
**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 June 30, 2018

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

For the Transition Period From _____ to _____

Commission File Number 0-21886

BARRETT BUSINESS SERVICES, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
Incorporation or organization)

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

52-0812977
(IRS Employer
Identification No.)

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 for 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 1, 2018, 7,359,923 shares of the registrant's common stock (\$0.01 par value) were outstanding.

BARRETT BUSINESS SERVICES, INC.

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PART I – FINANCIAL INFORMATION

Item 1. Unaudited Interim Condensed Consolidated Financial Statements

Barrett Business Services, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)
(In Thousands, Except Par Value)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 33,786	\$ 59,835
Trade accounts receivable, net	152,560	136,664
Income taxes receivable	2,329	1,686
Prepaid expenses and other	9,824	5,724
Investments	464	674
Restricted cash and investments	108,196	103,652
Total current assets	<u>307,159</u>	<u>308,235</u>
Investments	1,578	1,199
Property, equipment and software, net	26,148	24,909
Restricted cash and investments	314,819	291,273
Goodwill	47,820	47,820
Other assets	3,169	3,215
Deferred income taxes	7,762	5,834
	<u>\$ 708,455</u>	<u>\$ 682,485</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 221	\$ 221
Accounts payable	3,951	5,166
Accrued payroll, payroll taxes and related benefits	186,172	181,639
Other accrued liabilities	8,944	9,024
Workers' compensation claims liabilities	102,539	97,673
Safety incentives liability	28,064	28,532
Total current liabilities	<u>329,891</u>	<u>322,255</u>
Long-term workers' compensation claims liabilities	288,275	265,844
Long-term debt	4,061	4,171
Customer deposits and other long-term liabilities	1,353	1,381
Total liabilities	<u>623,580</u>	<u>593,651</u>
Commitments and contingencies (Notes 4 and 6)		
Stockholders' equity:		
Common stock, \$.01 par value; 20,500 shares authorized, 7,311 and 7,301 shares issued and outstanding	73	73
Additional paid-in capital	14,827	12,311
Accumulated other comprehensive loss	(6,369)	(1,430)
Retained earnings	76,344	77,880
Total stockholders' equity	<u>84,875</u>	<u>88,834</u>
	<u>\$ 708,455</u>	<u>\$ 682,485</u>

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

Barrett Business Services, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)
(In Thousands, Except Per Share Amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenues:				
Professional employer service fees	\$ 197,277	\$ 187,718	\$ 386,239	\$ 359,927
Staffing services	34,326	37,856	69,340	75,644
Total revenues	<u>231,603</u>	<u>225,574</u>	<u>455,579</u>	<u>435,571</u>
Cost of revenues:				
Direct payroll costs	26,020	28,486	52,423	57,196
Payroll taxes and benefits	98,249	93,946	222,437	209,346
Workers' compensation	58,854	58,928	115,976	114,365
Total cost of revenues	<u>183,123</u>	<u>181,360</u>	<u>390,836</u>	<u>380,907</u>
Gross margin	48,480	44,214	64,743	54,664
Selling, general and administrative expenses	35,614	28,060	65,043	54,670
Depreciation and amortization	1,274	985	2,278	1,927
Income (loss) from operations	<u>11,592</u>	<u>15,169</u>	<u>(2,578)</u>	<u>(1,933)</u>
Other income (expense):				
Investment income, net	2,201	1,392	4,220	1,550
Interest expense	(68)	(62)	(110)	(145)
Other, net	(12)	(4)	4	(4)
Other income, net	<u>2,121</u>	<u>1,326</u>	<u>4,114</u>	<u>1,401</u>
Income (loss) before income taxes	13,713	16,495	1,536	(532)
Provision for (benefit from) income taxes	2,473	5,369	(581)	(431)
Net income (loss)	<u>\$ 11,240</u>	<u>\$ 11,126</u>	<u>\$ 2,117</u>	<u>\$ (101)</u>
Basic income (loss) per common share	<u>\$ 1.54</u>	<u>\$ 1.53</u>	<u>\$ 0.29</u>	<u>\$ (0.01)</u>
Weighted average number of basic common shares outstanding				
	<u>7,310</u>	<u>7,254</u>	<u>7,307</u>	<u>7,252</u>
Diluted income (loss) per common share	<u>\$ 1.46</u>	<u>\$ 1.47</u>	<u>\$ 0.28</u>	<u>\$ (0.01)</u>
Weighted average number of diluted common shares outstanding				
	<u>7,675</u>	<u>7,550</u>	<u>7,658</u>	<u>7,252</u>
Cash dividends per common share	<u>\$ 0.25</u>	<u>\$ 0.25</u>	<u>\$ 0.50</u>	<u>\$ 0.50</u>

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

Barrett Business Services, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)
(In Thousands)

	Three Months Ended June 30,	
	2018	2017
Net income	\$ 11,240	\$ 11,126
Unrealized gains (losses) on investments, net of tax of (\$373) and \$91 in 2018 and 2017, respectively	(975)	133
Comprehensive income	\$ 10,265	\$ 11,259

	Six Months Ended June 30,	
	2018	2017
Net income (loss)	\$ 2,117	\$ (101)
Unrealized gains (losses) on investments, net of tax of (\$1,928) and \$77 in 2018 and 2017, respectively	(4,939)	113
Comprehensive income (loss)	\$ (2,822)	\$ 12

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

Barrett Business Services, Inc.
Condensed Consolidated Statements of Stockholders' Equity
Six Months Ended June 30, 2018 and 2017
(Unaudited)
(In Thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
	Shares	Amount				
Balance, December 31, 2016	7,244	\$ 72	\$ 9,638	\$ (3)	\$59,986	\$69,693
Common stock issued on exercise of options and vesting of restricted stock units	14	1	144	—	—	145
Common stock repurchased on vesting of restricted stock units	(2)	—	(134)	—	—	(134)
Share-based compensation expense	—	—	1,772	—	—	1,772
Cash dividends on common stock	—	—	—	—	(3,625)	(3,625)
Unrealized gain on investments, net of tax	—	—	—	113	—	113
Net loss	—	—	—	—	(101)	(101)
Balance, June 30, 2017	<u>7,256</u>	<u>\$ 73</u>	<u>\$ 11,420</u>	<u>\$ 110</u>	<u>\$56,260</u>	<u>\$67,863</u>
Balance, December 31, 2017	7,301	\$ 73	\$ 12,311	\$ (1,430)	\$77,880	\$88,834
Common stock issued on exercise of options and vesting of restricted stock units	12	—	101	—	—	101
Common stock repurchased on vesting of restricted stock units	(2)	—	(168)	—	—	(168)
Share-based compensation expense	—	—	2,583	—	—	2,583
Cash dividends on common stock	—	—	—	—	(3,653)	(3,653)
Unrealized loss on investments, net of tax	—	—	—	(4,939)	—	(4,939)
Net income	—	—	—	—	2,117	2,117
Balance, June 30, 2018	<u>7,311</u>	<u>\$ 73</u>	<u>\$ 14,827</u>	<u>\$ (6,369)</u>	<u>\$76,344</u>	<u>\$84,875</u>

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

Barrett Business Services, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In Thousands)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$ 2,117	\$ (101)
Reconciliations of net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,278	1,927
Losses (gains) recognized on investments	38	(76)
Share-based compensation	2,583	1,772
Changes in certain operating assets and liabilities:		
Trade accounts receivable	(15,896)	(20,657)
Income taxes receivable	(643)	—
Prepaid expenses and other	(4,100)	(4,683)
Accounts payable	(1,215)	1
Accrued payroll, payroll taxes and related benefits	4,533	13,872
Other accrued liabilities	(80)	217
Income taxes payable	—	(2,867)
Workers' compensation claims liabilities	27,341	23,676
Safety incentives liability	(468)	1,249
Customer deposits, long-term liabilities and other assets, net	(27)	(180)
Net cash provided by operating activities	<u>16,461</u>	<u>14,150</u>
Cash flows from investing activities:		
Purchase of property and equipment	(3,517)	(2,289)
Purchase of investments	(1,401)	(2,240)
Proceeds from sales and maturities of investments	1,369	7,002
Purchase of restricted investments	(103,388)	(253,187)
Proceeds from sales and maturities of restricted investments	32,749	12,023
Net cash used in investing activities	<u>(74,188)</u>	<u>(238,691)</u>
Cash flows from financing activities:		
Proceeds from credit-line borrowings	8,500	24,899
Payments on credit-line borrowings	(8,500)	(24,899)
Payments on long-term debt	(110)	(129)
Common stock repurchased on vesting of restricted stock units	(168)	(134)
Dividends paid	(3,653)	(3,625)
Proceeds from exercise of stock options and vesting of restricted stock units	101	145
Net cash used in financing activities	<u>(3,830)</u>	<u>(3,743)</u>
Net decrease in cash, cash equivalents and restricted cash	(61,557)	(228,284)
Cash, cash equivalents and restricted cash, beginning of period	120,205	341,330
Cash, cash equivalents and restricted cash, end of period	<u>\$ 58,648</u>	<u>\$ 113,046</u>

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

Barrett Business Services, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 - Basis of Presentation of Interim Period Statements

The accompanying condensed consolidated financial statements are unaudited and have been prepared by Barrett Business Services, Inc. ("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 ("GAAP") have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the condensed 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 accompanying condensed financial statements are prepared on a consolidated basis. All intercompany account balances and transactions have been eliminated in consolidation. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results may differ from such estimates and assumptions. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's 2017 Annual Report on Form 10-K at pages F1 – F27. The results of operations for an interim period are not necessarily indicative of the results of operations for a full year.

Revenue recognition

Professional employer ("PEO") services are normally used by organizations to satisfy ongoing needs related to the management of human capital and are governed by the terms of a client services agreement which covers all employees at a particular work site. Staffing revenues relate primarily to short-term staffing, contract staffing and on-site management services. The Company's performance obligations for PEO and staffing services are satisfied, and the related revenue is recognized, as services are rendered by our workforce.

Our PEO client service agreements have a minimum term of one year, are renewable on an annual basis, and typically require 30 days' written notice to cancel or terminate the contract by either party. In addition, our client service agreements provide for immediate termination upon any default of the client regardless of when notice is given. PEO customers are invoiced following the end of each payroll processing cycle, with payment generally due on the invoice date. Staffing customers are invoiced weekly based on agreed rates per employee and actual hours worked, typically with payment terms of 30 days. The amount of earned but unbilled revenue is classified as a receivable on the condensed consolidated balance sheets.

We report PEO revenues net of direct payroll costs because we are not the primary obligor for these payments to our clients' employees. Direct payroll costs include salaries, wages, health insurance, and employee out-of-pocket expenses incurred incidental to employment. Safety incentives represent consideration payable to PEO customers, and therefore safety incentive costs are also netted against PEO revenue.

Cost of revenues

Our cost of revenues for PEO services includes employer payroll-related taxes and workers' compensation costs. Our cost of revenues for staffing services includes direct payroll costs, employer payroll-related taxes, employee benefits, and workers' compensation costs. Direct payroll costs represent the gross payroll earned by staffing services employees based on salary or hourly wages. Payroll taxes and employee benefits consist of the employer's portion of Social Security and Medicare taxes, federal and state unemployment taxes, and staffing services employee reimbursements for materials, supplies and other expenses, which are paid by our customer. Workers' compensation costs consist primarily of claims reserves, claims administration fees, legal fees, medical cost containment ("MCC") expense, state administrative agency fees, third-party broker commissions, risk manager payroll, premiums for excess insurance, and the fronted insurance program, and costs associated with operating our two wholly owned insurance companies, Associated Insurance Company for Excess ("AICE") and Ecole Insurance Company ("Ecole").

Cash and cash equivalents

We consider non-restricted short-term investments, which are highly liquid, readily convertible into cash, and have maturities at acquisition of less than three months, to be cash equivalents for purposes of the condensed consolidated statements of cash flows and condensed consolidated balance sheets. The Company maintains cash balances in bank accounts that normally exceed FDIC insured limits. The Company has not experienced any losses related to its cash concentration.

Investments

The Company classifies investments as trading or available-for-sale. We had no trading securities at June 30, 2018 and December 31, 2017. The Company's investments are reported at fair value with unrealized gains and losses, net of taxes, shown as a component of accumulated other comprehensive income (loss) in stockholders' equity. Management considers available evidence in evaluating potential impairment of investments, including the duration and extent to which fair value is less than cost. Realized gains and losses on sales of investments are included in investment income in our condensed consolidated statements of operations. In the event a loss is determined to be other-than-temporary, the loss will be recognized in the condensed consolidated statements of operations.

Restricted cash and investments

The Company holds restricted cash and investments primarily for the future payment of workers' compensation claims. Restricted investments have been categorized as available-for-sale. They are reported at fair value with unrealized gains and losses, net of taxes, shown as a component of accumulated other comprehensive income (loss) in stockholders' equity. Management considers available evidence in evaluating potential impairment of restricted investments, including the duration and extent to which fair value is less than cost. Realized gains and losses on sales of restricted investments are included in investment income in our condensed consolidated statements of operations. In the event a loss is determined to be other-than-temporary, the loss will be recognized in the condensed consolidated statements of operations.

Allowance for doubtful accounts

The Company had an allowance for doubtful accounts of \$432,000 and \$265,000 at June 30, 2018 and December 31, 2017, respectively. We make estimates of the collectability of our accounts receivable for services provided to our customers. Management analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customers' payment trends when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of our customers deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required.

Workers' compensation claims liabilities

Our workers' compensation claims liabilities do not represent an exact calculation of liability but rather management's best estimate, utilizing actuarial expertise and projection techniques, at a given reporting date. The estimated liability for open workers' compensation claims is based on an evaluation of information provided by our third-party administrators for workers' compensation claims, coupled with an actuarial estimate of future adverse loss development with respect to reported claims and incurred but not reported claims (together, "IBNR"). Workers' compensation claims liabilities included case reserve estimates for reported losses, plus additional amounts for estimated IBNR claims, MCC and legal costs, and unallocated loss adjustment expenses. These estimates are reviewed at least quarterly and adjustments to estimated liabilities are reflected in current operating results as they become known.

The process of arriving at an estimate of unpaid claims and claims adjustment expense involves a high degree of judgment and is affected by both internal and external events, including changes in claims handling practices, changes in reserve estimation procedures, inflation, trends in the litigation and settlement of pending claims, and legislative changes.

Our estimates are based on informed judgment, derived from individual experience and expertise applied to multiple sets of data and analyses. We consider significant facts and circumstances known both at the time that loss reserves are initially established and as new facts and circumstances become known. Due to the inherent uncertainty underlying loss reserve estimates, the expenses incurred through final resolution of our liability for our workers' compensation claims will likely vary from the related loss reserves at the reporting date. Therefore, as specific claims are paid out in the future, actual paid losses may be materially different from our current loss reserves.

The Company's independent actuary provides management with an estimate of the current and long-term portions of our total workers' compensation claims, which is an important factor in our process for estimating workers' compensation claims liabilities. The current portion represents the independent actuary's best estimate of payments the Company will make related to workers' compensation claims over the ensuing twelve months.

A basic premise in most actuarial analyses is that historical data and past patterns demonstrated in the incurred and paid historical data form a reasonable basis upon which to project future outcomes, absent a material change. Significant structural changes to the available data can materially impact the reserve estimation process. To the extent a material change affecting the ultimate claim liability becomes known, such change is quantified to the extent possible through an analysis of internal Company data and, if available and when appropriate, external data. Nonetheless, actuaries exercise a considerable degree of judgment in the evaluation of these factors and the need for such actuarial judgment is more pronounced when faced with material uncertainties.

Safety incentives

Safety incentives represent cash incentives paid to certain PEO client companies for maintaining safe-work practices and minimizing workplace injuries. The incentive is based on a percentage of annual payroll and is paid annually to customers who meet predetermined workers' compensation claims cost objectives. Safety incentive payments are made only after closure of all workers' compensation claims incurred during the customer's contract period. The safety incentive liability is estimated and accrued each month based upon contract year-to-date payroll and the then current amount of the customer's estimated workers' compensation claims reserves as established by our third party administrator. The Company provided \$28.1 million and \$28.5 million at June 30, 2018 and December 31, 2017, respectively, as an estimate of the liability for unpaid safety incentives.

Customer deposits

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

Comprehensive income (loss)

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

Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under U.S. generally accepted accounting principles ("GAAP") are included in comprehensive income (loss), but excluded from net income (loss) as these amounts are recorded directly as an adjustment to stockholders' equity. Our other comprehensive income (loss) comprises unrealized holding gains and losses on our available-for-sale investments.

Statements of cash flows

Interest paid during the six months ended June 30, 2018 totaled \$1.8 million, primarily related to prepaid fees for the Company's letter of credit. Interest paid during the six months ended June 30, 2017 did not materially differ from interest expense. Income taxes paid during the six months ended June 30, 2018 totaled \$0.1 million. Income taxes paid during the six months ended June 30, 2017 totaled \$2.4 million.

Bank deposits and other cash equivalents that are restricted for use are classified as restricted cash. The table below reconciles the cash, cash equivalents and restricted cash balances from our condensed consolidated balance sheets to the amounts reported on the condensed consolidated statements of cash flows (in thousands):

	June 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 33,786	\$ 59,835
Restricted cash, included in restricted cash and investments	24,862	60,370
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 58,648</u>	<u>\$ 120,205</u>

Basic and diluted earnings per share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Weighted average number of basic shares outstanding	7,310	7,254	7,307	7,252
Effect of dilutive securities	365	296	351	—
Weighted average number of diluted shares outstanding	<u>7,675</u>	<u>7,550</u>	<u>7,658</u>	<u>7,252</u>

As a result of the net loss for the six months ended June 30, 2017, 294,169 potential common shares have been excluded from the calculation of diluted loss per share because their effect would be anti-dilutive.

Reclassifications

Due to the adoption of Accounting Standards Update ("ASU") No. 2016-18, "Statement of Cash Flows: Restricted Cash," prior year amounts have been reclassified to conform to the current year presentation. Such reclassifications had no impact on the Company's financial condition, operating results, cash flows or stockholders' equity.

Accounting estimates

The preparation of our condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Estimates are used for fair value measurement of investments, allowance for doubtful accounts, deferred income taxes, carrying values for goodwill and property and equipment, accrued workers' compensation liabilities and safety incentive liabilities. Actual results may or may not differ from such estimates.

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers." The core principle of the update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The update also requires disclosure of sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. We have adopted ASU 2014-09 effective January 1, 2018 using the modified retrospective method. We have determined that there are no material changes to our revenue recognition policies or to our consolidated financial statements as a result of adopting the standard.

In February 2016, the FASB issued ASU No. 2016-02, "Leases." The core principle is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. Under the new guidance, a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. The amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. The Company is currently evaluating the standard but expects it to have a material impact on the Company's assets and liabilities on the condensed consolidated balance sheets.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows: Restricted Cash." The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We have retrospectively adopted this standard effective January 1, 2018. The Company's balance of restricted cash and restricted cash equivalents was \$24.9 million, \$60.4 million, \$95.2 million and \$290.6 million for the periods ended June 30, 2018, December 31, 2017, June 30, 2017 and December 31, 2016, respectively. The adoption of the guidance also requires us to reconcile our cash balance on the condensed consolidated statements of cash flows to the cash balance presented on the condensed consolidated balance sheets. See "Statements of cash flows" within "Note 1 - Basis of Presentation of Interim Period Statements" for these disclosures.

Note 2 - Fair Value Measurement

The following table summarizes the Company's investments at June 30, 2018 and December 31, 2017 measured at fair value on a recurring basis (in thousands):

	June 30, 2018			December 31, 2017		
	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	Cost	Gross Unrealized Gains (Losses)	Recorded Basis
Current:						
Cash equivalents:						
Money market funds	\$ 56	\$ —	\$ 56	\$ 121	\$ —	\$ 121
U.S. treasuries	—	—	—	100	—	100
Total cash equivalents	56	—	56	221	—	221
Investments:						
U.S. treasuries	344	—	344	199	—	199
Corporate bonds	61	(1)	60	400	—	400
U.S. government agency securities	60	—	60	65	—	65
Municipal bonds	—	—	—	10	—	10
Total current investments	465	(1)	464	674	—	674
Long term:						
Investments:						
U.S. treasuries	645	(7)	638	202	(2)	200
Mortgage backed securities	522	(14)	508	577	(5)	572
Corporate bonds	384	(11)	373	419	(2)	417
U.S. government agency securities	49	—	49	—	—	—
Asset backed securities	10	—	10	10	—	10
Total long term investments	1,610	(32)	1,578	1,208	(9)	1,199
Restricted cash and investments (1):						
Corporate bonds	190,230	(4,512)	185,718	184,808	(953)	183,855
Mortgage backed securities	97,337	(2,610)	94,727	86,240	(595)	85,645
U.S. treasuries	72,776	(365)	72,411	45,833	(143)	45,690
U.S. government agency securities	45,592	(1,233)	44,359	38,168	(222)	37,946
Supranational bonds	4,763	(49)	4,714	—	—	—
Money market funds	361	—	361	16,018	—	16,018
Municipal bonds	185	—	185	472	(14)	458
Asset backed securities	75	(1)	74	—	—	—
Commercial paper	—	—	—	18,973	—	18,973
Total restricted cash and investments	411,319	(8,770)	402,549	390,512	(1,927)	388,585
Total investments	\$413,450	\$ (8,803)	\$404,647	\$392,615	\$ (1,936)	\$390,679

(1) Included in restricted cash and investments within the condensed consolidated balance sheet as of June 30, 2018 is restricted cash and long term workers' compensation deposits of \$20.5 million, which is excluded from the table above. Restricted cash and investments are classified as current and noncurrent on the balance sheet based on the nature of the restriction.

The following table summarizes the Company's investments at June 30, 2018 and December 31, 2017 measured at fair value on a recurring basis by fair value hierarchy level (in thousands):

	June 30, 2018					December 31, 2017				
	Total Recorded Basis	Level 1	Level 2	Level 3	Other (1)	Total Recorded Basis	Level 1	Level 2	Level 3	Other (1)
Cash equivalents:										
Money market funds	\$ 56	\$ —	\$ —	\$ —	\$ 56	\$ 121	\$ —	\$ —	\$ —	\$ 121
U.S. treasuries	—	—	—	—	—	100	—	100	—	—
Investments:										
U.S. treasuries	982	—	982	—	—	399	—	399	—	—
Mortgage backed securities	508	—	508	—	—	572	—	572	—	—
Corporate bonds	433	—	433	—	—	817	—	817	—	—
U.S. government agency securities	109	—	109	—	—	65	—	65	—	—
Asset backed securities	10	—	10	—	—	10	—	10	—	—
Municipal bonds	—	—	—	—	—	10	—	10	—	—
Restricted cash and investments:										
Corporate bonds	185,718	—	185,718	—	—	183,855	—	183,855	—	—
Mortgage backed securities	94,727	—	94,727	—	—	85,645	—	85,645	—	—
U.S. treasuries	72,411	—	72,411	—	—	45,690	—	45,690	—	—
U.S. government agency securities	44,359	—	44,359	—	—	37,946	—	37,946	—	—
Supranational bonds	4,714	—	4,714	—	—	—	—	—	—	—
Money market funds	361	—	—	—	361	16,018	—	—	—	16,018
Municipal bonds	185	—	185	—	—	458	—	458	—	—
Asset backed securities	74	—	74	—	—	—	—	—	—	—
Commercial paper	—	—	—	—	—	18,973	—	18,973	—	—
Total investments	\$ 404,647	\$ —	\$ 404,230	\$ —	\$ 417	\$ 390,679	\$ —	\$ 374,540	\$ —	\$ 16,139

(1) Investments in money market funds measured at fair value using the net asset value per share practical expedient are not subject to hierarchy level classification disclosure. The Company invests in money market funds that seek to maintain a stable net asset value. These investments include commingled funds that comprise high-quality short-term securities representing liquid debt and monetary instruments where the redemption value is likely to be the fair value. Redemption is permitted daily without written notice.

Note 3 – Workers’ Compensation Claims

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Beginning balance				
Workers' compensation claims liabilities	\$ 378,874	\$ 326,233	\$ 363,517	\$ 312,537
Add: claims expense accrual				
Current period	39,967	37,878	79,019	73,153
Prior periods	—	2,350	(6)	5,264
	<u>39,967</u>	<u>40,228</u>	<u>79,013</u>	<u>78,417</u>
Less: claim payments related to				
Current period	5,148	4,148	6,281	5,280
Prior periods	22,856	25,998	45,391	49,462
	<u>28,004</u>	<u>30,146</u>	<u>51,672</u>	<u>54,742</u>
Add: Change in claims incurred in excess of retention limits	(23)	(6,236)	(44)	(6,133)
Ending balance				
Workers' compensation claims liabilities	\$ 390,814	\$ 330,079	\$ 390,814	\$ 330,079
Incurred but not reported (IBNR)	\$ 231,702	\$ 167,693	\$ 231,702	\$ 167,693
Ratio of IBNR to workers' compensation claims liabilities	59%	51%	59%	51%

The Company is a self-insured employer with respect to workers' compensation coverage for all of its employees (including employees co-employed through our client service agreements) working in Colorado, Maryland and Oregon, except as described below. 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.

The Company obtains policies from Chubb Limited (“Chubb”) for all California-based clients along with clients in Delaware, Virginia, Pennsylvania, North Carolina, New Jersey, West Virginia, Idaho and the District of Columbia. The arrangement with Chubb, known as a fronted program, provides BBSI a licensed, admitted insurance carrier to issue policies on behalf of BBSI. The risk of loss up to the first \$5.0 million per occurrence is retained by BBSI through various agreements. Chubb assumes credit risk should BBSI be unable to satisfy its indemnification obligations.

As part of its fronted workers’ compensation insurance program with Chubb, the Company makes monthly payments into trust accounts (the “Chubb trust accounts”) to be used for the payment of future claims. The balance in the Chubb trust accounts was \$408.1 million and \$380.6 million at June 30, 2018 and December 31, 2017, respectively. The Chubb trust accounts’ balances are included as a component of the current and long-term restricted cash and investments on the Company’s condensed consolidated balance sheets.

The Company restructured its fronted program with Chubb effective July 1, 2018. The new agreement maintains retention levels of \$5.0 million per occurrence but now requires that collateral be advanced at the inception of the policy term. To partially satisfy these additional collateral requirements, the Company provided a surety bond of \$30.0 million and a letter of credit of \$63.7 million from its principal bank, Wells Fargo Bank, National Association (the “Bank”).

The states of California, Maryland, Oregon, Washington, Colorado and Delaware required us to maintain specified investment balances or other financial instruments totaling \$85.1 million and \$96.8 million at June 30, 2018 and December 31, 2017, respectively, to cover potential workers’ compensation claims losses related to the Company’s current and former status as a self-insured employer. At June 30, 2018, the Company provided surety bonds and standby letters of credit totaling \$85.1 million, including a California requirement of \$70.6 million.

The Company provided a total of \$390.8 million and \$363.5 million at June 30, 2018 and December 31, 2017, respectively, as an estimated future liability for unsettled workers' compensation claims liabilities. Of this amount, \$2.9 million and \$3.0 million at June 30, 2018 and December 31, 2017, respectively, represent case reserves incurred in excess of the Company's retention. The accrual for costs incurred in excess of retention limits is offset by a receivable from excess insurance carriers of \$2.9 million and \$3.0 million at June 30, 2018 and December 31, 2017, respectively, included in other assets on the condensed consolidated balance sheets.

Note 4 - Revolving Credit Facility and Long-Term Debt

The Company maintains a credit agreement (the "Agreement") with the Bank. The Agreement provided for a revolving credit line in the amount of \$40.0 million from March 15, 2018 through June 15, 2018, and \$25.0 million thereafter, increasing to \$28.0 million effective July 1, 2018. The revolving line of credit expires on July 1, 2020. The Agreement also provided a \$6.0 million sublimit for standby letters of credit at June 30, 2018, increasing to \$7.5 million effective July 1, 2018. Of the \$6.0 million sublimit for standby letters of credit, \$5.9 million was used at June 30, 2018.

Advances under the revolving credit line bear interest, as selected by the Company, of (a) the daily floating rate of one month LIBOR plus 1.75% or (b) the fixed rate of LIBOR plus 1.75%. The Agreement also provides for an unused commitment fee of 0.375% per year on the average daily unused amount of the revolving credit line, as well as a fee of 1.75% of the face amount of each letter of credit reserved under the line of credit and 0.95% on standalone, fully secured letters of credit. The Company had no outstanding borrowings on its revolving credit line at June 30, 2018 and December 31, 2017. The credit facility is collateralized by the Company's accounts receivable and other rights to receive payment.

In late June 2018, as part of the Company's workers' compensation insurance program restructure with Chubb, the Agreement was amended to provide for a \$63.7 million standby letter of credit (the "Chubb Letter of Credit"). The Chubb Letter of Credit has an expiration date of July 1, 2019, subject to automatic renewal in specified circumstances.

In connection with the Chubb Letter of Credit, the Bank has been granted a security interest of first priority in certain blocked securities accounts (collectively, the "Collateral Accounts"). The Company has agreed to deposit in the Collateral Accounts 50% of the Company's consolidated net income (after tax and less cash dividends) for each quarter plus, to the extent necessary, an additional amount by May 31 each year so that the deposits in the Collateral Accounts for the prior year total at least \$16 million.

The initial fee payable under the Chubb Letter of Credit was equal to 2.5% of the face amount thereof. Upon annual renewal, the fees payable to the Bank quarterly in advance include (a) a fee at the annual rate of 2.5%, calculated based on the difference between the face amount of the Chubb Letter of Credit and 95% of the aggregate value of the Collateral Accounts as of the end of the previous quarter, (b) a fee at the annual rate of 1.25% calculated based on the balance of the face amount, and (c) other fees upon the payment or negotiation of each drawing under the Chubb Letter of Credit.

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

- EBITDA [net profit before taxes plus interest expense (net of capitalized interest expense), depreciation expense, and amortization expense] on a rolling four-quarter basis of not less than \$30 million at the end of each fiscal quarter;
- 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
- total workers' compensation liabilities of not less than the estimate of required reserves reflected in the third-party actuarial report issued to the Company quarterly.

The Agreement includes certain additional restrictions as follows:

- incurring additional indebtedness is prohibited without the prior approval of the Bank, other than purchase financing (including capital leases) for the acquisition of assets, provided that the aggregate of all purchase financing does not exceed \$1,000,000 at any time;
- the Company may not declare or pay any dividend in excess of \$0.25 per share in total each fiscal quarter, subject to increase by no more than 10% each year beginning June 30, 2019, compared to the prior fiscal year; and
- the Company may not terminate or cancel any of the AICE policies without the Bank's prior written consent.

The Agreement as amended in late June 2018 added an event of default as follows:

- specified cross-defaults under the Company's workers' compensation insurance arrangements.

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. At June 30, 2018, the Company was in compliance with all covenants.

The Company maintains a mortgage loan with the Bank with a balance of approximately \$4.3 million and \$4.4 million at June 30, 2018 and December 31, 2017, respectively, secured by the Company's corporate office building in Vancouver, Washington. This loan requires payment of monthly installments of \$18,375, bearing interest at the one month LIBOR plus 2.0%, with the unpaid principal balance due July 1, 2022.

Note 5 – Income Taxes

The Company's interim tax expense is based upon the estimated annual effective tax rate for the respective year. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Act") was signed into law making significant changes to the Internal Revenue Code. Pursuant to Staff Accounting Bulletin No. 118, the Company recorded certain provisional amounts for estimated income tax effects of the Tax Act on deferred income taxes. The Company made no adjustments to the provisional amounts recorded during the six months ended June 30, 2018. We will recognize any changes to provisional amounts as we continue to analyze the existing statute or as additional guidance becomes available. We expect to complete our analysis of the provisional amounts by the end of 2018.

Under ASC 740, "Income Taxes," management evaluates the realizability of the deferred tax assets on a quarterly basis under a "more-likely than not" standard. As part of this evaluation, management reviews all evidence both positive and negative to determine if a valuation allowance is needed. One component of this analysis is to determine whether the Company was in a cumulative loss position for the most recent 12 quarters. The Company was in a cumulative income position for the 12 quarters ended June 30, 2018.

The Internal Revenue Service is examining the Company's federal tax returns for the years ended December 31, 2011, 2012, 2013 and 2014.

Note 6 – Litigation

BBSI received a subpoena from the San Francisco office of the Division of Enforcement of the Securities and Exchange Commission (the "SEC") in April 2016 in connection with the SEC's inquiry into reported errors in our financial statements. The Company previously received a subpoena from the SEC in May 2015 in connection with the SEC's investigation of the Company's accounting policies with regard to its workers' compensation reserves. In July 2018, BBSI reached an agreement in principle with the Division of Enforcement staff for a full resolution of this matter that includes a civil penalty in the amount of \$1.5 million, to be paid after final regulatory approval, expected during the third quarter of 2018. An accrual for this amount has been recorded as of June 30, 2018 and is included within other accrued liabilities on the condensed consolidated balance sheets.

In June 2016, BBSI was advised by the United States Department of Justice that it had commenced an investigation. The Company continues to cooperate with the investigation.

On June 17, 2015, Daniel Salinas (“Salinas”) filed a shareholder derivative lawsuit against BBSI and certain of its officers and directors in the Circuit Court for Baltimore City, Maryland. The complaint alleges breaches of fiduciary duty, unjust enrichment and other violations of law and seeks recovery of various damages, including the costs and expenses incurred in connection with BBSI’s reserve strengthening process, reserve study and consultants, the cost of stock repurchases by BBSI in October 2014, compensation paid to BBSI’s officers, and costs of negotiating BBSI’s credit facility with its principal lender, as well as the proceeds of sales of stock by certain of BBSI’s officers and directors during 2013 and 2014. On September 28, 2015, BBSI and the individual defendants filed motions to dismiss the derivative suit and a motion to stay pending resolution of another lawsuit which was settled in the fourth quarter of 2016. On December 4, 2015, Salinas filed an opposition to each motion. On January 27, 2016, the defendants filed a reply to the opposition brief. On February 11, 2016, Judge Michel Pierson heard oral argument on the motions. A decision has not been issued.

Other than for the preliminary settlement agreement described above, management is unable to estimate the probability or the potential range of loss arising from the legal actions described above.

BBSI is subject to other legal proceedings and claims that arise in the ordinary course of our business. Management does not expect the amount of ultimate liability with respect to other currently pending or threatened actions to materially affect BBSI’s consolidated financial position or results of operations.

Note 7 – Subsequent Events

We have evaluated events and transactions occurring after the balance sheet date through our filing date and determined that subsequent events are properly reflected in the Company’s consolidated financial statements and notes as required by GAAP.

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

General

Company Background. Barrett Business Services, Inc. (“BBSI,” the “Company,” “our” or “we”), is a leading provider of business management solutions for small and mid-sized companies. The Company has developed a management platform that integrates a knowledge-based approach from the management consulting industry with tools from the human resource outsourcing industry. This platform, through the effective leveraging of human capital, helps our business owner clients run their businesses more effectively. We believe this platform, delivered through a decentralized organizational structure, differentiates BBSI from our competitors. BBSI was incorporated in Maryland in 1965.

Business Strategy. Our strategy is to align local operations teams with the mission of small and mid-sized business owners, driving value to their business. To do so, BBSI:

- partners with business owners to leverage their investment in human capital through a high-touch, results-oriented approach;
- brings predictability to each client organization through a three-tiered management platform; and
- enables business owners to focus on their core business by reducing organizational complexity and maximizing productivity.

Business Organization. We operate a decentralized delivery model using operationally-focused business teams, typically located within 50 miles of our client companies. These teams are led by senior level business generalists and comprise senior level professionals with expertise in human resources, organizational development, risk mitigation and workplace safety and various types of administration, including payroll. These teams are responsible for growth of their operations, and for providing strategic leadership, guidance and expert consultation to our client companies. The decentralized structure fosters autonomous decision-making in which business teams deliver plans that closely align with the objectives of each business owner client. This structure also provides a means of incubating talent to support increased growth and capacity. We support clients with employees located in 24 states and the District of Columbia through a network of 60 branch locations in California, Oregon, Utah, Washington, Idaho, Arizona, Colorado, Maryland, North Carolina, Delaware, Nevada, Pennsylvania and Virginia. We also have several smaller recruiting locations in our general market areas, which are under the direction of a branch office.

BBSI believes that making significant investments in the best talent available allows us to leverage the value of this investment many times over. We motivate our management employees through a compensation package that includes a competitive base salary and the opportunity for profit sharing. At the branch level, profit sharing is in direct correlation to client performance, reinforcing a culture focused on achievement of client goals.

Services Overview. BBSI's core purpose is to advocate for business owners, particularly in the small and mid-sized business segment. Our evolution from an entrepreneurially run company to a professionally managed organization has helped to form our view that all businesses experience inflection points at key stages of growth. The insights gained through our own growth, along with the trends we see in working with more than 5,600 companies each day, define our approach to guiding business owners through the challenges associated with being an employer. BBSI's business teams align with each business owner client through a structured three-tiered progression. In doing so, business teams focus on the objectives of each business owner and deliver planning, guidance and resources in support of those objectives.

Tier 1: Tactical Alignment

The first stage focuses on the mutual setting of expectations and is essential to a successful client relationship. It begins with a process of assessment and discovery in which the business owner's business objectives, attitudes, and culture are aligned with BBSI's processes, controls and culture. This stage includes an implementation process, which addresses the administrative components of employment.

Tier 2: Dynamic Relationship

The second stage of the relationship emphasizes organizational development as a means of achieving each client's business objectives. There is a focus on process improvement, development of best practices, supervisor training and leadership development.

Tier 3: Strategic Counsel

With an emphasis on advocacy on behalf of the business owner, the third stage of the relationship is more strategic and forward-looking with a goal of cultivating an environment in which all efforts are directed by the mission and long-term objectives of the business owner.

In addition to serving as a resource and guide, BBSI has the ability to provide workers' compensation coverage as a means of meeting statutory requirements and protecting our clients from employment-related injury claims. Through our third-party administrators, we provide claims management services for our clients. We work aggressively to manage and reduce job injury claims, identify fraudulent claims and structure optimal work programs, including modified duty.

Results of Operations

The following table sets forth the percentages of total revenues represented by selected items in the Company's condensed consolidated statements of operations for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Percentage of Total Net Revenues							
	Three Months Ended				Six Months Ended			
	June 30,		June 30,		June 30,		June 30,	
	2018	2017		2018	2017		2018	2017
Revenues:								
Professional employer service fees	\$197,277	85.2 %	\$187,718	83.2 %	\$386,239	84.8 %	\$359,927	82.6 %
Staffing services	34,326	14.8	37,856	16.8	69,340	15.2	75,644	17.4
Total revenues	231,603	100.0	225,574	100.0	455,579	100.0	435,571	100.0
Cost of revenues:								
Direct payroll costs	26,020	11.2	28,486	12.6	52,423	11.5	57,196	13.1
Payroll taxes and benefits	98,249	42.4	93,946	41.7	222,437	48.8	209,346	48.1
Workers' compensation	58,854	25.4	58,928	26.1	115,976	25.5	114,365	26.3
Total cost of revenues	183,123	79.0	181,360	80.4	390,836	85.8	380,907	87.5
Gross margin	48,480	21.0	44,214	19.6	64,743	14.2	54,664	12.5
Selling, general and administrative expenses	35,614	15.4	28,060	12.5	65,043	14.3	54,670	12.5
Depreciation and amortization	1,274	0.6	985	0.4	2,278	0.5	1,927	0.4
Income (loss) from operations	11,592	5.0	15,169	6.7	(2,578)	(0.6)	(1,933)	(0.4)
Other income, net	2,121	1.0	1,326	0.6	4,114	0.9	1,401	0.3
Income (loss) before income taxes	13,713	6.0	16,495	7.3	1,536	0.3	(532)	(0.1)
Provision for (benefit from) income taxes	2,473	1.1	5,369	2.4	(581)	(0.1)	(431)	(0.1)
Net income (loss)	\$ 11,240	4.9 %	\$ 11,126	4.9 %	\$ 2,117	0.4 %	\$ (101)	(0.0) %

We report PEO revenues net of direct payroll costs because we are not the primary obligor for wage payments to our clients' employees. However, management believes that gross billing amounts and wages are useful in understanding the volume of our business activity and serve as an important performance metric in managing our operations, including the preparation of internal operating forecasts and establishing executive compensation performance goals. We therefore present for purposes of analysis gross billing and wage information for the three and six months ended June 30, 2018 and 2017.

(in thousands)	(Unaudited)		(Unaudited)	
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Gross billings	\$ 1,379,483	\$ 1,298,539	\$ 2,699,327	\$ 2,498,087
PEO and staffing wages	\$ 1,165,860	\$ 1,093,291	\$ 2,280,567	\$ 2,104,981

Because safety incentives represent consideration payable to PEO customers, safety incentive costs are netted against PEO revenue in our consolidated statements of operations. Management considers safety incentives to be an integral part of our workers' compensation program because they encourage client companies to maintain safe-work practices and minimize workplace injuries. We therefore present below for purposes of analysis non-GAAP gross workers' compensation expense, which represents workers' compensation costs including safety incentive costs. We believe this non-GAAP measure is useful in evaluating the total costs of our workers' compensation program.

(in thousands)	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2018	2017	2018	2017
	Workers' compensation	\$ 58,854	\$ 58,928	\$ 115,976
Safety incentive costs	8,039	8,160	15,604	14,732
Non-GAAP gross workers' compensation	\$ 66,893	\$ 67,088	\$ 131,580	\$ 129,097

In monitoring and evaluating the performance of our operations, management also reviews the following ratios, which represent selected amounts as a percentage of gross billings. Management believes these ratios are useful in understanding the efficiency and profitability of our service offerings.

	(Unaudited) Percentage of Gross Billings Three Months Ended June 30,		(Unaudited) Percentage of Gross Billings Six Months Ended June 30,	
	2018	2017	2018	2017
	PEO and staffing wages	84.5%	84.2%	84.5%
Payroll taxes and benefits	7.1%	7.2%	8.2%	8.4%
Non-GAAP gross workers' compensation	4.8%	5.2%	4.9%	5.2%

The presentation of revenues on a net basis and the relative contributions of staffing and professional employer services revenues can create volatility in our gross margin percentage. A relative increase in professional employer services revenue will result in a higher gross margin percentage. Improvement in gross margin percentage occurs because incremental client services revenue dollars are reported as revenue net of all related direct payroll and safety incentive costs.

Three months ended June 30, 2018 and 2017

Net income for the second quarter of 2018 amounted to \$11.2 million compared to net income of \$11.1 million for the second quarter of 2017. Diluted income per share for the second quarter of 2018 was \$1.46 compared to diluted income per share of \$1.47 for the second quarter of 2017.

Revenues for the second quarter of 2018 totaled \$231.6 million, an increase of \$6.0 million or 2.7% over the second quarter of 2017, which reflects an increase in the Company's professional employer service fee revenue of \$9.6 million or 5.1% and a decrease in staffing services revenue of \$3.5 million or 9.3%.

Our growth in professional employer service revenues was attributable to both new and existing customers. Due to continued strength in our referral channels, business from new customers during the second quarter of 2018 exceeded business lost from former customers. Gross billings for PEO to continuing customers increased 5.7% compared to the second quarter of 2017. This growth was primarily the result of increases in employee headcount and hours worked. The decrease in staffing services revenue was due primarily to tight labor market conditions during the 2018 period.

Direct payroll costs for the second quarter of 2018 totaled \$26.0 million or 11.2% of revenue compared to \$28.5 million or 12.6% of revenue for the second quarter of 2017. The decrease in direct payroll costs as a percentage of revenues was primarily due to the relative increase in professional employer services within the mix of our customer base compared to the second quarter of 2017.

Payroll taxes and benefits for the second quarter of 2018 totaled \$98.2 million or 42.4% of revenue compared to \$93.9 million or 41.7% of revenue for the second quarter of 2017. The increase in payroll taxes and benefits as a percentage of revenues was primarily due to the relative increase in PEO services within the mix of our customer base compared to the second quarter of 2017.

Workers' compensation expense for the second quarter of 2018 totaled \$58.9 million or 25.4% of revenue compared to \$58.9 million or 26.1% of revenue for the second quarter of 2017. The decrease in workers' compensation expense as a percentage of revenue was primarily due to a one-time \$2.4 million unfavorable development of prior period claims in the second quarter of 2017 that did not repeat in the second quarter of 2018.

Selling, general and administrative (“SG&A”) expenses for thesecond quarter of 2018 totaled \$35.6 million or 15.4% of revenue compared to \$28.1 million or 12.5% of revenue for the second quarter of 2017. The increase was primarily attributable to an increase in employee-related expenses as well as an increase in litigation expense relatæ to the expected SEC settlement.

Other income, net for the second quarter of 2018 was \$2.1 million as compared to other income of \$1.3 million for the second quarter of 2017. The change was primarily attributable to an increase in investment income in the second quarter of 2018.

Our effective income tax rate for the second quarter of 2018 was 18.0%, compared to 32.5% for the second quarter of 2017. Our income tax rate typically differs from the federal statutory tax rate of 21% primarily due to state taxes and federal and state tax credits.

Six Months Ended June 30, 2018 and 2017

Net income for the first six months of 2018 amounted to \$2.1 million compared to net loss of \$101,000 for the first six months of 2017. Diluted income per share for the first six months of 2018 was \$0.28 compared to diluted loss per share of \$0.01 for the first six months of 2017.

Revenues for the first six months of 2018 totaled \$455.6 million, an increase of \$20.0 million or 4.6% over the first six months of 2017, which reflects an increase in the Company’s professional employer service fee revenue of \$26.3 million or 7.3% and a decrease in staffing services revenue of \$6.3 million or 8.3%.

Our growth in professional employer service revenues was attributable to both new and existing customers. Due to continued strength in our referral channels, business from new customers during the first six months of 2018 exceeded business lost from former customers. Gross billings for PEO to continuing customers increased 6.0% compared to the first six months of 2017, primarily resulting from increases in employee headcount and hours worked. The decrease in staffing services revenue was due primarily to tight labor market conditions during the 2018 period.

Direct payroll costs for the first six months of 2018 totaled \$52.4 million or 11.5% of revenue compared to \$57.2 million or 13.1% of revenue for the first six months of 2017. The decrease in direct payroll costs as a percentage of revenue was primarily due to the relative increase in professional employer services within the mix of our customer base compared to the first six months of 2017.

Payroll taxes and benefits for the first six months of 2018 totaled \$222.4 million or 48.8% of revenue compared to \$209.3 million or 48.1% of revenue for the first six months of 2017. The increase in payroll taxes and benefits as a percentage of revenue was primarily due to the relative increase in professional employer services within the mix of our customer base compared to the first six months of 2017.

Workers’ compensation expense for the first six months of 2018 totaled \$116.0 million or 25.5% of revenue compared to \$114.4 million or 26.3% of revenue for the first six months of 2017. The decrease in workers’ compensation expense as a percentage of revenue was primarily due to a \$5.3 million unfavorable development of prior period claims in the first six months of 2017 that did not repeat in 2018.

SG&A expenses for the first six months of 2018 totaled \$65.0 million or 14.3% of revenue compared to \$54.7 million or 12.5% of revenue for the first six months of 2017. The increase was primarily attributable to an increase in employee related expenses as well as an increase in litigation expense related to the expected SEC settlement.

Other income, net for the first six months of 2018 was \$4.1 million as compared to \$1.4 million for the first six months of 2017. The change was attributable to an increase in investment income and a decrease in interest expense.

Our effective income tax rate for the first six months of 2018 was -37.8%, compared to 81.0% for the first six months of 2017. The volatility in our effective income tax rate for the first six months of 2018 and the first six months of 2017 is primarily the result of the Company’s near break-even net income for these periods. Our income tax rate typically differs from the federal statutory tax rate of 21% primarily due to state taxes and federal and state tax credits.

Fluctuations in Quarterly Operating Results

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

Liquidity and Capital Resources

The Company's cash balance of \$58.6 million, which includes cash, cash equivalents, and restricted cash, decreased \$61.6 million for the six months ended June 30, 2018, compared to a decrease of \$228.3 million for the comparable period of 2017. The decrease in cash at June 30, 2018 as compared to December 31, 2017 was primarily due to purchases of restricted investments.

Net cash provided by operating activities for the six months ended June 30, 2018 was \$16.5 million, compared to net cash provided of \$14.2 million for the comparable period of 2017. For the six months ended June 30, 2018, cash flow from operating activities was primarily due to net income of \$2.1 million, increased workers' compensation claims liabilities of \$27.3 million, and increased accrued payroll, payroll taxes and related benefits of \$4.5 million, offset by increased trade accounts receivable of \$15.9 million.

Net cash used in investing activities for the six months ended June 30, 2018 was \$74.2 million, compared to net cash used of \$238.7 million for the comparable period of 2017. For the six months ended June 30, 2018, cash used in investing activities consisted primarily of purchases of investments and restricted investments of \$104.8 million, partially offset by proceeds from sales and maturities of investments and restricted investments of \$34.1 million.

Net cash used in financing activities for the six months ended June 30, 2018 was \$3.8 million, compared to net cash used of \$3.7 million for the comparable period of 2017. For the six months ended June 30, 2018, cash was primarily used for dividend payments of \$3.7 million.

The states of California, Maryland, Oregon, Washington, Colorado and Delaware required us to maintain specified financial instruments totaling \$85.1 million at June 30, 2018 to cover potential workers' compensation claims losses related to the Company's current and former status as a self-insured employer. At June 30, 2018, the Company provided surety bonds and standby letters of credit totaling \$85.1 million, including a California requirement of \$70.6 million. Management expects the surety bonds and letters of credit to decrease over time as a result of a declining self-insured liability in California. The Company's self-insured status in California ended on December 31, 2014.

As part of its fronted workers' compensation insurance program with Chubb, the Company makes monthly payments into trust accounts (the "Chubb trust accounts") to be used for the payment of future claims. The balance in the Chubb trust accounts was \$408.1 million and \$380.6 million at June 30, 2018 and December 31, 2017, respectively. The Chubb trust accounts' balances are included as a component of the current and long-term restricted cash and investments on the Company's condensed consolidated balance sheets. The Company maintains a credit agreement (the "Agreement") with the Bank. The Agreement provided for a revolving credit line in the amount of \$40.0 million from March 15, 2018 through June 15, 2018, and \$25.0 million thereafter, increasing to \$28.0 million effective July 1, 2018. The revolving line of credit expires on July 1, 2020. The Agreement also provided a \$6.0 million sublimit for standby letters of credit at June 30, 2018, increasing to \$7.5 million effective July 1, 2018. Of the \$6.0 million sublimit for standby letters of credit, \$5.9 million was used at June 30, 2018.

Advances under the revolving credit line bear interest, as selected by the Company, of (a) the daily floating rate of one month LIBOR plus 1.75% or (b) the fixed rate of LIBOR plus 1.75%. The Agreement also provides for an unused commitment fee of 0.375% per year on the average daily unused amount of the revolving credit line, as well as a fee of 1.75% of the face amount of each letter of credit reserved under the line of credit and 0.95% on standalone, fully secured letters of credit. The Company had no outstanding borrowings on its revolving credit line at June 30, 2018 and December 31, 2017. The credit facility is collateralized by the Company's accounts receivable and other rights to receive payment.

In late June 2018, as part of the Company's workers' compensation insurance program restructure with Chubb, the Agreement was amended to provide for a \$63.7 million standby letter of credit (the "Chubb Letter of Credit"). The Chubb Letter of Credit has an expiration date of July 1, 2019, subject to automatic renewal in specified circumstances.

In connection with the Chubb Letter of Credit, the Bank has been granted a security interest of first priority in certain blocked securities accounts (collectively, the "Collateral Accounts"). The Company has agreed to deposit in the Collateral Accounts 50% of the Company's consolidated net income (after tax and less cash dividends) for each quarter plus, to the extent necessary, an additional amount by May 31 each year so that the deposits in the Collateral Accounts for the prior year total at least \$16 million.

The initial fee payable under the Chubb Letter of Credit was equal to 2.5% of the face amount thereof. Upon annual renewal, the fees payable to the Bank quarterly in advance include (a) a fee at the annual rate of 2.5%, calculated based on the difference between the face amount of the Chubb Letter of Credit and 95% of the aggregate value of the Collateral Accounts as of the end of the previous quarter, (b) a fee at the annual rate of 1.25% calculated based on the balance of the face amount, and (c) other fees upon the payment or negotiation of each drawing under the Chubb Letter of Credit.

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

- EBITDA [net profit before taxes plus interest expense (net of capitalized interest expense), depreciation expense, and amortization expense] on a rolling four-quarter basis of not less than \$30 million at the end of each fiscal quarter;
- 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
- total workers' compensation liabilities of not less than the estimate of required reserves reflected in the third-party actuarial report issued to the Company quarterly.

The Agreement includes certain additional restrictions as follows:

- incurring additional indebtedness is prohibited without the prior approval of the Bank, other than purchase financing (including capital leases) for the acquisition of assets, provided that the aggregate of all purchase financing does not exceed \$1,000,000 at any time;
- the Company may not declare or pay any dividend in excess of \$0.25 per share in total each fiscal quarter, subject to increase by no more than 10% each year beginning June 30, 2019, compared to the prior fiscal year; and
- the Company may not terminate or cancel any of the AICE policies without the Bank's prior written consent.

The Agreement as amended in late June 2018 added an event of default as follows:

- specified cross-defaults under the Company's workers' compensation insurance arrangements.

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. At June 30, 2018, the Company was in compliance with all covenants.

The Company maintains a mortgage loan with the Bank with a balance of approximately \$4.3 million and \$4.4 million at June 30, 2018 and December 31, 2017, respectively, secured by the Company's corporate office building in Vancouver, Washington. This loan requires payment of monthly installments of \$18,375, bearing interest at the one month LIBOR plus 2.0%, with the unpaid principal balance due July 1, 2022.

Management expects that the funds anticipated to be generated from operations, current liquid assets, and availability under the Company's 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 workers' compensation claims payments.

Forward-Looking Information

Statements in this report include forward-looking statements which are not historical in nature and are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, discussion of economic conditions in our market areas and their effect on revenue levels, the effect of changes in our mix of services on gross margin, the effect of tight labor market conditions, the adequacy of our workers' compensation reserves, the effect of changes in estimates of our future claims liabilities on our workers' compensation reserves, including the effect of changes in our reserving practices and claims management process on our actuarial estimates, the effects of recent federal tax legislation, our ability to generate sufficient taxable income in the future to utilize our deferred tax assets, the effect of our formation and operation of two wholly owned licensed insurance subsidiaries, the risks of operation and cost of our fronted insurance program with Chubb, the financial viability of our excess insurance carriers, the effectiveness of our management information systems, our relationship with our primary bank lender and the availability of financing and working capital to meet our funding requirements, litigation costs and the effect of the potential resolution of any enforcement action that may be brought by the SEC Division of Enforcement, the effect of changes in the interest rate environment on the value of our investment securities and long-term debt, the adequacy of our allowance for doubtful accounts, and the potential for and effect of acquisitions.

All of our 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 our ability to retain current clients and attract new clients, difficulties associated with integrating clients into our operations, economic trends in our service areas, the potential for material deviations from expected future workers' compensation claims experience, the workers' compensation regulatory environment in our primary markets, security breaches or failures in the Company's information technology systems, collectability of accounts receivable, the carrying values of deferred income tax assets and goodwill (which may be affected by our future operating results), the impact of the Patient Protection and Affordable Care Act and escalating medical costs on our business, the effect of conditions in the global capital markets on our investment portfolio, and the availability of capital, borrowing capacity on our revolving credit facility, or letters of credit necessary to meet state-mandated surety deposit requirements for maintaining our status as a qualified self-insured employer for workers' compensation coverage or our fronted insurance program. Additional risk factors affecting our business are discussed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the SEC on March 6, 2018. We disclaim any obligation to update any such factors or to publicly announce 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 and its outstanding borrowings on its line of credit and long-term debt. Outstanding debt totaled approximately \$4.3 million at June 30, 2018. Based on the Company's overall interest exposure at June 30, 2018, a 50 basis point increase in market interest rates would have a \$6.5 million effect on the fair value of the Company's investment portfolio. A 50 basis point increase would have an immaterial effect on the Company's outstanding borrowings because of the relative size of the outstanding borrowings.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our ICFR is a process designed by, or under the supervision of, our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our condensed consolidated financial statements for external purposes in accordance with GAAP.

We maintain "disclosure controls and procedures" that are designed with the objective of providing reasonable assurance that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply their judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on their evaluation, the Company's CEO and CFO have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective as of June 30, 2018.

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 quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Inherent Limitations

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

PART II-OTHER INFORMATION

Item 1. Legal Proceedings

See the information disclosed in "Note 6 - Litigation," to the condensed consolidated financial statements included in Part I of this report, which is incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes in the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the SEC on March 6, 2018.

Item 6. Exhibits

- 3.1 [Charter of the Registrant, as amended, through May 31, 2018.](#)
- 3.2 [Bylaws of the Registrant, as amended through May 31, 2018.](#)
- 4.1 [Second Amendment, dated as of June 20, 2018, to Amended and Restated Credit Agreement dated as of June 30, 2017 \(the "Credit Agreement"\), between the Registrant and Wells Fargo Bank, National Association, \("Wells Fargo"\) Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on June 27, 2018.](#)
- 4.2 [Third Amendment, dated as of July 1, 2018, to the Credit Agreement.](#)
- 4.3 [Second Amended and Restated Revolving Line of Credit Note dated July 1, 2018 of the Registrant.](#)
- 4.4 [Amended and Restated Standby Letter of Credit Agreement dated as of June 20, 2018, between the Registrant and Wells Fargo.](#)
- 4.5 [Amended and Restated Security Agreement: Business Assets, dated as of June 20, 2018, between the Registrant and Wells Fargo.](#)
- 4.6 [Third Party Security Agreement: Business Assets, dated as of June 20, 2018, between Associated Insurance Company for Excess, a subsidiary of the Registrant, and Wells Fargo.](#)
- 10.1 [Form of Performance Share Award Agreement for Executive Officers for awards granted beginning in 2018 under the Registrant's 2015 Stock Incentive Plan \(the "2015 Plan"\).](#)
- 10.2 [Form of Employee Nonqualified Stock Option Award Agreement for grants to Gerald R. Blotz, Heather E. Gould and Gary E. Kramer effective March 28, 2018, under the 2015 Plan.](#)
- 10.3 [Form of Restricted Stock Units Award Agreement for Executive Officers for awards granted beginning in 2018 under the 2015 Plan.](#)
- 10.4 [Form of Restricted Stock Units Award Agreement for Non-Employee Directors for awards granted in 2018 under the 2015 Plan.](#)
- 31.1 [Certification of Chief Executive Officer pursuant to Rule 13a-14\(a\).](#)
- 31.2 [Certification of Chief Financial Officer pursuant to Rule 13a-14\(a\).](#)
- 32. [Certification pursuant to 18 U.S.C. Section 1350.](#)
- 99.1 [Description of the Registrant's Capital Stock.](#)
- 101. INS XBRL Instance Document
- 101. SCH XBRL Taxonomy Extension Schema Document
- 101. CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101. DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101. LAB XBRL Taxonomy Extension Label Linkbase Document
- 101. PRE XBRL Taxonomy Extension Presentation Linkbase Document

** Except as otherwise indicated, the SEC File Number for all exhibits is 000-21866.

SIGNATURES

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

BARRETT BUSINESS SERVICES, INC.
Registrant

Date: August 8, 2018

By: /s/ Gary E. Kramer
Gary E. Kramer
Vice President-Finance, Treasurer and Secretary

BARRETT BUSINESS SERVICES, INC.**AMENDED AND RESTATED CHARTER****As Amended Through May 31, 2018****ARTICLE I**

The name of this corporation (the "Corporation") is Barrett Business Services, Inc.

ARTICLE II

The purposes for which the Corporation is formed are:

- (a) To engage generally in the business of supplying temporary and long-term employees to others.
- (b) To engage in any other business deemed by it to be desirable to facilitate, directly or indirectly the business referred to above or to enhance the value of its property, business, or rights.
- (c) To engage in any lawful activity for which a corporation may be formed under the Maryland General Corporation Law.

ARTICLE III

(a) The aggregate number of shares which the Corporation shall have authority to issue is 21,000,000 which shall be divided into classes as follows:

Title of Class	No. of Shares
Preferred Stock, \$.01 par value per share	500,000
Common Stock, \$.01 par value per share	20,500,000

When this amendment and restatement shall become effective and without the necessity of any further action of any kind, each previously issued and outstanding share of stock of the Corporation of the par value of ten dollars a share shall be reclassified and changed into and shall constitute 7,968.1274 shares of the Common Stock, \$.01 par value, of the Corporation, provided that any resulting fraction of share shall be rounded to the nearest full share with fractions of .5 rounded up. There shall be transferred from surplus to stated capital on the Corporation's books at the time this amendment and restatement becomes effective an amount equal to the difference between the aggregate par value of the shares of Common Stock, \$.01 par value, issued and outstanding immediately after such effective time and the aggregate par value of the shares of stock of the par value of ten dollars a share issued and outstanding immediately prior to such effective time.

(b) The preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, and terms or conditions of redemption of each class of stock of the Corporation shall be as follows:

(1) Preferred Stock:

The Board of Directors of the Corporation (the "Board of Directors") may classify or reclassify any unissued Preferred Stock from time to time by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, or terms or conditions of redemption of such Preferred Stock. Without limiting the generality of the foregoing, the Board of Directors shall have authority to classify and reclassify any unissued Preferred Stock into as many series as the Board of Directors shall from time to time determine, and to issue the Preferred Stock in such series.

The description of shares of each series of Preferred Stock shall be set forth in resolutions adopted by the Board of Directors and in Articles Supplementary filed as required by law from time to time prior to the issuance of any shares of such series.

The Board of Directors is expressly authorized, prior to issuance, by adopting resolutions providing for the issuance of, or providing for a change in the number of, shares of any particular series of Preferred Stock and, if and to the extent from time to time required by law, by filing Articles Supplementary to set or change the number of shares to be included in each series of Preferred Stock and to set or change in any one or more respects the designations, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, or terms and conditions of redemption relating to the shares of each such series.

Notwithstanding the foregoing, the Board of Directors shall not be authorized to change the right of the Common Stock of the Corporation to vote one vote per share on all matters submitted for stockholder action.

(2) Common Stock:

Except for and subject to the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, or terms or conditions of redemption of the Preferred Stock or any series thereof, as may be granted pursuant to Section (b)(1) of this Article or except as may be provided by the laws of Maryland, the holders of the Common Stock shall have all other rights of stockholders including, without limitation, (i) voting rights on all corporate matters on the basis of one vote per share and the right to notices of meetings and other corporate actions, (ii) the right to receive dividends and other distributions when and as declared by the Board of Directors out of assets legally available therefor, and (iii) in the event of any liquidation, dissolution or winding up of the Corporation, the right to receive the assets available for distributions to stockholders.

(c) The Board of Directors may authorize the issuance or sale from time to time of shares of stock by the Corporation of any class, whether now or hereafter authorized, or securities convertible into shares of its stock of any class, whether now or hereafter authorized, for such consideration as the Board of Directors may deem advisable, subject to such restrictions or limitations, if any, as may be set forth in the Charter or bylaws of the Corporation.

(d) No holder of any shares of any class of stock or other security of the Corporation now or hereafter authorized shall have any preemptive right or be entitled as a matter of right as such holder to purchase, subscribe for or otherwise acquire any shares of any stock of the Corporation of any class now or hereafter authorized or any securities convertible into or exchangeable for any such shares, or any warrants or other instruments evidencing rights or options to subscribe for, purchase or otherwise acquire any such shares, whether such shares, securities, warrants or other instruments are now or hereafter authorized or issued or issued and thereafter reacquired by the Corporation, other than such, if any, as may be fixed from time to time by the Board of Directors in its discretion.

Series A Nonconvertible, Non-Voting Redeemable Preferred Stock

(1) Designation and Number. A series of Preferred Stock, designated the "Series A Nonconvertible, Non-Voting Redeemable Preferred Stock" (the "Series A Preferred Stock"), is hereby established. The number of shares of the Series A Preferred Stock shall be 50,000.

(2) Rank. The Series A Preferred Stock shall, with respect to rights to the payment of dividends and the distributions of assets upon the liquidation, dissolution, or winding up of the Corporation, rank (a) senior to all classes or series of Common Stock (as defined in the Charter) and any other class or series of stock of the Corporation if the holders of the Series A Preferred Stock are entitled to receive dividends or amounts distributable upon the liquidation, dissolution, or winding up of the Corporation or redemption in preference or priority to the holders of shares of such class or series (the "Junior Stock"); (b) on a parity with any class or series of stock of the Corporation if the holders of such class or series of stock and the Series A Preferred Stock are entitled to receive dividends and amounts distributable upon the liquidation, dissolution, or winding up of the Corporation or redemption in proportion to their respective amounts of accumulated, accrued, and unpaid dividends per share or liquidation preferences, without preference or priority of one over the other (the "Parity Stock"); and (c) junior to any class or series of stock of the Corporation if holders of such class or series are entitled to receive dividends and amounts distributable upon the liquidation, dissolution, or winding up of the Corporation or redemption in preference or priority to the holders of the Series A Preferred Stock (the "Senior Stock").

(3) Dividends.

(a) Subject to the preferential rights of holders of any class or series of Senior Stock, holders of the outstanding shares of Series A Preferred Stock shall be entitled to receive, when and as authorized by the Board of Directors and declared by the Corporation, out of funds legally available for the payment of dividends, if applicable, cumulative preferential dividends at the rate of 5% per annum based on the \$1,000 liquidation preference (as may be adjusted in accordance with Section 7) with such rate increasing by 2% on each April 1 beginning April 1, 2013, until all of the outstanding shares of Series A Preferred Stock are redeemed as provided in Section 5. Such dividends shall accrue from the first date on which any Series A Preferred Stock is issued (the "Original Issue Date") and shall be payable semi-annually in arrears on or before March 31 and September 30 of each year (each a "Dividend Payment Date"); provided, however, that if any Dividend Payment Date is not a Business Day (as defined below), then the dividend which would otherwise have been payable on such Dividend Payment Date may be paid on the following Business Day with the same force and effect as if paid on such Dividend Payment Date. Any dividend payable on the Series A Preferred Stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30 day months. A "dividend period" shall mean, with respect to the first "dividend period," the period from and including the Original Issue Date to and including the first Dividend Payment Date, and with respect to each subsequent "dividend period," the period from, but excluding, a Dividend Payment Date to and including the next succeeding Dividend Payment Date or other date as of which accrued dividends are to be calculated.

(b) No dividends shall be declared or paid or funds set apart for the payment of dividends by the Corporation or other distributions on any Common Stock or other Junior Stock for any period (other than dividends or other distributions payable in shares of Common Stock or other Junior Stock or in options, warrants or rights to subscribe for or purchase any shares of Common Stock or other Junior Stock and which options, warrants or rights do not entitle the holder thereof to rights to dividends, amounts distributable upon the liquidation, dissolution, or winding up of the Corporation or redemption on parity with or senior to the Series A Preferred Stock), and no shares of Common Stock or other Junior Stock may be repurchased, redeemed or otherwise retired, nor may funds be set apart for such payment, repurchase, redemption or retirement, unless all accrued and unpaid dividends in respect of the Series A Preferred Stock have been paid or set apart for such payment on the Series A Preferred Stock for all prior dividend periods.

(c) Dividends shall be payable, at the sole option of the Corporation, either (i) in cash, (ii) by issuance of additional shares of Series A Preferred Stock (including fractional shares) having an aggregate Liquidation Preference equal to the amount of the dividend to be paid, or (iii) in any combination thereof. All dividends paid with respect to shares of Series A Preferred Stock, whether in cash or shares of Series A Preferred Stock, shall be made pro rata among the holders of Series A Preferred Stock based on the aggregate accrued but unpaid dividends on the shares held by each such holder. If and when any shares are issued under this Section 3(c) for the payment of accrued dividends, such shares shall be validly issued and outstanding and fully paid and nonassessable.

(d) No dividends on shares of Series A Preferred Stock shall be declared by the Corporation or paid or set apart for payment by the Corporation at such time as the terms and provisions of any existing written agreement between the Corporation and any other party, including any existing agreement relating to its indebtedness, (i) prohibit or impose any penalty on such declaration, payment or setting apart for payment or (ii) provide that such declaration, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such declaration or payment shall be restricted or prohibited by law.

(e) Notwithstanding the foregoing, dividends on the Series A Preferred Stock shall accumulate, whether or not the terms and provisions set forth in Section 3(d) hereof at any time prohibit the current payment of dividends, whether or not there are funds legally available for the payment of such dividends and whether or not dividends are declared.

(f) Notwithstanding the foregoing, no dividend will be declared or paid with respect to shares of the Series A Preferred Stock that are redeemed prior to the elapse of six months from the Original Issue Date (for avoidance of doubt, such date being September 28, 2012).

(g) For purposes of these Articles Supplementary, "Business Day" shall mean any day on which a bank doing business in the State of Washington is not permitted to be closed.

(4) Liquidation Preference.

(a) Upon any voluntary or involuntary liquidation, dissolution, or winding up of the Corporation, the holders of the Series A Preferred Stock then outstanding are entitled to be paid, or have the Corporation declare and set apart for payment, out of the assets of the Corporation legally available for distribution to its stockholders, before any distribution of assets is made to holders of any Junior Stock, a liquidation preference per share of Series A Preferred Stock equal to the sum of (i) \$1,000.00 (as may be adjusted in accordance with Section 7) and (ii) all accrued and unpaid dividends (the "Liquidation Preference").

(b) In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, the available assets of the Corporation are insufficient to pay the full amount of the Liquidation Preference on all outstanding shares of Series A Preferred Stock and all shares of Parity Stock, then the holders of the Series A Preferred Stock and all holders of such Parity Stock shall share ratably in any such distribution of assets in proportion to the full liquidation preference to which they would otherwise be respectively entitled.

(c) After payment of the full amount of the Liquidation Preference to which they are entitled, the holders of Series A Preferred Stock will have no right or claim to any of the remaining assets of the Corporation.

(d) Upon the Corporation's provision of written notice as to the effective date of any such liquidation, dissolution or winding up of the Corporation, accompanied by a check in the amount of the full Liquidation Preference to which each record holder of the Series A Preferred Stock is entitled, the Series A Preferred Stock shall no longer be deemed outstanding shares of stock of the Corporation and all rights of the holders of such shares will terminate. Such notice shall be given by first class mail,

postage pre-paid, to each record holder of the Series A Preferred Stock at the respective mailing addresses of such holders as the same shall appear on the stock transfer records of the Corporation.

(e) In determining whether a distribution (other than upon voluntary or involuntary liquidation), by distribution, redemption or other acquisition of the Corporation's equity securities is permitted under Maryland law, no effect shall be given to amounts that would be needed, if the Corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of stockholders whose preferential rights on dissolution are superior to those receiving the distribution.

(f) The consolidation or merger of the Corporation with or into any other business enterprise or of any other business enterprise with or into the Corporation, or the sale, lease or conveyance of all or substantially all of the assets or business of the Corporation, shall not constitute a liquidation, dissolution or winding up of the Corporation.

(5) Redemption.

(a) Mandatory Redemption. At the earlier of (such earlier date, the "Mandatory Redemption Date") (i) the fifth anniversary of the Original Issue Date, or (ii) a Change of Control (as defined below), the Corporation, to the extent that it has funds legally available therefor shall redeem all of the outstanding shares of the Series A Preferred Stock for cash at a redemption price per share of Series A Preferred Stock (the "Redemption Price") equal to \$1,000.00 (as may be adjusted in accordance with Section 7) plus all accrued and unpaid dividends thereon up to and including the Mandatory Redemption Date.

A "Change of Control" means, after the Original Issue Date, in one or a series of related transactions:

(i) (A) the acquisition by any person, including any syndicate or group deemed to be a "person" under Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), of "beneficial ownership" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that a person or group shall be deemed to have beneficial ownership of all shares of voting stock that such person or group has the right to acquire regardless of when such right is first exercisable), directly or indirectly, of stock of the Corporation entitling that person to exercise more than 50% of the total voting power of all stock of the Corporation entitled to vote generally in the election of the Corporation's directors; and (B) following the closing of any transaction referred to in (A), neither the Corporation nor the acquiring or surviving entity has a class of common securities (or American Depositary Receipts representing such securities) listed on the New York Stock Exchange (the "NYSE"), the NYSE Amex Equities (the "NYSE Amex"), or the NASDAQ Stock Market ("NASDAQ"), or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE Amex or NASDAQ; or

(ii) the sale, lease or conveyance of all or substantially all of the assets or business of the Corporation.

(b) Optional Redemption. At any time before the Mandatory Redemption Date, the Corporation, at its option, may redeem shares of the Series A Preferred Stock, in whole or in part, for the Redemption Price. If less than all of the outstanding shares of Series A Preferred Stock are to be redeemed, the shares of Series A Preferred Stock to be redeemed may be selected by any equitable method determined by the Board provided that such method does not result in the creation of fractional shares.

(c) Procedure for Redemption.

(i) Upon the Corporation's written notice as to the effective date of the redemption, accompanied by payment in immediately available U.S. funds of the amount of the full

Redemption Price through such effective date to which each record holder of shares of Series A Preferred Stock to be redeemed is entitled, shares of the Series A Preferred Stock shall be redeemed and shall no longer be outstanding shares of stock of the Corporation and all rights of the holders of such shares will terminate. Such notice shall be given by first class mail, postage pre-paid, to each record holder of the shares of Series A Preferred Stock to be redeemed at the respective mailing address of such holder as the same shall appear on the stock transfer records of the Corporation. No failure to give such notice or any defect therein or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Series A Preferred Stock except as to the holder to whom notice was defective or not given.

(ii) In addition to any information required by law or by the applicable rules of any exchange upon which Series A Preferred Stock may be listed or admitted to trading, such notice shall state: (A) the redemption date; (B) the Redemption Price; (C) the place or places where the shares of Series A Preferred Stock are to be surrendered (if so required in the notice) for payment of the Redemption Price in immediately available U.S. funds (if not otherwise included with the notice); and (D) that dividends on the shares to be redeemed will cease to accrue on the redemption date if payment accompanies the notice or, if not, on the date funds are set aside for payment. If less than all of the shares of Series A Preferred Stock held by any holder are to be redeemed, the notice mailed to such holder shall also specify the number of shares of Series A Preferred Stock held by such holder to be redeemed.

(iii) If notice of redemption of any shares of Series A Preferred Stock has been given and if the funds necessary for such redemption have been set apart by the Corporation for the benefit of the holders of any shares of Series A Preferred Stock so called for redemption, then, from and after the date funds have been set apart for payment of the Redemption Price, dividends will cease to accrue on such shares of Series A Preferred Stock, such shares of Series A Preferred Stock shall no longer be outstanding and all rights of the holders of such shares will terminate, except the right to receive the Redemption Price therefor. If the Corporation shall so require and the notice of redemption shall so state, holders of Series A Preferred Stock to be redeemed shall surrender the certificates representing such Series A Preferred Stock, to the extent that such shares are certificated, at the place designated in such notice and, upon surrender in accordance with said notice of the certificates representing shares of Series A Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Corporation shall so require and the notice shall so state), such shares of Series A Preferred Stock shall be redeemed by the Corporation at the Redemption Price. In case less than all of the shares of Series A Preferred Stock represented by any such certificate are redeemed, a new certificate or certificates shall be issued representing the unredeemed shares of Series A Preferred Stock without cost to the holder thereof. In the event that the shares of Series A Preferred Stock to be redeemed are uncertificated, such shares shall be redeemed in accordance with the notice and no further action on the part of the holders of such shares shall be required.

(iv) A) The deposit of funds with a bank or trust company for the purpose of redeeming Series A Preferred Stock shall be irrevocable except that: the Corporation shall be entitled to receive from such bank or trust company the interest or other earnings, if any, earned on any money so deposited in trust, and the holders of any shares redeemed shall have no claim to such interest or other earnings; and

(B) Any balance of monies so deposited by the Corporation and unclaimed by the holders of the Series A Preferred Stock entitled thereto at the expiration of two years from the applicable redemption date shall be repaid, together with any interest or other earnings thereon, to the Corporation, and after any such repayment, the holders of the shares entitled to the funds so repaid to the Corporation shall look only to the Corporation for payment of the Redemption Price without interest or other earnings.

(6) Voting Rights. Holders of the Series A Preferred Stock will not have any voting rights, except that, so long as any shares of Series A Preferred Stock remain outstanding, the Corporation shall not, without the affirmative vote of the holders of at least 85% of the Series A Preferred

Stock outstanding at the time voting as a separate class, (A) amend, alter or repeal the provisions of the Charter (by amendment, merger or otherwise) in such a way that would materially and adversely affect the powers, special rights, preferences, or privileges of the Series A Preferred Stock or the holders thereof, or (B) create or authorize the creation of (by amendment, merger, or otherwise) or issue or incur any obligation to issue any Series A Preferred Stock (other than as provided in Section 3(c)) or any Senior Stock or Parity Stock (or other securities, including notes, debentures or bonds, convertible into or exchangeable for Senior Stock or Parity Stock), which by their terms shall be redeemable at any time when any shares of Series A Preferred Stock are issued and outstanding.

(7) Adjustment for Stock Splits and Reverse Stock Splits. If outstanding shares of the Series A Preferred Stock shall be divided into a greater number of shares of Series A Preferred Stock or into other securities of the Corporation convertible into or exchangeable for shares of Series A Preferred Stock, then the Liquidation Price and Redemption Price, each as in effect immediately prior to such division, shall, simultaneously with the effectiveness of such division, be proportionately reduced. Conversely, if outstanding shares of the Series A Preferred Stock shall be combined into a smaller number of shares of Series A Preferred Stock or into other securities of the Corporation convertible into or exchangeable for shares of Series A Preferred Stock, then the Liquidation Preference and Redemption Price, each as in effect immediately prior to such combination, shall, simultaneously with the effectiveness of such combination be proportionately increased. Any adjustment to the Liquidation Preference or Redemption Price under this Section 7 shall become effective at the close of business on the date the subdivision or combination referred to herein becomes effective.

(8) Exclusion of Other Rights. The shares of Series A Preferred Stock are not convertible into or exchangeable for any other property or securities of the Corporation. The Series A Preferred Stock shall have no preemptive or subscription rights. The Series A Preferred Stock shall not have any preferences or other rights other than those specifically set forth herein.

ARTICLE IV

The number of directors constituting the Board of Directors shall be as fixed by the bylaws.

ARTICLE V

The Corporation shall indemnify each of its officers and directors to the fullest extent permissible under the Maryland General Corporation Law, as the same exists or may hereafter be amended, against all liabilities, losses, judgments, penalties, fines, settlements and reasonable expenses (including, without limitation, attorneys' fees) incurred or suffered by such person by reason of or arising from the fact that such person is or was an officer or director of the Corporation, or is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise, and such indemnification shall continue as to a person who has ceased to be a director, officer, partner, trustee, employee, or agent and shall inure to the benefit of his or her heirs, executors, and administrators. The Corporation may, by action of the Board of Directors, provide indemnification to employees and agents of the Corporation who are not officers or directors with the same scope and effect as the indemnification provided in this Article to officers and directors. The indemnification provided in this Article shall not be exclusive of any other rights, by indemnification or otherwise, to which any officer or director may be entitled under any statute, bylaw, agreement, resolution of stockholders or directors, or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office.

ARTICLE VI

Officers and directors of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for conduct in their capacities as officers and directors except to the extent that section 5-349 of the Courts and Judicial Proceedings Article of the Annotated Code of Maryland, as it now exists or may hereafter be amended, prohibits elimination or limitation of officer and director liability. No repeal or amendment of this Article or of section 5-349 of the Courts and Judicial Proceedings Article of the Annotated Code of Maryland shall adversely affect any right or protection of an officer or director for actions or omissions prior to the repeal or amendment.

ARTICLE VII

The bylaws of the Corporation may be amended or repealed, or new bylaws adopted, at any annual or special meeting of the stockholders by the affirmative vote of a majority of all shares of any class of stock entitled to vote at such meeting. The Board of Directors shall also have the authority to amend or repeal the bylaws, or adopt new bylaws, by the affirmative vote of a majority of the total number of directors then authorized, including any vacancies, and subject to the power of the stockholders to change or repeal such bylaws.

ARTICLE VIII

The affirmative vote of a majority of all votes of all classes or any class of stock entitled to be cast on any matter required to be submitted for consideration by the stockholders of the Corporation including, without limitation, any proposed merger, consolidation, share exchange, transfer, Charter amendment, or dissolution required to be so submitted, shall constitute approval by the stockholders of such matter notwithstanding any provision of the Maryland General Corporation Law requiring a greater proportion of the votes of all classes or any class of stock on such matter.

BARRETT BUSINESS SERVICES, INC.

BYLAWS

As Amended Through May 31, 2018

ARTICLE I STOCKHOLDERS

Section 1.1 Annual Meeting. The Annual Meeting of the stockholders shall be held in May or June of each year on the date and at the time established by the board of directors for the purpose of electing directors and for the transaction of such other business as may come before the meeting. The board of directors shall timely establish the annual meeting date and time in conjunction with the notice of meeting requirements of Section 1.4, of these Bylaws.

Section 1.2 Special Meetings. Special meetings of the stockholders, for any purpose or purposes, may be called by the president or by the board of directors, and shall be called by the secretary upon written request by stockholders entitled to cast 25 percent of all votes entitled to be cast at the meeting stating the purpose of the meeting and the matters proposed to be acted upon at the meeting and upon payment by such stockholders to the corporation of the costs of the notice of the meeting. Notwithstanding the foregoing, a special meeting need not be called by the secretary to consider any matter which is substantially the same as a matter voted on at any special meeting of the stockholders held during the preceding 12 months unless requested by stockholders entitled to cast a majority of all votes entitled to be cast at the meeting.

Section 1.3 Place of Meeting. The place of meeting for all annual and special meetings of the stockholders shall be such place within the United States as shall be determined by the board of directors. In the absence of any such determination, all meetings of stockholders shall be held at the principal office of the corporation in the state of Washington.

Section 1.4 Notice of Meeting; Waiver. Written or printed notice stating the place, day, and hour of the meeting and, in case of a special meeting or if otherwise required by law, the purpose or purposes for which the meeting is called, shall be given by the secretary not earlier than 90 nor less than 10 days before the date of the meeting, either personally or by mail, to each stockholder of record entitled to vote at or to receive notice of such meeting. If given personally, such notice shall be effective when delivered to the stockholder or when left at the stockholder's residence or usual place of business. If given by mail, such notice shall be effective when deposited in the United States mail, addressed to the stockholder at his or her address as shown in the corporation's current record of stockholders, with postage thereon prepaid. A stockholder entitled to notice of a meeting waives such notice if he or she is present at the meeting in person or by proxy. A written waiver of notice of a meeting signed by a stockholder entitled to such notice, whether before or after the time stated therein, which is filed with the records of stockholders meetings, shall be equivalent to the giving of such notice. A meeting of stockholders convened on the date for which it was called may be adjourned from time to time without further notice to a date not more than 120 days after the original record date for the meeting.

Section 1.5 Quorum; Manner of Acting. The presence in person or by proxy of stockholders entitled to cast a majority of all the votes entitled to be cast at the meeting shall constitute a quorum. Each share may be voted for as many individuals as there are directors to be elected and for whose election the share is entitled to be voted. At a meeting of stockholders duly called at which an election of directors is to be held and at which a quorum is present, each director shall be elected by the vote of a majority of the votes cast with respect to the director; provided that if the number of nominees exceeds the number of directors to be elected, directors shall be elected by the vote of a plurality of the shares represented in person or by proxy at such meeting and entitled to vote on the election of directors.

For purposes of this Section, a majority of the votes cast means that the number of shares voted "for" a director exceeds the number of votes cast "against" that director.

If an incumbent director is nominated, but not reelected, the director shall tender his or her resignation to the board of directors promptly following certification of the stockholder vote. The Nominating and Governance Committee will make a recommendation to the board of directors as to whether to accept or reject the resignation. The board of directors will make a determination and publicly disclose its decision and rationale within 90 days after receipt of the tendered resignation.

Any director who tenders his or her resignation pursuant to this provision shall not participate in the Nominating and Governance Committee recommendation or action of the board of directors regarding whether to accept the resignation offer; provided, however, that if each member of the Nominating and Governance Committee fails to receive a sufficient vote for reelection, then the independent directors who did receive a sufficient vote shall appoint a committee from among themselves to consider the resignation offers and recommend to the board of directors whether to accept the resignations. If three or fewer directors do not fail to receive a sufficient vote for reelection, then all directors may participate in the decision regarding whether to accept the resignation offers.

A majority of the votes cast at a meeting of stockholders duly called and at which a quorum is present shall be sufficient to approve any other matter which may properly come before the meeting, unless more than a majority of the votes cast is required by statute or by the charter of the corporation to approve the action. Unless otherwise provided by the Maryland General Corporation Law or by the corporation's charter, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders.

Section 1.6 Proxies. At all meetings of stockholders, a stockholder may vote by proxy executed in writing by the stockholder or by his or her duly authorized attorney-in-fact. Such proxy shall be filed with the secretary of the corporation before or at the time of the meeting. No proxy shall be valid after 11 months from the date of its execution unless otherwise expressly provided in the proxy.

Section 1.7 Voting of Shares. Each outstanding share of the corporation's common stock shall be entitled to one vote upon each matter submitted to a vote at a meeting of the stockholders except that shares owned, directly or indirectly, by another corporation in which the corporation owns, directly or indirectly, shares entitled to cast a majority of all the votes entitled to be cast by all shares of such other corporation shall not be voted at any meeting or counted in determining the total number of outstanding shares at any given time.

Section 1.8 Acceptance of Votes. If the name signed on a vote, consent, waiver, or proxy appointment corresponds to the name of a stockholder, the corporation shall be entitled to accept the vote, consent, waiver, or proxy appointment and give it effect as the act of the stockholder.

If the name signed on a vote, consent, waiver, or proxy appointment does not correspond to the name of its stockholder, the corporation shall nevertheless be entitled to accept the vote, consent, waiver, or proxy appointment and give it effect as the act of the stockholder if:

- a. The stockholder is a corporation, and the name signed purports to be that of the president, a vice-president, or a proxy appointed by either of them or by another person appointed under a bylaw or resolution of the board of directors of such stockholder, a certified copy of which is presented to the corporation.
- b. The stockholder is an entity, other than a corporation, and the name signed purports to be that of an officer or agent of the entity.
- c. The name signed purports to be that of an administrator, executor, guardian, or conservator representing the stockholder.

- d. The name signed purports to be that of a receiver or trustee in bankruptcy of the stockholder.
- e. The name signed purports to be that of a pledgee, beneficial owner, or attorney-in-fact of the stockholder.
- f. Two or more persons are the stockholder whether as fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety, or otherwise, and the name signed purports to be the name of at least one of the co-owners.

The corporation shall be entitled to reject a vote, consent, waiver, or proxy if the secretary or other officer or agent authorized to tabulate votes, acting in good faith, has reasonable basis for doubt about the validity of the signature on it or about the signatory's authority to sign for the stockholder.

Section 1.9

Action Without Meeting.

Any action required or permitted by the Maryland General Corporation Law to be taken at a meeting of the stockholders may be taken without a meeting if there are filed with the records of stockholders meetings a consent in writing which sets forth the action so taken signed by each stockholder entitled to vote on the matter and a written waiver of any right to dissent signed by each stockholder entitled to notice of the meeting but not entitled to vote at the meeting.

Section 1.10

Organization and Conduct of Stockholder Meetings.

Each meeting of stockholders shall be conducted by the chairman of the board as chairman of the meeting or, in the absence of the chairman of the board, by the vice chairman of the board or, in the absence of the vice chairman of the board or a vacancy in the position, by the president. The order of business and all other matters of procedure at any meeting of stockholders shall be determined by the chairman of the meeting. The chairman of the meeting may prescribe such rules, regulations and procedures and take such action as, in the discretion of the chairman and without any action by the stockholders, are appropriate for the proper conduct of the meeting, including, without limitation:

- a. restricting admission to the time set for the commencement of the meeting;
- b. limiting attendance at the meeting to stockholders of record of the corporation, their duly authorized proxies and such other individuals as the chairman of the meeting may determine;
- c. limiting participation at the meeting on any matter to stockholders of record of the corporation entitled to vote on such matter, their duly authorized proxies and other such individuals as the chairman of the meeting may determine;
- d. limiting the time allotted to questions or comments;
- e. determining when and for how long the polls should be opened and when the polls should be closed;
- f. maintaining order and security at the meeting;
- g. removing any stockholder or any other individual who refuses to comply with meeting procedures, rules or guidelines as set forth by the chairman of the meeting;
- h. concluding a meeting or recessing or adjourning the meeting to a later date and time and at a place announced at the meeting; and
- i. complying with any state and local laws and regulations concerning safety and security.

Section 1.11
of Business.

Advance Notice by Stockholders of Nominations and Proposals

a. Nominations of persons for election to the board of directors and proposals of business to be transacted by the stockholders may be made at an Annual Meeting of stockholders, (or in the case of election of directors, at a special meeting of stockholders held in lieu of an Annual Meeting under Section 1.2 of these Bylaws) (1) pursuant to the corporation's proxy materials with respect to such meeting, (2) by or at the direction of the board of directors or (3) by any stockholder at the time of the giving of the notice required in subsection (b) of this Section 1.11, who is entitled to vote at the meeting and who has complied with the notice procedures set forth in this Section 1.11. The foregoing clause (3) shall be the exclusive means for a stockholder to make nominations or propose business (other than matters included in the corporation's proxy materials pursuant to Rule 14a-8 or Rule 14a-11 under the Securities Exchange Act of 1934 (the "Exchange Act")) at an Annual Meeting of stockholders.

b. In order to assure that stockholders and the corporation have a reasonable opportunity to consider nominations and other business proposed to be brought before a meeting of stockholders and to allow for full information to be distributed to stockholders, a stockholder properly may bring nominations or other business before an annual meeting of stockholders pursuant to clause (3) of subsection a above, only if (i) the stockholder has given timely notice thereof in writing to the secretary of the corporation, and (ii) any such business is a proper matter for stockholder action under the Maryland General Corporation Law. To be timely, a stockholder's notice shall be received by the secretary at the principal executive offices of the corporation not less than 90 or more than 120 days prior to the one-year anniversary of the date on which the corporation first mailed its proxy materials for the preceding year's Annual Meeting of stockholders; provided, however, that, subject to the last sentence of this subsection b, if the meeting is convened more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's Annual Meeting, or if no Annual Meeting was held in the preceding year, notice by the stockholder to be timely must be received not later than the close of business on the later of (i) the 90th day before such Annual Meeting or (ii) the 10th day following the day on which public announcement of the date of such meeting is first made. In no event shall an adjournment or postponement of an Annual Meeting for which notice has been given commence a new time period for the giving of a stockholder's notice.

c. Such stockholder's notice shall set forth:

(i) if such notice pertains to the nomination of directors, as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person as would be required to be disclosed in solicitations of proxies for the election of such nominee as a director in an election contest, or is otherwise required, pursuant to Regulation 14A under the Exchange Act, and such person's written consent to serve as a director if elected;

(ii) as to any business that the stockholder proposes to bring before the meeting, a brief description of such business, the reasons for conducting such business at the meeting and any material interest of such stockholder in such business; and

(iii) as to (A) the stockholder giving the notice and (B) each beneficial owner of shares of the corporation on whose behalf the nomination or proposal is made (each, a "party"):

(1) the name and address of each such party;

(2) (A) the number of shares of the corporation that are owned, directly or indirectly, beneficially and of record by each such party, (B) a

description of any agreement, arrangement or understanding (including any derivative or short positions, profit interests, options, hedging transactions, and borrowed or loaned shares, regardless of whether settled in shares or cash) that has been entered into as of the date of the stockholder's notice by, or on behalf of, such stockholder or beneficial owner, the effect or intent of which is to mitigate loss, manage risk or benefit from changes in the share price of the corporation's capital stock, or increase or decrease the voting power of the stockholder or beneficial owner with respect to shares of stock of the corporation, including the notional number of shares that are the subject of such agreement, arrangement or understanding, (C) a description of any proxy, contract, arrangement, understanding, or relationship pursuant to which any such party has a right to vote, directly or indirectly, any shares of the corporation, (D) a description of any agreement, arrangement or understanding (whether or not in writing) between or among such stockholder or beneficial owner and any other person relating to acquiring, holding, voting or disposing of any shares of the corporation, including the number of shares that are the subject of such agreement, arrangement or understanding, (which information shall be supplemented by such stockholder or such beneficial owner, as the case may be, not later than ten (10) days after the record date for the meeting to disclose such ownership as of the record date); and

(3) any other information relating to each such party that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or the election of directors in a contested election pursuant to Section 14 of the Exchange Act.

d. Except as provided in subsection g below, a person shall not be eligible for election or re-election as a director at an Annual Meeting unless (i) the person is nominated by a stockholder in accordance with this Section 1.11 or (ii) the person is nominated by or at the direction of the board of directors. Except as provided in subsection g below, only such business shall be conducted at an Annual Meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 1.11. The chair of the meeting shall have the power and the duty to determine whether a nomination or any business proposed to be brought before the meeting has been made in accordance with the procedures set forth in these Bylaws and, if any proposed nomination or business is not in compliance with these Bylaws, to declare that such defectively proposed business or nomination shall not be presented for stockholder action at the meeting and shall be disregarded. Notwithstanding the foregoing provisions of this Section 1.11, if the stockholder (or a qualified representative of the stockholder) proposing a nominee for director or business to be conducted at a meeting does not appear at the meeting of stockholders of the corporation to present such nomination or business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the corporation.

e. For purposes of this Section 1.11, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to the Exchange Act.

f. Notwithstanding the foregoing provisions of this Section 1.11, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to matters set forth in this Section 1.11.

g. Nothing in this Section 10 shall be deemed to affect any rights of stockholders to request (i) inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (ii) inclusion of nominees in the corporation's proxy

statement pursuant to Rule 14a-11 under the Exchange Act. Subject to Rule 14a-8 and Rule 14a-11 under the Exchange Act, nothing in these Bylaws shall be construed to permit any stockholder, or give any stockholder the right, to include or have disseminated or described in the corporation's proxy statement any nomination of a director or directors or any other business proposal.

ARTICLE II BOARD OF DIRECTORS

Section 2.1 **General Powers.** The business and affairs of the corporation shall be managed under the direction of its board of directors.

Section 2.2 **Number, Tenure, and Qualifications.** The board of directors shall consist of not more than nine persons and not less than three persons, the exact number within such specified limits to be fixed from time to time by resolution of a majority of the entire board, provided that so long as there are less than three stockholders the number of directors may be fixed at less than three but not less than the number of stockholders. Each director shall hold office until the next annual meeting of the stockholders and until his or her successor shall have been elected and qualified unless sooner removed from office as hereinafter provided. Directors need not be residents of the state of Maryland or stockholders of the corporation.

Section 2.3 **Regular Meetings.** A regular meeting of the board of directors shall be held without other notice than this bylaw immediately after, and at the same place as, the annual meeting of stockholders. The board of directors may provide by resolution the time and place, either within or without the state of Maryland, for the holding of additional regular meetings without other notice than such resolution.

Section 2.4 **Special Meetings.** Special meetings of the board of directors may be called by or at the request of the president or any two directors. The person or persons authorized to call special meetings of the board of directors may fix any place, either within or without the state of Maryland, as the place for holding any special meeting of the board of directors called by them.

Section 2.5 **Notice; Waiver.** Notice of the date, time, and place of any special meeting shall be given at least 24 hours prior thereto by written notice delivered personally or given by facsimile transmission, e-mail, or other form of electronic transmission, or by mail or private carrier, to each director at his or her business address, facsimile number, or e-mail address, as applicable.

Such notice shall be deemed effective at the earliest of the following: (a) when received, (b) when transmitted by facsimile, e-mail, or other form of electronic transmission, (c) three days after its deposit in the United States mail, as evidenced by the postmark, if mailed postpaid and correctly addressed, and (d) on the date shown on the return receipt, if sent by registered or certified mail, return receipt requested, and the receipt is signed or sent by or on behalf of the director. A director's attendance at, or participation in, a meeting shall constitute a waiver of notice of such meeting, except where a director at the beginning of the meeting, or promptly upon the director's arrival, objects to holding of the meeting or the transacting of business at the meeting and does not thereafter vote for or assent to action taken at the meeting. A written waiver, or waiver by e-mail or other form of electronic transmission, of notice of a meeting signed by a director entitled to such notice, whether before or after the time stated therein, which specifies the meeting for which notice is waived and which is filed with the records of the meeting shall be equivalent to the giving of such notice. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board of directors need be specified in the notice or waiver of notice of such meeting.

Section 2.6 **Quorum.** A majority of the number of directors fixed from time to time pursuant to Section 2.2 shall constitute a quorum for the transaction of business at any meeting of the board of directors, but, if less than such majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

Section 2.7 **Manner of Acting.** The action of a majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors.

Section 2.8 **Vacancies.** Any vacancy occurring in the board of directors, except a vacancy resulting from an increase in the number of directors, may be filled by the affirmative vote of a majority of the remaining directors, whether or not sufficient to constitute a quorum. A vacancy resulting from an increase in the number of directors may be filled by the affirmative vote of a majority of the entire board of directors.

Section 2.9 **Presumption of Assent.** A director who is present at a meeting of the board of directors when corporate action is taken shall be presumed to have assented to the action taken unless the director announces his or her dissent at the meeting and (a) the director's dissent is entered in the minutes of the meeting; or (b) the director files his or her written dissent with the secretary of the meeting before its adjournment; or (c) the director forwards his or her written dissent within 24 hours after the meeting is adjourned, by registered or certified mail, to the secretary of the meeting or of the corporation. Such right to dissent shall not apply to a director who voted in favor of such action.

Section 2.10 **Removal of Directors.** All or any number of the directors may be removed by the stockholders with or without cause at a meeting expressly called for that purpose by the affirmative vote of a majority of all votes entitled to be cast for the election of directors. The notice of such meeting shall state that the purpose or one of the purposes of the meeting is the removal of the director or directors.

Section 2.11 **Compensation.** By resolution of the board of directors, each director may be paid an annual fee as director and, in addition thereto, a fixed sum for attendance at each meeting of the board of directors and executive committee or other committees and his expenses, if any, of attendance at any such meeting. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

Section 2.12 **Action Without Meeting.** Any action required or permitted by the Maryland General Corporation Law to be taken at a meeting of the board of directors may be taken without a meeting if a consent in writing which sets forth the action so taken is signed by each member of the board of directors and filed with the minutes of proceedings of the board of directors.

Section 2.13 **Meetings By Telephone.** Meetings of the board of directors may be held by means of conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time, and such participation shall constitute presence in person at the meeting.

Section 2.14 **Chairman and Vice Chairman.** The board of directors shall appoint from among its members a chairman and a vice chairman who shall serve at the pleasure of the board of directors. The chairman, or in his absence the vice chairman, shall preside at the meetings of the board of directors.

ARTICLE III EXECUTIVE COMMITTEE AND OTHER COMMITTEES

Section 3.1 **Appointment.** The board of directors may appoint from among its members an executive committee to consist of a chairman and one or more other directors. The appointment of such committee, the delegation of authority to it or action by it under that authority shall not constitute of itself compliance by any director not a member of the committee with the standard provided in the Maryland General Corporation Law for the performance of duties by directors.

Section 3.2 **Authority.** The executive committee, when the board of directors is not in session, shall have and may exercise all the authority of the board of directors except to the extent, if any, that such authority shall be limited by the resolution appointing the executive committee and except

also that neither the executive committee nor any other committee of the board of directors appointed pursuant to Section 3.9 shall have the authority to (a) authorize dividends on stock, except as permitted under the Maryland General Corporation Law; (b) issue stock, except as provided in Section 3.10; (c) recommend to the stockholders any action which requires stockholder approval; (d) amend the bylaws; or (e) approve a merger or share exchange which does not require stockholder approval.

Section 3.3 **Tenure.** Each member of the executive committee shall hold office until the next regular annual meeting of the board of directors following his or her appointment and until his or her successor is appointed as a member of the executive committee.

Section 3.4 **Meetings; Notice; Waiver.** Regular meetings of the executive committee or any other committee of the board of directors appointed pursuant to Section 3.9 may be held without notice at such times and places as the committee may fix from time to time by resolution. Special meetings of the executive committee or any such other committee may be called by any member thereof upon not less than 24 hours' notice stating the place, date and hour of the meeting. The provisions of Section 2.5 shall apply to the method for giving notice of special meetings of the executive committee or any such other committee and to the waiver of notice of any such meetings. The notice of a meeting of the executive committee or any such other committee need not state the business proposed to be transacted at the meeting.

Section 3.5 **Quorum; Manner of Acting.** A majority of the members of the executive committee or any such other committee shall constitute a quorum for the transaction of business at any meeting thereof, and the act of a majority of the members present at a meeting at which a quorum is present shall be the act of the committee.

Section 3.6 **Vacancies.** Any vacancy in the executive committee or any such other committee may be filled by the board of directors.

Section 3.7 **Resignations and Removal.** Any member of the executive committee or any such other committee may be removed at any time with or without cause by the board of directors. Any member of the executive committee or any such other committee may resign as a member of the committee at any time by giving written notice to the chairman of the board or secretary of the corporation, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 3.8 **Procedure.** The chairman of the executive committee shall be the presiding officer of the executive committee. The executive committee and any such other committee shall fix its own rules of procedure which shall not be inconsistent with these bylaws. The committee shall keep regular minutes of its proceedings and report the same to the board of directors for its information at the meeting thereof held next after the proceedings shall have been taken.

Section 3.9 **Appointment of Other Committees of the Board of Directors.** The board of directors may from time to time create any other committee or committees of the board of directors and appoint members of the board of directors to serve thereon. Each member of any such committee shall hold office until the next regular annual meeting of the board of directors following his or her appointment and until his or her successor is appointed as a member of such committee. Each committee shall have one or more members and, to the extent specified by the board of directors, may exercise the powers of the board subject to the limitations set forth in Section 3.2.

Section 3.10 **Issuance of Stock.** If the board of directors has given general authorization for the issuance of stock providing for or establishing a method or procedure for determining the maximum number of shares to be issued, a committee of the board of directors, in accordance with that general authorization or any stock option plan or other plan or program adopted by the board of directors, may authorize or fix the terms of stock subject to classification or reclassification and the terms on which any stock may be issued, including all terms and conditions required or permitted to be established or authorized by the board of directors under the Maryland General Corporation Law.

Section 3.11 **Action Without a Meeting.** Any action that may be taken by the executive committee or any such other committee at a meeting may be taken without a meeting if a consent in writing which sets forth the action so taken is signed by each member of the committee and filed with the minutes of proceedings of the committee.

Section 3.12 **Meetings By Telephone.** Meetings of any committee of the board of directors may be held by means of conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time, and such participation shall constitute presence in person at the meeting.

ARTICLE IV OFFICERS

Section 4.1 **Number.** The officers of the corporation shall be a president, a secretary and a treasurer, each of whom shall be elected by the board of directors. The board of directors may elect one or more vice presidents (the number thereof to be determined by the board of directors) and such other officers and assistant officers as may be deemed necessary.

Section 4.2 **Election and Term of Office.** The officers of the corporation shall be elected annually at the first meeting of the board of directors held after each annual meeting of the stockholders. A person may hold more than one office but may not serve concurrently as both president and vice president of the corporation. Each officer shall hold office until his or her successor shall have been duly elected, or until his or her death, or until he or she shall resign or shall have been removed in the manner hereinafter provided.

Section 4.3 **Removal.** The board of directors may remove any officer at any time. The election of an officer shall not of itself create contract rights, and the resignation or removal of an officer shall not affect the contract rights, if any, of the corporation or the officer.

Section 4.4 **Vacancies.** A vacancy in any office because of death, resignation, removal, or otherwise may be filled by the board of directors for the unexpired portion of the term.

Section 4.5 **President.** The president shall be the chief executive officer of the corporation and, subject to the control of the board of directors, shall in general supervise and control all the business and affairs of the corporation. He or she shall preside at all meetings of the stockholders and, in the absence of the chairman or vice chairman, at all meetings of the board of directors. He or she may sign, with the secretary or any other proper officer of the corporation thereunto authorized by the board of directors, certificates for shares of stock of the corporation and any deeds, mortgages, bonds, contracts, or other instruments which the board of directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the board of directors, or by these bylaws to some other officer or agent of the corporation, or shall be required by law to be otherwise signed or executed; and in general he or she shall perform all duties incident to the office of president and such other duties as may be prescribed by the board of directors from time to time.

Section 4.6 **Vice Presidents.** In the absence of the president, or in the event of his or her death, inability, or refusal to act, the vice president (or, in the event there be more than one vice president, the vice presidents in the order designated at the time of their election, or, in the absence of any designation, then in the order of their election) shall perform the duties of the president and, when so acting, shall have all the powers of and be subject to all the restrictions upon the president. Any vice president may sign, with the secretary or an assistant secretary, certificates for shares of stock of the corporation; and shall perform such other duties as from time to time may be assigned to him or her by the president or by the board of directors.

Section 4.7 **Secretary.** The secretary shall (a) keep the minutes of the stockholders' and of the board of directors' meetings in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these bylaws or as required by law; (c) be

custodian of the corporate records and responsible for the authentication of such records; (d) keep or cause to be kept a register of the post office address of each stockholder which shall be furnished to the secretary by such stockholder; (e) sign, with the president or a vice president, certificates for shares of stock of the corporation, the issuance of which shall have been authorized by the board of directors; (f) have general charge of the stock transfer books of the corporation; and (g) in general perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to him or her by the president or by the board of directors.

Section 4.8 **Treasurer.** If required by the board of directors, the treasurer shall give a bond for the faithful discharge of his or her duties in such sum and with such surety or sureties as the board of directors shall determine. He or she shall (a) have charge and custody of and be responsible for all funds and securities of the corporation, receive and give receipts for moneys due and payable to the corporation from any source whatsoever, and deposit all such moneys in the name of the corporation in such banks, trust companies, or other depositories as shall be selected in accordance with the provisions of ARTICLE V of these bylaws; and (b) in general perform all the duties incident to the office of treasurer and such other duties as from time to time may be assigned to him or her by the president or by the board of directors.

Section 4.9 **Assistant Secretaries and Assistant Treasurers.** The assistant secretaries, when authorized by the board of directors, may sign, with the president or a vice president, certificates for shares of stock of the corporation, the issuance of which shall have been authorized by the board of directors. The assistant treasurers shall, respectively, if required by the board of directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the board of directors shall determine. The assistant secretaries and assistant treasurers, in general, shall perform such duties as shall be assigned to them by the secretary or the treasurer, respectively, or by the president or the board of directors.

Section 4.10 **Salaries.** The salaries of the officers shall be fixed from time to time by the board of directors and no officer shall be prevented from receiving such salary by reason of the fact that he or she is also a director of the corporation.

ARTICLE V CONTRACTS, LOANS, CHECKS, AND DEPOSITS

Section 5.1 **Contracts.** The board of directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the corporation; and such authority may be general or confined to specific instances.

Section 5.2 **Loans.** No loans shall be contracted on behalf of the corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the board of directors. Such authority may be general or confined to specific instances.

Section 5.3 **Checks, Drafts, Etc.** All checks, drafts, or other orders for the payment of money, notes, or other evidences of indebtedness issued in the name of the corporation shall be signed by such officer or officers, agent or agents, of the corporation and in such manner as shall from time to time be determined by resolution of the board of directors.

Section 5.4 **Deposits.** All funds of the corporation not otherwise employed shall be deposited from time to time to the credit of the corporation in such banks, trust companies, or other depositories as selected by the officer or officers authorized by the board of directors to make such selection.

ARTICLE VI CERTIFICATES FOR SHARES AND THEIR TRANSFER

Section 6.1 **Certificates for Shares.** The shares of the corporation's stock may be certificated or uncertificated, as provided under the Maryland Corporations and Associations Code. All

THIRD AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT

THIS AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of July 1, 2018, by and between BARRETT BUSINESS SERVICES, INC., a Maryland corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Amended and Restated Credit Agreement between Borrower and Bank dated as of June 30, 2017, as amended from time to time (the "Credit Agreement").

WHEREAS, Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Credit Agreement and have agreed to amend the Credit Agreement to reflect said changes.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree that the Credit Agreement shall be amended as follows:

1. Section 1.1(a) is hereby amended and restated in its entirety to read as follows:

"(a) Line of Credit. 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 July 1, 2020 (the "Line of Credit"), not to exceed at any time the aggregate principal amount of Twenty Eight Million Dollars (\$28,000,000), the proceeds of which shall be used to finance working capital for Borrower. Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a promissory note dated as of July 1, 2018, as modified from time to time (the "Line of Credit Note"), all terms of which are incorporated herein by this reference."

2. Section 1.1(b) is hereby amended by deleting "Six Million and 00/100 Dollars (\$6,000,000.00)" as the maximum aggregate undrawn amount of all outstanding Line of Credit Letters of Credit, and by substituting for said amount "Seven Million Five Hundred Thousand Dollars (\$7,500,000)".

3. The obligation of Bank to amend the terms and conditions of the Credit Agreement as provided herein, is subject to the fulfillment to Bank's satisfaction or waiver of all of the following conditions by no later than June 29, 2018:

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

- (i) This Amendment.
- (ii) Second Amended and Restated Revolving Line of Credit Note.
- (iii) Such other documents as Bank may require under any other section of this Amendment.

(b) Other Fees and Costs. In addition to Borrower's obligations under the Credit Agreement and the other Loan Documents, Borrower shall have paid to Bank the full amount of all costs and expenses, including reasonable attorneys' fees (including without limitation the allocated costs of Bank's in-house counsel) expended or incurred by Bank in connection with the negotiation and preparation of this Amendment, for which Bank has made demand.

(c) Interest and Principal. Interest and principal under the notes contemplated in the Credit Agreement have been paid current.

4. Except as specifically provided herein, all terms and conditions of the Credit Agreement remain in full force and effect, without waiver or modification. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment. This Amendment and the Credit Agreement shall be read together, as one document.

5. Borrower hereby remakes all representations and warranties contained in the Credit Agreement and reaffirms all covenants set forth therein. Borrower further certifies that as of the date of this Amendment there exists no Event of Default as defined in the Credit Agreement, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default.

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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, intending to be legally bound hereby, have caused this Agreement to be executed as of the day and year first written above.

BARRETT BUSINESS SERVICES, INC.

By: /s/ Gary Edwards Kramer, Jr.
Name: Gary Edwards Kramer, Jr.
Title: Chief Financial Officer

WELLS FARGO BANK,
NATIONAL ASSOCIATION

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

SECOND AMENDED AND RESTATED REVOLVING LINE OF CREDIT NOTE

\$28,000,000

Portland, Oregon
July 1, 2018

This Note amends, restates and supersedes in its entirety that certain Amended and Restated Revolving Line of Credit Note in the principal amount of Forty Million Dollars (\$40,000,000), executed by Borrower in favor of Bank and dated March 15, 2018, as such may have been amended or modified from time to time prior to the date hereof (the "Prior Note").

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 MAC P6101-250, 1300 SW Fifth Avenue, 25th Floor, 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 Eight Million Dollars (\$28,000,000), or so much thereof as may be advanced and be outstanding pursuant to the terms of the Credit Agreement, as defined herein, 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) "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.

(b) "LIBOR" means (i) for the purpose of calculating effective rates of interest for loans making reference to LIBOR Periods, the rate of interest per annum determined by Bank based on the rate for United States dollar deposits for delivery on the first day of each LIBOR Period for a period approximately equal to such LIBOR Period as published by the ICE Benchmark Administration Limited, a United Kingdom company, at approximately 11:00 a.m., London time, two London Business Days prior to the first day of such LIBOR Period (or if not so published, then as determined by Bank from another recognized source or interbank quotation), or (ii) for the purpose of calculating effective rates of interest for loans making reference to Daily One Month LIBOR, the rate of interest per annum determined by Bank based on the rate for United States dollar deposits for delivery of funds for one (1) month as published by the ICE Benchmark Administration Limited, a United Kingdom company, at approximately 11:00 a.m., London time, or, for any day not a London Business Day, the immediately preceding London Business Day (or if not so published, then as determined by Bank from another recognized source or interbank quotation); provided, however, that if LIBOR determined as provided above would be less than zero percent (0.0%), then LIBOR shall be deemed to be zero percent (0.0%).

(c) "LIBOR Period" means a period commencing on a New York Business Day and continuing for one (1) or three (3) 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 (i) no LIBOR Period may be selected for a principal amount less than Five Hundred Thousand Dollars (\$500,000), (ii) if the day after the end of any LIBOR Period is not a New York Business Day (so that a new LIBOR Period could not be selected by Borrower to start on such day), then such LIBOR Period shall continue up to, but shall not include, the next New York Business Day after the end of such LIBOR Period, unless the result of such extension would be to cause any immediately following LIBOR Period to begin in the next calendar month in which event the LIBOR Period shall continue up to, but shall not include, the New York Business Day immediately preceding the last day of such LIBOR Period, and (iii) no LIBOR Period shall extend beyond the scheduled maturity date hereof.

(d) "London Business Day" means any day that is a day for trading by and between banks in dollar deposits in the London interbank market.

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

(f) "State Business Day" means any day except a Saturday, Sunday or any other day on which commercial banks in the jurisdiction described in "Governing Law" herein are authorized or required by law to close.

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 determined by Bank to be one and three quarters of one percent (1.75%) above Daily One Month LIBOR 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 LIBOR Period. Bank is hereby authorized to note the date, principal amount 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) Selection of Interest Rate Options Subject to the provisions herein regarding LIBOR Periods and the prior notice required for the selection of a LIBOR interest rate, (i) at any time any portion of this Note bears interest determined in relation to LIBOR for a LIBOR Period, it may be continued by Borrower at the end of the LIBOR Period applicable thereto so that all or a portion thereof bears interest determined in relation to Daily One Month LIBOR or to LIBOR for a new LIBOR Period designated by Borrower, (ii) at any time any portion of this Note bears interest determined in relation to Daily One Month LIBOR, Borrower may convert all or a portion thereof so that it bears interest determined in relation to LIBOR for a LIBOR Period designated by Borrower, and (iii) at the time an advance is made hereunder, Borrower may choose to have all or a portion thereof bear interest determined in relation to Daily One Month LIBOR or to LIBOR for a LIBOR Period designated by Borrower.

To select an interest rate option hereunder determined in relation to LIBOR for a LIBOR Period, Borrower shall give Bank notice thereof that is received by Bank prior to 11:00 a.m. in the jurisdiction described in "Governing Law" herein on a State Business Day at least two State Business Days prior to the first day of the LIBOR Period, or at a later time during such State Business Day if Bank, at its sole discretion, accepts Borrower's notice and quotes a fixed rate to Borrower. Such notice shall specify: (A) the interest rate option selected by Borrower, (B) the principal amount subject thereto, and (C) for each LIBOR selection, the length of the applicable LIBOR Period. If Bank has not received such notice in accordance with the foregoing before an advance is made hereunder or before the end of any LIBOR Period, Borrower shall be deemed to have made a Daily One Month LIBOR interest selection for such advance or the principal amount to which such LIBOR Period applied. Any such notice may be given by telephone (or such other electronic method as Bank may permit) so long as it is given in accordance with the foregoing and, with respect to each LIBOR selection, if requested by Bank, Borrower provides to Bank written confirmation thereof not later than three State Business Days after such notice is given. Borrower shall reimburse Bank immediately upon demand for any loss or expense (including any loss or expense incurred by reason of the liquidation or redeployment of funds obtained to fund or maintain a LIBOR borrowing) incurred by Bank as a result of the failure of Borrower to accept or complete a LIBOR borrowing hereunder after making a request therefor. Any reasonable determination of such amounts by Bank shall be conclusive and binding upon Borrower. Should more than one person or entity sign this Note as a Borrower, any notice required above may be given by any one Borrower acting alone, which notice shall be binding on all other Borrowers.

(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) costs, expenses and liabilities arising from or in connection with reserve percentages 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), 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. 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) 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 upon the occurrence and during the continuance of an Event of Default, then at the option of Bank, in its sole and absolute discretion, 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 of Principal. 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 stated above. 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 July 1, 2020.

(b) Payment of Interest. Interest accrued on this Note shall be payable on the first day of each month, commencing August 1, 2018, and on the maturity date set forth above.

(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 Gary Edwards Kramer, Jr., 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 Daily One Month LIBOR, 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 LIBOR Period first.

PREPAYMENT:

(a) Daily One Month LIBOR. 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); 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 LIBOR Period 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 LIBOR Period 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 LIBOR Period 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 LIBOR Period 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 (4.00%) 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).

(c) Application of Prepayments. If principal under this Note is payable in more than one installment, then any prepayments of principal shall be applied to 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 Credit Agreement between Borrower and Bank dated as of June 30, 2017, 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, if any, 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, 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 whether or not suit is brought, 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 Oregon, but giving effect to federal laws applicable to national banks, without reference to the conflicts of law or choice of law principles thereof.

(d) Amendment and Restatement. The execution of this Note does not extinguish the indebtedness outstanding in connection with the Prior Note, nor does it constitute a novation with respect thereto. Any reference in the Loan Documents to a Line of Credit Note shall constitute a reference to this Note.

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, intending to be legally bound hereby, have caused this Agreement to be executed as of the day and year first written above.

BARRETT BUSINESS SERVICES, INC.

By: /s/ Gary Edwards Kramer, Jr.
Name: Gary Edwards Kramer, Jr.
Title: Chief Financial Officer

**AMENDED AND RESTATED STANDBY LETTER OF CREDIT AGREEMENT
(CREDIT AGREEMENT/LOAN AGREEMENT VERSION)**

THIS AMENDED AND RESTATED 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 to induce Wells Fargo Bank, National Association and/or any of its branches or affiliates (individually and collectively, “**Bank**”), in its sole discretion, to issue one or more Credits (as defined below) at the request of Applicant and for the account of Applicant named in the Application (as defined below), Applicant agrees that the following terms and conditions of this Agreement shall apply to any Credit:

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 September 18, 2012, as previously amended from time to time (the “**Prior 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 Prior 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 without limitation any type of electronic form or means of communication and through Bank’s proprietary online system). 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.

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, correspondent bank fees, 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) 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, in addition to the terms defined elsewhere in this Agreement, the following capitalized terms have the meanings ascribed to such terms:
 - (A) **"Anti-Corruption Laws"** means: (a) the U.S. Foreign Corrupt Practices Act of 1977, as amended; (b) the U.K. Bribery Act 2010, as amended; and (c) any other applicable anti-corruption laws, regulations or ordinances in any jurisdiction.
 - (B) **"Anti-Money Laundering Laws"** means applicable laws or regulations in any jurisdiction in which Applicant or any Guarantor is located or doing business that relates to money laundering, any predicate crime to money laundering, or any financial record keeping and reporting requirements related thereto.
 - (C) **"Bankruptcy Law"** means the United States Bankruptcy Code (11 U.S.C. §101 *et seq.*), as amended, modified, succeeded or replaced from time to time, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement,

receivership, insolvency, reorganization or similar debtor relief laws of the United States or any state thereof, or any other foreign or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

- (D) **“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.
- (E) **“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.
- (F) **“FATCA”** means Sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended (**“Code”**), as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof, any agreements entered into pursuant to Section 1471(b)(1) of the Code and any fiscal or regulation legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code.
- (G) **“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).
- (H) **“ISP”** means, International Standby Practices 1998 (International Chamber of Commerce Publication No. 590) and any version or revision thereof accepted by Bank for use.
- (I) **“Obligations”** means all obligations and liabilities (including any interest and fees accruing after the filing of a petition or commencement of a case by or with respect to any Applicant seeking relief under any applicable Bankruptcy Laws and any fraudulent transfer and fraudulent conveyance laws, whether or not the claim for such interest or fees is allowed in such proceeding), 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, any Application or any Credit (and any Existing Credit), whether matured or unmatured, absolute or contingent, now existing or hereafter incurred.

- (J) **“Person”** means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, governmental authority or other entity.
 - (K) **“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. If the Prime Rate as provided above would be less than zero percent (0.0%), then the Prime Rate shall be deemed to be zero percent (0.0%).
 - (L) **“Sanction”** or **“Sanctions”** means any and all economic or financial sanctions, sectoral sanctions, secondary sanctions, trade embargoes and anti-terrorism laws imposed, administered or enforced from time to time by: (a) the United States of America, including those administered by the U.S. Treasury Department Office of Foreign Assets Control (OFAC), (b) the United Nations Security Council, (c) the European Union, (d) the United Kingdom, or (e) any other governmental authorities with jurisdiction over Applicant or any Guarantor.
 - (M) **“Sanctioned Person”** means any Person that is a target of Sanctions, including without limitation, a Person that is, or is owned or controlled by a Person or acting on behalf of a Person that is: (a) listed on any list of the targets of a Sanction published by the authority that administers and enforces that Sanction or (b) a Sanctions target pursuant to any territorial or country-based Sanctions program.
 - (N) **“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, issued, 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 or UCP as chosen in the applicable Credit.
 - (O) **“UCP”** means, Uniform Customs and Practice for Documentary Credits 2007 Revision, International Chamber of Commerce Publication No. 600 and any version or revision thereof accepted by Bank for use.
- (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 in any jurisdiction 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), and includes, without limitation, withholdings pursuant to or in connection with FATCA.
- (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) irrespective of any applicable early termination or other fees resulting from such liquidation, all of which Applicant shall bear, 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 Application, any Credit or amendment thereto, this Agreement, any guaranty, agreement or document relating to any of the foregoing 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 (including by electronic transmission such as SWIFT, electronic mail, facsimile, computer generated telecommunication) 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 or transferee beneficiary, any assignee of proceeds, Bank or any other Person;
 - (vi) if the Credit requires payment upon Bank’s receipt of an electronic presentation, Applicant shall reimburse Bank on demand for the amount in the electronic transmission advice regardless of whether the original Drawing Documents arrive at Bank’s counters or are different from the electronic presentation; or

- (vii) 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 above), 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.

3. Applicant's Responsibility. Applicant is responsible for 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 to the Credit language consistent with its customary practices for letter of credit issuance 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. If Applicant requests Bank to issue a Credit for an affiliated or unaffiliated third party ("**Account Party**"), (i) Account Party shall have no rights against Bank; (ii) Applicant shall be responsible for the Application and obligations under this Agreement; and (iii) communications (including notices) related to the respective Credit shall be among Bank and Applicant. 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 (not later than three (3) Business Days following Applicant's receipt of documents from Bank) of any non-compliance with Applicant's Instructions and of any discrepancy in any document under any presentment or other irregularity. To the extent commercially reasonable and in accordance with applicable law and Standard Letter of Credit Practice, Bank will assist Applicant in correcting the Credit for any non-compliance with Applicant's Instructions and any 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 non-extension of such Credit and, if Applicant does not at any time want the then current expiration date such Credit to be extended, 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 non-extension 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 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 (or lack thereof) 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, omission, interruption, delay whether transmitted by mail, courier, computer, electronic transmission, SWIFT, any other telecommunication including communications through a correspondent;
- (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) any prohibition on payment or delay in payment of any amount payable by Bank to the appropriate party of a Credit arising out of Anti-Corruption Laws, Anti-Money Laundering Laws, or Sanctions;
- (x) Bank's performance of the obligations of a confirming institution or entity that wrongfully dishonors a confirmation;
- (xi) any foreign language translation provided to Bank in connection with any Credit;
- (xii) any foreign law or usage as it relates to Bank's issuance of a Credit in support of a foreign guaranty including without limitation the expiration of such guaranty after the related Credit expiration date and any resulting drawing paid by Bank in connection thereto; or
- (xiii) 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;

provided, however, that such indemnity shall not be available to any Person claiming indemnification under clauses (i) through (xiii) 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) **Limitation of Liability; Direct 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. 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.

- (c) **No Punitive Damages.** 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.
- (d) **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 (irrespective of whether or if notice is required) 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 presenting 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 Credit Agreement.** The Credits issued or amended pursuant to this Agreement or any Application meet the expiration date requirements for all letters of credit issued under the Credit Agreement and do not conflict with, result in a breach or constitute a default under the Credit Agreement.
- (c) **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.

- (d) **Sanctions.** Applicant is not a Sanctioned Person. To the best of its knowledge and belief Applicant is in compliance with Sanctions. Applicant has not received notice of any action, suit, proceeding or investigation against it with respect to an alleged breach of Sanctions. 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, Anti-Corruption Laws, Anti-Money Laundering Laws, Sanctions or currency reporting laws and regulations, now or hereafter applicable.

6. **Covenants.** Applicant hereby repeats each of its affirmative and negative covenants in the Credit Agreement and covenants to the following:

- (a) **Compliance with Laws.** Comply with all Anti-Corruption Laws, Anti-Money Laundering Laws, and Sanctions now or hereafter applicable to Applicant, this Agreement, any Application or to any transactions or payments under or in connection with any Application and/or Credit.
- (b) **Sanctions and Use of Proceeds.** Applicant will not request that Bank issue a Credit to a Sanctioned person. Applicant will not, directly or indirectly, use or facilitate the use by any other Person of any Credit (i) to fund any activities or business of, or with, any Sanctioned Person or (ii) in any other manner that would cause Bank to be in breach of any Sanction. Applicant and any Guarantor will not pay amounts to Bank hereunder with proceeds derived from any transaction that would be prohibited by Sanctions or would otherwise cause Bank to be in breach of any Sanction.

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).
- (c) **Detriment to Collateral; Sanctions.** Any party with a material interest in any collateral given to secure the reimbursement or other payment obligations subject to this Agreement shall fail to comply with the requirements of the laws, rules, regulations and orders of any governmental authority applicable to and materially affecting such collateral, or (ii) any other owner of an equity interest in Applicant or Guarantor, is the target of any Sanctions, or performs or engages in any act or series of acts that Bank reasonably believes could constitute a violation of Sanctions, Anti-Corruption Laws, or Anti-Money Laundering Laws.

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

- (a) On the Business Day following the date on which Applicant receives notice from Bank demanding deposit of cash collateral, Applicant will deposit into an account established and maintained with Bank ("Collateral Account") an amount in cash equal to 105% of the undrawn amounts and any amounts drawn but not reimbursed of all outstanding Credits on such date and shall execute such other agreements in form and substance satisfactory to Bank; *provided* that the obligation to deposit such cash collateral will become effective immediately, without any demand or notice of any kind, upon the occurrence of an event of default under 7(b) related to (i) the insolvency of Applicant or any Guarantor or (ii) the institute of or consent to the institution of any proceeding under

any Bankruptcy Law. Applicant does hereby grant to Bank, for its benefit, and as collateral security for the Obligations and performance by Applicant of all the terms, covenants and agreements to be performed under this Agreement or any document delivered in connection with this Agreement, a security interest in, all of Applicant's right, title and interest in, to and under, whether now or hereafter existing or arising, any such Collateral Account established by Bank pursuant to this clause (a) and all amounts on deposit therein and all certificates and instruments, if any, from time to time evidencing any of the foregoing, together with all proceeds of and all amounts received or receivable under any and all of the foregoing.

- (b) 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
- (c) 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 or 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. 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 or in accordance with this Agreement. 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 16 below.

13. **Judgment Currency.**

- (a) If, for the purpose of obtaining or enforcing judgment against Applicant in any court in any jurisdiction, it becomes necessary to convert into any other currency (such other currency being hereinafter referred to as the "**Judgment Currency**") an amount due under any Credit in any currency (the "**Obligation Currency**") other than the Judgment Currency, the conversion shall be made at the rate of exchange prevailing on the Business Day immediately preceding the date of actual payment of the amount due, in the case of any proceeding in the courts of any other jurisdiction that will give effect to such conversion being made on such date, or the date on which the judgment is given, in the case of any proceeding in the courts of any other jurisdiction (the applicable date as of which such conversion is made being hereinafter referred to as the "**Judgment Conversion Date**").
- (b) If, in the case of any proceeding in the court of any jurisdiction referred to in clause (a) above, there is a change in the rate of exchange prevailing between the Judgment Conversion Date and the date of actual receipt for value of the amount due, Applicant shall pay such additional amount (if any, but in any event not a lesser amount) as may be necessary to ensure that the amount actually received in the Judgment Currency, when converted at the rate of exchange prevailing on the date of payment, will produce the amount of the Obligation Currency which could have been purchased with the amount of the Judgment Currency stipulated in the judgment or judicial order at the rate of exchange prevailing on the Judgment Conversion Date.
- (c) The term "**rate of exchange**" in this Section means the rate of exchange at which Bank, on the relevant date at or about 12:00 noon, would be prepared to sell, in accordance with its normal course foreign currency exchange practices, the Obligation Currency against the Judgment Currency.

14. **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.

15. **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.

16. 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.

17. 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.

18. 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.

19. 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.

20. Multiple Role Disclosure. Bank and its respective affiliates are engaged in a broad range of financial services and may be acting in multiple roles that may involve interests that differ from those of Applicant and its respective affiliates. Such transactions and roles may involve Applicant, any of its affiliates as well as entities or persons and their affiliates which may be involved in transactions arising from or relating to any Credit issued under this Agreement and may be customers or competitors of Applicant or any of its affiliates. Applicant acknowledges and accepts that Bank and its affiliates may perform more than one role in relation to any Credit or transactions related to any Credit.

21. Existing Credits. All Credits, other than Direct Pay Credits (defined below), that were issued prior to the date of this Agreement for the account of Applicant ("**Existing Credits**") shall be deemed Credits under and subject to the terms of this Agreement, and this Agreement shall supersede any previous reimbursement agreements (however titled) that otherwise had governed or applied in respect of any Existing Credits.

22. 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 ("**Direct Pay Credits**"). Without limiting the generality of the foregoing, Applicant hereby agrees, for good and valuable consideration, that the Prior Standby Letter of Credit Agreement, regardless of whether it was addressed to Bank or some other person or entity, is replaced in its entirety by this Agreement so that the Credits which were originally issued under and in connection with the Prior Standby Letter of Credit Agreement will now be deemed for all purposes Credits issued under and in connection with this Agreement and not the Prior Standby Letter of Credit Agreement. THE EXECUTION OF THIS AGREEMENT DOES NOT EXTINGUISH THE OBLIGATIONS OUTSTANDING IN CONNECTION WITH THE PRIOR STANDBY LETTER OF CREDIT AGREEMENT NOR DOES IT CONSTITUTE A NOVATION WITH RESPECT TO THE OBLIGATIONS OUTSTANDING IN CONNECTION THEREWITH. APPLICANT HEREBY REPRESENTS AND WARRANTS THAT, AS OF THE DATE OF THIS AGREEMENT, THERE ARE NO CLAIMS OR OFFSETS AGAINST OR DEFENSES OR COUNTERCLAIMS TO APPLICANT'S OBLIGATIONS UNDER THE PRIOR STANDBY LETTER OF CREDIT AGREEMENT OR ANY OTHER DOCUMENT EXECUTED IN CONNECTION THEREWITH. APPLICANT WAIVES ANY AND ALL SUCH CLAIMS, OFFSETS, DEFENSES OR COUNTERCLAIMS, WHETHER KNOWN OR UNKNOWN, ARISING PRIOR TO THE DATE OF THIS AGREEMENT.

23. 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(c) hereof and (iii) notices in Section 16 hereof as it applies to this Agreement, and (b) the provisions of the Credit Agreement shall control all other conflicts or inconsistencies.

24. Cross-Collateralization Exclusion. Applicant acknowledges and agrees no deed of trust, mortgage, security deed or similar real estate collateral agreement, nor any security agreement, pledge, assignment or similar personal property collateral agreement provided to Bank by Applicant or any other party shall now or hereafter secure the Obligations of Applicant to Bank subject to this Agreement by reason of any cross-collateralization or similar provision purporting to generally expand the scope of obligations secured thereby to include the Obligations subject to this Agreement. For the elimination of doubt, unless specifically described as being secured thereby, no such document described in this Section shall secure the Obligations subject to this Agreement.

25. 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.

26. 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/ Gary Edwards Kramer, Jr.

Name: Gary Edwards Kramer, Jr.

Title: Chief Financial Officer

Address:

8100 NE Parkway Drive, Suite 200

Vancouver, WA 98662

Attn: Gary Edwards Kramer, Jr., Chief Financial Officer

Facsimile: ()

E-mail: gary.kramer@bbsihq.com

Date: June 20, 2018

AMENDED AND RESTATED SECURITY AGREEMENT: BUSINESS ASSETS

June 20, 2018

This Agreement amends and restates in its entirety (i) that certain Continuing Security Agreement: Rights to Payment and Inventory dated September 18, 2012, executed by Debtor in favor of Bank and (ii) that certain Security Agreement: Equipment dated September 18, 2012, executed by Debtor in favor of Bank (collectively, the "Prior Agreements"). THE EXECUTION OF THIS AGREEMENT DOES NOT EXTINGUISH THE OBLIGATIONS OUTSTANDING IN CONNECTION THEREWITH. NOTHING CONTAINED HEREIN SHALL TERMINATE ANY SECURITY INTERESTS, GUARANTIES, SUBORDINATIONS OR OTHER RIGHTS IN FAVOR OF BANK OR DOCUMENTS EXECUTED IN CONNECTION WITH THE PRIOR AGREEMENTS OR THE OBLIGATIONS AND INDEBTEDNESS DESCRIBED THEREIN, ALL OF WHICH SHALL REMAIN IN FULL FORCE AND EFFECT UNLESS EXPRESSLY AMENDED HEREBY. ANY REFERENCE IN THE LOAN DOCUMENTS TO A SECURITY AGREEMENT SHALL BE DEEMED TO INCLUDE A REFERENCE TO THIS AGREEMENT, AS AMENDED FROM TIME TO TIME.

1. **GRANT OF SECURITY INTEREST.** For valuable consideration, the undersigned BARRETT BUSINESS SERVICES, INC., or any of them ("Debtor"), hereby grants and transfers, and reaffirms its prior grant and transfer, to WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") a security interest in all of the property of Debtor described as follows:

All rights to payment, accounts, deposit accounts, chattel paper (whether electronic or tangible), instruments, promissory notes, documents, licenses, general intangibles, payment intangibles, software, letter of credit rights and health-care insurance receivables now existing or at any time hereafter arising and whether they arise from the sale, lease or other disposition of inventory or from performance of contracts for service, manufacture, construction, repair or otherwise or from any other source whatsoever, including without limitation all security, guaranties, warranties, indemnity agreements, insurance policies, supporting obligations and other agreements pertaining to the same or the property described therein; and

All inventory, goods held for sale or lease or to be furnished under contracts for service, goods so leased or furnished, and all software embedded therein and component parts thereof, and all raw materials, work in process and materials used or consumed in Debtor's business now or at any time hereafter acquired by Debtor wherever located, whether in the possession of Debtor or any warehouseman, bailee or any other person or in process of delivery and whether located at Debtor's places of business or elsewhere, and all warehouse receipts, bills of lading and other documents evidencing any of the foregoing and all goods covered thereby, including without limitation all security, guaranties, warranties, indemnity agreements, insurance policies, supporting obligations and other agreements pertaining to the same or the property described therein, and all renewals thereof; and

All tools, machinery, furnishings, furniture and other equipment, and all replacements, accessions and additions thereto and embedded software included therein, whether now owned or hereafter acquired by Debtor, wherever located, whether in the possession of Debtor or any other person, including without limitation all security, guaranties, warranties, indemnity agreements, insurance policies, supporting obligations and other agreements pertaining to the same or the property described therein

(collectively called "Collateral"), together with all proceeds thereof, including whatever is acquired when any of the Collateral or proceeds thereof are sold, leased, licensed, exchanged or otherwise disposed of, whether such disposition is voluntary or involuntary and whatever is collected on or distributed on account thereof, including without limitation, (i) all rights to payment however evidenced, (ii) all goods returned by or repossessed from Debtor's customers, (iii) rights arising out of Collateral, (iv) claims arising out of the loss, nonconformity, or interference with the use of, defects or infringement of rights in, or damage to, the Collateral, (v) insurance payable by reason of the loss or nonconformity of, defects or infringement of

rights in, or damage to, the Collateral, (vi) returned insurance premiums, and (vii) all rights to payment with respect to any claim or cause of action affecting or relating to any of the foregoing (hereinafter called "Proceeds").

2. OBLIGATIONS SECURED. The obligations secured hereby are the payment and performance of: (a) all present and future Indebtedness of Debtor to Bank; provided however that the obligations secured hereby shall not include any Indebtedness of Debtor to Bank (i) to the extent that the terms of the agreement(s) giving rise to such Indebtedness expressly state that such Indebtedness is unsecured or not secured by this Agreement, or otherwise expressly disclaim the security interest created hereby as security for such Indebtedness, or (ii) that is secured by any real property; and (b) all obligations of Debtor and rights of Bank under this Agreement. The word "Indebtedness" is used herein in its most comprehensive sense and includes any and all advances, debts, obligations and liabilities of Debtor, or any of them, heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, including under any swap, derivative, foreign exchange, hedge, deposit, treasury management or other similar transaction or arrangement, and whether Debtor may be liable individually or jointly with others, or whether recovery upon such Indebtedness may be or hereafter becomes unenforceable.

3. TERMINATION. This Agreement will terminate upon the performance of all obligations of Debtor to Bank secured hereby, including without limitation, the payment of all Indebtedness of Debtor to Bank secured hereby, and the termination of all commitments of Bank to extend credit to Debtor that would constitute Indebtedness to Bank secured hereby, existing at the time Bank receives written notice from Debtor of the termination of this Agreement.

4. OBLIGATIONS OF BANK. Bank has no obligation to make any loans hereunder. Any money received by Bank in respect of the Collateral may be deposited, at Bank's option, into a non-interest bearing account over which Debtor shall have no control, and the same shall, for all purposes, be deemed Collateral hereunder. Bank shall not be required to apply such money to the Indebtedness or other obligations secured hereby or to remit such money to Debtor or to any other party until the full payment of all Indebtedness of Debtor to Bank secured hereby, and the termination of all commitments to Bank to extend credit to Debtor.

5. REPRESENTATIONS AND WARRANTIES. Debtor represents and warrants to Bank that: (a) Debtor's legal name is exactly as set forth on the first page of this Agreement, and all of Debtor's organizational documents or agreements delivered to Bank are complete and accurate in every respect; (b) Debtor is the owner and has possession or control of the Collateral and Proceeds; (c) Debtor has the exclusive right to grant a security interest in the Collateral and Proceeds; (d) all Collateral and Proceeds are genuine, free from liens, adverse claims, setoffs, default, prepayment, defenses and conditions precedent of any kind or character, except the lien created hereby or as otherwise agreed to by Bank, or as heretofore disclosed by Debtor to Bank, in writing; (e) all statements contained herein and, where applicable, in the Collateral are true and complete in all material respects; (f) no financing statement covering any of the Collateral or Proceeds, and naming any secured party other than Bank, is on file in any public office; (g) where Collateral consists of rights to payment, all persons appearing to be obligated on the Collateral and Proceeds have authority and capacity to contract and are bound as they appear to be, all property subject to chattel paper has been properly registered and filed in compliance with law and to perfect the interest of Debtor in such property, and all such Collateral and Proceeds comply with all applicable laws concerning form, content and manner of preparation and execution, including where applicable Federal Reserve Regulation Z and any State consumer credit laws; and (h) where the Collateral consists of equipment, fixtures, or specific goods, Debtor is not in the business of selling goods of the kind included within such Collateral, and Debtor acknowledges that no sale or other disposition of any such Collateral, including without limitation, any such Collateral which Debtor may deem to be surplus, has been consented to or acquiesced in by Bank, except as specifically set forth in writing by Bank.

6. COVENANTS OF DEBTOR.

(a) Debtor agrees in general: (i) to pay Indebtedness secured hereby when due; (ii) to indemnify Bank against all losses, claims, demands, liabilities and expenses of every kind caused by property subject hereto; (iii) to permit Bank to exercise its powers; (iv) to execute and deliver such documents as Bank deems necessary to create, perfect and continue the security interests contemplated hereby; (v) not to change its name, and as applicable, its chief executive office, its principal residence or the jurisdiction in which it is organized and/or registered without giving Bank prior written notice thereof; (vi) not to change the places where Debtor keeps any Collateral or Debtor's records concerning the Collateral and Proceeds without giving Bank prior written notice of the address to which Debtor is moving same; and (vii) to cooperate with Bank in perfecting all security interests granted herein and in obtaining such agreements from third parties as Bank deems necessary, proper or convenient in connection with the preservation, perfection or enforcement of any of its rights hereunder.

(b) Debtor agrees with regard to the Collateral and Proceeds, unless Bank agrees otherwise in writing: (i) that Bank is authorized to file financing statements in the name of Debtor to perfect Bank's security interest in Collateral and Proceeds; (ii) where applicable, to operate the Collateral in accordance with all applicable statutes, rules and regulations relating to the use and control thereof, and not to use any Collateral for any unlawful purpose or in any way that would void any insurance required to be carried in connection therewith; (iii) not to remove the Collateral from Debtor's premises except in the ordinary course of Debtor's business; (iv) to pay when due all license fees, registration fees and other charges in connection with any Collateral; (v) not to permit any lien on the Collateral or Proceeds, including without limitation, liens arising from repairs to or storage of the Collateral, except in favor of Bank; (vi) not to sell, hypothecate or dispose of, nor permit the transfer by operation of law of, any of the Collateral or Proceeds or any interest therein, except sales of inventory to buyers in the ordinary course of Debtor's business; (vii) to permit Bank to inspect the Collateral at any time; (viii) to keep, in accordance with generally accepted accounting principles, complete and accurate records regarding all Collateral and Proceeds, and to permit Bank to inspect the same and make copies thereof at any reasonable time; (ix) if requested by Bank, to receive and use reasonable diligence to collect Collateral consisting of accounts and other rights to payment and Proceeds, in trust and as the property of Bank, and to immediately endorse as appropriate and deliver such Collateral and Proceeds to Bank daily in the exact form in which they are received together with a collection report in form satisfactory to Bank; (x) not to commingle Collateral or Proceeds, or collections thereunder, with other property; (xi) to give only normal allowances and credits and to advise Bank thereof immediately in writing if they affect any rights to payment or Proceeds in any material respect; (xii) from time to time, when requested by Bank, to prepare and deliver a schedule of all Collateral and Proceeds subject to this Agreement and to assign in writing and deliver to Bank all accounts, contracts, leases and other chattel paper, instruments, documents and other evidences thereof; (xiii) in the event Bank elects to receive payments of rights to payment or Proceeds hereunder, to pay all expenses incurred by Bank in connection therewith, including expenses of accounting, correspondence, collection efforts, reporting to account or contract debtors, filing, recording, record keeping and expenses incidental thereto; and (xiv) to provide any service and do any other acts which may be necessary to maintain, preserve and protect all Collateral and, as appropriate and applicable, to keep all Collateral in good and saleable condition, to deal with the Collateral in accordance with the standards and practices adhered to generally by users and manufacturers of like property, and to keep all Collateral and Proceeds free and clear of all defenses, rights of offset and counterclaims.

7. POWERS OF BANK. Debtor appoints Bank its true attorney in fact to perform any of the following powers, which are coupled with an interest, are irrevocable until termination of this Agreement and may be exercised from time to time by Bank's officers and employees, or any of them, whether or not Debtor is in default: (a) to perform any obligation of Debtor hereunder in Debtor's name or otherwise; (b) to give notice to account debtors or others of Bank's rights in the Collateral and Proceeds, to enforce or forebear from enforcing the same and make extension and modification agreements with respect thereto; (c) to release persons liable on Collateral or Proceeds and to give receipts and acquittances and compromise disputes in connection therewith; (d) to release or substitute security; (e) to resort to security in any order; (f) to prepare, execute, file, record or deliver notes, assignments, schedules, designation statements, financing statements, continuation statements, termination statements, statements of

assignment, applications for registration or like papers to perfect, preserve or release Bank's interest in the Collateral and Proceeds; (g) to receive, open and read mail addressed to Debtor; (h) to take cash, instruments for the payment of money and other property to which Bank is entitled; (i) to verify facts concerning the Collateral and Proceeds by inquiry of obligors thereon, or otherwise, in its own name or a fictitious name; (j) to endorse, collect, deliver and receive payment under instruments for the payment of money constituting or relating to Proceeds; (k) to prepare, adjust, execute, deliver and receive payment under insurance claims, and to collect and receive payment of and endorse any instrument in payment of loss or returned premiums or any other insurance refund or return, and to apply such amounts received by Bank, at Bank's sole option, toward repayment of the Indebtedness secured hereby or, where appropriate, replacement of the Collateral; (l) to exercise all rights, powers and remedies which Debtor would have, but for this Agreement, with respect to all Collateral and Proceeds subject hereto; (m) to enter onto Debtor's premises in inspecting the Collateral; (n) to make withdrawals from and to close deposit accounts or other accounts with any financial institution, wherever located, into which Proceeds may have been deposited, and to apply funds so withdrawn to payment of the Indebtedness secured hereby; (o) to preserve or release the interest evidenced by chattel paper to which Bank is entitled hereunder and to endorse and deliver any evidence of title incidental thereto; and (p) to do all acts and things and execute all documents in the name of Debtor or otherwise, deemed by Bank as necessary, proper and convenient in connection with the preservation, perfection or enforcement of its rights hereunder.

8. PAYMENT OF PREMIUMS, TAXES, CHARGES, LIENS AND ASSESSMENTS. Debtor agrees to pay, prior to delinquency, all insurance premiums, taxes, charges, liens and assessments against the Collateral and Proceeds, and upon the failure of Debtor to do so, Bank at its option may pay any of them and shall be the sole judge of the legality or validity thereof and the amount necessary to discharge the same. Any such payments made by Bank shall be obligations of Debtor to Bank, due and payable immediately upon demand, and at Bank's option and subject to any restrictions under applicable law pertaining to usury, together with interest at a rate determined in accordance with the provisions of this Agreement, and shall be secured by the Collateral and Proceeds, subject to all terms and conditions of this Agreement.

9. EVENTS OF DEFAULT. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement: (a) any default in the payment or performance of any obligation, or any defined event of default, under (i) any contract or instrument evidencing any Indebtedness, or (ii) any other agreement between Debtor and Bank, including without limitation any loan agreement, relating to or executed in connection with any Indebtedness; (b) any representation or warranty made by Debtor herein shall prove to be incorrect, false or misleading in any material respect when made; (c) Debtor shall fail to observe or perform any obligation or agreement contained herein; (d) any impairment of the rights of Bank in any Collateral or Proceeds, or any attachment or like levy on any property of Debtor; and (e) Bank, in good faith, believes any or all of the Collateral and/or Proceeds to be in danger of misuse, dissipation, commingling, loss, theft, damage or destruction, or otherwise in jeopardy or unsatisfactory in character or value.

10. REMEDIES. Upon the occurrence of any Event of Default, Bank shall have the right to declare immediately due and payable all or any Indebtedness secured hereby and to terminate any commitments to make loans or otherwise extend credit to Debtor. Bank shall have all other rights, powers, privileges and remedies granted to a secured party upon default under the Uniform Commercial Code or the Business and Commerce Code of the jurisdiction identified in Section 18 below, or otherwise provided by law, including without limitation, the right (a) to contact all persons obligated to Debtor on any Collateral or Proceeds and to instruct such persons to deliver all Collateral and/or Proceeds directly to Bank, and (b) to sell, lease, license or otherwise dispose of any or all Collateral. In addition to any other remedies set forth in this Agreement, Debtor authorizes Bank to engage in "electronic self-help" as defined in and in accordance with applicable law. All rights, powers, privileges and remedies of Bank shall be cumulative. No delay, failure or discontinuance of Bank in exercising any right, power, privilege or remedy hereunder shall affect or operate as a waiver of such right, power, privilege or remedy; nor shall any single or partial exercise of any such right, power, privilege or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power, privilege or

remedy. Any waiver, permit, consent or approval of any kind by Bank of any default hereunder, or any such waiver of any provisions or conditions hereof, must be in writing and shall be effective only to the extent set forth in writing. It is agreed that public or private sales or other dispositions, for cash or on credit, to a wholesaler or retailer or investor, or user of property of the types subject to this Agreement, or public auctions, are all commercially reasonable since differences in the prices generally realized in the different kinds of dispositions are ordinarily offset by the differences in the costs and credit risks of such dispositions. While an Event of Default exists: (a) Debtor will deliver to Bank from time to time, as requested by Bank, current lists of all Collateral and Proceeds; (b) Debtor will not dispose of any Collateral or Proceeds except on terms approved by Bank; (c) at Bank's request, Debtor will assemble and deliver all Collateral and Proceeds, and books and records pertaining thereto, to Bank at a reasonably convenient place designated by Bank; (d) Bank may, at any time, liquidate any time deposits pledged to Bank hereunder and apply the Proceeds thereof to payment of the Indebtedness secured hereby, whether or not said time deposits have matured and notwithstanding the fact that such liquidation may give rise to penalties for early withdrawal of funds; and (e) Bank may, without notice to Debtor, enter onto Debtor's premises and take possession of the Collateral. With respect to any sale or other disposition by Bank of any Collateral subject to this Agreement, Debtor hereby expressly grants to Bank the right to sell such Collateral using any or all of Debtor's trademarks, trade names, trade name rights and/or proprietary labels or marks. Debtor further agrees that Bank shall have no obligation to process or prepare any Collateral for sale or other disposition.

11. **DISPOSITION OF COLLATERAL AND PROCEEDS; TRANSFER OF INDEBTEDNESS.** In disposing of Collateral hereunder, Bank may disclaim all warranties of title, possession, quiet enjoyment and the like. Any proceeds of any disposition of any Collateral or Proceeds, or any part thereof, may be applied by Bank to the payment of expenses incurred by Bank in connection with the foregoing, including reasonable attorneys' fees, and the balance of such proceeds may be applied by Bank toward the payment of the Indebtedness secured hereby in such order of application as Bank may from time to time elect. Upon the transfer of all or any part of the Indebtedness secured hereby, Bank may transfer all or any part of the Collateral or Proceeds and shall be fully discharged thereafter from all liability and responsibility with respect to any of the foregoing so transferred, and the transferee shall be vested with all rights and powers of Bank hereunder with respect to any of the foregoing so transferred; but with respect to any Collateral or Proceeds not so transferred, Bank shall retain all rights, powers, privileges and remedies herein given.

12. **STATUTE OF LIMITATIONS.** Until all Indebtedness secured hereby shall have been paid in full and all commitments by Bank to extend credit to Debtor that would constitute Indebtedness secured hereby have been terminated, the power of sale or other disposition and all other rights, powers, privileges and remedies granted to Bank hereunder shall, to the extent permitted by law, continue to exist and may be exercised by Bank at any time and from time to time irrespective of the fact that the Indebtedness secured hereby or any part thereof may have become barred by any statute of limitations, or that the personal liability of Debtor may have ceased, unless such liability shall have ceased due to the payment in full of all Indebtedness secured hereunder.

13. **MISCELLANEOUS.** When there is more than one Debtor named herein: (a) the word "Debtor" shall mean all or any one or more of them as the context requires; (b) the obligations of each Debtor hereunder are joint and several; and (c) until all Indebtedness secured hereby shall have been paid in full, no Debtor shall have any right of subrogation or contribution, and each Debtor hereby waives any benefit of or right to participate in any of the Collateral or Proceeds or any other security now or hereafter held by Bank. Debtor hereby waives any right to require Bank to (i) proceed against Debtor or any other person, (ii) marshal assets or proceed against or exhaust any security from Debtor or any other person, (iii) perform any obligation of Debtor with respect to any Collateral or Proceeds, and (iv) make any presentment or demand, or give any notices of any kind, including without limitation, any notice of nonpayment or nonperformance, protest, notice of protest, notice of dishonor, notice of intention to accelerate or notice of acceleration hereunder or in connection with any Collateral or Proceeds. Debtor further waives any right to direct the application of payments or security for any Indebtedness of Debtor or indebtedness of customers of Debtor.

14. NOTICES. All notices, requests and demands required under this Agreement must be in writing, addressed to Bank at the address specified in any other loan documents entered into between Debtor and Bank and to Debtor at the address of its chief executive office (or principal residence, if applicable) specified below or to such other address as any party may designate by written notice to each other party, and shall be deemed to have been given or made as follows: (a) if personally delivered, 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.

15. COSTS, EXPENSES AND ATTORNEYS' FEES. Debtor shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including, to the extent permitted by applicable law, reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel to the extent permissible), expended or incurred by Bank in connection with (a) the perfection and preservation of the Collateral or Bank's interest therein, and (b) the realization, enforcement and exercise of any right, power, privilege or remedy conferred by this Agreement, whether or not suit is brought or foreclosure is commenced, and where suit is brought, 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 Debtor or in any way affecting any of the Collateral or Bank's ability to exercise any of its rights or remedies with respect thereto. Subject to any restrictions under applicable law pertaining to usury, all of the foregoing shall be paid by Debtor with interest from the date of demand until paid in full at a rate per annum equal to the greater of ten percent (10%) or Bank's Prime Rate in effect from time to time.

16. SUCCESSORS; ASSIGNS; AMENDMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties, and may be amended or modified only in writing signed by Bank and Debtor.

17. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be held to 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.

18. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of Oregon, but giving effect to federal laws applicable to national banks.

19. INSURANCE PROVISIONS. Debtor agrees with regard to the Collateral and Proceeds, unless Bank agrees otherwise in writing, to insure the Collateral with Bank named as loss payee, in form, substance and amounts, under agreements, against risks and liabilities, and with insurance companies satisfactory to Bank.

Debtor warrants that Debtor is an organization registered under the laws of Maryland.

Debtor warrants that its chief executive office (or principal residence, if applicable) is located at the following address: 8100 NE Parkway Drive, Suite 200, Vancouver, Washington 98662.

Debtor warrants that the Collateral (except goods in transit) is located or domiciled at the following additional addresses: see Exhibit A.

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, this Agreement has been duly executed by Debtor, intending to be legally bound hereby, as of the date first written above.

BARRETT BUSINESS SERVICES, INC.

By: /s/ Gary Edwards Kramer, Jr.
Name: Gary Edwards Kramer, Jr.
Title: Chief Financial Officer

EXHIBIT A

Branch Name	Branch Address
PORTLAND	2 Centerpointe Drive, Suite 120 Lake Oswego, OR 97035 * 503-403-1355
ALBANY	421 Water Avenue NE, Suite 2200 Albany, OR 97321 * 541-928-4130
BEND	497 SW Century Drive, Suite 101 Bend, OR 97702 * 541-382-6946
MEDFORD	2045 Cardinal Way Suite 100 Medford, OR 97504 * 541-772-5469
SALEM	3501 Fairview Industrial Drive SE, Suite 100 Salem, OR 97302 * 503-581-7401
GRANTS PASS	550 SW 6th, Suite J Grants Pass, OR 97526 * 541-471-7828
EUGENE	450 Country Club Road, Suite 150 Eugene, OR 97401 * 541-687-7055
BALTIMORE	4940 Campbell Blvd Ste 250 Baltimore, MD 21236 * 484-588-4820
SACRAMENTO	1760 Creekside Oaks Drive, Suite 150 Sacramento, CA 95833 * 916-256-1000
SAN JOSE	2560 N 1st Street, Suite 180 San Jose, CA 95131 * 408-321-9901
Union City	32960 Alvarado-Niles Road, Suite 670 Union City, CA 94587
DOVER	116 E. Water Street Dover, DE 19901 * 302-734-5921
SALISBURY	220 East Main Street, Suite A Salisbury, MD 21801 * 410-546-2020
COOS BAY	137 Hall Avenue Coos Bay, OR 97420 * 541-267-8200
ROSEBURG	2198 NE Stephens Street*Suite 100 Roseburg, OR 97470 * 541-440-3076
TILLAMOOK	1910 Third Street Tillamook, OR 97141 * 503-842-1145
REDDING	2881 Churn Creek Rd, Ste A Redding, CA 96002-1115
CAMARILLO	815 Camarillo Springs Road, Suite C Camarillo, CA 93012 * 805-987-0331
THE DALLES	3591 Klindt Drive, Suite 100 The Dalles, OR 97058 * 541-296-4455

Branch Name	Branch Address
TUCSON	1350 N Kolb Road, Suite 100 Tucson, AZ 85715 * 520-512-8984
SANTA ANA	1936 East Deere Avenue, Suite 130 Santa Ana, CA 92705 * 949-255-5322
SALT LAKE CITY	3761 South 700 East, Suite 200 Salt Lake City, UT 84106
WEST JORDAN	6671 South Redwood Road, Suite 120 West Jordan, UT 84084
WEST VALLEY	3040 West 3500 South, Suite B West Valley, UT 84119
HILLSBORO	5920 NE Ray Circle, Suite 190 Hillsboro, OR 97124 * 503-403-1355
OGDEN	2036 Lincoln Ave Ste 201 Ogden, UT 84401 * 801-334-0080
OREM	1423 South State Street Orem, UT 84097
COLORADO SPRINGS	1125 Kelly Johnson Blvd, #130 Colorado Springs, CO 80920
NEWPORT	1610 North Coast Hwy Newport, OR 97365 * 541-574-9892
KENT	19717 62nd Ave S., Suite D-112 Kent, WA 98032 * 425-291-9570
FIFE	4507 Pacific Highway E, Suite B Fife, WA 98424
DENVER	8101 East Prentice Avenue Ste 350 Greenwood Village, CO 80111 *303-893-1850
TWIN FALLS	1502 Locust St N #500, Suite A Twin Falls, ID 83301 * 208-735-5002
SAN BERNARDINO	862 Hospitality Lane Suite 150 San Bernardino, CA 92408 * 909-890-0100
ONTARIO	3401 Centre Lake Drive, Ste 150 Ontario, CA 91761 * 909-284-7540
TEMECULA	One Ridge Gate Drive, Suite 100 Temecula, CA 92590 * 951-296-3770
BAKERSFIELD	1675 Chester Avenue, Suite 100 Bakersfield, CA 93301 * 661-377-1060
TEMPE	1095 W Rio Salado Parkway, Suite A-203 Tempe, AZ 85281 * 480-839-4400
HERMISTON	1055 S HWY 395 , Suite 333 Hermiston, OR 97838 * 541-567-9670

Branch Name	Branch Address
BOARDMAN	202 N. Main Street, Suite 4 Boardman, OR 97818
GASTONIA	1595-F East Garrison Blvd Gastonia, NC 28054 *
LINCOLNTON	1806 N Aspen Street Lincolnton, NC 28092 * 800-285-6381
MONTEREY	2 Lower Ragsdale Dr, Suite 100 Monterey, CA 93940
VALENCIA	25124 Springfield Court, Suite 150 Valencia, CA 91355
RENO	515 Double Eagle Ct. Suite 105 Reno, NV 89521 * 775-432-1845
SAN LUIS OBISPO	3450 Broad Street, Suite 102 San Luis Obispo, CA 93401 * 805-762-4907
VACAVILLE	810 Vaca Valley Parkway, Ste 105 Vacaville, CA 95688 * 707-469-8900
MODESTO	1111 I Street Ste 107 Modesto, CA 95354 * 209-576-0322
SAN MATEO	1840 Gateway Drive, Suite 125 San Mateo, CA 94404 * 650-653-7588
STOCKTON	1776 W. March Lane, Suite 120 Stockton, CA 95207 * 209-476-0100
NAPA	1190 Airport Road, Suite 120 Napa, CA 94558 * 707-224-0752
CONCORD	1320 Willow Pass Road, Suite 100 Concord, CA 94520 * 925-686-2800
LA QUINTA	43576 Washington St La Quinta, CA 92253 * 760-851-0826
CHARLOTTE	8008 Corporate Center Drive Suite 120 Charlotte, NC 28226
TYSONS CORNER	1765 Greensboro Station Ste 160 McLean VA 22102 * 703-935-8680
PHILADELPHIA	1235 Westlakes Dr Ste 100 Berwyn PA 19312 * 484-588-4824
MERIDIAN	3368 E. Goldstone Way Meridian, ID 83642
FRESNO	7112 N Fresno St, Ste 100 Fresno, CA 93720 * 559-431-5455
IDAHO FALLS	950 Pier View Drive, Suite B Idaho Falls, ID 83402

Branch Name	Branch Address
YAKIMA	311 North 4th Street, Suite 104B Yakima, WA 98901 * 509-575-4114
MOSES LAKE	1550 S Pilgrim St Suite B Moses Lake, WA 98837 * 509-765-4408
PREFERRED PAYROLL	8100 NE Parkway Dr, Ste 240 Vancouver, WA 98662 * 360-828-0700
SAN DIEGO	10590 West Ocean Air Drive, Suite 150 San Diego, CA 92130 * 858-314-1100
PASCO	9825 Sandifur Parkway, Suite E Pasco, WA 99301 * 509-546-0462
LONG BEACH	330 Golden Shore Ste 170 Long Beach, CA 90802 * 424-295-7997
PASADENA	790 East Colorado Ste 440 Pasadena, CA 91101
LAS VEGAS	3755 Breakthrough Way Ste 105 Las Vegas, NV 89135
CORPORATE	8100 NE Parkway Drive, Ste 200 Vancouver, WA 98662 * 360-828-0700

THIRD PARTY SECURITY AGREEMENT: BUSINESS ASSETS

June 20, 2018

1. GRANT OF SECURITY INTEREST. In consideration of any credit or other financial accommodation heretofore, now or hereafter extended or made to BARRETT BUSINESS SERVICES, INC. ("Borrower") by WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank"), and for other valuable consideration, which materially benefits ASSOCIATED INSURANCE COMPANY FOR EXCESS ("Owner") both directly and indirectly, as security for the payment of all Indebtedness of Borrower to Bank pursuant to or in connection with that certain standby letter of credit for the account of Borrower and for the benefit of ACE American Insurance Company in the maximum principal amount of Sixty Three Million Seven Hundred Thousand Dollars (\$63,700,000.00), the undersigned Owner hereby grants and transfers to Bank a security interest in all of the property of Owner described as follows:

All rights to payment, accounts, deposit accounts, chattel paper (whether electronic or tangible), instruments, promissory notes, documents, licenses, general intangibles, payment intangibles, software, letter of credit rights and health-care insurance receivables now existing or at any time hereafter arising and whether they arise from the sale, lease or other disposition of inventory or from performance of contracts for service, manufacture, construction, repair or otherwise or from any other source whatsoever, including without limitation all security, guaranties, warranties, indemnity agreements, insurance policies, supporting obligations and other agreements pertaining to the same or the property described therein; and

All inventory, goods held for sale or lease or to be furnished under contracts for service, goods so leased or furnished, and all software embedded therein and component parts thereof, and all raw materials, work in process and materials used or consumed in Owner's business now or at any time hereafter acquired by Owner wherever located, whether in the possession of Owner or any warehouseman, bailee or any other person or in process of delivery and whether located at Owner's places of business or elsewhere, and all warehouse receipts, bills of lading and other documents evidencing any of the foregoing and all goods covered thereby, including without limitation all security, guaranties, warranties, indemnity agreements, insurance policies, supporting obligations and other agreements pertaining to the same or the property described therein, and all renewals thereof; and

All tools, machinery, furnishings, furniture and other equipment, and all replacements, accessions and additions thereto and embedded software included therein, whether now owned or hereafter acquired by Owner, wherever located, whether in the possession of Owner or any other person, including without limitation all security, guaranties, warranties, indemnity agreements, insurance policies, supporting obligations and other agreements pertaining to the same or the property described therein

(collectively called "Collateral"), together with all proceeds thereof, including whatever is acquired when any of the Collateral or proceeds thereof are sold, leased, licensed, exchanged or otherwise disposed of, whether such disposition is voluntary or involuntary and whatever is collected on or distributed on account thereof, including without limitation, (i) all rights to payment however evidenced, (ii) all goods returned by or repossessed from Owner's customers, (iii) rights arising out of Collateral, (iv) claims arising out of the loss, nonconformity, or interference with the use of, defects or infringement of rights in, or damage to, the Collateral, (v) insurance payable by reason of the loss or nonconformity of, defects or infringement of rights in, or damage to, the Collateral, (vi) returned insurance premiums, and (vii) all rights to payment with respect to any claim or cause of action affecting or relating to any of the foregoing (hereinafter called "Proceeds"); provided that Owner's collateral trust account (the "Non-Reinsurance Trust Account") required by that certain Non-Reinsurance Trust Agreement dated as of July 1, 2018, by and among Owner, ACE American Insurance Company and Wilmington Trust, N.A., as amended, is not encumbered hereby and is not included in the definition of "Collateral"; provided further that proceeds from the Non-Reinsurance Trust Account shall become Collateral and Proceeds upon their removal from the Non-Reinsurance Trust Account.

The word "Indebtedness" is used herein in its most comprehensive sense and includes any and all advances, debts, obligations and liabilities of Borrower, or any of them, heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, including under any swap, derivative, foreign exchange, hedge, deposit, treasury management or other similar transaction or arrangement, and whether Borrower may be liable individually or jointly with others, or whether recovery upon such Indebtedness may be or hereafter becomes unenforceable.

2. CONTINUING AGREEMENT; REVOCATION; OBLIGATION UNDER OTHER AGREEMENTS. This is a continuing agreement and all rights, powers and remedies hereunder shall apply to all past, present and future Indebtedness of Borrower to Bank, including that arising under successive transactions which shall either continue the Indebtedness, increase or decrease it, or from time to time create new Indebtedness after all or any prior Indebtedness has been satisfied, and notwithstanding the death, incapacity, dissolution, liquidation or bankruptcy of any of Borrower or Owner or any other event or proceeding affecting any of Borrower or Owner. This Agreement shall not apply to any new Indebtedness created after actual receipt by Bank of written notice of its revocation as to such new Indebtedness; provided however, that loans or advances made by Bank to Borrower after revocation under commitments existing prior to receipt by Bank of such revocation, and extensions, renewals or modifications, of any kind, of Indebtedness incurred by Borrower or committed by Bank prior to receipt by Bank of such revocation, shall not be considered new Indebtedness. Any such notice must be sent to Bank by registered U.S. mail, postage prepaid, addressed to its office at MAC P6101-250, 1300 SW Fifth Avenue, 25th Floor, Portland, Oregon 97201, or at such other address as Bank shall from time to time designate. The obligations of Owner hereunder shall be in addition to any obligations of Owner under any other grants or pledges of security for any liabilities or obligations of Borrower or any other person heretofore or hereafter given to Bank unless said other grants or pledges of security are expressly modified or revoked in writing; and this Agreement shall not, unless expressly herein provided, affect or invalidate any such other grants or pledges of security.

3. OBLIGATIONS JOINT AND SEVERAL; SEPARATE ACTIONS; WAIVER OF STATUTE OF LIMITATIONS; REINSTATEMENT OF LIABILITY. The obligations hereunder are joint and several and independent of the obligations of Borrower, and a separate action or actions may be brought and prosecuted against Owner whether action is brought against Borrower or any other person, or whether Borrower or any other person is joined in any such action or actions. Owner acknowledges that this Agreement is absolute and unconditional, there are no conditions precedent to the effectiveness of this Agreement, and this Agreement is in full force and effect and is binding on Owner as of the date written below, regardless of whether Bank obtains collateral or any guaranties from others or takes any other action contemplated by Owner. To the extent permitted by applicable law, Owner waives the benefit of any statute of limitations affecting Owner's liability hereunder or the enforcement thereof, and Owner agrees that any payment of any Indebtedness or other act which shall toll any statute of limitations applicable thereto shall similarly operate to toll such statute of limitations applicable to Owner's liability hereunder. The liability of Owner hereunder shall be reinstated and revived and the rights of Bank shall continue if and to the extent that for any reason any amount at any time paid on account of any Indebtedness secured hereby is rescinded or must be otherwise restored by Bank, whether as a result of any proceedings in bankruptcy or reorganization or otherwise, all as though such amount had not been paid. The determination as to whether any amount so paid must be rescinded or restored shall be made by Bank in its sole discretion; provided however, that if Bank chooses to contest any such matter at the request of Owner, Owner agrees to indemnify and hold Bank harmless from and against all costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel to the extent permissible), expended or incurred by Bank in connection therewith, including without limitation, in any litigation with respect thereto. Notwithstanding anything in this Agreement to the contrary, reasonable attorneys' fees shall not exceed the amount permitted by law.

4. OBLIGATIONS OF BANK. Any money received by Bank in respect of the Collateral will be deposited into money market fund accounts over which Owner shall have no control, and the same shall, for all purposes, be deemed Collateral hereunder. Bank shall not be required to apply such money to the Indebtedness or other obligations incurred hereby or to remit such money to Owner or to any other party

until the full payment of all Indebtedness of Borrower to Bank, and the termination of all commitments of Bank to extend credit to Borrower.

5. REPRESENTATIONS AND WARRANTIES.

(a) Owner represents and warrants to Bank that: (i) Owner's legal name is exactly as set forth on the first page of this Agreement, and all of Owner's organizational documents or agreements delivered to Bank are complete and accurate in every respect; (ii) Owner is the owner and has possession or control of the Collateral and Proceeds; (iii) Owner has the exclusive right to grant a security interest in the Collateral and Proceeds; (iv) all Collateral and Proceeds are genuine, free from liens, adverse claims, setoffs, default, prepayment, defenses and conditions precedent of any kind or character, except the lien created hereby or as otherwise agreed to by Bank, or as heretofore disclosed by Owner to Bank, in writing; (v) all statements contained herein and, where applicable, in the Collateral are true and complete in all material respects; (vi) no financing statement covering any of the Collateral or Proceeds, and naming any secured party other than Bank, is on file in any public office; (vii) where Collateral consists of rights to payment, all persons appearing to be obligated on the Collateral and Proceeds have authority and capacity to contract and are bound as they appear to be, all property subject to chattel paper has been properly registered and filed in compliance with law and to perfect the interest of Owner in such property, and all such Collateral and Proceeds comply with all applicable laws concerning form, content and manner of preparation and execution, including where applicable Federal Reserve Regulation Z and any State consumer credit laws; and (viii) where the Collateral consists of equipment, Owner is not in the business of selling goods of the kind included within such Collateral, and Owner acknowledges that no sale or other disposition of any such Collateral, including without limitation, any such Collateral which Owner may deem to be surplus, has been consented to or acquiesced in by Bank, except as specifically set forth in writing by Bank.

(b) Owner further represents and warrants to Bank that: (i) the Collateral pledged hereunder is so pledged at Borrower's request; (ii) Bank has made no representation to Owner as to the creditworthiness of Borrower; and (iii) Owner has established adequate means of obtaining from Borrower on a continuing basis financial and other information pertaining to Borrower's financial condition. Owner agrees to keep adequately informed from such means of any facts, events or circumstances which might in any way affect Owner's risks hereunder, and Owner further agrees that Bank shall have no obligation to disclose to Owner any information or material about Borrower which is acquired by Bank in any manner.

6. COVENANTS OF OWNER.

(a) Owner agrees in general: (i) to indemnify Bank against all losses, claims, demands, liabilities and expenses of every kind caused by property subject hereto; (ii) to permit Bank to exercise its powers; (iii) to execute and deliver such documents as Bank deems necessary to create, perfect and continue the security interests contemplated hereby; (iv) not to change Owner's name, and as applicable, its chief executive office, its principal residence or the jurisdiction in which it is organized and/or registered without giving Bank prior written notice thereof; (v) not to change the places where Owner keeps any Collateral or Owner's records concerning the Collateral and Proceeds without giving Bank prior written notice of the address to which Owner is moving same; and (vi) to cooperate with Bank in perfecting all security interests granted herein and in obtaining such agreements from third parties as Bank deems necessary, proper or convenient in connection with the preservation, perfection or enforcement of any of its rights hereunder.

(b) Owner agrees with regard to the Collateral and Proceeds, unless Bank agrees otherwise in writing: (i) that Bank is authorized to file financing statements in the name of Owner to perfect Bank's security interest in Collateral and Proceeds; (ii) where applicable, to operate the Collateral in accordance with all applicable statutes, rules and regulations relating to the use and control thereof, and not to use any Collateral for any unlawful purpose or in any way that would void any insurance required to be carried in connection therewith; (iii) not to remove the Collateral from Owner's premises except in the ordinary course of Owner's business; (iv) to pay when due all license fees, registration fees and other charges in connection with any Collateral; (v) not to permit any lien on the Collateral or Proceeds, including without

limitation, liens arising from repairs to or storage of the Collateral, except in favor of Bank; (vi) not to sell, hypothecate or dispose of, nor permit the transfer by operation of law of, any of the Collateral or Proceeds or any interest therein, except sales of inventory to buyers in the ordinary course of Owner's business; (vii) to permit Bank to inspect the Collateral at any time; (viii) to keep, in accordance with generally accepted accounting principles, complete and accurate records regarding all Collateral and Proceeds, and to permit Bank to inspect the same and make copies thereof at any reasonable time; (ix) if requested by Bank, to receive and use reasonable diligence to collect Collateral consisting of accounts and other rights to payment and Proceeds, in trust and as the property of Bank, and to immediately endorse as appropriate and deliver such Collateral and Proceeds to Bank daily in the exact form in which they are received together with a collection report in form satisfactory to Bank; (x) not to commingle Collateral or Proceeds, or collections thereunder, with other property; (xi) to give only normal allowances and credits and to advise Bank thereof immediately in writing if they affect any rights to payment or Proceeds in any material respect; (xii) from time to time, when requested by Bank, to prepare and deliver a schedule of all Collateral and Proceeds subject to this Agreement and to assign in writing and deliver to Bank all accounts, contracts, leases and other chattel paper, instruments, documents and other evidences thereof; (xiii) in the event Bank elects to receive payments of rights to payment or Proceeds hereunder, to pay all expenses incurred by Bank in connection therewith, including expenses of accounting, correspondence, collection efforts, reporting to account or contract debtors, filing, recording, record keeping and expenses incidental thereto; and (xiv) to provide any service and do any other acts which may be necessary to maintain, preserve and protect all Collateral and, as appropriate and applicable, to keep all Collateral in good and saleable condition, to deal with the Collateral in accordance with the standards and practices adhered to generally by users and manufacturers of like property, and to keep all Collateral and Proceeds free and clear of all defenses, rights of offset and counterclaims.

7. **POWERS OF BANK.** Owner appoints Bank its true attorney in fact to perform any of the following powers, which are coupled with an interest, are irrevocable until termination of this Agreement and may be exercised from time to time by Bank's officers and employees, or any of them, whether or not Borrower or Owner is in default: (a) to perform any obligation of Owner hereunder in Owner's name or otherwise; (b) to give notice to account debtors or others of Bank's rights in the Collateral and Proceeds, to enforce or forebear from enforcing the same and make extension or modification agreements with respect thereto; (c) to release persons liable on Proceeds and to give receipts and acquittances and compromise disputes in connection therewith; (d) to release or substitute security; (e) to resort to security in any order; (f) to prepare, execute, file, record or deliver notes, assignments, schedules, designation statements, financing statements (including a financing statement that describes the Collateral as "all assets Owner now or hereafter owns or acquires or in which Owner now or hereafter has rights or power to transfer rights, wherever located"), continuation statements, termination statements, statements of assignment, applications for registration or like papers to perfect, preserve or release Bank's interest in the Collateral and Proceeds; (g) to receive, open and read mail addressed to Owner; (h) to take cash, instruments for the payment of money and other property to which Bank is entitled; (i) to verify facts concerning the Collateral and Proceeds by inquiry of obligors thereon, or otherwise, in its own name or a fictitious name; (j) to endorse, collect, deliver and receive payment under instruments for the payment of money constituting or relating to Proceeds; (k) to prepare, adjust, execute, deliver and receive payment under insurance claims, and to collect and receive payment of and endorse any instrument in payment of loss or returned premiums or any other insurance refund or return, and to apply such amounts received by Bank, at Bank's sole option, toward repayment of the Indebtedness or replacement of the Collateral; (l) to exercise all rights, powers and remedies which Owner would have, but for this Agreement, with respect to all Collateral and Proceeds subject hereto; (m) to enter onto Owner's premises in inspecting the Collateral; (n) to make withdrawals from and to close deposit accounts or other accounts with any financial institution, wherever located, into which Proceeds may have been deposited, and to apply funds so withdrawn to payment of the Indebtedness; (o) to preserve or release the interest evidenced by chattel paper to which Bank is entitled hereunder and to endorse and deliver any evidence of title incidental thereto; and (p) to do all acts and things and execute all documents in the name of Owner or otherwise, deemed by Bank as necessary, proper and convenient in connection with the preservation, perfection or enforcement of its rights hereunder.

8. AUTHORIZATIONS TO BANK. Owner authorizes Bank either before or after revocation hereof, without notice to or demand on Owner, and without affecting Owner's liability hereunder, from time to time to: (a) alter, compromise, renew, extend, accelerate or otherwise change the time for payment of, or otherwise change the terms of, the Indebtedness or any portion thereof, including increase or decrease of the rate of interest thereon; (b) take and hold security, other than the Collateral and Proceeds, for the payment of the Indebtedness or any portion thereof, and exchange, enforce, waive, subordinate or release the Collateral and Proceeds, or any part thereof, or any such other security; (c) apply the Collateral and Proceeds or such other security and direct the order or manner of sale thereof, including without limitation, a non-judicial sale permitted by the terms of the controlling security agreement, mortgage or deed of trust, as Bank in its discretion may determine; (d) release or substitute any one or more of the endorsers or guarantors of the Indebtedness, or any portion thereof, or any other party thereto; and (e) apply payments received by Bank from Borrower to any Indebtedness of Borrower to Bank, in such order as Bank shall determine in its sole discretion, whether or not such Indebtedness is covered by this Agreement, and Owner hereby waives any provision of law regarding application of payments which specifies otherwise. Bank may without notice assign this Agreement in whole or in part.

9. PAYMENT OF PREMIUMS, TAXES, CHARGES, LIENS AND ASSESSMENTS. Owner agrees to pay, prior to delinquency, all insurance premiums, taxes, charges, liens and assessments against the Collateral and Proceeds, and upon the failure of Owner to do so, Bank at its option may pay any of them and shall be the sole judge of the legality or validity thereof and the amount necessary to discharge the same. Any such payments made by Bank shall be obligations of Owner to Bank, due and payable immediately upon demand, and at Bank's option and subject to any restrictions under applicable law pertaining to usury, together with interest at a rate determined in accordance with the provisions of this Agreement, and shall be secured by the Collateral and Proceeds, subject to all terms and conditions of this Agreement.

10. EVENTS OF DEFAULT. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement: (a) any default in the payment or performance of any obligation, or any defined event of default, under (i) any contract or instrument evidencing any Indebtedness, or (ii) any other agreement between Borrower and Bank, including without limitation any loan agreement, relating to or executed in connection with any Indebtedness; (b) any representation or warranty made by Owner herein shall prove to be incorrect in any material respect when made; (c) Owner shall fail to observe or perform any obligation or agreement contained herein; (d) any impairment of the rights of Bank in any Collateral or Proceeds, or any attachment or like levy on any property of Owner; and (e) Bank, in good faith, believes any or all of the Collateral and/or Proceeds to be in danger of misuse, dissipation, commingling, loss, theft, damage or destruction, or otherwise in jeopardy or unsatisfactory in character or value.

11. REMEDIES. Upon the occurrence of any Event of Default, Bank shall have and may exercise without demand any and all rights, powers, privileges and remedies granted to a secured party upon default under the Uniform Commercial Code or the Business and Commerce Code of the jurisdiction identified in Section 19 below, or otherwise provided by law, including without limitation, the right (a) to contact all persons obligated to Owner on any Collateral or Proceeds and to instruct such persons to deliver all Collateral and/or Proceeds directly to Bank, and (b) to sell, lease, license, or otherwise dispose of any or all Collateral. In addition to any other remedies set forth in this Agreement, Owner authorizes Bank to engage in "electronic self-help" as defined in and in accordance with applicable law. All rights, powers, privileges and remedies of Bank shall be cumulative. No delay, failure or discontinuance of Bank in exercising any right, power, privilege or remedy hereunder shall affect or operate as a waiver of such right, power, privilege or remedy; nor shall any single or partial exercise of any such right, power, privilege or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power, privilege or remedy. Any waiver, permit, consent or approval of any kind by Bank of any default hereunder, or any such waiver of any provisions or conditions hereof, must be in writing and shall be effective only to the extent set forth in writing. It is agreed that public or private sales or other dispositions, for cash or on credit, to a wholesaler or retailer or investor, or user of property of the types subject to this Agreement, or public auctions, are all commercially reasonable since differences in the prices generally realized in the different kinds of

dispositions are ordinarily offset by the differences in the costs and credit risks of such dispositions. While an Event of Default exists: (a) Owner will deliver to Bank from time to time, as requested by Bank, current lists of all Collateral and Proceeds; (b) Owner will not dispose of any Collateral or Proceeds except on terms approved by Bank; (c) at Bank's request, Owner will assemble and deliver all Collateral and Proceeds, and books and records pertaining thereto, to Bank at a reasonably convenient place designated by Bank; (d) Bank may, at any time, liquidate any time deposits pledged to Bank hereunder and apply the Proceeds thereof to payment of the Indebtedness, whether or not said time deposits have matured and notwithstanding the fact that such liquidation may give rise to penalties for early withdrawal of funds, and (e) Bank may, without notice to Owner, enter onto Owner's premises and take possession of the Collateral. With respect to any sale or other disposition by Bank of any Collateral subject to this Agreement, Owner hereby expressly grants to Bank the right to sell such Collateral using any or all of Owner's trademarks, trade names, trade name rights and/or proprietary labels or marks. Owner further agrees that Bank shall have no obligation to process or prepare any Collateral for sale or other disposition.

12. **DISPOSITION OF COLLATERAL AND PROCEEDS; TRANSFER OF INDEBTEDNESS.** In disposing of Collateral hereunder, Bank may disclaim all warranties of title, possession, quiet enjoyment and the like. Any proceeds of any disposition of any Collateral or Proceeds, or any part thereof, may be applied by Bank to the payment of expenses incurred by Bank in connection with the foregoing, including reasonable attorneys' fees, and the balance of such proceeds may be applied by Bank toward the payment of the Indebtedness in such order of application as Bank may from time to time elect. Upon the transfer of all or any part of the Indebtedness, Bank may transfer all or any part of the Collateral or Proceeds and shall be fully discharged thereafter from all liability and responsibility with respect to any of the foregoing so transferred, and the transferee shall be vested with all rights and powers of Bank hereunder with respect to any of the foregoing so transferred; but with respect to any Collateral or Proceeds not so transferred, Bank shall retain all rights, powers, privileges and remedies herein given.

13. **NOTICES.** All notices, requests and demands required under this Agreement must be in writing, addressed to Bank at the address specified in Section 2 hereof and to Owner at the address of its chief executive office (or principal residence, if applicable) specified below or to such other address as any party may designate by written notice to each other party, and shall be deemed to have been given or made as follows: (a) if personally delivered, 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.

14. **COSTS, EXPENSES AND ATTORNEYS' FEES.** Owner shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including, to the extent permitted by applicable law, reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel to the extent permissible), expended or incurred by Bank in connection with (a) the perfection and preservation of the Collateral or Bank's interest therein, and (b) the realization, enforcement and exercise of any right, power, privilege or remedy conferred by this Agreement, whether or not suit is brought or foreclosure is commenced, and if suit is brought, 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 Owner or in any way affecting any of the Collateral or Bank's ability to exercise any of its rights or remedies with respect thereto. Notwithstanding anything in this Agreement to the contrary, reasonable attorneys' fees shall not exceed the maximum amount permitted by law. Subject to any restrictions under applicable law pertaining to usury, all of the foregoing shall be paid by Owner with interest from the date of demand until paid in full at a rate per annum equal to the greater of ten percent (10%) or Bank's Prime Rate in effect from time to time.

15. **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 Owner may not assign or transfer any of its interests or rights hereunder

without Bank's prior written consent. Owner acknowledges that Bank has the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, any Indebtedness of Borrower to Bank and any obligations with respect thereto, including this Agreement. In connection therewith, Bank may disclose all documents and information which Bank now has or hereafter acquires relating to Owner and/or this Agreement, whether furnished by Borrower, Owner or otherwise. Owner further agrees that Bank may disclose such documents and information to Borrower.

16. AMENDMENT. This Agreement may be amended or modified only in writing signed by Bank and Owner.

17. APPLICATION OF SINGULAR AND PLURAL. In all cases where there is but a single Borrower, then all words used herein in the plural shall be deemed to have been used in the singular where the context and construction so require; and when there is more than one Borrower named herein or when this Agreement is executed by more than one Owner, the word "Borrower" and the word "Owner" respectively shall mean all or any one or more of them as the context requires.

18. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be held to 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. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of Oregon, but giving effect to federal laws applicable to national banks.

20. OWNER'S WAIVERS.

(a) Owner waives any right to require Bank to: (i) proceed against Borrower or any other person; (ii) marshal assets or proceed against or exhaust any security held from Borrower or any other person; (iii) give notice of the terms, time and place of any public or private sale or other disposition of personal property security held from Borrower or any other person; (iv) take any other action or pursue any other remedy in Bank's power; (v) make any presentment or demand for performance, or give any notices of any kind, including, without limitation, any notice of nonperformance, protest, notice of protest or notice of dishonor, notice of intention to accelerate or notice of acceleration hereunder or in connection with any obligations or evidences of indebtedness held by Bank as security for or which constitute in whole or in part the Indebtedness secured hereunder, or in connection with the creation of new or additional Indebtedness; or (vi) set off against the Indebtedness the fair value of any real or personal property given as collateral for the Indebtedness (whether such right of setoff arises under statute or otherwise). In addition to the foregoing, Owner specifically waives any statutory right it might have to require Bank to proceed against Borrower or any collateral that secures the Indebtedness.

(b) Owner waives any defense to its obligations hereunder based upon or arising by reason of: (i) any disability or other defense of Borrower or any other person; (ii) the cessation or limitation from any cause whatsoever, other than payment in full, of the Indebtedness of Borrower or any other person; (iii) any lack of authority of any officer, director, partner, agent or any other person acting or purporting to act on behalf of Borrower which is a corporation, partnership or other type of entity, or any defect in the formation of any such Borrower; (iv) the application by Borrower of the proceeds of any Indebtedness for purposes other than the purposes represented by Borrower to, or intended or understood by, Bank or Owner; (v) any act or omission by Bank which directly or indirectly results in or aids the discharge of Borrower or any portion of the Indebtedness by operation of law or otherwise, or which in any way impairs or suspends any rights or remedies of Bank against Borrower; (vi) any impairment of the value of any interest in security for the Indebtedness or any portion thereof, 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; (vii) any modification of the Indebtedness, in any form whatsoever, including any modification made after revocation hereof to any Indebtedness incurred prior to such revocation, and including without limitation the renewal, extension, acceleration or other change in time for payment of, or other change in the terms of, the Indebtedness or any portion thereof, including

increase or decrease of the rate of interest thereon; or (viii) or any requirement that Bank give any notice of acceptance of this Agreement. Until all Indebtedness shall have been paid in full, Owner shall have no right of subrogation, and Owner waives any right to enforce any remedy which Bank now has or may hereafter have against Borrower or any other person and waives any benefit of, or any right to participate in, any security now or hereafter held by Bank. To the fullest extent permitted by applicable law, Owner waives all rights of a surety and the benefits of any applicable suretyship law, statute or regulation, and without limiting any of the waivers set forth herein, Owner further waives any other fact or event that, in the absence of this provision, would or might constitute or afford a legal or equitable discharge or release of or defense to Borrower.

(c) Owner further waives all rights and defenses Owner may have arising out of (i) any election of remedies by Bank, even though that election of remedies, such as a non-judicial foreclosure with respect to any security for any portion of the Indebtedness, destroys Owner's rights of subrogation or Owner's rights to proceed against Borrower for reimbursement, or (ii) any loss of rights Owner may suffer by reason of any rights, powers or remedies of Borrower in connection with any anti-deficiency laws or any other laws limiting, qualifying or discharging Borrower's Indebtedness, whether by operation of law or otherwise, including any rights Owner may have to claim a fair market credit with respect to a deficiency or have a fair market value hearing to determine the size of a deficiency following any foreclosure sale or other disposition of any real property security for any portion of the Indebtedness, and Owner waives any right Owner may have under any "one-action" rule. Owner further waives the benefit of any homestead, exemption or other similar laws.

21. **INSURANCE PROVISIONS.** Owner agrees with regard to the Collateral and Proceeds, unless Bank agrees otherwise in writing, to insure the Collateral with Bank named as loss payee, in form, substance and amounts, under agreements, against risks and liabilities, and with insurance companies satisfactory to Bank; provided that, if an Event of Default has not occurred, Owner is not required to maintain accounts receivable insurance.

22. **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 in any way the loan and related loan and security documents which are the subject of this Agreement and its negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination. In the event of a court ordered arbitration, the party requesting arbitration shall be responsible for timely filing the demand for arbitration and paying the appropriate filing fee within 30 days of the abatement order or the time specified by the court. Failure to timely file the demand for arbitration as ordered by the court will result in that party's right to demand arbitration being automatically terminated.

(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 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 corresponding rules of practice and procedure in Oregon 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 this Agreement or any other contract, instrument or document relating to any Indebtedness, 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 documents between the parties or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the documents or any relationship between the parties.

(i) Small Claims Court. Notwithstanding anything herein to the contrary, each party retains the right to pursue in Small Claims Court any dispute within that court's jurisdiction. Further, this arbitration provision shall apply only to disputes in which either party seeks to recover an amount of money (excluding attorneys' fees and costs) that exceeds the jurisdictional limit of the Small Claims Court.

Owner warrants that Owner is an organization registered under the laws of Arizona.

Owner warrants that its chief executive office (or principal residence, if applicable) is located at the following address: 8601 N. Scottsdale Road, Suite 300, Scottsdale, AZ 85253, c/o Kutak Rock LLP.

Owner warrants that the Collateral (except goods in transit) is located or domiciled at the following additional addresses: none.

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, this Agreement has been duly executed by Owner, intending to be legally bound hereby, as of the date first written above.

ASSOCIATED INSURANCE COMPANY FOR EXCESS

By: /s/ Gary Kramer
Name: Gary Kramer
Title: President

**FORM OF
AWARD AGREEMENT
Under The
Barrett Business Services, Inc.
2015 Stock Incentive Plan**

**PERFORMANCE SHARE AWARD
(Executive Officer)**

This Performance Share Award Agreement (this "Agreement") , effective as of the date indicated below, evidences the grant of Performance Shares ("Performance Shares") to Participant under Article 10 of the Barrett Business Services, Inc., 2015 Stock Incentive Plan (the "Plan").

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

Participant: _____

Grant Date: _____, 20__

Performance Period: Three years ending December 31, 20__

Target # of Performance Shares: _____

Vesting: 100% on the date on which the Committee issues its written certification of the achievement of the Performance Goals during the Performance Period (the "Vesting Date").

Portion of Award Earned Relative to Each Performance Goal

Performance Goal	Award Earned
Gross Billings	1/2
Net Income	1/2

The terms and conditions of this Award of Performance Shares are set forth on the following pages of this Agreement and are, in each instance, subject to the terms and conditions of the Plan.

This Agreement may be acknowledged and accepted by Participant by signing, scanning, and returning a copy of this page by email.

BARRETT BUSINESS SERVICES, INC.

Participant

By _____
Name _____
Its _____

AWARD AGREEMENT
Under The
Barrett Business Services, Inc.
2015 Stock Incentive Plan

PERFORMANCE SHARE AWARD
TERMS AND CONDITIONS

1. Defined Terms

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

2. Grant of Performance Shares

Subject to the terms and conditions of this Agreement and the Plan, Corporation grants to Participant an Award (the "Award") in the Target Number of Performance Shares shown above. The actual number of Performance Shares that will be issued to the Participant pursuant to this Agreement will be determined as described in Section 3 below, based on the attainment of Performance Goals specified in Exhibit A. As a grantee of Performance Shares, Participant will have only the rights of a general unsecured creditor of Corporation until delivery of Shares is made under this Agreement.

3. Terms of Performance Shares

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

3.1 **Vesting.** The Performance Shares earned pursuant to the Award will Vest on the Vesting Date, subject to the Participant's continued employment through the Vesting Date. The Vesting Date will be no later than 30 days following the date on which the Corporation's independent auditors issue their opinion on the Corporation's financial statements for the final year of the Performance Period. On the Vesting Date, any Performance Shares subject to the Award that have not Vested will be forfeited.

3.2 **Performance Goals.** The number of Performance Shares, if any, that may be earned based on achievement of the Performance Goals will be as set forth on the first page of this Agreement, as adjusted pursuant to the Flex set forth in Section 3.3 for performance above or below 100% of the respective Performance Goal. The target level of each Performance Goal set forth on Exhibit A relates to the financial results of the Corporation for the Performance Period; provided that such financial results will be adjusted to exclude the impact: (i) on gross billings of a business acquired during the Performance Period; (ii) on net income of costs relating to corporate restructurings or settlement of litigation outside the ordinary course of business; and (iii) on each of the Performance Goals of unanticipated changes in accounting standards, tax treatment or similar laws or regulations affecting financial results.

3.3 **Flex.** The number of Performance Shares to be Vested and issued pursuant to the Award will be determined as set forth below (the "Flex"):

(a) To the extent that achievement of a given Performance Goal is below 100% of the target level set forth on Exhibit A, the number of Performance Shares to be Vested and issued will be reduced ratably by 2.5% for each 1% of shortfall up to a maximum downward adjustment to 80% of the target performance level (the "Threshold Performance Level"). At the Threshold Performance Level, 50% of the applicable portion of the Target Number of Performance Shares will be issued. If achievement of a given Performance Goal is below the Threshold Performance Level set forth on Exhibit A, no Performance Shares will Vest with respect to that Performance Goal.

(b) To the extent that achievement of a given Performance Goal is above 100% of the target level set forth on Exhibit A, the number of Performance Shares to be Vested and issued will be increased ratably by 2.5% for each 1% of overachievement, with a maximum upward adjustment to 140% of the target

performance level set forth on Exhibit A. In no event will the total number of Performance Shares issued under the Award exceed 200% of the Target Number of Performance Shares specified above.

3.4 **Employment Requirement.** Except as otherwise provided in this Agreement, in the event that Participant ceases to be an employee of Corporation or a Subsidiary prior to the Vesting Date for any reason, all unvested Performance Shares will be forfeited immediately. For purposes of this Agreement, "employment" includes periods of illness or other leaves of absence authorized by the Committee.

3.5 **Settlement.** Unless previously forfeited pursuant to Section 3.4 or as otherwise provided by this Agreement, the Award will be settled on a settlement date (the "Settlement Date") selected by the Committee as soon as practicable after the Vesting Date, and in no case later than the 15th day of the third month following the later of the end of the calendar year or the end of Corporation's taxable year in which the Vesting Date occurs, by the delivery to the Participant of an unrestricted certificate for the number of Shares that Vested on the Vesting Date.

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

3.7 **Performance Shares Not Transferable.** Neither the Performance Shares, nor this Agreement, nor any interest or right in the Performance Shares 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 Performance Shares have been settled as provided in this Agreement. Neither the Performance Shares nor any interest or right in the Performance Shares 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. Shares issued upon settlement of Performance Shares may be subject to additional transfer restrictions as provided in this Agreement.

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

4. Tax Withholding and Reimbursement

Participant is 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 Performance Shares and the issuance of Shares (collectively, the "Applicable Taxes"). To satisfy this obligation, Corporation will withhold a number of Performance Shares (thus reducing the number of Shares to be issued to Participant) having a Fair Market Value (as of the Settlement Date) equal to the total amount of Applicable Taxes required to be withheld by law in connection with settlement of the Award; provided, that the Fair Market Value of Shares so withheld will in no event exceed the total amount calculated based on the maximum individual tax rates in the jurisdictions applicable to Participant.

5. Conditions Precedent

Corporation will not be required to issue any Shares upon Vesting of the Performance Shares, or any portion thereof, until Corporation has taken any action required to comply with all applicable laws. Such action may include, without limitation, (a) registering or qualifying such Shares under any state or federal law or under the rules of any securities exchange or association, (b) satisfying any law or rule relating to the transfer of unregistered securities or demonstrating the availability of an exemption from any such law, (c) placing a restrictive legend or stop-transfer instructions on the Shares issued upon settlement of the Award, or (d) obtaining the consent or approval of any governmental or regulatory body.

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 administered by and in accordance with the then effective arbitration rules of Arbitration Service of Portland, Inc. The place of arbitration will be Multnomah County, Oregon. The award rendered by the arbitrator will be final and binding, and judgment may be entered on the award in any court having jurisdiction.

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. Clawback/Recovery

Compensation paid to the Participant under this Award is subject to recoupment in accordance with any clawback policy of Corporation in effect from time to time, including any such policy adopted after the date of this Agreement, as well as any similar requirement of applicable law, including without limitation the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Sarbanes-Oxley Act of 2002, and rules adopted by a governmental agency or applicable securities exchange under any such law. Participant agrees to promptly repay or return any such compensation as directed by Corporation under any such clawback policy or requirement, including the value received from a disposition of Shares acquired pursuant to this Award.

11. 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 Corporation 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.

**FORM OF
AWARD AGREEMENT
Under The
Barrett Business Services, Inc.
2015 Stock Incentive Plan**

EMPLOYEE NONQUALIFIED STOCK OPTION

This Award Agreement (this "Agreement"), effective as of the Grant Date indicated below, evidences the grant of a Nonqualified Option (the "Option") to Participant under the Barrett Business Services, Inc., 2015 Stock Incentive Plan (the "Plan").

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

Participant: _____

Grant Date: March 28, 2018

Option: 40,000 Shares

Termination Date: March 28, 2028

Option Price: \$82.21 per Share, based on the closing sale price of a Share of Common Stock on the Grant Date

Exercise Limits: During the first, second, and third years after the Grant Date - none;
During the fourth and fifth years - up to 25 % of the total Shares;
During the sixth and seventh years - up to 50 % of the total Shares; and
During the eighth year and thereafter - up to 100 % of the total Shares.

The terms and conditions of the Option are set forth on the following pages of this Agreement and are, in each instance, subject to the terms and conditions of the Plan.

This Agreement may be acknowledged and accepted by Participant by signing, scanning, and returning a copy of this page by email.

BARRETT BUSINESS SERVICES, INC.

Participant _____ By _____
Name _____
Its _____

AWARD AGREEMENT
Under The
Barrett Business Services, Inc.
2015 Stock Incentive Plan

EMPLOYEE NONQUALIFIED STOCK OPTION
TERMS AND CONDITIONS

1. Defined Terms

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

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

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

(i) A change in control of Corporation of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A as in effect on the Grant Date pursuant to the Exchange Act; provided that, without limitation, such a change in control shall be deemed to have occurred at such time as any Acquiring Person hereafter becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 40 percent or more of the combined voting power of Voting Securities; or

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

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

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

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

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

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

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

2. Grant of Option

Subject to the terms and conditions of this Agreement and the Plan, Corporation grants to Participant the Option to purchase the number of Shares of Common Stock at the Option Price shown on the first page of this Agreement.

3. Terms of Option

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

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

3.2 Time of Exercise. Unless the Option is otherwise terminated or the time of its exercisability is accelerated in accordance with this Agreement, the Option may be exercised from time to time to purchase Shares up to the limits set forth on the first page of this Agreement (such limits include any Shares previously purchased pursuant to the Option).

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

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

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

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

3.5 Method of Exercise. The Option, or any portion thereof, may be exercised, to the extent it has become exercisable pursuant to this Agreement, by delivery of written notice to Corporation in the form of Attachment A stating the number of Shares, form of payment, and proposed closing 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 Payment. The aggregate Option Price for the Shares to be purchased upon exercise of the Option must be paid in full on or before the closing date by one or a combination of the following:

- (a) Payment in cash;
- (b) Delivery of previously acquired Shares having a Fair Market Value equal to the aggregate Option Price;
- (c) Withholding of Shares issuable to Participant upon exercise of the Option, with a Fair Market Value on the closing date equal to the aggregate Option Price; or
- (d) Delivery (in a form approved by the Committee) of an irrevocable direction to a securities broker acceptable to the Committee to sell Shares subject to the Option and to deliver all or a part of the sale proceeds to Corporation in payment of all or a part of the aggregate Option Price.

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

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

4. Tax Withholding and Reimbursement

Participant is responsible for the payment of all federal, state and local withholding taxes and Participant's portion of any applicable payroll taxes imposed in connection with the exercise or other settlement of the Option (collectively, the "Applicable Taxes"). Payment may be in cash, in Shares owned by Participant, duly endorsed for transfer, with a Fair Market Value on the closing date equal to the total amount of Applicable Taxes, in Shares issuable to Participant upon exercise of the Option with a Fair Market Value on the closing date equal to the total amount of Applicable Taxes, or in any combination of the foregoing methods of payment. In the event Participant has not otherwise made arrangements for satisfaction of his or her withholding tax obligation, Corporation is authorized to withhold from Participant's other compensation the Applicable Taxes. Corporation is not required to issue any Shares upon exercise of the Option until Participant's tax withholding obligations have been satisfied.

5. Conditions Precedent

Corporation will not be required to issue any Shares upon exercise of the Option, or any portion thereof, until Corporation has taken any action required to comply with all applicable laws. Such action may include, without limitation, (a) registering or qualifying such Shares under any state or federal law or under the rules of any securities exchange or association, (b) satisfying any law or rule relating to the transfer of unregistered securities or demonstrating the availability of an exemption from any such law, (c) placing a restrictive legend or stop-transfer instructions on the Shares issued upon settlement of the Award, or (d) obtaining the consent or approval of any governmental or regulatory body.

6. Termination for Cause; Competition

6.1 Annulment of Awards. The grant of the Option governed by this Agreement is revocable until Participant becomes entitled to a certificate for Shares in settlement thereof. In the event the employment of Participant is terminated for cause (as defined below), any portion of the Option which is revocable will be annulled as of the date of such termination for cause. For the purpose of this

Section 6.1, the term "for cause" will have the meaning set forth in Participant's employment agreement, if any, or otherwise means any discharge (or removal) for material or flagrant violation of the policies and procedures of the Employer or for other performance or conduct which is materially detrimental to the best interests of Corporation, as determined by the Committee.

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

7. Clawback/Recovery

Compensation paid to Participant under this Agreement is subject to recoupment in accordance with any clawback policy of Corporation in effect from time to time, including any such policy adopted after the date of this Agreement, as well as any similar requirement of applicable law, including without limitation the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Sarbanes-Oxley Act of 2002, and rules adopted by a governmental agency or applicable securities exchange under any such law. Participant agrees to promptly repay or return any such compensation as directed by Corporation under any such clawback policy or requirement, including the value received from a disposition of Shares acquired pursuant to this Agreement.

8. 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.

9. 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.

10. 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 administered by and in accordance with the then effective arbitration rules of Arbitration Service of Portland, Inc. The place of arbitration will be Multnomah County, Oregon. The award rendered by the arbitrator will be final and binding, and judgment may be entered on the award in any court having jurisdiction.

11. 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).

Attachment A

NOTICE OF STOCK OPTION EXERCISE

BARRETT BUSINESS SERVICES, INC.
2015 STOCK INCENTIVE PLAN

EMPLOYEE NONQUALIFIED STOCK OPTION

To: Barrett Business Services, Inc.
8100 N.E. Parkway Drive, Suite 200
Vancouver, Washington 98662
Attention: Gary Kramer

Participant: _____
Print Name

Mailing Address: _____

Telephone Number: _____

Option: The option evidenced by an Award Agreement dated _____, ____.

OPTION EXERCISE

I hereby elect to exercise the Option to purchase shares of common stock ("Shares") of Barrett Business Services, Inc. ("BBSI") covered by the Option as follows:

Number of Shares Purchased (a)	_____
Per-Share Option Price (b)	\$ _____
Aggregate Option Price (a times b)	\$ _____
Closing Date of Purchase	_____

Form of Payment [Check One]:

- My check in the full amount of the Aggregate Option Price (as well as a check for any withholding taxes, if this box is checked). See "Instructions" below.
- Delivery of previously owned Shares with a fair market value equal to the Aggregate Option Price (as well as any withholding taxes, if this box is checked). See "Instructions" below. Note that restricted Shares acquired from BBSI under one of its stock plans may be used for this purpose only if such Shares have become vested.
- Withholding of that number of Shares otherwise issuable to me upon exercise of the Option, with a fair market value on the closing date equal to the Aggregate Option Price (as well as any withholding taxes, if this box is checked). See "Instructions" below.
- My irrevocable direction to my securities broker (see below) to sell Shares subject to the Option and deliver a portion of the sale proceeds to BBSI in full payment of the Aggregate Option Price (as well as any withholding taxes, if this

box is checked). See "Instructions" below. I hereby confirm that any sale of Shares will be in compliance with BBSI's policies on insider trading and Rule 144 under the Securities Act of 1933, if applicable. I HEREBY IRREVOCABLY AUTHORIZE

_____ to transfer

(*name of broker*)

funds to BBSI from my account in payment of the Aggregate Option Price and BBSI is hereby directed to issue the Shares for my account with such broker and to transmit the Shares to the broker indicated above.

Instructions:

(1) If payment is to be by check, a check for the amount of the Aggregate Option Price payable to Barrett Business Services, Inc., should be submitted with this Notice.

(2) If payment is to be by surrender of previously owned Shares or by attestation of ownership (see Attestation Form below), either a certificate for the Shares accompanied by a stock power endorsed in blank or the completed Attestation Form should be submitted with this Notice. If applicable, a certificate for any Shares in excess of those needed to pay the Aggregate Option Price and applicable withholding taxes will be returned to you with the certificate for your option Shares. Any change in registration between the payment shares and the new shares will require a properly executed stock power that is guaranteed by an institution participating in a recognized medallion signature guarantee program.

(3) Payment of the Applicable Taxes is due on the closing date of the exercise of a nonqualified option by an employee. You will be notified of the amount of Applicable Taxes due promptly following receipt of your Notice of Stock Option Exercise. Satisfactory arrangements must be made for payment before a stock certificate for your option Shares will be delivered to you (or your broker, if applicable). Among other alternatives, amounts necessary to satisfy withholding obligations may be deducted from compensation otherwise payable to you.

ISSUANCE INSTRUCTIONS FOR STOCK CERTIFICATES

Please register the stock certificate(s) in the following name(s):

If applicable, please check one: JT TEN TEN COM Other

Please deliver the stock certificate(s) to (check one):

My brokerage account

Attn: _____

Account No.: _____; or

My mailing address set forth above.

Date

Signature of Participant

ATTESTATION FORM

As indicated above, I have elected to use shares of BBSI common stock that I already own to pay the Aggregate Option Price of the Option.

I attest to the ownership of the shares represented by the certificate(s) listed below or to the beneficial ownership of the shares held in the name of my broker, as indicated in the attached copy of my brokerage statement. I will be deemed to have delivered such shares to BBSI in connection with the exercise of my Option.

I understand that, because I (and any joint owner) will retain ownership of the shares (the "Payment Shares") deemed delivered to pay the Aggregate Option Price, the number of shares to be issued to me upon exercise of my Option will be reduced by the number of Payment Shares. I represent that I have full power to deliver and convey certificates representing the Payment Shares to BBSI and by such delivery and conveyance could have caused BBSI to become sole owner of the Payment Shares. The joint owner of the Payment Shares, if any, by signing this Form, consents to these representations and to the exercise of the Option by this attestation.

I certify that any Payment Shares originally issued to me as restricted shares are now fully vested.

List certificate(s) and number of shares covered, or attach a copy of your brokerage statement:

Common Stock Certificate Number	Number of Shares Covered

Date: _____

Print Name of Option Holder: _____

Signature of Option Holder: _____

Print Name of Joint Owner: _____

Signature of Joint Owner: _____

If you are attaching a copy of your brokerage statement, you must have your securities broker complete the following:

The undersigned hereby certifies that the foregoing attestation is correct.

Name of Brokerage Firm

By: _____

Print Name of Signing Broker

Date: _____
Telephone No.: _____

FORM OF
AWARD AGREEMENT
Under The
Barrett Business Services, Inc.
2015 Stock Incentive Plan

EMPLOYEE RESTRICTED STOCK UNITS
(Executive Officer)

This Employee Restricted Stock Units Award Agreement (this "Agreement"), effective as of the date indicated below, evidences the grant of Restricted Units ("RSUs") to Participant under Article 9 of the Barrett Business Services, Inc., 2015 Stock Incentive Plan (the "Plan").

Corporation: **BARRETT BUSINESS SERVICES, INC.**

Participant: _____

Grant Date: _____, 20__

Number of RSUs: _____

Initial Value of Grant \$_____, based on the closing price of a Share of Common Stock, \$_____, on _____, 20__.

Restriction Periods: Each Restriction Period commences on the Grant Date; Restriction Period 1 ends on _____, 20__, Restriction Period 2 on _____, 20__, Restriction Period 3 on _____, 20__, and Restriction Period 4 on _____, 20__. [First four annual anniversaries of Grant Date]

Vesting Schedule: 25% on the last day of each Restriction Period.

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.

The terms and conditions of this Award of RSUs are set forth on the following pages of this Agreement and are, in each instance, subject to the terms and conditions of the Plan.

This Agreement may be acknowledged and accepted by Participant by signing, scanning and returning a copy of this page by email.

BARRETT BUSINESS SERVICES, INC.

Participant

By _____
Name _____
Its _____

**AWARD AGREEMENT
Under The
Barrett Business Services, Inc.
2015 Stock Incentive Plan**

**EMPLOYEE RESTRICTED STOCK UNITS
(Executive Officer)**

TERMS AND CONDITIONS

1. Defined Terms

When used in this Agreement, the following terms have the meanings set forth below:

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

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

(i) A change in control of Corporation of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A as in effect on the Grant Date pursuant to the Exchange Act; provided that, without limitation, such a change in control shall be deemed to have occurred at such time as any Acquiring Person hereafter becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 40 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 of the Corporation would be converted into cash, securities, or other property, other than a merger of Corporation in which the holders of its Voting Securities immediately prior to the merger have the same proportionate ownership of Voting Securities 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.

Agreement. (e) **"Grant Date"** means the date the RSUs are granted, which is reflected as the date of this

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

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

2. Terms of RSUs

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

2.1 **Restriction Periods.** The RSUs are subject to the Restriction Periods shown on the first page of this Agreement.

2.2 **Vesting.** Subject to the accelerated Vesting provisions of Section 2.4, the designated percentages of RSUs will Vest in accordance with the schedule shown on the first page of this Agreement.

2.3 **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.

2.4 **Acceleration of Vesting.** Notwithstanding Section 2.3 or the schedule referred to in Section 2.2, 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.

2.5 **Settlement.**

(a) **Generally.** Unless previously forfeited pursuant to Section 2.3 or otherwise provided by this Agreement, each designated percentage of RSUs will be settled on the last day of the applicable Restriction Period or, if not a business day, on the first business day thereafter (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 on 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.

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

2.7 **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. Shares issued upon settlement of RSUs may be subject to additional transfer restrictions as provided in this Agreement.

2.8 **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.

3. Tax Withholding and Reimbursement

Participant is responsible for the 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"). To satisfy this obligation, Corporation will 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 total amount of Applicable Taxes on the compensation income realized upon settlement of the Award; provided, that the Fair Market Value of Shares so withheld will in no event exceed the amount calculated based on the maximum individual tax rates in the jurisdictions applicable to Participant.

4. 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, rules and regulations. Such action may include, without limitation, (a) registering or qualifying such Shares under any state or federal law or under the rules of any securities exchange or association, (b) satisfying any law or rule relating to the transfer of unregistered securities or demonstrating the availability of an exemption from any such law, (c) placing a restrictive legend or stop-transfer instructions on the Shares issued upon settlement of the Award, or (d) obtaining the consent or approval of any governmental or regulatory body.

5. 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.

6. 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.

7. 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 administered by and in accordance with the then effective arbitration rules of Arbitration Service of Portland, Inc. The place of arbitration will be Multnomah County, Oregon. The award rendered by the arbitrator will be final and binding, and judgment may be entered on the award in any court having jurisdiction.

8. 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).

9. Clawback/Recovery

Compensation paid to the Participant under this Award is subject to recoupment in accordance with any clawback policy of Corporation in effect from time to time, including any such policy adopted after the date of this Agreement, as well as any similar requirement of applicable law, including without limitation the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Sarbanes-Oxley Act of 2002, and rules adopted by a governmental agency or applicable securities exchange under any such law. Participant agrees to promptly repay or return any such compensation as directed by Corporation under any such clawback policy or requirement, including the value received from a disposition of Shares acquired pursuant to this Award.

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 Corporation 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.

**FORM OF
AWARD AGREEMENT
Under The
Barrett Business Services, Inc.
2015 Stock Incentive Plan**

NON-EMPLOYEE DIRECTOR RESTRICTED STOCK UNITS

This Non-Employee Director Restricted Stock Units Award Agreement (this "Agreement"), effective as of the date indicated below, evidences the grant of Restricted Units ("RSUs") to Participant under Article 9 of the Barrett Business Services, Inc., 2015 Stock Incentive Plan (the "Plan").

Corporation: **BARRETT BUSINESS SERVICES, INC.**

Participant: _____

Grant Date: **July 1, 2018**

Number of RSUs: _____

Initial Value of Grant \$ _____, based on the closing price of a Share of Common Stock, \$ _____, on June 29, 2018.

Restriction Periods: Each Restriction Period commences on the Grant Date; Restriction Period 1 ends on July 1, 2019, and Restriction Period 2 ends on July 1, 2020

Vesting Schedule: 50% on the last day of Restriction Period 1 and 50% on the last day of Restriction Period 2.

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.

The terms and conditions of this Award of RSUs are set forth on the following pages of this Agreement and are, in each instance, subject to the terms and conditions of the Plan.

This Agreement may be acknowledged and accepted by Participant by signing, scanning and returning a copy of this page by email.

BARRETT BUSINESS SERVICES, INC.

Participant

By _____
Name _____
Its _____

AWARD AGREEMENT
Under The
Barrett Business Services, Inc.
2015 Stock Incentive Plan

NON-EMPLOYEE DIRECTOR RESTRICTED STOCK UNITS
TERMS AND CONDITIONS

1. Defined Terms

When used in this Agreement, the following terms have the meanings set forth below:

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

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

(i) A change in control of Corporation of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A as in effect on the Grant Date pursuant to the Exchange Act; provided that, without limitation, such a change in control shall be deemed to have occurred at such time as any Acquiring Person hereafter becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 40 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 of the Corporation would be converted into cash, securities, or other property, other than a merger of Corporation in which the holders of its Voting Securities immediately prior to the merger have the same proportionate ownership of Voting Securities 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 issued and outstanding securities ordinarily having the right to vote in elections for director.

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

2. Terms of RSUs

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

2.1 **Restriction Periods.** The RSUs are subject to the Restriction Periods shown on the first page of this Agreement.

2.2 **Vesting.** Subject to the accelerated Vesting provisions of Section 2.4, the designated percentages of RSUs will Vest in accordance with the schedule shown on the first page of this Agreement.

2.3 **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.

2.4 **Acceleration of Vesting.** Notwithstanding Section 2.3 or the schedule referred to in Section 2.2, 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.

2.5 **Settlement.**

(a) **Generally.** Unless previously forfeited pursuant to Section 2.3 or otherwise provided by this Agreement, each designated percentage of RSUs will be settled on the last day of the applicable Restriction Period or, if not a business day, on the first business day thereafter (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 on 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.

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

2.7 **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. Shares issued upon settlement of RSUs may be subject to additional transfer restrictions as provided in this Agreement.

2.8 **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.

3. 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.

4. 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, rules and regulations. Such action may include, without limitation, (a) registering or qualifying such Shares under any state or federal law or under the rules of any securities exchange or association, (b) satisfying any law or rule relating to the transfer of unregistered securities or demonstrating the availability of an exemption from any such law, (c) placing a restrictive legend or stop-transfer instructions on the Shares issued upon settlement of the Award, or (d) obtaining the consent or approval of any governmental or regulatory body.

5. 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.

6. 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.

7. 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 administered by and in accordance with the then effective arbitration rules of Arbitration Service of Portland, Inc. The place of arbitration will be Multnomah County, Oregon. The award rendered by the arbitrator will be final and binding, and judgment may be entered on the award in any court having jurisdiction.

8. 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).

9. Clawback/Recovery

Compensation paid to the Participant under this Award is subject to recoupment in accordance with any clawback policy of Corporation in effect from time to time, including any such policy adopted after the date of this Agreement, as well as any similar requirement of applicable law, including without limitation the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Sarbanes-Oxley Act of 2002, and rules adopted by a governmental agency or applicable securities exchange under any such law. Participant agrees to promptly repay or return any such compensation as directed by Corporation under any such clawback policy or requirement, including the value received from a disposition of Shares acquired pursuant to this Award.

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 Corporation 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.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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 quarterly 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 quarterly 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 quarterly 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: August 8, 2018

/s/ Michael L. Elich

Michael L. Elich
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Gary E. Kramer, 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 quarterly 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 quarterly 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 quarterly 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: August 8, 2018

/s/ Gary E. Kramer

Gary E. Kramer
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 June 30, 2018 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

/s/ Gary E. Kramer
Gary E. Kramer
Chief Financial Officer

August 8, 2018

August 8, 2018

A signed original of this written statement required by Section 906 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.

BARRETT BUSINESS SERVICES, INC.
DESCRIPTION OF CAPITAL STOCK

Barrett Business Services, Inc. (the "Company"), is authorized to issue 500,000 shares of Preferred Stock, \$.01 par value, issuable in series, and 20,500,000 shares of Common Stock, \$.01 par value. The Common Stock is listed on the Global Select Market of The Nasdaq Stock Market under the symbol "BBSI."

Common Stock

Meetings of Stockholders, Action without Meeting, Quorum, and Voting Rights

A special meeting of stockholders may be called for any purpose by the Board or the Company's President, and shall be called upon the written request of stockholders entitled to cast 25 percent of all votes entitled to be cast at the meeting, stating the purpose and matters to be acted on at the meeting. Such stockholders must also pay the costs of mailing the meeting notice to stockholders. A meeting is not required to be called if the matter to be acted on is substantially the same as a matter voted on by the stockholders during the preceding twelve months, unless stockholders entitled to cast a majority of all the votes entitled to be cast at the meeting submit the request.

Any action required or permitted to be taken at a meeting of stockholders may be taken without a meeting by written consent signed by each stockholder entitled to vote on the matter, together with a written waiver of any right to dissent signed by each stockholder entitled to notice of the meeting but not entitled to vote, in each case submitted to the Company's Secretary for filing in the Company's records.

The presence, in person or by proxy, of a majority of all votes entitled to be cast at a meeting of stockholders constitutes a quorum. Shares of Common Stock are entitled to one vote per share on each matter submitted to a vote at a meeting of stockholders.

The number of directors, within a range of three to nine persons, is fixed by the board of directors (the "Board") from time to time by resolution. In an election of directors by stockholders, a director will be elected upon receiving a majority of the votes cast; provided that, if the number of nominees exceeds the number of positions to be filled, directors will be elected by the vote of a plurality of the shares represented in person or by proxy and entitled to vote in the election of directors at the meeting of stockholders. If an incumbent director is nominated but not reelected, the director is required to tender his or her resignation to the Board. The Board's Nominating and Governance Committee will make a recommendation to the Board as to whether to accept or reject the resignation, after which the Board will make a determination and publicly disclose its decision. Voting for directors is not cumulative. At a meeting of stockholders expressly called for that purpose, all or any number of the directors may be removed with or without cause by the affirmative vote of a majority of all votes entitled to be cast in the election of directors.

Except as provided in the next sentence and under "Power to Amend Bylaws" below, if a quorum is present at a meeting of stockholders, a majority of all the votes cast at the meeting is sufficient to approve any other matters properly presented at the meeting. Under the Company's Charter, certain matters requiring stockholder approval, including a merger, consolidation, share exchange, share transfer, amendment of the Charter, or dissolution, will be deemed approved upon receipt of the affirmative vote of a majority of all votes of all classes or any class of stock entitled to be cast on the matter, notwithstanding any provision of the Maryland General Corporation Law requiring a greater proportion of the votes of all classes or any class of stock on such matter.

Power to Amend Bylaws

The stockholders have the power to amend or repeal the Company's Bylaws, or adopt new bylaws, at any meeting of stockholders by the affirmative vote of a majority of all shares entitled to vote at the meeting. The Board also has the power to amend or repeal the Bylaws, or adopt new bylaws, by the affirmative vote of a majority of the total number of directors then authorized, including any vacancies, and subject to the stockholders' power to amend or repeal the Bylaws.

Dividends

Holders of Common Stock are entitled to dividends when, as and if declared by the Board out of funds legally available therefor (subject to the rights of holders of any Preferred Stock).

Liquidation Rights

Upon liquidation of the Company, after payment or provision for all liabilities and payment of any preferential amount in respect of Preferred Stock, holders of Common Stock are entitled to receive liquidating distributions of any remaining assets on a pro rata basis.

Other

Common Stock is not convertible into any other class of security, is not entitled to the benefit of any sinking fund provision, and does not have any redemption rights or preemptive rights to acquire additional shares of Common Stock or securities convertible into Common Stock. All outstanding shares of Common Stock are fully paid and nonassessable.

Preferred Stock

The Board of Directors of the Company is authorized to issue Preferred Stock in one or more series, and to determine the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, and terms or conditions of redemption of each series without any vote or action of the stockholders of the Company. This authority is known as "blank check preferred stock." As of July 31, 2018, no shares of Preferred Stock were outstanding.

Anti-Takeover Provisions

The Company's Charter and Bylaws contain provisions that may have the effect of discouraging, delaying or preventing a change in control of the Company. Among these provisions, the Board has the authority to issue up to 500,000 shares of Preferred Stock with such rights and preferences, including voting rights, as it may establish, without further approval by the Company's stockholders. The issuance of Preferred Stock with voting and conversion rights may adversely affect the voting power of the holders of Common Stock.

The Company's Bylaws include a provision requiring shareholders to give advance notice of their intention to nominate individuals for election as directors or to propose other business at an annual meeting of stockholders, including:

- Creating procedures for making nominations for election of directors or proposing other business (other than matters submitted for inclusion in the Company's proxy materials pursuant to Rule 14a-8 under the Securities Exchange Act of 1934).
- Requiring notice of stockholder nominations of individuals for election as directors and other stockholder proposals to be brought before an annual meeting of stockholders, other than pursuant to Rule 14a-8, to be submitted not earlier than 120 days and not later than 90 days prior to the one-year anniversary of the mailing date of the Company's proxy materials for the preceding year's annual meeting, with alternative requirements in the event the date of the annual meeting is changed by more than 30 days.

- Requiring the submission of specific information about proposed nominee(s).
- Requiring stockholder proposals to include a brief description of the proposal, the reasons for conducting such business at the meeting, and any material interest of the stockholder in such business.
- Requiring the stockholder giving notice and each beneficial owner of shares of the Company on whose behalf the nomination or proposal is made, to provide specified information regarding each person and their share ownership.

Maryland Control Share and Business Combination Statutes

The Company is subject to the Maryland control share act (the "Control Share Act"). Under the Control Share Act, a person (an "Acquiring Person") who acquires voting stock in a transaction (a "Control Share Acquisition") which results in its holding voting power within specified ranges cannot vote the shares it acquires in the Control Share Acquisition ("control shares") unless voting rights are accorded to such control shares by the holders of two-thirds of the outstanding voting shares, excluding the Acquiring Person and the Company's officers and inside directors. The term Acquiring Person is broadly defined to include persons acting as a group.

An Acquiring Person may but is not required to (a) submit to the Company an "Acquiring Person Statement" which delineates certain information about the Acquiring Person and its plans for acquiring the Company's stock and (b) request the Company to call a special meeting of stockholders to act on the question of its voting rights.

If an Acquiring Person Statement is not delivered to the Company within ten days after a Control Share Acquisition or if the control shares are not accorded voting rights, the Company will have the right, subject to certain conditions, to redeem the control shares at fair value determined without regard to the absence of voting rights. If an Acquiring Person's control shares are accorded voting rights and its shares represent a majority or more of all voting power, all stockholders of the Company, other than the Acquiring Person, will have the right to receive "fair value" for their shares, which may not be less than the highest price paid per share by the Acquiring Person for its shares in the Control Share Acquisition.

The Company is also subject to the provisions of the Maryland General Corporation Law limiting the ability of certain Maryland corporations to engage in specified business combinations (the "Business Combination Act"). Subject to certain exceptions, the Business Combination Act prohibits a Maryland corporation from engaging in a business combination with a stockholder who, with its affiliates, owns 10% or more of the corporation's voting stock (an "Interested Stockholder") unless (i) the corporation's board of directors recommends the combination, (ii) stockholders holding 80% of the voting stock approve the business combination, and (iii) stockholders holding two-thirds of the voting stock not owned by the Interested Stockholder approve the business combination. In addition, an Interested Stockholder may not engage in a business combination with the corporation for a period of five years following the date the stockholder becomes an Interested Stockholder. "Business combination" is defined to include any merger with, any transfer of assets to, the provision of financial assistance to, and certain transactions involving the issuance of shares to, the Interested Stockholder. These provisions do not apply, however, to business combinations that are approved or exempted by the corporation's board of directors before the stockholder became an Interested Stockholder.