minimum Fixed Charge Coverage ratio of no less than 1.25:1.0, measured quarterly on a rolling four-quarter basis beginning December 31, 2012;
- Funded Debt: EBITDA of no more than 2.25:1 through September 30, 2013; 1.75:1 through September 30, 2014; 1.5:1 through September 30, 2015; and 1.25:1 thereafter, measured quarterly on a rolling four-quarter basis beginning December 31, 2012;
- Ratio of restricted and unrestricted cash and marketable securities to workers compensation and safety incentive liabilities of at least 1.0:1.0, measured quarterly; and
- Prohibition on incurring additional indebtedness without the prior approval of the Bank, other than up to \$200,000 per year in purchase money financing.

The Agreement also contains customary events of default. If an event of default under the Agreement occurs and is continuing, the Bank may declare any outstanding obligations under the Agreement to be immediately due and payable. The Company was in compliance with all applicable financial covenants at September 30, 2012.

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

Note 4 – 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 common share reflect the potential effects of the exercise of outstanding stock options and vesting of restricted stock units. Basic and diluted common shares outstanding are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Weighted average number of basic common shares outstanding	7,007,333	10,060,422	7,959,086	10,152,434
Effect of dilutive securities	176,180	39,492	109,601	45,034
Weighted average number of diluted common shares outstanding	<u>7,183,513</u>	<u>10,099,914</u>	<u>8,068,687</u>	<u>10,197,468</u>

Note 5 – Stock Incentive Plans and Stock-Based Compensation

The following table summarizes stock option activity in 2012 under the Company's 2009 Stock Incentive Plan:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2011	671,294	\$ 14.48
Options granted	7,500	\$ 17.55
Options exercised	(127,797)	\$ 14.11
Options cancelled or expired	(7,500)	\$ 13.76
Outstanding at September 30, 2012	<u>543,497</u>	\$ 14.62
Exercisable at September 30, 2012	<u>245,972</u>	\$ 13.53
Available for grant at September 30, 2012	<u>586,300</u>	

During 2012, the Company granted 7,500 options at a fair value of \$9.08 per share as determined under the Black-Scholes option-pricing model and granted 47,500 restricted stock units at a fair value of \$21.44 per share which represented the closing price of the Company's stock on the date of grant.

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

Note 5 – Stock Incentive Plans and Stock-Based Compensation (Continued)

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

(\$ in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Intrinsic value of options exercised in the period	\$ 113	\$ 0	\$ 793	\$ 34
	As of September 30,			
	2012		2011	
Stock options:				
Aggregate intrinsic value	\$ 3,337	\$ 379		
Weighted average contractual term of options	6.80 years	7.15 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.

Note 6 – Workers' Compensation

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Beginning balance				
Workers' compensation claims liabilities	\$55,765	\$40,996	\$51,193	\$39,301
Add: claims expense accrual:				
Current period	9,891	6,187	26,224	16,172
Prior periods	3,835	946	6,945	1,468
Total expense accrual	<u>13,726</u>	<u>7,133</u>	<u>33,169</u>	<u>17,640</u>
Less: claim payments related to:				
Current period	2,207	1,736	3,790	2,955
Prior periods	5,656	3,058	18,944	10,651
Total paid	<u>7,863</u>	<u>4,794</u>	<u>22,734</u>	<u>13,606</u>
Ending balance				
Workers' compensation claims liabilities	<u>\$61,628</u>	<u>\$43,335</u>	<u>\$61,628</u>	<u>\$43,335</u>
Incurred but not reported (IBNR)	<u>\$44,311</u>	<u>\$31,178</u>	<u>\$44,311</u>	<u>\$31,178</u>

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

Note 7 – Fair Value Measurement

Marketable securities consist of the following investments (in thousands):

	September 30, 2012			December 31, 2011			Fair Value Category
	Cost	Gross Unrealized (Losses) Gains	Recorded Basis	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	
Current:							
Available-for-sale:							
Municipal bonds	\$ 1,123	(\$ 5)	\$ 1,118	\$ 5,804	\$ 8	\$ 5,812	2
Corporate bonds	14,457	0	14,457	11,070	(4)	11,066	2
	<u>\$15,580</u>	<u>(\$ 5)</u>	<u>\$15,575</u>	<u>\$16,874</u>	<u>\$ 4</u>	<u>\$16,878</u>	
Long term:							
Available-for-sale:							
Municipal bonds	\$ 296	\$ 1	\$ 297	\$ 0	\$ 0	\$ 0	2
Corporate bonds	10,636	33	10,669	14,971	(33)	14,938	2
U.S. treasuries	1,557	3	1,560	0	0	0	1
Held-to-maturity:							
Corporate bonds	465	0	465	457	0	457	2
	<u>\$12,954</u>	<u>\$ 37</u>	<u>\$12,991</u>	<u>\$15,428</u>	<u>\$ (33)</u>	<u>\$15,395</u>	

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

	September 30, 2012			December 31, 2011			Fair Value Category
	Cost	Gross Unrealized Losses	Recorded Basis	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	
Available-for-sale:							
Municipal bonds	\$4,624	(\$ 8)	\$ 4,616	\$5,580	\$ 17	\$ 5,597	2
Corporate bonds	897	(6)	891	148	(1)	147	2
U.S. treasuries	1,567	0	1,567	1,567	0	1,567	1
	<u>\$7,088</u>	<u>(\$ 14)</u>	<u>\$ 7,074</u>	<u>\$7,295</u>	<u>\$ 16</u>	<u>\$ 7,311</u>	

Note 8 – Subsequent Event

Effective November 1, 2012 the Company entered into a term loan with its principal bank for approximately \$5.5 million secured by the Company's corporate office building in Vancouver, Washington. The term loan requires payment of monthly installments of \$18,375 beginning December 1, 2012, bearing interest at the one month LIBOR plus 2.25%, with the unpaid principal balance due November 1, 2017. The addition of the term loan increases the total credit facility disclosed in Note 3 to approximately \$29.5 million.

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

Overview

Barrett Business Services, Inc. ("Barrett", the "Company," "our" 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 businesses.

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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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 and nine months ended September 30, 2012 and 2011.

	Percentage of Total Revenues			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Staffing services	32.6%	40.5%	32.1%	40.6%
Professional employer service fees	67.4	59.5	67.9	59.4
Total revenues	100.0	100.0	100.0	100.0
Cost of revenues:				
Direct payroll costs	24.5	30.8	24.1	30.8
Payroll taxes and benefits	38.6	35.5	43.3	39.5
Workers' compensation	17.5	14.8	17.2	14.5
Total cost of revenues	80.6	81.1	84.6	84.8
Gross margin	19.4	18.9	15.4	15.2
Selling, general and administrative expenses	11.5	11.6	11.4	12.0
Depreciation and amortization	0.3	0.4	0.4	0.4
Income from operations	7.6	6.9	3.6	2.8
Other income	0.1	0.4	0.2	4.8
Income before income taxes	7.7	7.3	3.8	7.6
Provision for income taxes	2.5	1.0	1.3	1.3
Net income	5.2%	6.3%	2.5%	6.3%

We report PEO revenues on a net basis because we are not the primary obligor for the services provided by our PEO clients to their customers pursuant to our PEO contracts. 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.

[Table of Contents](#)**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**Results of Operations (Continued)

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.

(in thousands)	Unaudited Three Months Ended September 30,		Unaudited Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Staffing services	\$ 36,195	\$ 34,589	\$ 92,793	\$ 93,439
Professional employer services	<u>521,836</u>	<u>371,382</u>	<u>1,391,357</u>	<u>1,010,496</u>
Total revenues	<u>558,031</u>	<u>405,971</u>	<u>1,484,150</u>	<u>1,103,935</u>
Cost of revenues:				
Direct payroll costs	470,950	344,719	1,256,477	939,746
Payroll taxes and benefits	42,915	30,321	125,239	90,970
Workers' compensation	<u>22,602</u>	<u>14,778</u>	<u>57,972</u>	<u>38,187</u>
Total cost of revenues	<u>536,467</u>	<u>389,818</u>	<u>1,439,688</u>	<u>1,068,903</u>
Gross margin	<u>\$ 21,564</u>	<u>\$ 16,153</u>	<u>\$ 44,462</u>	<u>\$ 35,032</u>

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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:

(in thousands)	Unaudited Three Months Ended September 30,					
	Gross Revenue Reporting Method		Reclassification		Net Revenue Reporting Method	
	2012	2011	2012	2011	2012	2011
Revenues:						
Staffing services	\$ 36,195	\$ 34,589	\$ 0	\$ 0	\$ 36,195	\$ 34,589
Professional employer services	521,836	371,382	(446,962)	(320,587)	74,874	50,795
Total revenues	<u>\$558,031</u>	<u>\$405,971</u>	<u>\$(446,962)</u>	<u>\$(320,587)</u>	<u>\$111,069</u>	<u>\$85,384</u>
Cost of revenues	<u>\$536,467</u>	<u>\$389,818</u>	<u>\$(446,962)</u>	<u>\$(320,587)</u>	<u>\$ 89,505</u>	<u>\$69,231</u>

(in thousands)	Unaudited Nine Months Ended September 30,					
	Gross Revenue Reporting Method		Reclassification		Net Revenue Reporting Method	
	2012	2011	2012	2011	2012	2011
Revenues:						
Staffing services	\$ 92,793	\$ 93,439	\$ 0	\$ 0	\$ 92,793	\$ 93,439
Professional employer services	1,391,357	1,010,496	(1,195,159)	(873,769)	196,198	136,727
Total revenues	<u>\$1,484,150</u>	<u>\$1,103,935</u>	<u>\$(1,195,159)</u>	<u>\$(873,769)</u>	<u>\$288,991</u>	<u>\$230,166</u>
Cost of revenues	<u>\$1,439,688</u>	<u>\$1,068,903</u>	<u>\$(1,195,159)</u>	<u>\$(873,769)</u>	<u>\$244,529</u>	<u>\$195,134</u>

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

Three months ended September 30, 2012 and 2011

Net income for the third quarter of 2012 amounted to \$5.8 million, as compared to net income of \$5.4 million for the third quarter of 2011. The increase in net income for the 2012 third quarter was primarily due to a 30.1% increase in revenues. The third quarter of 2011 included the benefit of a lower annual effective income tax rate as a result of the effect of the receipt of \$10.0 million of key man life insurance proceeds during 2011. Diluted income per share for the third quarter of 2012 was \$.81 compared to diluted income per share of \$.54 for the comparable 2011 period.

Revenues for the third quarter of 2012 totaled \$111.1 million, an increase of approximately \$25.7 million or 30.1%, which reflects an increase in the Company's PEO service fee revenue of \$24.1 million or 47.4% coupled with an increase in staffing services revenue of \$1.6 million or 4.6%. Approximately 69% and 60%, respectively, of our revenue during the three months ended September 30, 2012 and 2011 was attributable to our California operations.

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

Results of Operations (Continued)

Three months ended September 30, 2012 and 2011 (Continued)

Our growth in PEO revenues continues to be primarily attributable to new customers as PEO business from new customers during the third quarter of 2012 more than quadrupled our lost PEO business from former customers. PEO revenues from continuing customers reflected a 4.3% increase compared to the third quarter of 2011 primarily resulting from increases in employee headcount and hours worked. Staffing revenues increased primarily from an increase in revenue from existing customers as the addition of new business nearly offset lost business from former customers.

Gross margin for the third quarter of 2012 totaled approximately \$21.6 million or an increase of 33.5% over the third quarter of 2011, primarily due to the 30.1% increase in revenues and a decline in direct payroll costs, partially offset by higher workers' compensation expense and payroll taxes and benefits, as a percentage of revenues.

The decrease in direct payroll costs, as a percentage of revenues, from 30.8% for the third quarter of 2011 to 24.5% for the third quarter of 2012 was primarily due to the increase in our mix of PEO services in the Company's customer base over the third quarter of 2011 and the effect of each customer's unique mark-up percent.

Payroll taxes and benefits, as a percentage of revenues, for the third quarter of 2012 was 38.6% compared to 35.5% for the third quarter of 2011. The percentage rate increase was largely due to the effect of significant growth in PEO services, where payroll taxes and benefits are presented at gross cost whereas the related direct payroll costs are netted against PEO services revenue, and to slightly higher effective state unemployment tax rates in various states in which the Company operates as compared to the third quarter of 2011. Management expects the trend in payroll taxes and benefits, as a percentage of revenues, to continue to increase as a result of continued growth in PEO services on a quarter-over-quarter basis.

Workers' compensation expense, in terms of dollars and as a percentage of revenues, increased from \$12.6 million or 14.8% in the third quarter of 2011 to \$19.4 million or 17.5% in the third quarter of 2012. The percentage rate increase was primarily due to an increase in the provision for claim costs related to current year claims and increases in estimated costs to close prior year claims and higher insurance broker commissions as a result of increased worker's compensation insurance rates.

Selling, general and administrative ("SG&A") expenses for the third quarter of 2012 totaled approximately \$12.7 million, an increase of \$2.9 million or 29.0% over the third quarter of 2011. The increase was primarily attributable to higher profit sharing based on increased branch performance and increases in management payroll and other variable expense components within SG&A to support our business growth.

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

Results of Operations (Continued)

Three months ended September 30, 2012 and 2011 (Continued)

The income tax rate for the 2012 third quarter was 32.4%. We expect the effective income tax rate for the balance of 2012 to remain at a similar rate to the 2012 third quarter income tax rate. The income tax rate for the 2011 third quarter was 13.7%, which included a favorable benefit from the effect of a much lower annual effective tax rate attributable to the non-taxable \$10.0 million life insurance proceeds.

Nine months ended September 30, 2012 and 2011

Net income for the nine months ended September 30, 2012 amounted to \$7.3 million, as compared to net income of \$14.4 million for the first nine months of 2011. The first nine months of 2011 included \$10.0 million of key man life insurance proceeds received following the passing of the Company's former president and CEO and the related benefit of a lower annual effective income tax rate. Diluted income per share for the first nine months ended September 30, 2012 was \$.91 compared to diluted income per share of \$1.41 for the comparable 2011 period.

Revenues for the nine months ended September 30, 2012 totaled \$289.0 million, an increase of approximately \$58.8 million or 25.6%, compared to the similar period in 2011, which reflected an increase in the Company's PEO service fee revenue of \$59.5 million or 43.5% and a small decline in staffing services revenue of \$646,000 or 0.7%. Approximately 68% and 60%, respectively, of our revenue during the nine months ended September 30, 2012 and 2011 was attributable to our California operations. Our growth in PEO revenues was primarily attributable to the addition of new customers as PEO business from new customers during the first nine months of 2012 more than tripled our lost PEO business from former customers. PEO revenues from continuing customers reflected a 6.9% increase compared to the first nine months of 2011 primarily resulting from an increase in employee headcount and a slight increase in hours worked. Staffing revenues decreased slightly because lost business from former customers exceeded the business from new and continuing customers.

Gross margin for the nine months ended September 30, 2012 totaled approximately \$44.5 million or an increase of \$9.4 million or 26.9% over the comparable period of 2011, primarily due to the 25.6% increase in revenues and a decline in direct payroll costs, partially offset by higher payroll taxes and benefits and workers' compensation expense, as a percentage of revenues.

The decrease in direct payroll costs, as a percentage of revenues, from 30.8% for the third quarter of 2011 to 24.1% for the first nine months of 2012 was primarily due to the increase in our mix of PEO services in the Company's customer base compared to the first nine months of 2011 and the effect of each customer's unique mark-up percent.

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

Results of Operations (Continued)

Nine months ended September 30, 2012 and 2011 (Continued)

Payroll taxes and benefits, as a percentage of revenues, for the first nine months ended September 30, 2012 was 43.3% compared to 39.5% for the comparable period of 2011. The percentage rate increase was largely due to the effect of significant growth in PEO services and to higher effective state unemployment tax rates in various states in which the Company operates as compared to the same period of 2011.

Workers' compensation expense, in terms of dollars and as a percentage of revenues, increased from \$33.3 million or 14.5% in the first nine months of 2011 to \$49.6 million or 17.2% in the first nine months of 2012. The percentage rate increase was primarily due to an increase in the provision for current year claim costs as well as increases in estimated costs to close prior year claims and higher insurance broker commissions as a result of increased worker's compensation insurance rates.

SG&A expenses for the first nine months of 2012 totaled approximately \$33.1 million, an increase of \$5.5 million or 19.9% over the first nine months of 2011. The increase was primarily attributable to an increase in management payroll to support the business growth and to higher profit sharing based on increased branch performance.

Other income for the first nine months of 2012 was \$568,000 compared to other income of \$11.1 million for the first nine months of 2011. Other income for the first nine months of 2012 was primarily attributable to investment income earned on the Company's cash and marketable securities. The first nine months of 2011 included the \$10.0 million of key man life insurance proceeds and approximately \$1.0 million of investment income.

The income tax rate for the first nine months of 2012 was 32.6%. The income tax rate for the first nine months of 2011 was 17.7% which included a favorable benefit from the effect of a much lower annual effective tax rate attributable to the non-taxable \$10.0 million life insurance proceeds.

During September 2012, California Senate Bill 863 ("SB 863"), designed to reform California's workers' compensation system, was signed into law. Section 3701.9 of Section 16 of SB 863 was added to the Labor Code and includes a provision whereby the California Director of Self-Insurance is required not to issue certificates of consent to self-insure after January 1, 2013 to any employer engaged in the activities of a professional employer organization, a leasing employer, a temporary services employer or any employer the director determines to be in the business of providing employees to other employers. Additionally, a certificate of consent to self-insure that previously had been issued to any employer engaged in these types of activities is required to be revoked by the Director not later than January 1, 2015. The Company, which has a certificate of consent to self-insure in place, is currently exploring several potential alternatives to address the impact of SB 863 on the Company's ability to continue its self-insurance program in California.

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

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 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 volatility in the Company's estimated workers' compensation expense.

Liquidity and Capital Resources

The Company's cash position for the nine months ended September 30, 2012 decreased \$27.4 million from December 31, 2011, which compares to an increase of \$11.3 million for the comparable period in 2011. The decrease in cash at September 30, 2012 as compared to December 31, 2011, was primarily due to the repurchase of the Company's common stock for an amount totaling \$60.2 million which included the redemption of \$34.8 million of preferred shares issued during 2012 to finance the repurchase, offset in part by net income of \$7.3 million, a \$11.8 million increase in workers' compensation claims liabilities and a decrease in prepaid expenses and other of \$4.4 million.

Net cash provided by operating activities for the nine months ended September 30, 2012 amounted to \$32.4 million compared to \$24.8 million for the comparable 2011 period. For the nine months ended September 30, 2012, cash flow was principally provided by net income of \$7.3 million, coupled with a \$25.2 million increase in accrued payroll and payroll taxes, a \$11.8 million increase in workers' compensation claims liabilities, and a \$4.4 million decrease in prepaid expense and other, offset in part by a \$24.5 million increase in accounts receivable.

Net cash provided in investing activities for the nine months ended September 30, 2012 was \$1.0 million as compared to \$6.9 million of net cash used in investing activities for the similar 2011 period. For the 2012 period, cash from investing activities was provided by proceeds from the sales and maturities of marketable securities of \$32.7 million and \$6.5 million from the proceeds of sales of restricted marketable securities, partially offset by the purchase of marketable securities totaling \$29.0 million, the purchase of restricted marketable securities of \$6.5 million and the purchase of property and equipment of \$2.7 million. The transactions related to restricted marketable securities were scheduled maturities and the replacement of such securities held for workers' compensation surety deposit purposes. The Company presently has no material long-term capital commitments.

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

Liquidity and Capital Resources (Continued)

Net cash used in financing activities for the nine months ended September 30, 2012 was \$60.8 million as compared to \$6.6 million for the similar 2011 period. For the 2012 period, the primary uses of cash for financing activities were the repurchases of the Company's common stock totaling \$60.2 million which included the redemption of \$34.8 million of preferred shares issued during 2012 to finance the repurchases and the payment of regular quarterly cash dividends totaling \$2.6 million to holders of the Company's common stock, partially offset by \$1.8 million proceeds from the exercise of stock options.

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 businesses, 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.

As disclosed in Note 2 to the Consolidated Financial Statements in this report, effective March 28, 2012, the Company repurchased 2,485,929 shares of the Company's common stock held by the Estate of William W. Sherertz and 500,000 common shares held by Nancy Sherertz. Mr. Sherertz, a founder and former president and CEO of the Company, died January 20, 2011. Nancy Sherertz is also a founder of the Company. The common shares were repurchased at a price of \$20 per share, representing total consideration of \$59.7 million. The Company used a combination of \$24.9 million in cash and issued 34,800 shares of Series A Nonconvertible, Non-Voting Redeemable Preferred Stock with a liquidation preference of \$1,000 per share. Additionally, the Company incurred professional and legal fees totaling \$514,000 related to the transaction.

Effective September 21, 2012, the Company redeemed all of the outstanding shares of its Series A Nonconvertible, Non-Voting Redeemable Preferred Stock for \$34.8 million using a combination of cash on hand and availability under a new revolving credit facility provided by its principal bank. By redeeming the preferred stock within six months of issuance, the Company was not required to pay a semi-annual dividend of approximately \$870,000 due September 28, 2012.

As disclosed in Note 3 to the Consolidated Financial Statements in this report, effective September 18, 2012, the Company entered into a new credit agreement (the "Agreement") with its principal bank, Wells Fargo Bank, National Association (the "Bank"). The Agreement, which expires October 1, 2017, provides for a revolving credit facility with initial borrowing capacity of up to \$24.0 million. The Company had no outstanding borrowings on the revolving credit facility as of September 30, 2012. The Agreement also provides for the continuance of existing standby letters of credit in connection with various surety deposit requirements for workers' compensation purposes, as to which the amount outstanding totaled approximately \$23.8 million as of September 30, 2012.

Advances under the revolving credit facility bear interest, at the Company's option, at either (a) a fixed rate for a term selected by the Company from time-to-time or (b) a fluctuating rate. In each case, the rate is calculated based on LIBOR plus 1.75%. The Agreement also provides for an unused commitment fee of 0.25% per annum on the average daily unused amount of the revolving credit facility.

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

Liquidity and Capital Resources (Continued)

The credit facility is collateralized by the Company's accounts receivable and other rights to receive payment, general intangibles, inventory and equipment. Under the Agreement, the maximum principal amount available will be reduced by \$2.5 million every six months commencing April 1, 2013.

The Agreement, as amended, requires the satisfaction of certain financial covenants as follows:

- Minimum Fixed Charge Coverage ratio of no less than 1.25:1.0, measured quarterly on a rolling four-quarter basis beginning December 31, 2012;
- Funded Debt: EBITDA of no more than 2.25:1 through September 30, 2013; 1.75:1 through September 30, 2014; 1.5:1 through September 30, 2015; and 1.25:1 thereafter, measured quarterly on a rolling four-quarter basis beginning December 31, 2012;
- Ratio of restricted and unrestricted cash and marketable securities to workers compensation and safety incentive liabilities of at least 1.0:1.0, measured quarterly; and
- Prohibition on incurring additional indebtedness without the prior approval of the Bank, other than up to \$200,000 per year in purchase money financing.

The Agreement also contains customary events of default. If an event of default under the Agreement occurs and is continuing, the Bank may declare any outstanding obligations under the Agreement to be immediately due and payable. The Company was in compliance with all applicable financial covenants at September 30, 2012.

Additionally, as disclosed in Note 8 to the Consolidated Financial Statements in this report, effective November 1, 2012 the Company entered into a term loan with its principal bank for approximately \$5.5 million secured by the Company's corporate office building in Vancouver, Washington. The term loan requires payment of monthly installments of \$18,375 beginning December 1, 2012, and bears interest at the one month LIBOR plus 2.25% with the unpaid principal balance due November 1, 2017. The addition of the term loan increases the total credit facility to approximately \$29.5 million.

Management expects that the funds anticipated to be generated from operations and availability under its revolving credit facility 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.

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

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 and operation of two wholly owned, fully licensed captive insurance subsidiaries and becoming self-insured for certain business risks, the availability of alternatives to being self-insured as to workers' compensation liabilities in California, 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 working capital to meet the Company's funding requirements, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors with respect to the Company include the ability to retain current clients and attract new clients, 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, and the availability of capital or letters of credit necessary to meet state-mandated surety deposit requirements for maintaining the Company's status as a qualified self-insured employer for workers' compensation coverage, among others. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

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 September 30, 2012, the Company's investment portfolio consisted principally of approximately \$26.5 million in corporate bonds, \$18.3 million in tax-exempt money market funds, \$6.0 million in tax-exempt municipal bonds and \$3.1 million in U.S. treasuries. Based on the Company's overall interest exposure at September 30, 2012, 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.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of September 30, 2012 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 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 and is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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Part II – Other Information

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our 2011 Annual Report on Form 10-K.

Item 6. Exhibits

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

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: November 8, 2012

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>	
4.1	Restated Credit Agreement dated as of November 1, 2012, between the Registrant and Wells Fargo Bank, National Association (“Wells Fargo”).
4.2	Revolving Reducing Note dated September 18, 2012, of the Registrant.
4.3	Standby Letter of Credit Agreement dated as of September 18, 2012, between the Registrant and Wells Fargo.
4.4	Term Note dated November 1, 2012, of the Registrant.
10.1	Form of Employee Restricted Stock Units Award Agreement under the Registrant’s 2009 Stock Incentive Plan.
10.2	Form of Non-Employee Director Restricted Stock Units Award Agreement under the Registrant’s 2009 Stock Incentive 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.
101.	INS XBRL Instance Document *
101.	SCH XBRL Taxonomy Extension Schema Document *
101.	CAL XBRL Taxonomy Extension Calculation Linkbase Document *
101.	LAB XBRL Taxonomy Extension Label Linkbase Document *
101.	PRE XBRL Taxonomy Extension Presentation Linkbase Document *

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

RESTATED CREDIT AGREEMENT

THIS RESTATED CREDIT AGREEMENT (this "Agreement") is entered into as of November 1, 2012, by and between BARRETT BUSINESS SERVICES, INC., a Maryland corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

Borrower has requested that Bank renew Borrower's credit described in the credit agreement between the parties dated September 18, 2012 (the "Prior Agreement"), and has also asked for additional credit, which Bank is agreeable to granting, provided that Borrower agrees to the restatement of the Prior Agreement by this Agreement, which shall replace the Prior Agreement in its entirety and provide for the extension of credit on the terms and conditions contained herein.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Bank and Borrower hereby agree as follows:

ARTICLE I
CREDIT TERMS

SECTION 1.1. REVOLVING REDUCING LOAN.

(a) Revolving Reducing Loan. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to and including October 1, 2017 not to exceed at any time the aggregate principal amount of Twenty-Four Million Dollars (\$24,000,000.00) or such lesser amount as shall from time to time be available ("Revolving Reducing Loan"), the proceeds of which shall be used to finance a substantial portion of the Borrower's redemption of 34,800 shares of Borrower's Series A Nonconvertible, Non-Voting Redeemable Preferred Stock held by the Estate of William W. Sherertz and Nancy Sherertz (the "Redemption Transaction"). Borrower's obligation to repay advances under the Revolving Reducing Loan shall be evidenced by a promissory note dated September 18, 2012 ("Revolving Reducing Note"), all terms of which are incorporated herein by this reference.

(b) Borrowing and Repayment. Borrower may from time to time during the term of the Revolving Reducing Loan borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions contained herein or in the Revolving Reducing Note; provided however, that the total outstanding borrowings under the Revolving Reducing Loan shall not at any time exceed the maximum principal amount available thereunder, as set forth above and as reduced from time to time in accordance with the terms of the Revolving Reducing Note.

SECTION 1.2. TERM LOAN.

(a) Term Loan. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make a loan to Borrower in the principal amount of Five Million Five Hundred Twelve Thousand Five Hundred Dollars (\$5,512,500.00) ("Term Loan"), the proceeds of which shall be used to provide working capital for Borrower. Borrower's obligation to repay the Term Loan shall be evidenced by a promissory note dated as of the same date as this Agreement ("Term Note"), all terms of which are incorporated herein by this reference. Bank's commitment to grant the Term Loan shall terminate thirty (30) days from the date of this Agreement.

(b) Repayment. Principal and interest on the Term Loan shall be repaid in accordance with the provisions of the Term Note.

(c) Prepayment. Borrower may prepay principal on the Term Loan solely in accordance with the provisions of the Term Note.

SECTION 1.3. STANDBY LETTERS OF CREDIT.

(a) Standby Letters of Credit. Bank has issued or caused an affiliate to issue the following standby letters of credit (each a "Standby Letter of Credit" and collectively, the "Standby Letters of Credit") for the account of Borrower, each of which was issued pursuant to the terms of that certain Standby Letter of Credit Agreement (Credit Agreement/Loan Agreement Version) between Bank and Borrower dated September 18, 2012 (as may be amended from time to time, the "Standby Letter of Credit Agreement"), and is outstanding as of the date hereof: (i) Standby Letter of Credit No. NZS401574 up to the aggregate amount of One Million Six Hundred Fifty Thousand Dollars (\$1,650,000.00) dated June 21, 2001; (ii) Standby Letter of Credit No. NZS504587 in the amount of Five Million Dollars (\$5,000,000.00) dated December 8, 2003; (iii) Standby Letter of Credit No. NZS568994 in the amount of Ten Thousand Dollars (\$10,000.00) dated April 11, 2006; and (iv) Irrevocable Standby Letter of Credit No. IS0013451 in the amount of Seventeen Million One Hundred Eighty-Three Thousand Five Hundred Sixty-Seven Dollars (\$17,183,567.00) dated July 11, 2012. Each Standby Letter of Credit shall remain subject to the additional terms of the Standby Letter of Credit Agreement, applications and any related documents required by Bank in connection with the issuance (and any renewal) thereof. Notwithstanding the provision of any Standby Letter of Credit regarding automatic extension of its expiration date, Bank may, at its sole option, give notice to the beneficiary thereof in accordance with the terms of such Standby Letter of Credit that Bank has elected not to renew such Standby Letter of Credit beyond its current expiration date (or any other subsequent expiration date that may be agreed to by Bank at Bank's sole discretion). If Borrower does not at any time want any Standby Letter of Credit to be renewed, Borrower will so notify Bank at least fifteen (15) calendar days before Bank is to notify the beneficiary thereof of such nonrenewal pursuant to the terms of such Standby Letter of Credit. Subject to the terms and conditions of this Agreement and the Standby Letter of Credit Agreement, Bank hereby confirms that the Standby Letters of Credit remain in full force and effect.

(b) Repayment of Drafts. Each drawing paid under any Standby Letter of Credit shall be repaid by Borrower in accordance with the provisions of the Standby Letter of Credit Agreement.

SECTION 1.3. INTEREST/FEEES.

(a) Interest. The outstanding principal balance of the Revolving Reducing Loan and the Term Loan shall bear interest, and the amount of each drawing paid under any Standby Letter of Credit shall bear interest from the date such drawing is paid to the date such amount is fully repaid by Borrower, at the rate of interest set forth in each promissory note or other instrument or document executed in connection therewith.

(b) Computation and Payment. Interest shall be computed on the basis of a 360-day year, actual days elapsed. Interest shall be payable at the times and place set forth in each promissory note or other instrument or document required hereby.

(c) Unused Commitment Fee. Borrower shall pay to Bank a fee equal to one quarter of one percent (0.25%) per annum (computed on the basis of a 360-day year, actual days elapsed) on the average daily unused amount of the Revolving Reducing Loan, which fee shall be calculated on a quarterly basis by Bank and shall be due and payable by Borrower in arrears on the first day of each quarter, commencing January 1, 2013.

SECTION 1.4. COLLECTION OF PAYMENTS. Borrower authorizes Bank to collect all principal, interest and fees due under each credit subject hereto by charging Borrower's deposit account number 4159583848 with Bank, or any other deposit account maintained by Borrower with Bank, for the full amount thereof. Should there be insufficient funds in any such deposit account to pay all such sums when due, the full amount of such deficiency shall be immediately due and payable by Borrower.

SECTION 1.5. COLLATERAL.

As security for all indebtedness and other obligations of Borrower to Bank, Borrower shall grant to Bank security interests of first priority in all Borrower's accounts receivable and other rights to payment, general intangibles, inventory and equipment.

As security for all indebtedness and other obligations of Borrower to Bank under the Term Loan, Borrower shall grant to Bank a lien of not less than first priority on that certain real property located at 8100 NE Parkway Drive, Vancouver, Washington 98662 (the "Real Property").

All of the foregoing shall be evidenced by and subject to the terms of such security agreements, financing statements, deeds or mortgages, and other documents as Bank shall reasonably require, all in form and substance satisfactory to Bank. Borrower shall pay to Bank immediately upon demand the full amount of all charges, costs and expenses (to include fees paid to third parties and all allocated costs of Bank personnel), expended or incurred by Bank in connection with any of the foregoing security, including without limitation, filing and recording fees and costs of appraisals, audits and title insurance.

ARTICLE II
REPRESENTATIONS AND WARRANTIES

Borrower makes the following representations and warranties to Bank, which representations and warranties shall survive the execution of this Agreement and shall continue in full force and effect until the full and final payment, and satisfaction and discharge, of all obligations of Borrower to Bank subject to this Agreement.

SECTION 2.1. LEGAL STATUS. Borrower is a corporation, duly organized and existing and in good standing under the laws of Maryland, and is qualified or licensed to do business (and is in good standing as a foreign corporation, if applicable) in all jurisdictions in which such qualification or licensing is required or in which the failure to so qualify or to be so licensed could have a material adverse effect on Borrower.

SECTION 2.2. AUTHORIZATION AND VALIDITY. This Agreement and each promissory note, contract, instrument and other document required hereby or at any time hereafter delivered to Bank in connection herewith (collectively, the "Loan Documents") have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Borrower or the party which executes the same, enforceable in accordance with their respective terms.

SECTION 2.3. NO VIOLATION. The execution, delivery and performance by Borrower of each of the Loan Documents do not violate any provision of any law or regulation, or contravene any provision of the Articles of Incorporation or By-Laws of Borrower, or result in any breach of or default under any contract, obligation, indenture or other instrument to which Borrower is a party or by which Borrower may be bound.

SECTION 2.4. LITIGATION. There are no pending, or to the best of Borrower's knowledge threatened, actions, claims, investigations, suits or proceedings by or before any governmental authority, arbitrator, court or administrative agency which could have a material adverse effect on the financial condition or operation of Borrower other than those disclosed by Borrower to Bank in writing prior to the date hereof.

SECTION 2.5. CORRECTNESS OF FINANCIAL STATEMENT. The annual financial statement of Borrower dated December 31, 2011, and all interim financial statements delivered to Bank since said date, true copies of which have been delivered by Borrower to Bank prior to the date hereof, (a) are complete and correct and present fairly the financial condition of Borrower, (b) disclose all liabilities of Borrower that are required to be reflected or reserved against under generally accepted accounting principles, whether liquidated or unliquidated, fixed or contingent, and (c) have been prepared in accordance with generally accepted accounting principles consistently applied. Since the dates of such financial statements there has been no material adverse change in the financial condition of Borrower, nor has Borrower mortgaged, pledged, granted a security interest in or otherwise encumbered any of its assets or properties except in favor of Bank or as otherwise permitted by Bank in writing.

SECTION 2.6. INCOME TAX RETURNS. Borrower has no knowledge of any pending assessments or adjustments of its income tax payable with respect to any year.

SECTION 2.7. NO SUBORDINATION. There is no agreement, indenture, contract or instrument to which Borrower is a party or by which Borrower may be bound that requires the subordination in right of payment of any of Borrower's obligations subject to this Agreement to any other obligation of Borrower.

SECTION 2.8. PERMITS, FRANCHISES. Borrower possesses, and will hereafter possess, all permits, consents, approvals, franchises and licenses required and rights to all trademarks, trade names, patents, and fictitious names, if any, necessary to enable it to conduct the business in which it is now engaged in compliance with applicable law.

SECTION 2.9. ERISA. Borrower is in compliance in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended or recodified from time to time ("ERISA"); Borrower has not violated any provision of any defined employee pension benefit plan (as defined in ERISA) maintained or contributed to by Borrower (each, a "Plan"); no Reportable Event as defined in ERISA has occurred and is continuing with respect to any Plan initiated by Borrower; Borrower has met its minimum funding requirements under ERISA with respect to each Plan; and each Plan will be able to fulfill its benefit obligations as they come due in accordance with the Plan documents and under generally accepted accounting principles.

SECTION 2.10. OTHER OBLIGATIONS. Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation.

SECTION 2.11. ENVIRONMENTAL MATTERS. Except as disclosed by Borrower to Bank in writing prior to the date hereof, Borrower is in compliance in all material respects with all applicable federal or state environmental, hazardous waste, health and safety statutes, and any rules or regulations adopted pursuant thereto, which govern or affect any of Borrower's operations and/or properties, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Federal Resource Conservation and Recovery Act of 1976, and the Federal Toxic Substances Control Act, as any of the same may be amended, modified or supplemented from time to time. None of the operations of Borrower is the subject of any federal or state investigation evaluating whether any remedial action involving a material expenditure is needed to respond to a release of any toxic or hazardous waste or substance into the environment. Borrower has no material contingent liability in connection with any release of any toxic or hazardous waste or substance into the environment.

SECTION 2.12. REAL PROPERTY COLLATERAL. Except as disclosed by Borrower to Bank in writing prior to the date hereof, with respect to any real property collateral required hereby:

(a) All taxes, governmental assessments, insurance premiums, and water, sewer and municipal charges, and rents (if any) which previously became due and owing in respect thereof have been paid as of the date hereof.

(b) There are no mechanics' or similar liens or claims which have been filed for work, labor or material (and no rights are outstanding that under law could give rise to any such lien) which affect all or any interest in any such real property and which are or may be prior to or equal to the lien thereon in favor of Bank.

(c) None of the improvements which were included for purpose of determining the appraised value of any such real property lies outside of the boundaries and/or building restriction lines thereof, and no improvements on adjoining properties materially encroach upon any such real property.

(d) There is no pending, or to the best of Borrower's knowledge threatened, proceeding for the total or partial condemnation of all or any portion of any such real property, and all such real property is in good repair and free and clear of any damage that would materially and adversely affect the value thereof as security and/or the intended use thereof.

ARTICLE III CONDITIONS

SECTION 3.1. CONDITIONS OF INITIAL EXTENSION OF CREDIT. The obligation of Bank to extend any credit contemplated by this Agreement is subject to the fulfillment to Bank's satisfaction of all of the following conditions:

(a) Approval of Bank Counsel. All legal matters incidental to the extension of credit by Bank shall be satisfactory to Bank's counsel.

(b) Documentation. Bank shall have received, in form and substance satisfactory to Bank, each of the following, duly executed:

- (i) This Agreement and each promissory note or other instrument or document required hereby;
- (ii) Security Agreement: Equipment;
- (iii) Continuing Security Agreement: Rights to Payment and Inventory;
- (iv) Deed of Trust and Assignment of Rents and Leases;
- (v) Standby Letter of Credit Agreement;
- (vi) Corporate Resolution: Borrowing;
- (vii) Incumbency Certificate; and
- (viii) Such other documents as Bank may require under any other Section of this Agreement.

(c) Financial Condition. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower or any guarantor hereunder, if any, nor any material decline, as determined by Bank, in the market value of any collateral required hereunder or a substantial or material portion of the assets of Borrower or any guarantor hereunder, if any.

(d) Insurance. Borrower shall have delivered to Bank evidence of insurance coverage on all Borrower's property, in form, substance, amounts, covering risks and issued by companies satisfactory to Bank, and where required by Bank, with loss payable endorsements in favor of Bank, including without limitation, policies of fire and extended coverage insurance covering all real property collateral required hereby, with replacement cost and mortgagee loss payable endorsements, and such policies of insurance against specific hazards affecting any such real property, including terrorism, as may be required by governmental regulation or Bank.

(e) Appraisals. Bank shall have obtained, at Borrower's cost, an appraisal of all real property collateral required hereby, and all improvements thereon, issued by an appraiser acceptable to Bank and in form, substance and reflecting values satisfactory to Bank, in its discretion.

(f) Title Insurance. Bank shall have received an ALTA Policy of Title Insurance, with such endorsements as Bank may require, issued by a company and in form and substance satisfactory to Bank, in an amount equal to the principal amount of the Term Loan, insuring Bank's lien on the real property collateral required hereby to be of first priority, subject only to such exceptions as Bank shall approve in its discretion, with all costs thereof to be paid by Borrower.

SECTION 3.2. CONDITIONS OF EACH EXTENSION OF CREDIT. The obligation of Bank to make each extension of credit requested by Borrower hereunder shall be subject to the fulfillment to Bank's satisfaction of each of the following conditions:

(a) Compliance. The representations and warranties contained herein and in each of the other Loan Documents shall be true on and as of the date of the signing of this Agreement and on the date of each extension of credit by Bank pursuant hereto, with the same effect as though such representations and warranties had been made on and as of each such date, and on each such date, no Event of Default as defined herein, and no condition, event or act which with the giving of notice or the passage of time or both would constitute such an Event of Default, shall have occurred and be continuing or shall exist.

(b) Documentation. Bank shall have received all additional documents which may be required in connection with such extension of credit.

ARTICLE IV
AFFIRMATIVE COVENANTS

Borrower covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower shall, unless Bank otherwise consents in writing:

SECTION 4.1. PUNCTUAL PAYMENTS. Punctually pay all principal, interest, fees or other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein.

SECTION 4.2. ACCOUNTING RECORDS. Maintain adequate books and records in accordance with generally accepted accounting principles consistently applied, and permit any representative of Bank, at any reasonable time, to inspect, audit and examine such books and records, to make copies of the same, and to inspect the properties of Borrower.

SECTION 4.3. FINANCIAL STATEMENTS. Provide to Bank all of the following, in form and detail satisfactory to Bank:

(a) not later than 120 days after and as of the end of each fiscal year, an audited consolidated financial statement of Borrower, prepared by a certified public accountant acceptable to Bank, to include balance sheet, income statement, and statement of cash flows and sources, and shall be accompanied by the unqualified opinion of such accountant addressed to Bank;

(b) not later than 180 days after and as of the end of each fiscal year, an audited financial statement for each of Associated Insurance Company for Excess, an Arizona corporation wholly owned by Borrower ("AICE"), and Ecole Insurance Company, an Arizona corporation wholly owned by Borrower ("Ecole") (AICE and Ecole, each an "Affiliate" and collectively, the "Affiliates"), prepared by a certified public accountant acceptable to Bank, to include balance sheet, income statement and statement of cash flows and sources, and shall be accompanied by the unqualified opinion of such accountant addressed to Bank;

(c) Promptly upon their becoming available, copies of (i) all financial statements, reports, notices and proxy statements made publicly available by Borrower to its security holders; (ii) all regular and periodic reports and all registration statements and prospectuses, if any, filed by Borrower with any securities exchange or with the U.S. Securities and Exchange Commission ("SEC") or any governmental or private regulatory authority, including, but not limited to (A) not later than 95 calendar days after the end of each fiscal year, Borrower's 10-K filing with the SEC (including all exhibits and certifications) for the fiscal year just ended, and (B) not later than 50 calendar days after the end of each fiscal quarter, Borrower's 10-Q filing with the SEC (including all exhibits and certifications) for the fiscal quarter just ended; and (iii) all press releases and other statements made available by Borrower to the public concerning material changes or developments in the business of Borrower;

(d) contemporaneously with each annual and quarterly financial statement of Borrower and the Affiliates required hereby, a certificate of the president or chief financial officer of Borrower that said financial statements are accurate and that there exists no Event of Default nor any condition, act or event which with the giving of notice or the passage of time or both would constitute an Event of Default;

(e) annually, but in all events not later than October 15 of each year (commencing October 15, 2012), true and correct copies of a Uniform Certificate of Authority Application-Certificate of Compliance issued by the State of Arizona Director of Insurance for each of the Affiliates indicating that, as of a date no earlier than thirty (30) days prior to the date each such certificate is delivered to Bank, each of the Affiliates is duly organized under the laws of the State of Arizona and authorized to transact the relevant insurance business of each of the Affiliates in the State of Arizona; and

(f) from time to time such other information as Bank may reasonably request, including without limitation, copies of rent rolls and other information with respect to any real property collateral required hereby.

SECTION 4.4. COMPLIANCE. Preserve and maintain, and cause each of the Affiliates to preserve and maintain, all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business and the business of each of the Affiliates; and comply with the provisions of all documents pursuant to which Borrower and each of the Affiliates is organized and/or which govern Borrower's or any of the Affiliates' continued existence and with the requirements of all laws, rules, regulations and orders of any governmental authority applicable to Borrower and/or its business or to any of the Affiliates and/or their respective businesses.

SECTION 4.5. INSURANCE. Maintain and keep in force, for each business in which Borrower is engaged, insurance of the types and in amounts customarily carried in similar lines of business, including but not limited to fire, extended coverage, public liability, flood, property damage and workers' compensation, with all such insurance carried with companies and in amounts satisfactory to Bank, and deliver to Bank from time to time at Bank's request schedules setting forth all insurance then in effect.

SECTION 4.6. FACILITIES. Keep all properties useful or necessary to Borrower's business in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that such properties shall be fully and efficiently preserved and maintained.

SECTION 4.7. TAXES AND OTHER LIABILITIES. Pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation federal and state income taxes and state and local property taxes and assessments, except (a) such as Borrower may in good faith contest or as to which a bona fide dispute may arise, and (b) for which Borrower has made provision, to Bank's satisfaction, for eventual payment thereof in the event Borrower is obligated to make such payment.

SECTION 4.8. LITIGATION. Promptly give notice in writing to Bank of any litigation pending or threatened against Borrower with a claim in excess of \$1,000,000.00.

SECTION 4.9. FINANCIAL CONDITION. Maintain Borrower's financial condition as follows using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein), with compliance determined commencing with Borrower's consolidated financial statements for the period ending (a) December 31, 2012, with respect to Section 4.9(a) below, (b) on the dates specified in Section 4.9(b), with respect to Section 4.9(b) below, and (c) September 30, 2012, with respect to Section 4.9(c) below:

(a) Fixed Charge Coverage Ratio not less than 1.25 to 1.0 as of each fiscal quarter end, determined on a rolling 4-quarter basis, with "Fixed Charge Coverage Ratio" defined as the aggregate of net profit after taxes plus depreciation expense, amortization expense, cash capital contributions and increases in subordinated debt minus dividends, distributions and decreases in subordinated debt (excluding that certain redemption transaction between Borrower and the Estate of William W. Sherertz and Nancy Sherertz effective as of March 9, 2012, in the amount of \$59,700,000.00), divided by the aggregate of \$5,000,000.00, the current maturity of long-term debt and capitalized lease payments.

(b) Total Funded Debt to EBITDA not greater than (i) 2.25 to 1.0 as of each fiscal quarter end, commencing December 31, 2012 and continuing through September 30, 2013, (ii) 1.75 to 1.0 as of each fiscal quarter end, commencing December 31, 2013 and continuing through September 30, 2014, (iii) 1.5 to 1.0 as of each fiscal quarter end, commencing December 31, 2014 and continuing through September 30, 2015, and (iv) 1.25 to 1.0 as of each fiscal quarter end, commencing December 31, 2015 and continuing thereafter through maturity of the Revolving Reducing Loan, in each case determined on a rolling 4-quarter basis, with "Funded Debt" defined as the sum of all obligations for borrowed money (including subordinated debt) plus all capital lease obligations, and with "EBITDA" defined as net profit before tax plus interest expense (net of capitalized interest expense), depreciation expense and amortization expense.

(c) Liquid Assets to Worker's Compensation Claims & Safety Incentive Liabilities not less than 1.0 to 1.0 as of each fiscal quarter end, with "Liquid Assets" defined as the sum of (i) restricted and unrestricted cash and cash equivalents, plus (ii) restricted and unrestricted marketable securities acceptable to Bank in its sole discretion, plus (iii) the maximum principal amount then available under the Reducing Revolving Loan less the then outstanding aggregate of all borrowings thereunder, and "Worker's Compensation Claims & Safety Incentive Liabilities" defined as the aggregate of Borrower's obligations with respect to (i) workers' compensation claims liabilities, and (ii) safety incentive liabilities, in each case as the assets described in clauses (i) and (ii) of the foregoing definition of "Liquid Assets" and as the liabilities described in clauses (i) and (ii) of the foregoing definition of "Worker's Compensation Claims & Safety Incentive Liabilities" are required to be reflected in Borrower's annual audited consolidated financial statements and quarterly unaudited consolidated financial statements, consistent with past practices.

SECTION 4.10. NOTICE TO BANK. Promptly (but in no event more than five (5) days after the occurrence of each such event or matter) give written notice to Bank in reasonable detail of: (a) the occurrence of any Event of Default, or any condition, event or act which with the giving of notice or the passage of time or both would constitute an Event of Default; (b) any change in the name or the organizational structure of Borrower; (c) the occurrence and nature of any Reportable Event or Prohibited Transaction, each as defined in ERISA, or any funding deficiency with respect to any Plan; or (d) any termination or cancellation of any insurance policy which Borrower is required to maintain, or any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting Borrower's property in excess of an aggregate of \$1,000,000.00.

ARTICLE V
NEGATIVE COVENANTS

Borrower further covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower will not without Bank's prior written consent:

SECTION 5.1. USE OF FUNDS. Use any of the proceeds of any credit extended hereunder except for the purposes stated in Article I hereof.

SECTION 5.2. OTHER INDEBTEDNESS. Create, incur, assume or permit to exist, or allow any of the Affiliates to create, incur, assume or permit to exist, any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except (a) the liabilities of Borrower or any of the Affiliates to Bank or any affiliate of Bank, (b) purchase money indebtedness (including capitalized leases) for the acquisition of assets, provided that (i) the total new purchase money indebtedness does not exceed \$200,000.00 in any fiscal year, and (ii) the aggregate of all purchase money indebtedness does not exceed \$800,000.00 at any time, and (c) any other liabilities of Borrower or any of the Affiliates existing as of, and disclosed to Bank prior to, the date hereof; provided, however, that if Borrower or any of the Affiliates incurs indebtedness or becomes liable to any third party to the extent permitted hereunder, neither Borrower nor any of the Affiliates shall enter into any agreement with such other party that prohibits Borrower or any of the Affiliates, as the case may be, from incurring indebtedness with Bank or any affiliate of Bank or that prohibits Borrower or any of the Affiliates from granting Bank or any affiliate of Bank a lien on any real or personal property owned by Borrower or any of the Affiliates, as the case may be.

SECTION 5.3. MERGER, CONSOLIDATION, TRANSFER OF ASSETS. Merge into or consolidate with any other entity; make any substantial change in the nature of Borrower's business as conducted as of the date hereof; acquire all or substantially all of the assets of any other entity; nor sell, lease, transfer or otherwise dispose of all or a substantial or material portion of Borrower's assets except in the ordinary course of its business.

SECTION 5.4. GUARANTIES. Guarantee or become liable in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for, nor pledge or hypothecate any assets of Borrower or any of the Affiliates as security for, any liabilities or obligations of any other person or entity, except (a) any of the foregoing in favor of Bank, and (b) solely in the case of each of the Affiliates, in the ordinary course of business for each of the Affiliates, consistent with past practices thereof.

SECTION 5.5. PLEDGE OF ASSETS. Mortgage, pledge, grant or permit to exist a security interest in, or lien upon, all or any portion of Borrower's assets now owned or hereafter acquired, except (a) any of the foregoing in favor of Bank or which is existing as of, and disclosed to Bank in writing prior to, the date hereof, and (b) purchase money security interests, to the extent purchase money indebtedness is permitted under Section 5.2(b).

ARTICLE VI
EVENTS OF DEFAULT

SECTION 6.1. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

(a) Borrower shall fail to pay when due any principal, interest, fees or other amounts payable under any of the Loan Documents.

(b) Any financial statement or certificate furnished to Bank in connection with, or any representation or warranty made by Borrower or any other party under this Agreement or any other Loan Document shall prove to be incorrect, false or misleading in any material respect when furnished or made.

(c) Any default in the performance of or compliance with any obligation, agreement or other provision contained herein or in any other Loan Document (other than those specifically described as an "Event of Default" in this section 6.1), and with respect to any such default that by its nature can be cured, such default shall continue for a period of twenty (20) days from its occurrence.

(d) Any default in the payment or performance of any obligation, or any defined event of default, under the terms of any contract, instrument or document (other than any of the Loan Documents) pursuant to which Borrower, any guarantor hereunder or any general partner or joint venturer in Borrower if a partnership or joint venture (with each such guarantor, general partner and/or joint venturer referred to herein as a "Third Party Obligor") or any of the Affiliates has incurred any debt or other liability to any person or entity, including Bank; provided, however, that any cure period applicable to such default has expired, and, with respect to a default under any obligation to any person or entity other than Bank, the amount of said obligation exceeds \$25,000.00; and further provided, that with respect to a default of any non-monetary obligation to any person or entity other than Bank, the non-monetary obligation materially affects any of Borrower's or any of the Affiliates' property or Borrower's or any of the Affiliates' ability to repay its credit obligations to Bank or to any other person or entity other than Bank, or perform any of its other material contractual obligations to any person or entity.

(e) Borrower, or any of the Affiliates or any Third Party Obligor shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall generally fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors; Borrower, or any of the Affiliates or any Third Party Obligor shall file a voluntary petition in bankruptcy, or seeking reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time ("Bankruptcy Code"), or under any state or federal law granting relief to debtors, whether now or hereafter in effect; or Borrower, or any of the Affiliates or any Third Party Obligor shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or Borrower, or any of the Affiliates or any Third Party Obligor shall be adjudicated a bankrupt, or an order for relief shall be entered against Borrower, or any of the Affiliates or any Third Party Obligor by any court of competent jurisdiction under the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors.

(f) The filing of a notice of judgment lien against Borrower, or any of the Affiliates or any Third Party Obligor; or the recording of any abstract of judgment against Borrower, or any of the Affiliates or any Third Party Obligor in any county in which Borrower, or any of the Affiliates or such Third Party Obligor has an interest in real property; or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Borrower or any of the Affiliates or any Third Party Obligor; or the entry of a judgment against Borrower, or any of the Affiliates or any Third Party Obligor; or any involuntary petition or proceeding pursuant to the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Borrower, or any of the Affiliates or any Third Party Obligor.

(g) There shall exist or occur any event or condition that Bank in good faith believes impairs, or is substantially likely to impair, the prospect of payment or performance by Borrower, any of the Affiliates, any Third Party Obligor, or the general partner of either if such entity is a partnership, of its obligations under any of the Loan Documents.

(h) The death or incapacity of Borrower or any Third Party Obligor if an individual. The dissolution or liquidation of Borrower, or any of the Affiliates or any Third Party Obligor if a corporation, partnership, joint venture or other type of entity; or Borrower, or any of the Affiliates or any such Third Party Obligor, or any of its directors, stockholders or members, shall take action seeking to effect the dissolution or liquidation of Borrower, or any of the Affiliates or such Third Party Obligor.

(i) Any change in control of Borrower or any entity or combination of entities that directly or indirectly control Borrower, with "control" defined as ownership of an aggregate of twenty-five percent (25%) or more of the common stock, members' equity or other ownership interest (other than a limited partnership interest).

(j) The sale, transfer, hypothecation, assignment or encumbrance, whether voluntary, involuntary or by operation of law, without Bank's prior written consent, of all or any part of or interest in any real property collateral required hereby.

SECTION 6.2. REMEDIES. Upon the occurrence of any Event of Default: (a) all indebtedness of Borrower under each of the Loan Documents, any term thereof to the contrary notwithstanding, shall at Bank's option and without notice become immediately due and payable without presentment, demand, protest or notice of dishonor, all of which are hereby expressly waived by Borrower; (b) the obligation, if any, of Bank to extend any further credit under any of the Loan Documents shall immediately cease and terminate; and (c) Bank shall have all rights, powers and remedies available under each of the Loan Documents, or accorded by law, including without limitation the right to resort to any or all security for any credit subject hereto and to exercise any or all of the rights of a beneficiary or secured party pursuant to applicable law. All rights, powers and remedies of Bank may be exercised at any time by Bank and from time to time after the occurrence of an Event of Default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

ARTICLE VII
MISCELLANEOUS

SECTION 7.1. NO WAIVER. No delay, failure or discontinuance of Bank in exercising any right, power or remedy under any of the Loan Documents shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power

or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Bank of any breach of or default under any of the Loan Documents must be in writing and shall be effective only to the extent set forth in such writing.

SECTION 7.2. NOTICES. All notices, requests and demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing delivered to each party at the following address:

BORROWER: BARRETT BUSINESS SERVICES, INC.
 8100 NE Parkway Drive, Suite 200
 Vancouver, Washington 98662
 Attn: James D. Miller
 Vice President-Finance

BANK: WELLS FARGO BANK, NATIONAL ASSOCIATION
 Portland RCBO
 MAC P6101-133
 1300 SW Fifth Avenue
 Portland, Oregon 97201
 Attn: Julie R. Wilson, Vice President

or to such other address as any party may designate by written notice to all other parties. Each such notice, request and demand shall be deemed given or made as follows: (a) if sent by hand delivery, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

SECTION 7.3. COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in connection with (a) the negotiation and preparation of this Agreement and the other Loan Documents, Bank's continued administration hereof and thereof, and the preparation of any amendments and waivers hereto and thereto, (b) the enforcement of Bank's rights and/or the collection of any amounts which become due to Bank under any of the Loan Documents, and (c) the prosecution or defense of any action in any way related to any of the Loan Documents, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Borrower or any other person or entity.

SECTION 7.4. SUCCESSORS, ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that Borrower may not assign or transfer its interests or rights hereunder without Bank's prior written consent. Bank reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Bank's rights and benefits under each of the Loan Documents. In connection therewith, Bank may disclose all documents and information which Bank now has or may hereafter acquire relating to any credit subject hereto, Borrower or its business, any of the Affiliates or the business of such Affiliate, any guarantor hereunder or the business of such guarantor, if any, or any collateral required hereunder.

SECTION 7.5. ENTIRE AGREEMENT; AMENDMENT. This Agreement and the other Loan Documents constitute the entire agreement between Borrower and Bank with respect to each credit subject hereto and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof. This Agreement may be amended or modified only in writing signed by each party hereto.

SECTION 7.6. NO THIRD PARTY BENEFICIARIES. This Agreement is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other person or entity shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any other of the Loan Documents to which it is not a party.

SECTION 7.7. TIME. Time is of the essence of each and every provision of this Agreement and each other of the Loan Documents.

SECTION 7.8. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

SECTION 7.9. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same Agreement.

SECTION 7.10. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Oregon, but giving effect to the federal laws applicable to national banks, without reference to the conflicts of law or choice of law principles thereof.

SECTION 7.11. ARBITRATION.

(a) Arbitration. The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in tort, contract or otherwise in any way arising out of or relating to (i) any credit subject hereto, or any of the Loan Documents, and their negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination; or (ii) requests for additional credit.

(b) Governing Rules. Any arbitration proceeding will (i) proceed in a location in Oregon selected by the American Arbitration Association ("AAA"); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA's commercial dispute resolution procedures, unless the claim or counterclaim is at least \$1,000,000.00 exclusive of claimed interest, arbitration fees and costs in which case the arbitration shall be conducted in accordance with the AAA's optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional

procedures for large, complex commercial disputes to be referred to herein, as applicable, as the "Rules"). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

(c) No Waiver of Provisional Remedies, Self-Help and Foreclosure The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

(d) Arbitrator Qualifications and Powers. Any arbitration proceeding in which the amount in controversy is \$5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than \$5,000,000.00. Any dispute in which the amount in controversy exceeds \$5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in the State of Oregon or a neutral retired judge of the state or federal judiciary of Oregon, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator's discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive law of Oregon and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the Oregon Rules of Civil Procedure or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(e) Discovery. In any arbitration proceeding, discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the dispute being arbitrated and must be completed no later than 20 days before the hearing date. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

(f) Class Proceedings and Consolidations. No party hereto shall be entitled to join or consolidate disputes by or against others in any arbitration, except parties who have executed any Loan Document, or to include in any arbitration any dispute as a representative or member of a class, or to act in any arbitration in the interest of the general public or in a private attorney general capacity.

(g) Payment Of Arbitration Costs And Fees. The arbitrator shall award all costs and expenses of the arbitration proceeding.

(h) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the Loan Documents or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the Loan Documents or any relationship between the parties.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY BANK CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY BANK TO BE ENFORCEABLE.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first written above.

BARRETT BUSINESS SERVICES, INC.

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ James D. Miller
Name: James D. Miller
Title: Vice President-Finance

By: /s/ Julie R. Wilson
Name: Julie R. Wilson
Title: Vice President

REVOLVING REDUCING NOTE

\$24,000,000.00

Portland, Oregon
September 18, 2012

FOR VALUE RECEIVED, the undersigned BARRETT BUSINESS SERVICES, INC. ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at Portland RCBO, 1300 SW Fifth Avenue, MAC P6101-133, Portland, Oregon, 97201 or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of Twenty-Four Million Dollars (\$24,000,000.00), or so much thereof as may be advanced and be outstanding, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

DEFINITIONS:

As used herein, the following terms shall have the meanings set forth after each, and any other term defined in this Note shall have the meaning set forth at the place defined:

(a) "Business Day" means any day except a Saturday, Sunday or any other day on which commercial banks in Oregon are authorized or required by law to close.

(b) "Daily One Month LIBOR" means for any day, the rate of interest equal to LIBOR then in effect for delivery for a one (1) month period.

(c) "Fixed Rate Term" means a period commencing on a Business Day and continuing for one (1) month, three (3) months, or six (6) months, as designated by Borrower, during which all or a portion of the outstanding principal balance of this Note bears interest determined in relation to LIBOR; provided however, that no Fixed Rate Term may be selected for a principal amount less than Two Hundred Thousand Dollars (\$200,000.00); and provided further, that no Fixed Rate Term shall extend beyond the scheduled maturity date hereof. If any Fixed Rate Term would end on a day which is not a Business Day, then such Fixed Rate Term shall be extended to the next succeeding Business Day.

(d) "LIBOR" means the rate per annum (rounded upward, if necessary, to the nearest whole 1/8 of 1%) and determined pursuant to the following formula:

$$\text{LIBOR} = \frac{\text{Base LIBOR}}{100\% - \text{LIBOR Reserve Percentage}}$$

(i) "Base LIBOR" means the rate per annum for United States dollar deposits quoted by Bank as the Inter-Bank Market Offered Rate, with the understanding that such rate is quoted by Bank for the purpose of calculating effective rates of interest for loans making reference thereto, on the first day of a Fixed Rate Term for delivery of funds on said date for a period of time approximately equal to the number of days in such Fixed Rate Term and in an amount approximately equal to the principal amount to which such Fixed Rate Term applies. Borrower understands and agrees that Bank may base its quotation of the Inter-Bank Market Offered Rate upon such offers or other market indicators of the Inter-Bank Market as Bank in its discretion deems appropriate including, but not limited to, the rate offered for U.S. dollar deposits on the London Inter-Bank Market.

(ii) "LIBOR Reserve Percentage" means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by Bank for expected changes in such reserve percentage during the applicable Fixed Rate Term.

INTEREST:

(a) Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) either (i) at a fluctuating rate per annum one and three-quarters of one percent (1.75%) above the Daily One Month LIBOR Rate in effect from time to time, or (ii) at a fixed rate per annum determined by Bank to be one and three-quarters of one percent (1.75%) above LIBOR in effect on the first day of the applicable Fixed Rate Term. When interest is determined in relation to the Daily One Month LIBOR Rate, each change in the interest rate shall become effective each Business Day that the Bank determines that the Daily One Month LIBOR Rate has changed. Bank is hereby authorized to note the date, principal amount, interest rate and Fixed Rate Term applicable thereto and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted.

(b) Selection of Interest Rate Options. At any time any portion of this Note bears interest determined in relation to LIBOR for a Fixed Rate Term, it may be continued by Borrower at the end of the Fixed Rate Term applicable thereto so that all or a portion thereof bears interest determined in relation to the Daily One Month LIBOR Rate or to LIBOR for a new Fixed Rate Term designated by Borrower. At any time any portion of this Note bears interest determined in relation to the Daily One Month LIBOR Rate, Borrower may at any time convert all or a portion thereof so that it bears interest determined in relation to LIBOR for a Fixed Rate Term designated by Borrower. At such time as Borrower requests an advance hereunder or wishes to select an interest rate determined in relation to the Daily One Month LIBOR Rate or a Fixed Rate Term for all or a portion of the outstanding principal balance hereof, and at the end of each Fixed Rate Term, Borrower shall give Bank notice specifying: (i) the interest rate option selected by Borrower; (ii) the principal amount subject thereto; and (iii) for each LIBOR selection for a Fixed Rate Term, the length of the applicable Fixed Rate Term. Any such notice may be given by telephone (or such other electronic method as Bank may permit) so long as, with respect to each LIBOR selection for a Fixed Rate Term, (A) if requested by Bank, Borrower provides to Bank written confirmation thereof not later than three (3) Business Days after such notice is given, and (B) such notice is given to Bank prior to 10:00 a.m. on the first day of the Fixed Rate Term, or at a later time during any Business Day if Bank, at its sole option but without obligation to do so, accepts Borrower's notice and quotes a fixed rate to Borrower. If Borrower does not immediately accept a fixed rate when quoted by Bank, the quoted rate shall expire and any subsequent LIBOR request from Borrower shall be subject to a redetermination by Bank of the applicable fixed rate. If no specific designation of interest is made at the time any advance is requested hereunder or at the end of any Fixed Rate Term, Borrower shall be deemed to have made a Daily One Month LIBOR Rate interest selection for such advance or the principal amount to which such Fixed Rate Term applied.

(c) Taxes and Regulatory Costs. Borrower shall pay to Bank immediately upon demand, in addition to any other amounts due or to become due hereunder, any and all (i) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority and related in any

manner to LIBOR, and (ii) future, supplemental, emergency or other changes in the LIBOR Reserve Percentage, assessment rates imposed by the Federal Deposit Insurance Corporation, or similar requirements or costs imposed by any domestic or foreign governmental authority or resulting from compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority and related in any manner to LIBOR to the extent they are not included in the calculation of LIBOR. In determining which of the foregoing are attributable to any LIBOR option available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

(d) Payment of Interest. Interest accrued on this Note shall be payable on the first day of each month, commencing October 1, 2012.

(e) Default Interest. From and after the maturity date of this Note, or such earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, or at Bank's option upon the occurrence, and during the continuance of an Event of Default, the outstanding principal balance of this Note shall bear interest at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to four percent (4%) above the rate of interest from time to time applicable to this Note.

BORROWING AND REPAYMENT:

(a) Borrowing and Repayment. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of any document executed in connection with or governing this Note; provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount set forth above or such lesser amount as shall at any time be available hereunder. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for Borrower, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on October 1, 2017.

(b) Reductions in Availability. Notwithstanding the principal amount set forth above, the maximum principal amount available under this Note shall be reduced automatically and without further notice on the first day of each April and on the first day of each October during the term of this Note, commencing April 1, 2013, by the amount of Two Million Five Hundred Thousand Dollars (\$2,500,000.00). If the outstanding principal balance of this Note on any such date is greater than the new maximum principal amount then available hereunder, Borrower shall make a principal reduction on this Note on such date in an amount sufficient to reduce the then outstanding principal balance hereof to an amount not greater than said new maximum principal amount.

(c) Advances. Advances hereunder, to the total amount of the principal sum stated above, may be made by the holder at the oral or written request of (i) Michael L. Elich or James D. Miller, any one acting alone, who are authorized to request advances and direct the disposition of any advances until written notice of the revocation of such authority is received by the holder at the office designated above, or (ii) any person, with respect to advances deposited to the credit of any deposit account of Borrower, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account. The holder shall have no obligation to determine whether any person requesting an advance is or has been authorized by Borrower.

(d) Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof. All payments credited to principal shall be applied first, to the outstanding principal balance of this Note which bears interest determined in relation to the Daily One Month LIBOR Rate, if any, and second, to the outstanding principal balance of this Note which bears interest determined in relation to LIBOR, with such payments applied to the oldest Fixed Rate Term first.

PREPAYMENT:

(a) Daily One Month LIBOR Rate. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to the Daily One Month LIBOR Rate at any time, in any amount and without penalty.

(b) LIBOR. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to LIBOR at any time and in the minimum amount of One Hundred Thousand Dollars (\$100,000.00); provided however, that if the outstanding principal balance of such portion of this Note is less than said amount, the minimum prepayment amount shall be the entire outstanding principal balance thereof. In consideration of Bank providing this prepayment option to Borrower, or if any such portion of this Note shall become due and payable at any time prior to the last day of the Fixed Rate Term applicable thereto by acceleration or otherwise, Borrower shall pay to Bank immediately upon demand a fee which is the sum of the discounted monthly differences for each month from the month of prepayment through the month in which such Fixed Rate Term matures, calculated as follows for each such month:

- (i) Determine the amount of interest which would have accrued each month on the amount prepaid at the interest rate applicable to such amount had it remained outstanding until the last day of the Fixed Rate Term applicable thereto.
- (ii) Subtract from the amount determined in (i) above the amount of interest which would have accrued for the same month on the amount prepaid for the remaining term of such Fixed Rate Term at LIBOR in effect on the date of prepayment for new loans made for such term and in a principal amount equal to the amount prepaid.
- (iii) If the result obtained in (ii) for any month is greater than zero, discount that difference by LIBOR used in (ii) above.

Borrower acknowledges that prepayment of such amount may result in Bank incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or liabilities. Borrower, therefore, agrees to pay the above-described prepayment fee and agrees that said amount represents a reasonable estimate of the prepayment costs, expenses and/or liabilities of Bank. If Borrower fails to pay any prepayment fee when due, the amount of such prepayment fee shall thereafter bear interest until paid at a rate per annum four percent (4%) above the Daily One Month LIBOR Rate in effect from time to time (computed on the basis of a 360-day year, actual days elapsed).

EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of September 21, 2012, as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

MISCELLANEOUS:

(a) Remedies. Upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Borrower or any other person or entity.

(b) Obligations Joint and Several. Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

(c) Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of Oregon.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY BANK CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY BANK TO BE ENFORCEABLE.

IN WITNESS WHEREOF, the undersigned has executed this Note as of the date first written above.

BARRETT BUSINESS SERVICES, INC.

By: /s/ James D. Miller

Name: James D. Miller

Title: Vice President-Finance



**Standby Letter of Credit Agreement
(Credit Agreement/Loan Agreement Version)**

THIS STANDBY LETTER OF CREDIT AGREEMENT (this "**Agreement**") is by and between/among the undersigned (individually and collectively, "**Applicant**"; jointly and severally, if more than one) and Wells Fargo Bank, National Association and/or any of its branches or affiliates (individually and collectively, "**Bank**").

PRELIMINARY STATEMENTS

A. Applicant is a party to the credit or loan agreement pursuant to which one or more letters of credit may be issued or will otherwise be governed (as may be amended, supplemented, restated or otherwise modified from time to time, the "**Credit Agreement**").

B. Subject to the terms and conditions of the Credit Agreement, (a) Bank has agreed to issue standby letter(s) of credit as more particularly described therein, and/or (b) Bank and Applicant have agreed that certain existing standby letters(s) of credit will now be deemed for all purposes Credits (as defined below) issued under and in connection with this Agreement and not that certain Standby Letter of Credit Agreement between Bank and Borrower dated June 30, 2009, as may be amended from time to time (the "**Existing Standby Letter of Credit Agreement**" (in each case, as such standby letter(s) of credit may be amended from time to time, the "**Credit(s)**") for the account of Applicant, subject to the additional terms and conditions of this Agreement, the Application (as defined below) and such other documents as may be required by Bank in connection with the issuance of the Credit(s). For purposes of this Agreement, if there is only one (1) Credit issued under the Credit Agreement, then all references herein to "a Credit", "each Credit", "one or more Credits", "the Credits" or similar references shall be deemed to refer to the Credit only.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Applicant and Bank (by its acceptance of this Agreement and the issuance of a Credit) hereby agree as follows (unless otherwise defined or indicated in this Agreement, capitalized terms used but not defined herein shall have the meanings given to such terms in the Credit Agreement):

1. Applications/Instructions. The request to issue or amend a Credit (including any Application for Standby Letter of Credit on which Applicant applied for a letter of credit under the Existing Standby Letter of Credit Agreement, an "**Application**") shall be irrevocable and in such form as Bank shall from time to time require or agree to accept (including any type of electronic form or means of communication). Inquiries, communications and instructions (whether written, facsimile or in other electronic form approved by Bank) regarding a Credit, each Application and this Agreement are each referred to herein as "**Instructions**". Bank's records of the content of any Instruction will be conclusive. Applicant expressly agrees that the terms and conditions in this Agreement shall apply to each Application (including any Application for Standby Letter of Credit on which Applicant applied for a letter of credit under the Existing Standby Letter of Credit Agreement) and the Credit issued pursuant to each Application, and to transactions under each Application, each Credit and this Agreement.

2. Applicant's Reimbursement and Payment Obligations and Terms

- (a) **United States Dollar Drawings.** For each Credit payable or purporting to be payable in United States Dollars, Applicant shall, as to clause (i) below, reimburse Bank, and as to all other clauses below, pay Bank:
- (i) the amount of each drawing paid by Bank under the Credit on the same Business Day (as defined below) such drawing is paid by Bank, if under a sight draft or demand presentation paid by Bank under such Credit, and at least one (1) Business Day prior to the date when payment is to be made under a time draft (or acceptance relating thereto) or deferred payment obligation;
 - (ii) commissions, fees and charges in respect of the Credit (including, commissions and fees for issuance, transfer, assignment of proceeds, amendments and drawings and of any adviser, confirming institution or entity or other nominated person), at such rates, amounts and times as specified in the Credit Agreement, or if not specified in the Credit Agreement, as Bank and Applicant shall mutually agree (or if no agreement, the rates then customarily charged by Bank);
 - (iii) interest on each amount payable under this Agreement for each day from and including the date such payment is due through the date of payment, on demand, at the rate per annum and calculated in the manner specified in the Credit Agreement or, if not specified in the Credit Agreement, at a rate per annum (calculated on the basis of a 360-day year for the actual number of days elapsed) equal to the lesser of (A) the Prime Rate (as defined below) plus 4% and (B) the highest rate permitted by applicable law;
 - (iv) Bank's charges, costs and expenses (including the reasonable legal fees, charges and disbursements of any counsel (including in-house counsel fees and allocated costs) to Bank incurred in connection with the protection or enforcement of Bank's rights under this Agreement and any correspondent's charges, with interest from the date paid or incurred by Bank through the date of payment by Applicant, on demand, at a rate per annum and calculated in the manner specified in the Credit Agreement or, if not specified in the Credit Agreement, at a rate per annum (calculated on the basis of a 360-day year for the actual number of days elapsed) equal to the lesser of (A) the Prime Rate plus 4% and (B) the highest rate permitted by applicable law;
 - (v) if as a result of any Change in Law (as defined below), Bank determines that the cost to Bank of issuing or maintaining any Credit is increased, or any amount received or receivable by Bank under this Agreement is reduced, or Bank is required to make any payment in connection with any transaction contemplated hereby, then such additional amount or amounts, on demand, as Bank determines will compensate Bank for such increased cost, reduction or payment; and
 - (vi) as used in this Agreement, the following capitalized terms have the meanings ascribed to such terms:
 - (A) **"Business Day"** means any day that is not a Saturday, Sunday or other day on which commercial banks are authorized or required to close at the place where Bank is obligated to honor a presentation or otherwise act under a Credit.

- (B) **“Prime Rate”** means the rate of interest most recently announced within Bank at its principal office as its “Prime Rate”, with the understanding that the Prime Rate is one of Bank’s base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof after its announcement in such internal publication or publications as Bank may designate. Each change in the Prime Rate shall be effective from and including the date such change is announced as being effective.
- (C) **“Change in Law”** means the occurrence after the date of this Agreement of: (a) the adoption or effectiveness of any law, rule, regulation, judicial ruling, judgment or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application by any Governmental Authority of any law, rule, regulation or treaty, or (c) the making or issuance by any Governmental Authority of any request, rule, guideline or directive, whether or not having the force of law; provided that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives concerning capital adequacy promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the US or foreign regulatory authorities shall, in each case, be deemed to be a “Change in Law,” regardless of the date enacted, adopted or issued.
- (D) **“Governmental Authority”** means the government of any nation or any political subdivision thereof, whether at the national, state, territorial, provincial, municipal or any other level, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of, or pertaining to, government (including any supra-national bodies such as the European Union or the European Central Bank).
- (b) **Foreign Currency Drawings.** If the amount drawn or demanded to be paid under any Credit is not in United States Dollars, Applicant agrees to reimburse or pay under Section 2(a) above the United States Dollar equivalent of the amount computed at Bank’s selling rate, as of the date of Applicant’s reimbursement or payment. Notwithstanding the foregoing, Bank may, at its sole and absolute discretion, require or permit Applicant to reimburse or pay under Section 2(a) above in the applicable non-United States Dollars currency.
- (c) **Immediately Available Funds; No Withholding.** All reimbursements and payments shall be made in immediately available funds, free and clear of and without deduction for any present or future Taxes (as defined below), set-off or other liabilities, at such time and to such location as Bank may designate from time to time. Applicant shall pay all withholding, stamp and other Taxes imposed by any taxing authority on reimbursement

or payment under any Credit and this Agreement, and shall indemnify Bank against all liabilities, costs, claims and expenses resulting from Bank having to pay or from any omission to pay or delay in paying any Tax. "Taxes" means all taxes, fees, duties, levies, imposts, deductions, charges or withholdings of any kind (other than federal and state income taxes and franchise taxes imposed on Bank).

- (d) **Automatic Debit and Set-Off.** Bank may (but shall not be required to), without demand for reimbursement or payment or notice to Applicant, and in addition to any other right of set-off that Bank may have, debit any account or accounts maintained by Applicant with any office of Bank (now or in the future) and set-off and apply (i) any balance or deposits (general, special, time, demand, provisional, final, matured, unmatured, contingent or absolute) in the account(s) and (ii) any sums due or payable from Bank, to the payment of any and all amounts owed by Applicant to Bank.
- (e) **Obligations Absolute.** Applicant's reimbursement and payment obligations under this Section 2 are absolute, unconditional and irrevocable and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever, including, without limitation:
- (i) any lack of validity, enforceability or legal effect of any Credit or this Agreement or any term or provision therein or herein;
 - (ii) payment against presentation of any draft, demand or claim for payment under any Credit or other document presented for purposes of drawing under any Credit (individually, a "**Drawing Document**" and collectively, the "**Drawing Documents**") that does not comply in whole or in part with the terms of the applicable Credit or which proves to be fraudulent, forged or invalid in any respect or any statement therein being untrue or inaccurate in any respect, or which is signed, issued or presented by a Person (as defined below) or a transferee of such Person purporting to be a successor or transferee of the beneficiary of such Credit;
 - (iii) Bank or any of its branches or affiliates being the beneficiary of any Credit;
 - (iv) Bank or any correspondent honoring a drawing against a Drawing Document up to the amount available under any Credit even if such Drawing Document claims an amount in excess of the amount available under the Credit;
 - (v) the existence of any claim, set-off, defense or other right that Applicant or any other Person may have at any time against any beneficiary, any assignee of proceeds, Bank or any other Person; or
 - (vi) any other event, circumstance or conduct whatsoever, whether or not similar to any of the foregoing that might, but for this Section, constitute a legal or equitable defense to or discharge of, or provide a right of set-off against, the Obligations (as defined below), whether against Bank, the beneficiary or any other Person;

provided, however, that subject to Section 4(b) below, the foregoing shall not release Bank from such liability to Applicant as may be finally determined in a binding arbitration proceeding brought by Applicant pursuant to the Credit Agreement (or as may

be judicially determined in a final, non-appealable judgment by a court of competent jurisdiction to the extent that a judicial determination, proceeding or remedy is permitted by the Credit Agreement) against Bank following reimbursement and/or payment of the Obligations. “**Obligations**” means all obligations and liabilities, including without limitation, reimbursement and other payment obligations and liabilities, of Applicant to Bank arising under, or in connection with, this Agreement, including, without limitation, Section 4 below, any Application or any Credit, whether matured or unmatured, absolute or contingent, now existing or hereafter incurred. “**Person**” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, governmental authority or other entity.

3. Applicant’s Responsibility. Applicant is responsible for preparing and/or approving the final text of the Credit as issued by Bank, irrespective of any assistance Bank may provide such as drafting or recommending text or by Bank’s use or refusal to use text submitted by Applicant. Applicant understands that the final form of any Credit may be subject to such revisions and changes as are deemed necessary or appropriate by Bank and Applicant hereby consents to such revisions and changes. Applicant is solely responsible for the suitability of the Credit for Applicant’s purposes. Applicant will examine the copy of the Credit and any other documents sent by Bank in connection with the Credit and shall promptly notify Bank of any non-compliance with Applicant’s Instructions and of any discrepancy in any document under any presentment or other irregularity. Applicant understands and agrees that Bank is not required to extend the expiration date of any Credit for any reason, and with respect to any Credit containing an “automatic amendment” to extend the expiration date of such Credit, Bank, in its sole and absolute discretion, may give notice of nonrenewal of such Credit and, if Applicant does not at any time want such Credit to be renewed, Applicant will so notify Bank at least fifteen (15) calendar days before Bank is required to notify the beneficiary of such Credit or any advising bank of such nonrenewal pursuant to the terms of such Credit.

4. Indemnification; Limitation of Liability.

- (a) **Indemnification.** Applicant agrees to indemnify and hold harmless Bank (including its branches and affiliates), its correspondents and each of their respective directors, officers, employees, attorneys and agents (each, including Bank, an “**Indemnified Person**”) from and against any and all claims, suits, judgments, liabilities, losses, fines, damages, penalties, interest, costs and expenses (including expert witness fees and reasonable legal fees, charges and disbursements of any counsel (including in-house counsel fees and allocated costs) and all expenses of arbitration or litigation and in preparation thereof), which may be incurred by or awarded against any Indemnified Person (the “**Costs**”), and which arise out of or in connection with, or as a result of:
- (i) any Credit or any pre-advice of its issuance;
 - (ii) any transfer, sale, delivery, surrender or endorsement of any Drawing Document at any time(s) held by any Indemnified Person in connection with any Credit;
 - (iii) any action or proceeding arising out of, or in connection with, any Credit or this Agreement (whether administrative, judicial or in connection with arbitration), including any action or proceeding to compel or restrain any presentation or payment under any Credit, or for the wrongful dishonor of, or honoring a presentation under, any Credit;
 - (iv) any independent undertakings issued by the beneficiary of any Credit;

- (v) any unauthorized Instruction or error in computer or electronic transmission;
- (vi) an adviser, confirmer or other nominated person seeking to be reimbursed, indemnified or compensated;
- (vii) any third party seeking to enforce the rights of an applicant, beneficiary, nominated person, transferee, assignee of Credit proceeds or holder of an instrument or document;
- (viii) the fraud, forgery or illegal action of parties other than the Indemnified Person;
- (ix) Bank's performance of the obligations of a confirming institution or entity that wrongfully dishonors a confirmation; or
- (x) the acts or omissions, whether rightful or wrongful, of any present or future *de jure* or *de facto* governmental or regulatory authority or cause or event beyond the control of such Indemnified Person;

in each case, including that resulting from Bank's own negligence; provided, however, that such indemnity shall not be available to any Person claiming indemnification under clauses (i) through (xi) above to the extent that such Costs are found in a binding arbitration proceeding brought by Applicant pursuant to the Credit Agreement (or as may be judicially determined in a final, non-appealable judgment by a court of competent jurisdiction to the extent the Credit Agreement permits (or applicable law requires) any dispute to be brought in state or federal court located in the Jurisdiction) to have resulted directly from the gross negligence or willful misconduct of the Indemnified Person claiming indemnity. Applicant hereby agrees to pay Bank on demand from time to time all amounts owing under this Section. If and to the extent that the Obligations of Applicant under this Section are unenforceable for any reason, Applicant agrees to make the maximum contribution to the Costs permissible under applicable law. This indemnity provision shall survive termination of this Agreement and all Credits.

- (b) **Direct Damages; No Punitive Damages.** The liability of Bank (or any other Indemnified Person) under, in connection with and/or arising out of this Agreement or any Credit (or pre-advice), regardless of the form or legal grounds of the action or proceeding, shall be limited to direct damages suffered by Applicant that are caused directly by Bank's gross negligence or willful misconduct in (i) honoring a presentation under a Credit that on its face does not at least substantially comply with the terms and conditions of such Credit, (ii) failing to honor a presentation under a Credit that strictly complies with the terms and conditions of such Credit or (iii) retaining Drawing Documents presented under a Credit. Bank shall be deemed to have acted with due diligence and reasonable care if Bank's conduct is in accordance with Standard Letter of Credit Practice (as defined below) or in accordance with this Agreement. "**Standard Letter of Credit Practice**" means, for Bank, any domestic or foreign law or letter of credit practices applicable in the city in which Bank issued the applicable Credit or for its branch or correspondent, such laws and practices applicable in the city in which it has advised, confirmed or negotiated such Credit, as the case may be. Such practices shall be (A) of banks that regularly issue Credits in the particular city, and (B) required or permitted under the ISP (as defined below) or UCP (as defined below), as chosen in the applicable Credit. "**ISP**" means, International Standby Practices 1998 (International Chamber of Commerce Publication No. 590) and any subsequent revision thereof

adopted by the International Chamber of Commerce on the date such Credit is issued. "UCP" means, Uniform Customs and Practice for Documentary Credits 2007 Revision, International Chamber of Commerce Publication No. 600 and any subsequent revision thereof adopted by the International Chamber of Commerce on the date such Credit is issued. Applicant's aggregate remedies against Bank and any Indemnified Person for wrongfully honoring a presentation under any Credit or wrongfully retaining honored Drawing Documents shall in no event exceed the aggregate amount paid by Applicant to Bank in respect of the honored presentation in connection with such Credit under Section 2 above, plus interest. Notwithstanding anything to the contrary in this Agreement, neither Bank nor any other Indemnified Person shall, under any circumstances whatsoever, be liable in contract, tort or otherwise for any punitive, exemplary, consequential, indirect or special damages or losses regardless of whether or not Bank or any other Indemnified Person shall have been advised of the possibility thereof or the form of action in which such damages or losses may be claimed. Applicant shall take action to avoid and mitigate the amount of any damages claimed against Bank or any other Indemnified Person, including by enforcing its rights in the underlying transaction. Any claim by Applicant under or in connection with this Agreement or any Credit shall be reduced by an amount equal to the sum of (X) the amount (if any) saved by Applicant as a result of the breach or alleged wrongful conduct complained of; and (Y) the amount (if any) of the loss that would have been avoided had Applicant taken all reasonable steps to mitigate any loss, and in case of a claim of wrongful dishonor, by specifically and timely authorizing Bank to effect a cure.

- (c) **No Responsibility or Liability.** Without limiting any other provision of this Agreement, Bank and each other Indemnified Person (if applicable) shall not be responsible to Applicant for, and/or Bank's rights and remedies against Applicant and the Obligations shall not be impaired by:
- (i) honor of a presentation under any Credit that on its face substantially complies with the terms and conditions of such Credit, even if the Credit requires strict compliance by the beneficiary;
 - (ii) honor of a presentation of any Drawing Document that appears on its face to have been signed, presented or issued (A) by any purported successor or transferee of any beneficiary or other Person required to sign, present or issue such Drawing Document or (B) under a new name of the beneficiary;
 - (iii) acceptance as a draft of any written or electronic demand or request for payment under a Credit, even if nonnegotiable or not in the form of a draft, and/or Bank may disregard any requirement that such draft, demand or request bear any or adequate reference to the Credit;
 - (iv) the identity or authority of any presenter or signer of any Drawing Document or the form, accuracy, genuineness or legal effect of any Drawing Document (other than Bank's determination that such Drawing Document appears on its face substantially to comply with the terms and conditions of the Credit);
 - (v) acting upon any Instruction that it in good faith believes to have been given by a Person authorized to give such Instructions;

- (vi) any errors, omissions, interruptions or delays in transmission or delivery of any message, advice or document (regardless of how sent or transmitted) or for errors in interpretation of technical terms or in translation;
- (vii) any delay in giving or failing to give notice to Applicant;
- (viii) any acts, omissions or fraud by, or the solvency of, any beneficiary, any nominated person or entity or any other Person;
- (ix) any breach of contract between the beneficiary and Applicant or any of the parties to the underlying transaction;
- (x) assertion or waiver of any provision of the ISP or UCP that primarily benefits an issuer of a letter of credit, including any requirement that any Drawing Document be presented to it at a particular hour or place;
- (xi) payment to any paying or negotiating bank (designated or permitted by the terms of the applicable Credit) claiming that it rightfully honored or is entitled to reimbursement or indemnity under Standard Letter of Credit Practice applicable to it;
- (xii) acting or failing to act as required or permitted under Standard Letter of Credit Practice applicable to where it has issued, confirmed, advised or negotiated such Credit, as the case may be;
- (xiii) honor of a presentation after the expiration date of any Credit notwithstanding that a presentation was made prior to such expiration date and dishonored by Bank if subsequently Bank or any court or other finder of fact determines such presentation should have been honored;
- (xiv) dishonor of any presentation that does not strictly comply or that is fraudulent, forged or otherwise not entitled to honor; or
- (xv) honor of a presentation that is subsequently determined by Bank to have been made in violation of international, federal, state or local restrictions on the transaction of business with certain prohibited Persons.

5. Representations and Warranties. Applicant hereby makes all of the representations and warranties given to Bank in the Credit Agreement as if set forth in full herein, together with the representations and warranties set forth below, and Applicant further represents and warrants to Bank that all such representations and warranties are true and correct in all respects (all of which representations and warranties will be repeated as true and correct as of the date of each new Application submitted by Applicant to Bank and as of the date of issuance of any Credit requested in each such Application):

- (a) **Approvals.** No authorization, approval or consent of, or notice to or filing with, any governmental or regulatory authority is required to be made in connection with the execution and delivery by Applicant of this Agreement or the issuance by Bank of any Credit for the account of Applicant pursuant to this Agreement and related Application.
- (b) **Compliance with Laws.** Applicant is in compliance with all applicable laws and regulations, except where the noncompliance with which would not have a material

adverse effect on Applicant, and no Application, Credit or transaction under any Application and/or Credit will contravene any laws, treaties, rules or regulations of any governmental or regulatory authority (state, federal or foreign), including, without limitation, any foreign exchange control laws or regulations, United States foreign assets control laws or regulations or currency reporting laws and regulations, now or hereafter applicable, except where the noncompliance with which would not have a material adverse effect on Applicant.

6. Covenants. Applicant hereby repeats each of its affirmative and negative covenants in the Credit Agreement as if set forth in full herein, and Applicant further covenants and agrees, at its costs and expense, to execute and deliver to Bank such additional certificates, instruments and/or documents and to take such additional action as may be reasonably requested by Bank to enable Bank to issue any Credit pursuant to this Agreement and related Application, to protect, exercise and/or enforce Bank's rights and interests under this Agreement and/or to give effect to the terms and provisions of this Agreement or any Application. Applicant irrevocably appoints Bank as its attorney-in-fact and authorizes Bank, without notice to Applicant, to execute and deliver all such documents and to take all such actions on behalf of Applicant. This appointment is coupled with an interest.

7. Events of Default. Each of the following shall be an "Event of Default" under this Agreement:

- (a) **Failure to Reimburse or Pay.** The failure by Applicant or any Person that has guaranteed or provided credit or collateral support for all or any part of the Obligations (each such Person, a "Guarantor") to reimburse or pay any principal, interest, fee or other amount when due under or in connection with this Agreement or any Credit.
- (b) **Credit Agreement Default/Event of Default.** The occurrence of any "default" or "event of default" (howsoever defined in the Credit Agreement).

8. Remedies. Upon the occurrence and during the continuance of any Event of Default:

- (a) The full undrawn amount of each Credit, together with any additional amounts payable hereunder, shall, at Bank's option, become due and payable immediately without demand upon or notice to Applicant; provided, however, upon the occurrence of any Event of Default specified in Section 7(b) above that results in the automatic acceleration of all outstanding indebtedness under the Credit Agreement, the amount of each Credit, together with any additional amounts payable hereunder, shall, automatically and without any notice to Applicant or any other act by Bank, become immediately due and payable; and
- (b) Bank may exercise from time to time any of the rights, powers and remedies available to Bank under this Agreement or the Credit Agreement, under any other documents now or in the future evidencing or securing the Obligations or under applicable law, and all such remedies shall be cumulative and not exclusive.

With respect to Bank's exercise of any of the foregoing rights, powers and/or remedies, Applicant hereby waives presentment, protest, dishonor, notice of dishonor, demand, notice of protest, notice of non-payment, notice of acceptance of this Agreement and any other notice or demand of any kind from Bank.

9. Subrogation. The Bank, at its option, shall be subrogated to Applicant's rights against any Person who may be liable to Applicant on any transaction or obligation underlying any Credit, to the rights of any holder in due course or Person with similar status against Applicant, and to the rights of any beneficiary or any successor or assignee of any beneficiary.

10. Governing Law; UCP; ISP; Standard Letter of Credit Practice. This Agreement and each Credit shall be governed by and construed in accordance with (a)(1) in the case of each Credit, the substantive laws of the jurisdiction specified in the applicable Credit, or if no governing law is so specified, the substantive laws of the jurisdiction of the office of Bank that issued the applicable Credit, and (2) in the case of this Agreement, the governing law specified in the Credit Agreement, or if no governing law is so specified, the substantive laws of the jurisdiction of the office of Bank that issued the applicable Credit (as applicable, the “**Jurisdiction**”), in either case, including the Uniform Commercial Code as in effect from time to time in such Jurisdiction (the “**UCC**”), but excluding any choice of law rules that would apply the law of a different jurisdiction, and (b) the ISP or UCP, as set forth in each Credit, which is, as applicable, incorporated herein by reference into this Agreement and which shall control (to the extent not prohibited by the law of the Jurisdiction) in the event of any inconsistent provisions of such law. Unless Applicant specifies otherwise in its Application for a Credit, Applicant agrees that Bank may issue a Credit subject to the ISP or UCP. Bank’s privileges, rights and remedies under the ISP, UCP shall be in addition to, and not in limitation of, its privileges, rights, and remedies expressly provided for herein. The ISP and UCP shall serve, in the absence of proof to the contrary, as evidence of Standard Letter of Credit Practice with respect to matters covered therein. To the extent permitted by applicable law, (i) this Agreement shall prevail in case of conflict between this Agreement, the UCC and/or Standard Letter of Credit Practice, (ii) the ISP shall prevail in case of conflict between the ISP and the UCC or other Standard Letter of Credit Practice if the Credit is governed by the ISP, and (iii) the UCP shall prevail in case of a conflict between the UCP and the UCC or other Standard Letter of Credit Practice if the Credit is governed by the UCP.

11. Arbitration. Applicant and Bank hereby agree to and incorporate by reference the arbitration provisions of the Credit Agreement as if set forth in full herein.

12. Consent to Jurisdiction and Venue. Without waiving or modifying any of the mandatory arbitration provisions set forth in the Credit Agreement and to the extent such arbitration requirements permit (or applicable law requires) any dispute to be brought in state or federal court located in the Jurisdiction, in any proceeding involving, directly or indirectly, any matter arising out of or related to this Agreement or any Credit issued in connection with this Agreement and Applicant’s Application with respect to such Credit, Applicant hereby irrevocably submits to the nonexclusive jurisdiction of any state or federal court located in any county in the Jurisdiction and agrees not to raise any objection to the Jurisdiction or to the laying or maintaining of the venue of any such proceeding in the Jurisdiction. Applicant agrees that service of process in any such proceeding may be duly effected upon it by mailing a copy thereof, by certified mail, postage prepaid, to it at its address set forth in Section 15 below.

13. WAIVER OF JURY TRIAL. WITHOUT WAIVING OR MODIFYING ANY OF THE MANDATORY ARBITRATION REQUIREMENTS AND PROVISIONS SET FORTH IN THE CREDIT AGREEMENT, TO THE EXTENT SUCH ARBITRATION REQUIREMENTS PERMIT (OR APPLICABLE LAW REQUIRES) ANY DISPUTE TO BE BROUGHT IN STATE OR FEDERAL COURT LOCATED IN THE JURISDICTION, APPLICANT AND WHEN IT ISSUES A CREDIT, BANK KNOWINGLY AND VOLUNTARILY WAIVE ALL RIGHTS TO TRIAL BY JURY WITH RESPECT TO ANY LITIGATION BASED ON, ARISING OUT OF, OR RELATING TO THE AGREEMENT OR THE CREDIT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (ORAL OR WRITTEN) OR ACTIONS OF APPLICANT OR BANK WITH RESPECT THERETO. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BANK TO ISSUE THE CREDIT.

14. Bankruptcy and Forfeiture Reinstatement. If any consideration transferred to Bank in payment of, or as collateral for, or in satisfaction of the Obligations, shall be voided in whole or in part as a result of (a) a subsequent bankruptcy or insolvency proceeding; (b) any forfeiture or seizure action or remedy; (c) any fraudulent transfer or preference action or remedy; or (d) any other civil, criminal or equitable proceeding or remedy, then Bank's claim to recover the voided consideration shall be a new and independent claim arising under this Agreement and shall be jointly and severally due and payable immediately by Applicant.

15. Notices. Unless otherwise expressly provided herein, all notices, Instructions, approvals, requests, demands, consents and other communications provided for hereunder (collectively, "notices") shall be in writing (including by facsimile or other electronic transmission approved by Bank). All notices shall be sent by regular U.S. mail or certified mail prepaid, by facsimile or other electronic transmission approved by Bank, by hand delivery, by *Federal Express* (or other comparable domestic or international delivery service) prepaid to the applicable address, facsimile number or electronic mail address set forth on the signature page hereof in the case of Applicant. All notices to Bank shall be directed to the office of Bank issuing the Credit and, if Bank approves of receiving notices by email, to the email address of Bank provided from time to time by Bank to Applicant. Bank may, but shall not be obligated to, require authentication of any electronic transmission. Notices sent by hand, *Federal Express* (or other comparable domestic or international delivery service) or certified mail shall be deemed to have been given when received; notices sent by regular U.S. mail shall be deemed to have been received five (5) days after deposit into the U.S. mail, notices sent by facsimile or other electronic transmission shall be deemed to have been given when sent and receipt has been confirmed. Applicant or Bank may change its address for notices by notifying the other of the new address in any manner permitted by this Section.

16. Waiver and Amendments. No modification, amendment or waiver of, or consent to any departure by Applicant from, any provision of this Agreement will be effective unless made in a writing signed by Bank, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Bank's consent to any amendment, waiver or modification does not mean that Bank will consent or has consented to any other or subsequent Instruction to amend, modify or waive a term of this Agreement or any Credit. No delay by Bank in exercising any of its rights or remedies shall operate as a waiver, nor shall any single or partial waiver of any right or remedy preclude any other further exercise of that right or remedy, or the exercise of any other right or remedy.

17. Successors and Assigns. This Agreement will be binding on Applicant's heirs, executors, administrators, legal representatives, successors and permitted assigns, and shall inure to the benefit of Bank's successors and assigns. Bank may assign this Agreement and its rights to reimbursement regarding any Credit, in whole or in part, without Applicant's consent. Applicant may not assign or transfer any of its interests, rights or remedies related to this Agreement or any Credit, in whole or in part, without the prior written consent of Bank.

18. Severability. Whenever possible, each provision of the Agreement shall be interpreted in a manner as to be effective and valid under applicable law, but if any provision of the Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

19. Entire Agreement: Amendment and Restatement. This Agreement, together with any Application(s) accepted by Bank and any other agreement, document or instrument referred to herein, constitute the final, exclusive and entire agreement and understanding of, and supersede all prior or contemporaneous, oral or written, agreements, understandings, representations and negotiations between, the parties relating to the subject matter of this Agreement, provided that this Agreement shall not

supersede any reimbursement agreement (however titled) that has been entered into specifically with respect to any "direct pay" standby letter of credit or other similar standby letter of credit where the terms of such reimbursement agreement have been drafted to specifically address the particular attributes of, or the particular circumstances of the underlying transaction supported by, such standby letter of credit. Without limiting the generality of the foregoing, Applicant hereby agrees, for good and valuable consideration, that the Existing Standby Letter of Credit Agreement, regardless of whether it was addressed to Bank or some other person or entity, be replaced in its entirety by this Agreement so that the Credits which were originally issued under and in connection with the Existing Standby Letter of Credit Agreement will now be deemed for all purposes Credits issued under and in connection with this Agreement and not the existing Standby Letter of Credit Agreement.

20. Conflicts. In the event of any conflict or inconsistency between the provisions of this Agreement and the provisions of the Credit Agreement, (a) the provisions of this Agreement shall control as to (i) the definition of "Business Day" in Section 2 hereof, (ii) compliance with laws in Section 5(b) hereof and (iii) notices in Section 15 hereof as it applies to this Agreement, and (b) the provisions of the Credit Agreement shall control all other conflicts or inconsistencies.

21. Continuing Agreement. This Agreement is a continuing agreement and may not be terminated by Applicant except upon (a) thirty (30) days' prior written notice of such termination by Applicant to Bank at the address set forth on the most recent Credit issued hereunder, (b) reimbursement and/or payment of all Obligations, and (c) the expiration or cancellation of all Credits issued hereunder. Notwithstanding the foregoing sentence, if a Credit is issued in favor of a sovereign or commercial entity, which is to issue a guarantee or undertaking on Applicant's behalf in connection therewith, or is issued as support for such a guarantee, Applicant shall remain liable with respect to such Credit until Bank is fully released in writing by such entity.

22. Joint and Several Liability. If this Agreement is signed by two or more Applicants:

- (a) each shall be deemed to make to Bank all the representations, warranties and covenants contained herein, and each shall be jointly and severally liable under this Agreement; and
- (b) each Applicant hereby waives any defense to its liability for reimbursement, payment and/or performance of the Obligations based upon or arising by reason of: (i) principles of suretyship or any disability or other defense of any other Applicant or any other Person; (ii) the cessation or limitation from any cause whatsoever, other than reimbursement and/or payment in full, of the liability of the other Applicant(s) or any other Person for the Obligations; (iii) any lack of authority of any officer, director, partner, agent or other Person acting or purporting to act on behalf of the other Applicant(s) or any defect in the formation of the other Applicant(s); (iv) any act or omission by Bank which directly or indirectly results in or aids the discharge of the other Applicant(s) by operation of law or otherwise, or which in any way impairs or suspends any rights or remedies of Bank against the other Applicant(s); (v) any impairment of the value of any interest in any security for the payment and performance under this Agreement, including without limitation, the failure to obtain or maintain perfection or recordation of any interest in any such security, the release of any such security without substitution, and/or the failure to preserve the value of, or to comply with applicable law in disposing of, any such security; or (vi) any modification of the obligations or liabilities of the other Applicant(s) for the Obligations, including without limitation the renewal, extension, acceleration or other change in time for reimbursement or payment of, or other change in the terms of, the indebtedness of any Applicant for the Obligations, including increase or decrease of the rate of interest thereon.

Until all Obligations shall have been paid in full, no Applicant shall have any right of subrogation. Each Applicant hereby waives all rights and defenses it may have arising out of (A) any election of remedies by Bank, even though that election of remedies, such as a non-judicial foreclosure with respect to any security for the Obligations, destroys its rights of subrogation or its rights to proceed against the other Applicant(s) for reimbursement, or (B) any loss of rights it may suffer by reason of any rights, powers or remedies of the other Applicant(s) in connection with any anti-deficiency laws or any other laws limiting, qualifying or discharging any Applicant's indebtedness for the Obligations. Until all Obligations shall have been paid in full, each Applicant hereby waives any right to enforce any remedy which Bank now has or may hereafter have against the other Applicant(s) or any other Person, and waives any benefit of, or any right to participate in, any security now or hereafter held by Bank. Unless otherwise agreed by Bank, Bank in its discretion may accept an Application or seek or receive Instruction from, or give or send notice to, any Applicant regarding a Credit, including, without limitation, any amendment thereto or waiver of any discrepancy thereunder, and until Bank at the office at which the relevant Credit is issued actually receives written notice of revocation, each Applicant shall be bound by and hereby affirms the Instructions of the other.

[End of text; signature page to follow]

APPLICANT:

BARRETT BUSINESS SERVICES, INC.
(Corporation or Firm)

By: /s/ James D. Miller

Name: **James D. Miller**

Title: **Vice President-Finance**

(Individual)

(Individual)

Address:

Facsimile: () _____

Email: _____

Dated as of: September 18, 2012

(Corporation or Firm)

By: _____

Name: _____

Title: _____

(Individual)

(Individual)

Address:

Facsimile: () _____

Email: _____

TERM NOTE

\$5,512,500.00

Portland, Oregon
November 1, 2012

FOR VALUE RECEIVED, the undersigned BARRETT BUSINESS SERVICES, INC. ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at Portland RCBO, 1200 SW Fifth Avenue, MAC P6101-133, Portland, Oregon 97201, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of Five Million Five Hundred Twelve Thousand Five Hundred Dollars (\$5,512,500.00), with interest thereon as set forth herein.

DEFINITIONS:

As used herein, the following terms shall have the meanings set forth after each, and any other term defined in this Note shall have the meaning set forth at the place defined:

(a) "Business Day" means any day except a Saturday, Sunday or any other day on which commercial banks in Oregon are authorized or required by law to close.

(b) "Fixed Rate Term" means a period of one (1) month during which the entire outstanding principal balance of this Note bears interest determined in relation to LIBOR, with the understanding that (i) the initial Fixed Rate Term shall commence on the date this Note is disbursed, (ii) each successive Fixed Rate Term shall commence automatically, and without notice to or consent from Borrower, on the first Business Day following the date on which the immediately preceding Fixed Rate Term matures, and (iii) if, on the first Business Day of the last Fixed Rate Term applicable hereto the remaining term of this Note is less than one (1) month, said Fixed Rate Term shall be in effect only until the scheduled maturity date hereof. If any Fixed Rate Term would end on a day which is not a Business Day, then such Fixed Rate Term shall be extended to the next succeeding Business Day.

(c) "LIBOR" means the rate per annum (rounded upward, if necessary, to the nearest whole 1/8 of 1%) and determined pursuant to the following formula:

$$\text{LIBOR} = \frac{\text{Base LIBOR}}{100\% - \text{LIBOR Reserve Percentage}}$$

(i) "Base LIBOR" means the rate per annum for United States dollar deposits quoted by Bank as the Inter-Bank Market Offered Rate, with the understanding that such rate is quoted by Bank for the purpose of calculating effective rates of interest for loans making reference thereto, on the first day of a Fixed Rate Term for delivery of funds on said date for a period of time approximately equal to the number of days in such Fixed Rate Term and in an amount approximately equal to the principal amount to which such Fixed Rate Term applies. Borrower understands and agrees that Bank may base its quotation of the Inter-Bank Market Offered Rate upon such offers or other market indicators of the Inter-Bank Market as Bank in its discretion deems appropriate including, but not limited to, the rate offered for U.S. dollar deposits on the London Inter-Bank Market.

(ii) "LIBOR Reserve Percentage" means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by Bank for expected changes in such reserve percentage during the applicable Fixed Rate Term.

(d) "Prime Rate" means at any time the rate of interest most recently announced within Bank at its principal office as its Prime Rate, with the understanding that the Prime Rate is one of Bank's base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof after its announcement in such internal publication or publications as Bank may designate.

INTEREST:

(a) Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) at a fixed rate per annum determined by Bank to be two and one quarter of one percent (2.25%) above LIBOR in effect on the first day of each Fixed Rate Term. With respect to each Fixed Rate Term hereunder, Bank is hereby authorized to note the date and interest rate applicable thereto and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted.

(b) Taxes and Regulatory Costs. Borrower shall pay to Bank immediately upon demand, in addition to any other amounts due or to become due hereunder, any and all (i) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority and related in any manner to LIBOR, and (ii) future, supplemental, emergency or other changes in the LIBOR Reserve Percentage, assessment rates imposed by the Federal Deposit Insurance Corporation, or similar requirements or costs imposed by any domestic or foreign governmental authority or resulting from compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority and related in any manner to LIBOR to the extent they are not included in the calculation of LIBOR. In determining which of the foregoing are attributable to any LIBOR option available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

(c) Payment of Interest. Interest accrued on this Note shall be payable on the first day of each month, commencing December 1, 2012.

(d) Default Interest. From and after the maturity date of this Note, or such earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, or at Bank's option upon the occurrence, and during the continuance of an Event of Default, the outstanding principal balance of this Note shall bear interest at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to four percent (4%) above the rate of interest from time to time applicable to this Note.

REPAYMENT AND PREPAYMENT:

(a) Repayment. Principal shall be payable on the first day of each month in installments of Eighteen Thousand Three Hundred Seventy-Five Dollars (\$18,375.00) each, commencing December 1, 2012, and continuing up to and including October 1, 2017, with a final installment consisting of all remaining unpaid principal due and payable in full on November 1, 2017.

(b) Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof.

(c) Prepayment. From and after the date on which all of Borrower's obligations under that certain Revolving Reducing Note in the original principal amount of \$24,000,000.00 dated September 18, 2012 executed by Borrower in favor of Bank have been satisfied in full and Bank obligations to extend credit to Borrower thereunder have been terminated, Borrower may prepay principal on this Note at any time and in the minimum amount of One Hundred Thousand Dollars (\$100,000.00); provided however, that if the outstanding principal balance of this Note is less than said amount, the minimum prepayment amount shall be the entire outstanding principal balance hereof. In consideration of Bank providing this prepayment option to Borrower, or if this Note shall become due and payable at any time prior to the last day of any Fixed Rate Term by acceleration or otherwise, Borrower shall pay to Bank immediately upon demand a fee which is the sum of the discounted monthly differences for each month from the month of prepayment through the month in which such Fixed Rate Term matures, calculated as follows for each such month:

- (i) Determine the amount of interest which would have accrued each month on the amount prepaid at the interest rate applicable to such amount had it remained outstanding until the last day of the Fixed Rate Term applicable thereto.
- (ii) Subtract from the amount determined in (i) above the amount of interest which would have accrued for the same month on the amount prepaid for the remaining term of such Fixed Rate Term at LIBOR in effect on the date of prepayment for new loans made for such term and in a principal amount equal to the amount prepaid.
- (iii) If the result obtained in (ii) for any month is greater than zero, discount that difference by LIBOR used in (ii) above.

Borrower acknowledges that prepayment of such amount may result in Bank incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or liabilities. Borrower, therefore, agrees to pay the above-described prepayment fee and agrees that said amount represents a reasonable estimate of the prepayment costs, expenses and/or liabilities of Bank. If Borrower fails to pay any prepayment fee when due, the amount of such prepayment fee shall thereafter bear interest until paid at a rate per annum two percent (2%) above the Prime Rate in effect from time to time (computed on the basis of a 360-day year, actual days elapsed).

All prepayments of principal shall be applied on the most remote principal installment or installments then unpaid.

EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of that certain Restated Credit Agreement between Borrower and Bank dated as of November 1, 2012, as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

MISCELLANEOUS:

(a) Remedies. Upon the sale, transfer, hypothecation, assignment or other encumbrance, whether voluntary, involuntary or by operation of law, of all or any interest in any real property securing this Note, or upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by Borrower. Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Borrower or any other person or entity.

(b) Obligations Joint and Several. Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

(c) Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of Oregon.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY BANK CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY BANK TO BE ENFORCEABLE.

IN WITNESS WHEREOF, the undersigned has executed this Note as of the date first written above.

BARRETT BUSINESS SERVICES, INC.

By: /s/ James D. Miller
Name: James D. Miller
Title: Vice President-Finance

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 stockholders 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 stockholders 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 RSUs are 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 RSUs

Subject to the terms and conditions of this Agreement and the Plan, Corporation grants to Participant _____ RSUs. Each RSU represents a hypothetical Share of Common Stock. As a holder of RSUs, Participant will have only the rights of a general unsecured creditor of Corporation until delivery of Shares is made as specified in this Agreement.

3. **Terms of RSUs**

The RSUs are subject to all the provisions of the Plan and to the following terms and conditions:

3.1 **Restriction Periods.** Each Restriction Period commences on the Grant Date and ends as follows:

- (a) on Corporation's first payroll date on or after the first anniversary of the Grant Date ("Restriction Period 1");
- (b) on Corporation's first payroll date on or after the second anniversary of the Grant Date ("Restriction Period 2");
- (c) on Corporation's first payroll date on or after the third anniversary of the Grant Date ("Restriction Period 3"); and
- (d) on Corporation's first payroll date on or after the fourth anniversary of the Grant Date ("Restriction Period 4").

3.2 **Vesting.** Subject to the accelerated Vesting provisions of Section 3.4, the designated percentage of RSUs will Vest as follows:

- (a) 25 percent of the total RSUs will Vest on the expiration of Restriction Period 1;
- (b) An additional 25 percent of the total RSUs will Vest on the expiration of Restriction Period 2;
- (c) An additional 25 percent of the total RSUs will Vest on the expiration of Restriction Period 3; and
- (d) The final 25 percent of the total RSUs will Vest on the expiration of Restriction Period 4.

3.3 **Employment Requirement.** Except as otherwise provided in this Agreement, in the event that Participant ceases to be an employee of Corporation or a Subsidiary during the Restriction Period for any reason, all unvested RSUs will be forfeited immediately. For purposes of this Agreement, "employment" includes periods of illness or other leaves of absence authorized by the Employer.

3.4 **Acceleration of Vesting.** Notwithstanding Section 3.3 or the schedule provided in Section 3.2, the RSUs will become fully Vested upon the occurrence of either:

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

3.5 **Settlement.**

(a) **Generally.** Unless previously forfeited pursuant to Section 3.3 or otherwise provided by this Agreement, each designated percentage of RSUs will be settled on the last day of the applicable Restriction Period (the "Settlement Date") by the delivery to Participant of an unrestricted certificate for a number of Shares of Common Stock equal to the number of RSUs that became Vested on that Settlement Date. Shares issued upon settlement of RSUs may be subject to additional transfer restrictions as provided in this Agreement.

(b) **On Change in Control Date.** RSUs that Vest upon a Change in Control Date will be settled in cash in lieu of Shares, with the settlement value of each RSU calculated as the Fair Market Value of a Share on the Change in Control Date.

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 **RSUs Not Transferable.** Neither the RSUs, nor this Agreement, nor any interest or right in the RSUs or this Agreement, may be sold, pledged, assigned, or transferred in any manner other than by will or the laws of descent and distribution, unless and until the RSUs have been settled as provided in this Agreement. Neither the RSUs nor any interest or right in the RSUs will be liable for the debts, obligations, contracts or engagements of Participant or his or her successors in interest or will be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition will be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence.

3.8 **Rights as Stockholder.** Prior to the issuance of a certificate for Shares of Common Stock in settlement of the RSUs, Participant will have no rights as a stockholder of Corporation with respect to this Agreement or the RSUs.

4. Tax Withholding and Reimbursement

Participant will be responsible for payment of all federal, state and local withholding taxes and Participant's portion of any applicable payroll taxes imposed in connection with the settlement of the RSUs and the issuance of Shares (collectively, the "Applicable Taxes"). Corporation's obligation to issue Shares of Common Stock in settlement of the RSUs is expressly conditioned on Participant's making arrangements satisfactory to Corporation, in its sole and absolute discretion, for the payment of all Applicable Taxes. Participant may satisfy his or her obligation to pay the Applicable Taxes by electing in Participant's sole discretion (a) to pay to Corporation (in cash or by check) an amount equal to the Applicable Taxes, (b) to authorize Corporation to withhold a number of unrestricted Shares (thus reducing the number of unrestricted Shares to be issued to Participant) having a Fair Market Value (as of the Settlement Date) equal to the remaining balance of the Applicable Taxes, or (c) to authorize Corporation to withhold an amount equal to the Applicable Taxes from Participant's payroll check or deposit to be made on or about the Settlement Date, provided such withholding is permissible under applicable state law.

5. Conditions Precedent

Corporation will not be required to issue any Shares upon Vesting of the RSUs, or any portion thereof, until Corporation has taken any action required to comply with all applicable 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 Agreement 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, or 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).

10. Code Section 409A

This Agreement and the Award are intended to be exempt from the requirements of Code Section 409A by reason of all payments being "short-term deferrals" within the meaning of Treas. Reg. § 1.409A-1(b)(4). All provisions of this Agreement shall be interpreted in a manner consistent with preserving this exemption. In no event will Company be liable for any tax, interest, or penalties that may be imposed on Participant by Code Section 409A or any damages for failing to comply with Code Section 409A.

BARRETT BUSINESS SERVICES, INC.

Participant

By _____
Name _____
Its _____

(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 stockholders 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 stockholders 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 RSUs are granted, which is reflected as the date of this Agreement.

(e) “**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 RSUs

Subject to the terms and conditions of this Agreement and the Plan, Corporation grants to Participant 2,500 RSUs. Each RSU represents a hypothetical Share of Common Stock. As a holder of RSUs, Participant will have only the rights of a general unsecured creditor of Corporation until delivery of Shares is made as specified in this Agreement.

3. Terms of RSUs

The RSUs are subject to all the provisions of the Plan and to the following terms and conditions:

3.1 **Restriction Periods**. Each Restriction Period commences on the Grant Date and ends as follows:

(a) on the first anniversary of the Grant Date (“Restriction Period 1”);

(b) on the second anniversary of the Grant Date (“Restriction Period 2”);

- (c) on the third anniversary of the Grant Date (“Restriction Period 3”); and
- (d) on the fourth anniversary of the Grant Date (“Restriction Period 4”).

3.2 **Vesting.** Subject to the accelerated Vesting provisions of Section 3.4, the designated percentage of RSUs will Vest as follows:

- (a) 25 percent of the total RSUs will Vest on the expiration of Restriction Period 1;
- (b) An additional 25 percent of the total RSUs will Vest on the expiration of Restriction Period 2;
- (c) An additional 25 percent of the total RSUs will Vest on the expiration of Restriction Period 3; and
- (d) The final 25 percent of the total RSUs will Vest on the expiration of Restriction Period 4.

3.3 **Continuation as Director.** Except as otherwise provided in this Agreement, in the event that Participant ceases to be a member of the Board during any Restriction Period for any reason, all unvested RSUs will be forfeited immediately.

3.4 **Acceleration of Vesting.** Notwithstanding Section 3.3 or the schedule provided in Section 3.2, the RSUs will become fully Vested upon the occurrence of either:

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

3.5 **Settlement.**

(a) **Generally.** Unless previously forfeited pursuant to Section 3.3 or otherwise provided by this Agreement, each designated percentage of RSUs will be settled on the last day of the applicable Restriction Period (the “Settlement Date”) by the delivery to Participant of an unrestricted certificate for a number of Shares of Common Stock equal to the number of RSUs that became Vested on that Settlement Date. Shares issued upon settlement of RSUs may be subject to additional transfer restrictions as provided in this Agreement.

(b) **On Change in Control Date.** RSUs that Vest upon a Change in Control Date will be settled in cash in lieu of Shares, with the settlement value of each RSU calculated as the Fair Market Value of a Share on the Change in Control Date.

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 **RSUs Not Transferable.** Neither the RSUs, nor this Agreement, nor any interest or right in the RSUs or this Agreement, may be sold, pledged, assigned, or transferred in any manner other than by will or the laws of descent and distribution, unless and until the RSUs have been settled as provided in this Agreement. Neither the RSUs nor any interest or right in the RSUs will be liable for the debts, obligations, contracts or engagements of Participant or his or her successors in

interest or will be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition will be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence.

3.8 **Rights as Stockholder.** Prior to the issuance of a certificate for Shares of Common Stock in settlement of the RSUs, Participant will have no rights as a stockholder of Corporation with respect to this Agreement or the RSUs.

4. Tax Reimbursement

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

5. Conditions Precedent

Corporation will not be required to issue any Shares upon Vesting of the RSUs, or any portion thereof, until Corporation has taken any action required to comply with all applicable 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 Agreement 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, or 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).

10. Code Section 409A

This Agreement and the Award are intended to be exempt from the requirements of Code Section 409A by reason of all payments being "short-term deferrals" within the meaning of Treas. Reg. § 1.409A-1(b)(4). All provisions of this Agreement shall be interpreted in a manner consistent with preserving this exemption. In no event will Company be liable for any tax, interest, or penalties that may be imposed on Participant by Code Section 409A or any damages for failing to comply with Code Section 409A.

BARRETT BUSINESS SERVICES, INC.

Participant

By _____
Name _____
Its _____

I, Michael L. Elich, 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: November 8, 2012

/s/ Michael L. Elich

Michael L. Elich
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: November 8, 2012

/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 September 30, 2012 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/ Michael L. Elich

Michael L. Elich
Chief Executive Officer
November 8, 2012

/s/ James D. Miller

James D. Miller
Chief Financial Officer
November 8, 2012

A signed original of this written statement has been provided to Barrett Business Services, Inc. and will be retained by Barrett Business Services, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.