

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2001
Commission File No. 0-21886

BARRETT BUSINESS SERVICES, INC.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

52-0812977
(IRS Employer
Identification No.)

4724 SW Macadam Avenue
Portland, Oregon
(Address of principal executive offices)

97201
(Zip Code)

(503) 220-0988
(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 [X] No []

Number of shares of Common Stock, \$.01 par value, outstanding at July 31, 2001 was 6,175,398 shares.

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Item 1. Financial Statements

BARRETT BUSINESS SERVICES, INC.

Balance Sheets

(Unaudited)

(In thousands, except per share amounts)

	June 30, 2001	December 31, 2000
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 697	\$ 516
Trade accounts receivable, net	15,903	20,660
Prepaid expenses and other	1,685	1,222
Deferred tax assets	2,386	2,702
	-----	-----
Total current assets	20,671	25,100
Intangibles, net	19,909	20,982
Property and equipment, net	6,547	7,177
Restricted marketable securities and workers' compensation deposits	4,174	4,254
Unrestricted marketable securities	1,311	1,386
Deferred tax assets	1,039	839
Other assets	1,321	1,374
	-----	-----
	\$ 54,972	\$ 61,112
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 1,056	\$ 2,939
Line of credit	2,824	2,628
Accounts payable	551	1,013
Accrued payroll, payroll taxes and related benefits	7,756	7,893
Workers' compensation claims and safety incentive liabilities	5,187	5,274
Other accrued liabilities	531	1,622
	-----	-----
Total current liabilities	17,905	21,369
Long-term debt, net of current portion	372	1,508
Customer deposits	488	614
Long-term workers' compensation claims liabilities	674	682
Other long-term liabilities	2,045	2,022
	-----	-----
	21,484	26,195
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.01 par value; 20,500 shares authorized, 6,175 and 6,451 shares issued and outstanding	62	64
Additional paid-in capital	4,355	5,387
Retained earnings	29,071	29,466
	-----	-----
	33,488	34,917
	-----	-----
	\$ 54,972	\$ 61,112
	=====	=====

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

BARRETT BUSINESS SERVICES, INC.

Statements of Operations

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30,	
	----- 2001	----- 2000
	-----	-----
Revenues:		
Staffing services	\$ 29,949	\$ 51,698
Professional employer services	22,602	34,804

	52,551	86,502
Cost of revenues:		
Direct payroll costs	40,623	67,155
Payroll taxes and benefits	4,309	7,306
Workers' compensation	2,441	3,263
	47,373	77,724
Gross margin	5,178	8,778
Selling, general and administrative expenses	4,652	6,464
Depreciation and amortization	822	822
(Loss) income from operations	(296)	1,492
Other (expense) income:		
Interest expense	(87)	(238)
Interest income	73	86
Other, net	(1)	1
	(15)	(151)
(Loss) income before provision for income taxes	(311)	1,341
(Benefit from) provision for income taxes	(127)	547
Net (loss) income	\$ (184)	\$ 794
Basic (loss) earnings per share	\$ (.03)	\$.11
Weighted average number of basic shares outstanding	6,252	7,416
Diluted (loss) earnings per share	\$ (.03)	\$.11
Weighted average number of diluted shares outstanding	6,252	7,459

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

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

	Six Months Ended June 30,	
	2001	2000
Revenues:		
Staffing services	\$ 61,221	\$ 99,465
Professional employer services	46,483	74,159
	107,704	173,624
Cost of revenues:		
Direct payroll costs	83,383	135,159
Payroll taxes and benefits	9,183	15,224
Workers' compensation	4,618	5,860
	97,184	156,243
Gross margin	10,520	17,381
Selling, general and administrative expenses	9,528	12,949
Depreciation and amortization	1,651	1,553
(Loss) income from operations	(659)	2,879
Other (expense) income:		
Interest expense	(208)	(459)
Interest income	154	172
Other, net	46	4
	(8)	(283)
(Loss) income before provision for income taxes	(667)	2,596
(Benefit from) provision for income taxes	(272)	1,058

Net (loss) income	\$ (395)	\$ 1,538
Basic (loss) earnings per share	\$ (.06)	\$.21
Weighted average number of basic shares outstanding	6,326	7,438
Diluted (loss) earnings per share	\$ (.06)	\$.21
Weighted average number of diluted shares outstanding	6,326	7,484

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

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

	Six Months Ended June 30,	
	2001	2000
Cash flows from operating activities:		
Net (loss) income	\$ (395)	\$ 1,538
Reconciliations of net (loss) income to cash from operations:		
Depreciation and amortization	1,651	1,553
Gain on sale of property	(46)	-
Changes in certain assets and liabilities:		
Trade accounts receivable, net	4,757	765
Prepaid expenses and other	(463)	11
Deferred tax assets	116	(753)
Accounts payable	(462)	(737)
Accrued payroll, payroll taxes and related benefits	(137)	577
Workers' compensation claims and safety incentive liabilities	(87)	482
Other accrued liabilities	(1,091)	290
Customer deposits and long-term workers' compensation liabilities and other assets, net	(81)	(287)
Other long-term liabilities	23	195
Net cash provided by operating activities	3,785	3,634
Cash flows from investing activities:		
Cash paid for acquisitions, including other direct costs	-	(67)
Proceeds from sale of property	266	-
Purchase of fixed assets	(168)	(911)
Proceeds from maturities of marketable securities	239	853
Purchase of marketable securities	(84)	(637)
Net cash provided by (used in) investing activities	253	(762)
Cash flows from financing activities:		
Net proceeds from credit-line borrowings	196	110
Payments on long-term debt	(3,019)	(1,389)
Payment of notes payable	-	(865)
Repurchase of common stock	(1,034)	(974)
Proceeds from exercise of stock options	-	28
Net cash used in financing activities	(3,857)	(3,090)
Net increase (decrease) in cash and cash equivalents	181	(218)
Cash and cash equivalents, beginning of period	516	550
Cash and cash equivalents, end of period	\$ 697	\$ 332

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

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BARRETT BUSINESS SERVICES, INC.
Notes to Financial Statements

Note 1 - Basis of Presentation of Interim Period Statements:

The accompanying financial statements are unaudited and have been prepared by Barrett Business Services, Inc. (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures typically included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from such estimates and assumptions. The financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2000 Annual Report on Form 10-K at pages F1 - F20. The results of operations for an interim period are not necessarily indicative of the results of operations for a full year.

Note 2 - Recent Accounting Pronouncements:

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 141 ("SFAS 141") "Business Combinations" and No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets." The Company's adoption date for SFAS 141 is immediate and the anticipated adoption date for SFAS 142 is January 1, 2002. With respect to SFAS 142, we will perform a goodwill impairment test as of the adoption date as required. Thereafter, we will perform a goodwill impairment test annually and whenever events or circumstances occur indicating that goodwill might be impaired. Amortization of goodwill, including goodwill recorded in past business combinations, will cease. We have not yet determined what the impact from SFAS 142 will be on our results of operations and financial position.

Note 3 - Provision For Income Taxes:

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

	June 30, 2001	December 31, 2000
	-----	-----
Gross deferred tax assets:		
Workers' compensation claims and safety incentive liabilities	\$ 2,244	\$ 2,206
Allowance for doubtful accounts	101	205
Amortization of intangibles	577	519
Deferred compensation	408	408
Other	190	289
	-----	-----
	3,520	3,627
	-----	-----
Gross deferred tax liabilities:		
Tax depreciation in excess of book depreciation	(95)	(86)
	-----	-----
Net deferred tax assets	\$ 3,425	\$ 3,541
	=====	=====

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

Note 3 - Provision For Income Taxes (Continued):

The (benefit from) provision for income taxes for the six months ended June 30, 2001 and 2000 is as follows (in thousands):

	Six Months Ended June 30,	
	-----	-----
	2001	2000
	-----	-----
Current:		
Federal	\$ (324)	\$ 1,423
State	(64)	388
	-----	-----
	(388)	1,811
	-----	-----
Deferred:		
Federal	102	(606)
State	14	(147)

	-----	-----
	116	(753)
	-----	-----
(Benefit from) provision for income taxes	\$ (272)	\$ 1,058
	=====	=====

Note 4 - Stock Incentive Plan:

The Company has a Stock Incentive Plan (the "Plan") which provides for stock-based awards to the Company's employees, directors and outside consultants or advisers. The number of shares of common stock reserved for issuance under the Plan is 1,550,000.

The following table summarizes options granted under the Plan in 2001:

Outstanding at December 31, 2000	955,662	\$1.93 to \$17.94
Options granted	99,248	\$1.45 to \$3.75
Options exercised	-	
Options canceled or expired	(13,600)	\$6.50 to \$8.91

Outstanding at June 30, 2001	1,041,310	\$1.45 to \$17.94
	=====	
Exercisable at June 30, 2001	729,217	
	=====	
Available for grant at June 30, 2001	284,256	
	=====	

The options listed in the table generally become exercisable in four equal annual installments beginning one year after the date of grant.

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

Note 4 - Stock Incentive Plan (Continued):

Certain of the Company's zone and branch management employees elect to receive a portion of their quarterly cash profit sharing distribution in the form of nonqualified deferred compensation stock options. Such options are awarded at a sixty percent discount from the then-fair market value of the Company's stock and are fully vested and immediately exercisable upon grant. Such discounts are recorded as compensation expense within selling, general and administrative expenses. The amount of the grantee's deferred compensation (discount from fair market value) is subject to market risk. During the first six months of 2001, the Company awarded deferred compensation stock options for 9,786 shares at exercise prices ranging from \$1.45 to \$1.49 per share.

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BARRETT BUSINESS SERVICES, INC.

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

Results of Operations

The following table sets forth the percentages of total revenues represented by selected items in the Company's Statements of Operations for the three and six months ended June 30, 2001 and 2000.

	Percentage of Total Revenues			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	-----	-----	-----	-----
Revenues:				
Staffing services	57.0 %	59.8 %	56.8 %	57.3 %
Professional employer services	43.0	40.2	43.2	42.7
	-----	-----	-----	-----
	100.0	100.0	100.0	100.0
	-----	-----	-----	-----
Cost of revenues:				
Direct payroll costs	77.3	77.6	77.4	77.8

Payroll taxes and benefits	8.2	8.5	8.5	8.8
Workers' compensation	4.6	3.8	4.3	3.4
	-----	-----	-----	-----
Total cost of revenues	90.1	89.9	90.2	90.0
	-----	-----	-----	-----
Gross margin	9.9	10.1	9.8	10.0
Selling, general and administrative expense	8.9	7.4	8.9	7.4
Depreciation and amortization	1.6	0.9	1.5	0.9
	-----	-----	-----	-----
(Loss) income from operations	(0.6)	1.8	(0.6)	1.7
Other expense	-	(0.2)	-	(0.2)
	-----	-----	-----	-----
(Loss) income before provision for income taxes	(0.6)	1.6	(0.6)	1.5
(Benefit from) provision for income taxes	(0.2)	0.7	(0.2)	0.6
	-----	-----	-----	-----
Net (loss) income	(0.4)%	0.9 %	(0.4)%	0.9 %
	=====	=====	=====	=====

Three months ended June 30, 2001 and 2000

Net loss for the second quarter of 2001 was \$184,000, a decline of \$978,000 from net income of \$794,000 for the second quarter of 2000. The decline for the second quarter of 2001 was attributable to lower gross margin dollars as a result of a 39.2% decrease in revenue, offset in part by a 28.0% reduction in selling, general and administrative expenses. Basic and diluted loss per share for the second quarter of 2001 were \$.03 as compared to basic and diluted earnings per share of \$.11 for the second quarter of 2000.

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

Results of Operations (Continued)

Revenues for the second quarter of 2001 totaled approximately \$52.6 million, a decrease of approximately \$33.9 million or 39.2% from the second quarter of 2000. The decrease in revenues reflects the general softening of business conditions in the Company's market areas, particularly in the Company's Northern California operations, which accounted for nearly 51% of the decline in total revenues. The Company's Northern California operations have been adversely affected by the significant downturn in the "high-tech" industry and related sectors.

Staffing services revenue decreased approximately \$21.7 million or 42.1% primarily due to a decline in demand for personnel in the majority of areas in which the Company does business. Professional employer ("PEO") services revenue decreased approximately \$12.2 million or 35.1%, which was primarily due to a 57.1% decline in the Company's Northern California region. The decline in PEO revenues for Northern California from a year ago was due in large part to management's decision to discontinue its services to a few high volume, low margin customers. The larger decline in staffing services revenue resulted in a decrease in the share of staffing services from 59.8% of total revenues for the second quarter of 2000 to 57.0% for the second quarter of 2001. The share of revenues for PEO services had a corresponding increase from 40.2% of total revenues for the second quarter of 2000 to 43.0% for the second quarter of 2001.

Gross margin for the second quarter of 2001 totaled approximately \$5.2 million, which represented a decrease of \$3.6 million or 41.0% from the second quarter of 2000 primarily resulting from the 39.2% decline in revenues experienced in the second quarter of 2001. The gross margin percent decreased from 10.1% of revenues for the second quarter of 2000 to 9.9% for the second quarter of 2001. The decrease in the gross margin percentage was due to higher workers' compensation expense, offset in part by lower direct payroll costs and lower payroll taxes and benefits. Workers' compensation expense for the second quarter of 2001 totaled \$2.4 million or 4.6% of revenues, which compares to \$3.3 million or 3.8% of revenues for the second quarter of 2000. The increase in the percentage of revenues for workers' compensation expense was primarily attributable to higher estimates for the cost of claims, as the number of claims declined on a quarter-over-quarter basis. The decrease in direct payroll costs, as a percentage of revenues, for the second quarter of 2001 was primarily due to substantial decreases in contract staffing and on-site management, which generally have a lower mark-up rate (and thus higher direct payroll costs as a percentage of revenues) relative to other services provided by the Company and to a lesser extent higher mark-up rates charged by the Company for its services. The decline in payroll taxes and benefits, as a percentage of revenues for the

second quarter of 2001, was primarily due to a reduction in state unemployment tax rates in various states in which the Company operates as compared to the second quarter of 2000.

Selling, general and administrative ("SG&A") expenses for the 2001 second quarter amounted to approximately \$4.7 million, a decrease of \$1.8 million or 28.0% from the comparable period in 2000. SG&A expenses, expressed as a percentage of revenues, increased from 7.4% for the second quarter of 2000 to 8.9% for the second quarter of 2001. The decrease in total dollars from 2000 was primarily attributable to branch office reductions in management personnel and related expenses as a result in the downturn in business.

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

Results of Operations (Continued)

Depreciation and amortization totaled \$822,000 or 1.6% of revenues for the second quarter of 2001, which was comparable to the total dollars for the same period in 2000. The expense level remained constant on terms of total dollars primarily due to a low level of capital expenditures since the second quarter of 2000.

Other expense totaled \$15,000 for the second quarter of 2001, which compares to \$151,000 of other expense for the second quarter of 2000. The decrease in other expense was primarily attributable to a reduction in net interest expense of \$166,000 due to lower debt levels during the second quarter of 2001 as compared to the same quarter of 2000.

The Company offers various qualified employee benefit plans to its employees, including its worksite employees. These qualified employee benefit plans include a savings plan under Section 401(k) of the Internal Revenue Code (the "Code"), a cafeteria plan under Code Section 125, a group health plan, a group life insurance plan, a group disability insurance plan and an employee assistance plan. Generally, qualified employee benefit plans are subject to provisions of both the Code and the Employee Retirement Income Security Act ("ERISA"). In order to qualify for favorable tax treatment under the Code, qualified plans must be established and maintained by an employer for the exclusive benefit of its employees. In the event the tax exempt status of the Company's benefit plans were to be discontinued and the benefit plans were to be disqualified, such actions could have a material adverse effect on the Company's business, financial condition and results of operations. Reference is made to pages 18-19 of the Company's 2000 Annual Report on Form 10-K for a more detailed discussion of this issue.

Six Months Ended June 30, 2001 and 2000

Net loss for the six months ended June 30, 2001 was \$395,000, a decline of \$1,933,000 from net income of \$1,538,000 for the same period in 2000. The decrease in net income was attributable to lower gross margin dollars primarily resulting from a 38.0% decrease in revenue, partially offset by a 26.4% reduction in SG&A expenses and a 97.1% reduction in other expenses. Basic and diluted loss per share for the first six months of 2001 were \$.06 as compared to basic and diluted earnings per share of \$.21 for the same period of 2000.

Revenues for the six months ended June 30, 2001 totaled approximately \$107.7 million, a decrease of approximately \$65.9 million or 38.0% from the similar period in 2000. The decrease in total revenues was primarily due to the continued softening of business conditions in the Company's market areas, particularly in the Company's Northern California operations, which accounted for approximately 50% of the decline in total revenues for the first six months of 2001.

Gross margin for the six months ended June 30, 2001 totaled approximately \$10.5 million, which represented a decrease of \$6.9 million or 39.5% from the similar period of 2000. The gross margin percent decreased from 10.0% of revenues for the six-month period of 2000 to 9.8% for the same period of 2001. The decrease in the gross margin percentage was primarily due to higher workers' compensation expense, partially offset by lower direct payroll costs and lower payroll taxes and benefits. Workers' compensation expense for the six months ended June 30, 2001 totaled \$4.6 million or 4.3% of revenues, which compares to \$5.9 million

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

Results of Operations (Continued)

or 3.4% of revenues for the similar period of 2000. The increase in the percentage of revenues for the 2001 period was primarily due to higher estimates for the cost of claims, as the number of claims declined compared to the same period in 2000. The decrease in direct payroll costs, as a percentage of revenues, was attributable to decreases in contract staffing and on-site management, of which payroll generally represents a higher percentage of revenues, and to a lesser extent increases in the rates the Company charges for its services. The decrease in payroll taxes and benefits for the six-month period of 2001 was primarily attributable to lower state unemployment tax rates in various states in which the Company operates as compared to the six-month period of 2000.

SG&A expenses for the six months ended June 30, 2001 amounted to approximately \$9.5 million, a decrease of \$3.4 million or 26.4% from the similar period of 2000. SG&A expenses, expressed as a percentage of revenues, increased from 7.4% for the six-month period of 2000 to 8.9% for the same period of 2001. The decrease in total SG&A dollars was primarily due to reductions in branch management personnel and related expenses as a result of the downturn in business.

Depreciation and amortization totaled \$1.7 million or 1.5% of revenues for the six months ended June 30, 2001, which compares to \$1.6 million or 0.9% of revenues for the same period of 2000. The increased expense was primarily due to recognizing a full six months of expense during 2001 as a result of the March 1, 2000 implementation of the Company's new information system.

Other expense totaled \$8,000 for the six-month period ended June 30, 2001, which compares to \$283,000 of other expense for the comparable 2000 period. The decrease in expense was primarily due to a reduction in net interest expense attributable to lower debt levels during the first six months of 2001 as compared to the similar period of 2000.

Fluctuations in Quarterly Operating Results

The Company has historically experienced significant fluctuations in its quarterly operating results and expects such fluctuations to continue in the future. The Company's operating results may fluctuate due to a number of factors such as seasonality, wage limits on payroll taxes, claims experience for workers' compensation, demand and competition for the Company's services and the effect of acquisitions. The Company's revenue levels fluctuate from quarter to quarter primarily due to the impact of seasonality on its staffing services business and on certain of its PEO clients in the agriculture and forest products-related industries. As a result, the Company may have greater revenues and net income in the third and fourth quarters of its fiscal year. Payroll taxes and benefits fluctuate with the level of direct payroll costs, but tend to represent a smaller percentage of revenues and direct payroll later in the Company's fiscal year as federal and state statutory wage limits for unemployment and social security taxes are exceeded by some employees. Workers' compensation expense varies with both the frequency and severity of workplace injury claims reported during a quarter, as well as adverse loss development of prior period claims during a subsequent quarter.

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

Liquidity and Capital Resources

The Company's cash position of \$697,000 at June 30, 2001 increased by \$181,000 over December 31, 2000, which compares to a decrease of \$218,000 for the comparable period in 2000. The increase in cash at June 30, 2001, as compared to December 31, 2000, was primarily attributable to cash provided by operating activities, offset in part by payments on long-term debt and repurchases of the Company's common stock.

Net cash provided by operating activities for the six months ended June 30, 2001 amounted to \$3,785,000, as compared to \$3,634,000 for the comparable 2000 period. For the 2001 period, cash flow was generated by a \$4,757,000 decrease in trade accounts receivable, together with depreciation and amortization, offset in part by decreases in other accrued liabilities and accounts payable and an increase in prepaid expenses and other.

Net cash provided by investing activities totaled \$253,000 for the six months ended June 30, 2001, as compared to \$762,000 net cash used in investing activities for the similar 2000 period. For the 2001 period, the principal source of cash provided by investing activities was from net proceeds of \$266,000 associated with the sale of a Company-owned office condominium and \$239,000 of proceeds from maturities of marketable securities, offset in part by purchases of office equipment. The Company presently has no material long-term capital commitments.

Net cash used in financing activities for the six-month period ended June

30, 2001 was \$3,857,000, compared to \$3,090,000 net cash provided by financing activities for the similar 2000 period. For the 2001 period, the principal use of cash for financing activities was \$3,019,000 of payments made on long-term debt, primarily related to the \$8,000,000 three-year term loan in connection with the Company's 1999 acquisition of Temporary Skills Unlimited, Inc., and \$1,034,000 used to repurchase the Company's common stock.

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

Effective May 31, 2001, the Company's loan agreement with its principal bank was renewed on terms and conditions which were generally more favorable than the prior agreement, as amended. The new agreement provides for (1) borrowings on the revolving credit facility up to the lesser of (i) \$13.0 million or (ii) 65 percent of total trade accounts receivable at the end of any fiscal quarter, and (2) a security interest in all trade accounts receivable. This facility, which expires July 1, 2002, includes a subfeature for standby letters of credit in connection with certain workers' compensation surety arrangements, as to which approximately \$3.9 million were outstanding as of June 30, 2001. Additionally, in connection with the loan agreement renewal, the \$8,000,000 three-year term loan related to the Company's acquisition of TSU in 1999 was restructured whereby approximately \$1.6 million of the outstanding principal balance transferred to the revolving credit facility. The remaining balance of approximately \$1.0 million at June 30, 2001, on the term loan was collateralized by the

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

Liquidity and Capital Resources (Continued)

Company's unrestricted marketable securities with a par value of \$1.295 million. In addition, the monthly debt service on the term loan was reduced from \$222,222 per month to \$91,667 per month. The maturity date of the term loan, May 31, 2002, remained unchanged. Management expects that the funds anticipated to be generated from operations, together with the bank-provided credit facility and other potential sources of financing, will be sufficient in the aggregate to fund the Company's working capital needs for the foreseeable future.

In February 1999, the Company's Board of Directors authorized a stock repurchase program to repurchase common shares from time to time in open market purchases. Since inception, the Board of Directors has approved five increases in the total number of shares or dollars authorized to be repurchased under the program. As of June 30, 2001, the repurchase program had authorized availability of \$549,000 for the repurchase of additional shares. During the first six months of 2001, the Company repurchased 275,300 shares at an aggregate price of \$1,034,000. Since the inception of the repurchase program through August 8, 2001, the Company has repurchased 1,511,700 shares for an aggregate price of \$7,082,000. Management anticipates that the capital necessary to execute this program will be provided by existing cash balances and other available resources.

Inflation

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

Forward-Looking Information

Statements in this report which are not historical in nature, including discussion of economic conditions in the Company's market areas, the potential for and effect of recent and future acquisitions, the effect of changes in the Company's mix of services on gross margin, the adequacy of the Company's workers' compensation reserves and allowance for doubtful accounts, the effectiveness of the Company's management information systems, the tax-qualified status of the Company's 401(k) savings plan and the availability of financing and working capital to meet the Company's funding requirements, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors with respect to the Company include difficulties associated with integrating acquired businesses and clients into the Company's operations, economic trends in the Company's service areas, the effect of power shortages in California and the

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

Forward-Looking Information (Continued)

position as to the tax-qualified status of employee benefit plans maintained by PEOs, future workers' compensation claims experience, and the availability of and costs associated with potential sources of financing. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk for changes in interest rates primarily relates to the Company's short-term and long-term debt obligations. As of June 30, 2001, the Company had interest-bearing debt obligations of approximately \$5.4 million, of which approximately \$3.8 million bears interest at a variable rate and approximately \$1.6 million at a fixed rate of interest. The variable rate debt is comprised of approximately \$2.8 million outstanding under a secured revolving credit facility, which bears interest at the prime rate less 1.70%. The Company also has a secured term note due May 31, 2002, with its principal bank, which bears interest at LIBOR plus 1.35%. Based on the Company's overall interest exposure at June 30, 2001, a 10 percent change in market interest rates would not have a material effect on the fair value of the Company's long-term debt or its results of operations. As of June 30, 2001, the Company had not entered into any interest rate instruments to reduce its exposure to interest rate risk.

Part II - Other Information

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its 2001 annual meeting of stockholders on May 17, 2001. The following directors were elected at the annual meeting:

	For -----	Withheld -----	Exception -----
Robert R. Ames	6,249,006	27,535	
Thomas J. Carley	6,249,006	27,535	
Richard W. Godard	6,162,769	113,772	
James B. Hicks	6,248,606	27,935	
Anthony Meeker	6,249,006	27,535	
Nancy B. Sherertz	6,248,576	27,965	
William W. Sherertz	6,162,806	113,735	

The other matters presented for action at the annual meeting were approved by the following vote:

	For -----	Against -----	Abstain -----
Approval of the appointment of PricewaterhouseCoopers LLP as independent accountants	6,249,531	27,000	10

Item 6. Exhibits and Reports on Form 8-K

- (a) The exhibits filed herewith are listed in the Exhibit Index following the signature page of this report.
- (b) No Current Reports on Form 8-K were filed by the Registrant during the quarter ended June 30, 2001.

SIGNATURES

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

BARRETT BUSINESS SERVICES, INC.
(Registrant)

Date: August 10, 2001

By: /s/ Michael D. Mulholland

Michael D. Mulholland
Vice President - Finance
(Principal Financial Officer)

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EXHIBIT INDEX

Exhibit

- 4.1 Amendment, dated May 31, 2001, to Loan Agreement between the Registrant and Wells Fargo Bank, N.A., dated May 31, 2000, Revolving Line of Credit Note in the amount of \$13,000,000 dated May 31, 2001, and related loan documents
- 11. Statement of Calculation of Basic and Diluted Common Shares Outstanding

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May 31, 2001

BARRETT BUSINESS SERVICES, INC.
4724 SW Macadam Avenue
Portland, OR 97201

Dear Mike:

This letter amendment (this "Amendment") is to confirm the changes agreed upon between WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") and BARRETT BUSINESS SERVICES, INC. ("Borrower") to the terms and conditions of that certain letter agreement between Bank and Borrower dated as of May 31, 2000, as amended from time to time (the "Agreement"). For valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Bank and Borrower hereby agree that the Agreement shall be amended as follows to reflect said changes.

1. The Agreement is hereby amended by deleting "May 31, 2001" as the last day on which Bank will make advances under the Line of Credit, and by substituting for said date "July 1, 2002," with such change to be effective upon the execution and delivery to Bank of a promissory note substantially in the form of Exhibit A attached hereto (which promissory note shall replace and be deemed the Line of Credit Note defined in and made pursuant to the Agreement) and all other contracts, instruments and documents required by Bank to evidence such change.

2. Paragraph I.4. is hereby deleted in its entirety, and the following substituted therefor:

4. COLLATERAL:

As security for all indebtedness of Borrower to Bank under the Line of Credit, Borrower hereby grants to Bank a lien of not less than first priority in all its rights to payment from customers and accounts receivable arising from services rendered or to be rendered, whether or not the same has been earned by performance, and all rights under any contracts it has or may have with its customers, and proceeds of all of the foregoing.

As security for all indebtedness of Borrower to Bank under Term Loan A, Borrower hereby grants to Bank a lien of not less than first priority on that certain real property located at 4724 SW Macadam Avenue, Portland, OR.

As security for all indebtedness of Borrower to Bank under Term Loan B, Borrower hereby grants to Bank a lien of not less than first priority in all municipal bonds held by Wells Fargo Brokerage Services, LLC account number 12113288.

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All of the foregoing shall be evidenced by and subject to the terms of such security agreements, financing statements, deeds of trust and other documents as Bank shall reasonably require, all in form and substance satisfactory to Bank. Borrower shall reimburse Bank immediately upon demand for all costs and expenses incurred by Bank in connection with any of the foregoing security, including without limitation, filing and recording fees and costs of appraisals, audits and title insurance.

3. Paragraph V.9 is hereby deleted in its entirety, and the following substituted therefor:

9. FINANCIAL CONDITION. Maintain Borrower's financial condition as follows using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein):

(a) Current Ratio as of the end of each fiscal quarter not at any time less than 1.05 to 1.0, with "Current Ratio" defined as total current assets divided by total current liabilities.

(b) Funded Debt to EBITDA Ratio not more than 2.25 to 1.0 as of the end of each fiscal quarter end, with "Funded Debt" defined as all borrowed funds plus the amount of all capitalized lease obligations of Borrower, "EBITDA" defined as net income before tax plus interest expense (net of capitalized interest expense), depreciation expense and amortization expense, and "Funded Debt to EBITDA Ratio" defined as Funded Debt divided by EBITDA.

(c) EBITDA Coverage Ratio not less than 1.25 to 1.0 through September 30, 2001, 1.5 to 1.0 at December 31, 2001 and 1.75 to 1.0 thereafter as of each fiscal quarter end, with "EBITDA" defined as net income before tax plus interest expense (net of capitalized interest expense), depreciation expense and amortization expense, and with "EBITDA Coverage Ratio" defined as EBITDA divided by the aggregate of (i) total interest expense for the trailing four quarters, including the current quarter then ended, plus (ii) scheduled principal payments on long-term debt and subordinated debt for the trailing four quarters,

including the current quarter then ended.

(d) Outstanding Line Liabilities not greater than sixty-five (65%) of Borrower's trade accounts receivable as of each fiscal quarter end, with "Outstanding Line Liabilities" defined as outstanding borrowings under the Line of Credit plus the face amount of outstanding Letters of Credit."

4. Paragraph V.11 is hereby deleted in its entirety, and the following substituted therefor:

11. MERGER, CONSOLIDATION, TRANSFER OF ASSETS. Not merge into or consolidate with any other entity; nor make any substantial change in the nature of Borrower's business as conducted as of the date hereof; nor acquire all or substantially all of the assets of any other entity in any transaction involving a purchase price of \$5,000,000.00 or more without the prior written approval of Bank, which approval shall no be unreasonably withheld; nor sell, lease, transfer or otherwise dispose of all or a substantial or material portion of Borrower's assets except in the ordinary course of its business.

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

6. Borrower hereby remakes all representations and warranties contained in the Agreement and reaffirms all covenants set forth therein. Borrower further certifies that as of the date of Borrower's acknowledgment set forth below there exists no default or defined event of default under the Agreement or any promissory note or other contract, instrument or document executed in connection therewith, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute such a default or defined event of default.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY BANK AFTER OCTOBER 3, 1989 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.

Your acknowledgment of this Amendment shall constitute acceptance of the foregoing terms and conditions.

Sincerely,

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: /s/ Julie Wilson

Julie Wilson, Vice President

Acknowledged and accepted as of 06-01-01:

BARRETT BUSINESS SERVICES, INC.

By: /s/ Michael D. Mulholland

Michael D. Mulholland,
Vice President-Finance

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REVOLVING LINE OF CREDIT NOTE

\$13,000,000.00

Portland, Oregon
May 31, 2001

FOR VALUE RECEIVED, the undersigned BARRETT BUSINESS SYSTEMS, INC. ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at 1300 S. W. Fifth Avenue, T-13, Portland, Oregon, 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 Thirteen Million Dollars (\$13,000,000.00), or so much thereof as may be advanced and be outstanding, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

DEFINITIONS:

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

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

(b) "Fixed Rate Term" means a period commencing on a Business Day and continuing for one (1), two (2), 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 no Fixed Rate Term may be selected for a principal amount less than Five Hundred Thousand Dollars (\$500,000.00); and provided further, that no Fixed Rate Term shall extend beyond the scheduled maturity date hereof. If any Fixed Rate Term would end on a day which is not a Business Day, then such Fixed Rate Term shall be extended to the next succeeding Business Day.

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

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

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

(ii) "LIBOR Reserve Percentage" means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency

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Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by Bank for expected changes in such reserve percentage during the applicable Fixed Rate Term.

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

INTEREST:

(a) Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) either (i) at a fluctuating rate per annum one and thirty five hundredths percent (1.35%) below the Prime Rate in effect from time to time, or (ii) at a fixed rate per annum determined by Bank to be one and thirty five hundredths percent (1.35%) above LIBOR in effect on the first day of the applicable Fixed Rate Term. When interest is determined in relation to the Prime Rate, each change in the rate of interest hereunder shall become effective on the date each Prime Rate change is announced within Bank. With respect to each LIBOR selection hereunder, Bank is hereby authorized to note the date, principal amount, interest rate and Fixed Rate Term applicable thereto and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted.

(b) Selection of Interest Rate Options. At any time any portion of this Note bears interest determined in relation to LIBOR, it may be continued by Borrower at the end of the Fixed Rate Term applicable thereto so that all or a portion thereof bears interest determined in relation to the Prime Rate or to LIBOR for a new Fixed Rate Term designated by Borrower. At any time any portion of this Note bears interest determined in relation to the Prime Rate, Borrower may convert all or a portion thereof so that it bears interest determined in relation to LIBOR for a Fixed Rate Term designated by Borrower. At such time as Borrower requests an advance hereunder or wishes to select a LIBOR option for all or a portion of the outstanding principal balance hereof, and at the end of each Fixed Rate Term, Borrower shall give Bank notice specifying: (i) the interest rate option selected by Borrower; (ii) the principal amount subject thereto; and (iii) for each LIBOR selection, the length of the applicable Fixed

Rate Term. Any such notice may be given by telephone (or such other electronic method as Bank may permit) so long as, with respect to each LIBOR selection, (A) if requested by Bank, Borrower provides to Bank written confirmation thereof not later than three (3) Business Days after such notice is given, and (B) such notice is given to Bank prior to 10:00 a.m. on the first day of the Fixed Rate Term, or at a later time during any Business Day if Bank, at its sole option but without obligation to do so, accepts Borrower's notice and quotes a fixed rate to Borrower. If Borrower does not immediately accept a fixed rate when quoted by Bank, the quoted rate shall expire and any subsequent LIBOR request from Borrower shall be subject to a redetermination by Bank of the applicable fixed rate. If no specific designation of interest is made at the time any advance is requested hereunder or at the end of any Fixed Rate Term, Borrower shall be deemed to have made a Prime Rate interest selection for such advance or the principal amount to which such Fixed Rate Term applied.

(c) Taxes and Regulatory Costs. Borrower shall pay to Bank immediately upon demand, in addition to any other amounts due or to become due hereunder, any and all (i)

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

(d) Payment of Interest. Interest accrued on this Note shall be payable on the first day of each month, commencing July 1, 2001.

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

BORROWING AND REPAYMENT:

(a) Borrowing and Repayment. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of any document executed in connection with or governing this Note; provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount 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 any 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, 2002.

(b) 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) William W. Sherertz, Jr. or Michael D. Mulholland, 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 any Borrower, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of each 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 any Borrower.

(c) Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof. All payments credited to principal shall be applied first, to the outstanding principal balance of this Note which bears interest determined in relation to the Prime Rate, if any, and second, to the

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outstanding principal balance of this Note which bears interest determined in relation to LIBOR, with such payments applied to the oldest Fixed Rate Term first.

PREPAYMENT:

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

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

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

Each 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. Each Borrower, therefore, agrees to pay the above-described prepayment fee and agrees that said amount represents a reasonable estimate of the prepayment costs, expenses and/or liabilities of Bank. If Borrower fails to pay any prepayment fee when due, the amount of such prepayment fee shall thereafter bear interest until paid at a rate per annum two percent (2%) above the Prime Rate in effect from time to time (computed on the basis of a 360-day year, actual days elapsed). Each change in the rate of interest on any such past due prepayment fee shall become effective on the date each Prime Rate change is announced within Bank.

EVENTS OF DEFAULT:

The occurrence of any of the following shall constitute an "Event of Default" under this Note:

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(a) The failure to pay any principal, interest, fees or other charges when due hereunder or under any contract, instrument or document executed in connection with this Note.

(b) The filing of a petition by or against any Borrower, any guarantor of this Note or any general partner or joint venturer in any Borrower which is a partnership or a joint venture (with each such guarantor, general partner and/or joint venturer referred to herein as a "Third Party Obligor") under any provisions of the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time, or under any similar or other law relating to bankruptcy, insolvency, reorganization or other relief for debtors; the appointment of a receiver, trustee, custodian or liquidator of or for any part of the assets or property of any Borrower or Third Party Obligor; any Borrower or Third Party Obligor becomes insolvent, makes a general assignment for the benefit of creditors or is generally not paying its debts as they become due; or any attachment or like levy on any property of any Borrower or Third Party Obligor.

(c) The death or incapacity of any individual Borrower or Third Party Obligor, or the dissolution or liquidation of any Borrower or Third Party Obligor which is a corporation, partnership, joint venture or other type of entity.

(d) Any default in the payment or performance of any obligation, or any defined event of default, under any provisions of any contract, instrument or document pursuant to which any Borrower or Third Party Obligor has incurred any obligation for borrowed money, any purchase obligation, or any other liability of any kind to any person or entity, including the holder; provided, however, that any cure period applicable to such default has expired, and with respect to a default under any obligation to any person or entity other than Bank, the amount of the debts or other liabilities in default exceeds \$2,000,000.00 in the aggregate.

(e) Any financial statement provided by any Borrower or Third Party Obligor to Bank proves to be incorrect, false or misleading in any material respect.

(f) Any sale or transfer of all or a substantial or material part of the assets of any Borrower or Third Party Obligor other than in the ordinary course of its business.

(g) Any violation or breach of any provision of, or any defined event of default under, any addendum to this Note or any loan agreement, guaranty, security agreement, deed of trust, mortgage or other document executed in connection with or securing this Note, which, if such violation or breach is curable, in not cured within the earlier to occur of (i) 30 days after the occurrence thereof or (ii) any applicable cure period expressly provided in such document.

MISCELLANEOUS:

(a) Remedies. Upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by each Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Each 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

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the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to any Borrower or any other person or entity.

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

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

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY BANK AFTER OCTOBER 3, 1989 CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY BANK TO BE ENFORCEABLE.

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

BARRETT BUSINESS SERVICES, INC.

By: /s/ Michael D. Mulholland

Michael D. Mulholland
Vice President-Finance

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FIRST MODIFICATION TO PROMISSORY NOTE

THIS FIRST MODIFICATION TO PROMISSORY NOTE (this "Modification") is entered into as of May 31, 2001, by and between BARRETT BUSINESS SERVICES, INC. ("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 Term Note in the maximum principal amount of \$8,000,000.00, executed by Borrower and payable to the order of Bank, dated as of May 31, 1999 (the "Note"), which Note is subject to the terms and conditions of a loan agreement between Borrower and Bank dated as of May 31, 2000, as amended from time to time (the "Loan Agreement").

WHEREAS, Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Note, and have agreed to modify the Note to reflect said changes.

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

1. The maximum principal amount available under the Note is hereby modified to be One Million One Hundred Thousand Dollars (\$1,100,000.00).

2. The scheduled principal plus interest payments due on the Note are hereby modified to be Ninety One Thousand Six Hundred Sixty Seven Dollars (\$91,667.00) each, with the understanding that Borrower shall make such payments on the scheduled payment dates set forth in the Note.

3. Except as expressly set forth herein, all terms and conditions of the Note remain in full force and effect, without waiver or modification. All terms defined in the Note [or the Loan Agreement] shall have the same meaning when used in this Modification. This Modification and the Note shall be read together, as one document.

4. Borrower certifies that as of the date of this Modification there exists no Event of Default under the Note, 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.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY BANK AFTER OCTOBER 3, 1989 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.

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

BARRETT BUSINESS SERVICES, INC.	WELLS FARGO BANK, NATIONAL ASSOCIATION
By: /s/ Michael D. Mulholland ----- Michael D. Mulholland, Vice President-Finance	By: /s/ Julie Wilson ----- Julie Wilson Vice President

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CONTINUING SECURITY AGREEMENT:
RIGHTS TO PAYMENT

1. GRANT OF SECURITY INTEREST. For valuable consideration, the undersigned BARRETT BUSINESS SERVICES, INC., or any of them ("Debtor"), hereby grants and transfers to WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") a security interest in all its rights to payment from customers and accounts receivable arising from services rendered or to be rendered, whether or not the same has been earned by performance, and all rights under any contracts it has or may have with its customers (collectively called "Collateral"), now existing or at any time hereafter and prior to the termination hereof arising, together with whatever is receivable or received when any of the Collateral or proceeds thereof are sold, collected, exchanged or otherwise disposed of, whether such disposition is voluntary or involuntary, including without limitation, all rights to payment with respect to any 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; (b) all obligations of Debtor and rights of Bank under this Agreement; and (c) all present and future obligations of Debtor to Bank of other kinds. 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, 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, including without limitation, the payment of all Indebtedness of Debtor to Bank, and the termination of all commitments of Bank to extend credit to Debtor, 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.

5. REPRESENTATIONS AND WARRANTIES. Debtor represents and warrants to Bank that: (a) Debtor is the owner and has possession or control of the Collateral and Proceeds; (b) Debtor has the right to grant a security interest in the Collateral and Proceeds; (c) 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; (d) all statements contained herein and, where applicable, in the Collateral are true and complete in all material respects; (e) 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; (f) all persons appearing to be obligated on Collateral and Proceeds have authority and capacity to contract and are bound as they appear to be; and (g) all Collateral and Proceeds comply with all applicable laws concerning form, content and manner of preparation and

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execution, including where applicable Federal Reserve Regulation Z and any State consumer credit laws.

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 pay all costs and expenses, including reasonable attorneys' fees, incurred by Bank in the perfection and preservation of the Collateral or Bank's interest therein and/or the realization, enforcement and exercise of Bank's rights, powers and remedies hereunder; (iv) to permit Bank to exercise its powers; (v) to execute and deliver such documents as Bank deems necessary to create, perfect and continue the security interests contemplated hereby; and (vi) not to change its chief place of business or the places where Debtor keeps any of the Collateral or Debtor's records concerning the Collateral and Proceeds without first giving Bank written notice of the address to which Debtor is moving same.

(b) Debtor agrees with regard to the Collateral and Proceeds, unless Bank agrees otherwise in writing: (i) where applicable, to insure the Collateral with Bank as loss payee, in form, substance and amounts, under agreements, against risks and liabilities, and with insurance companies satisfactory to Bank; (ii) not to permit any lien on the Collateral or Proceeds, except in favor of Bank; (iii) not to sell, hypothecate or otherwise dispose of, nor permit the transfer by operation of law of, any of the Collateral or Proceeds or any interest therein; (iv) 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; (v) if requested by Bank, to receive and use reasonable diligence to collect Proceeds, in trust and as the property of Bank, and to immediately endorse as appropriate and deliver such Proceeds to Bank daily in the exact form in which they are received together with a collection report in form satisfactory to Bank; (vi) not to commingle Collateral or Proceeds, or collections thereunder, with other property (except that prior to any Event of Default hereunder Debtor shall be permitted to deposit collections in its general bank accounts; (vii) to give only normal allowances and credits and to advise Bank thereof immediately in writing if they affect any Collateral or Proceeds in any material respect; (viii) 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 related contracts, documents and other evidences thereof; (ix) in the event Bank elects to receive payments of Collateral 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 (x) to provide any service and do any other acts which may be necessary 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 the same and make extension 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

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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 directly related to Collateral, 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 directly related to Collateral, and to apply such amounts received by Bank, at Bank's sole option, toward repayment of the Indebtedness; (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; and (m) 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, if applicable, 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, together with interest at a rate determined in accordance with the provisions of Section 15 hereof, 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 any 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 any Debtor herein shall prove to be incorrect, false or misleading in any material respect when made; (c) any Debtor shall fail to observe or perform any obligation or agreement contained herein; (d) any attachment or like levy on any property of any 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 Oregon Uniform Commercial Code or otherwise provided by law, including without limitation, the right 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. 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

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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, 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 auction, are all commercially reasonable since differences in the sales prices generally realized in the different kinds of sales are ordinarily offset by the differences in the costs and credit risks of such sales. 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 of the Collateral or Proceeds except on terms approved by Bank; and (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.

11. DISPOSITION OF COLLATERAL AND PROCEEDS. 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. Any proceeds of any disposition of any of the 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.

12. STATUTE OF LIMITATIONS. Until all Indebtedness shall have been paid in full and all commitments by Bank to extend credit to Debtor have been terminated, the power of sale and all other rights, powers, privileges and remedies granted to Bank hereunder shall continue to exist and may be exercised by Bank at any time and from time to time irrespective of the fact that the Indebtedness 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. (a) The obligations of Debtor are joint and several; (b) Debtor hereby waives any right (i) to require Bank to make any presentment or demand, or give any notice of nonpayment or nonperformance, protest, notice of protest or notice of dishonor hereunder, (ii) to direct the application of payments or security for any Indebtedness of Debtor, or indebtedness of customers of Debtor, or (iii) to require proceedings against others or to require exhaustion of security; and (c) Debtor hereby consents to extensions, forbearances or alterations of the terms of Indebtedness, the release or substitution of security, and the release of any guarantors; provided however, that in each instance, Bank believes in good faith that the action in question is commercially reasonable in that it does not unreasonably increase the risk of nonpayment of the Indebtedness to which the action applies. Until all Indebtedness 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.

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

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entered into between Debtor and Bank and to Debtor at the address of its chief executive office (or personal 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 reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in exercising any right, power, privilege or remedy conferred by this Agreement or in the enforcement thereof, 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. 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 the State of Oregon.

Debtor warrants that its chief executive office is located at the following address: 4724 S.W. Macadam Avenue, Portland Oregon 97201.

IN WITNESS WHEREOF, this Agreement has been duly executed as of June 1, 2001.

By: /s/ Michael D. Mulholland

Michael D. Mulholland
Vice President-Finance

SECURITY AGREEMENT
SECURITIES ACCOUNT

WELLS FARGO BANK

1. GRANT OF SECURITY INTEREST. For valuable consideration, the undersigned BARRETT BUSINESS SERVICES, INC., or any of them ("Debtor"), hereby grants and transfers to WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") a security interest in (a) Debtor's PLEDGED SECURITIES Account No. 12113288 (whether held in Debtor's name or as a Bank collateral account for the benefit of Debtor), and all replacements or substitutions therefor, including any account resulting from a renumbering or other administrative re-identification therefor (collectively, the "Securities Account") maintained with WELLS FARGO BROKERAGE SERVICES, LLC ("Intermediary"), (b) all financial assets credited to the Securities Account, (c) all security entitlements with respect to the financial assets credited to the Securities Account, and (d) any and all other investment property or assets maintained or recorded in the Securities Account (with all the foregoing defined as "Collateral"), together with whatever is receivable or received when any of the Collateral or proceeds thereof are sold, collected, exchanged or otherwise disposed of, whether such disposition is voluntary or involuntary, including without limitation, (i) all rights to payment, including returned premiums, with respect to any insurance relating to any of the foregoing, (ii) all rights to payment with respect to any cause of action affecting or relating to any of the foregoing, and (iii) all stock rights, rights to subscribe, stock splits, liquidating dividends, cash dividends, dividends paid in stock, new securities or other property of any kind which Debtor is or may hereafter be entitled to receive on account of any securities pledged hereunder, including without limitation, stock received by Debtor due to stock splits or dividends paid in stock or sums paid upon or in respect of any securities pledged hereunder upon the liquidation or dissolution of the issuer thereof (hereinafter called "Proceeds"). Except as otherwise expressly permitted herein, in the event Debtor receives any such Proceeds, Debtor will hold the same in trust on behalf of and for the benefit of Bank and will immediately deliver all such Proceeds to Bank in the exact form received, with the endorsement of Debtor if necessary and/or appropriate undated stock powers duly executed in blank, to be held by Bank as part of the Collateral, subject to all terms hereof. As used herein, the terms "security entitlement," "financial asset" and "investment property" shall have the respective meanings set forth in the Oregon Uniform Commercial Code.

2. OBLIGATIONS SECURED. The obligations secured hereby are the payment and performance of: (a) all present and future Indebtedness of Debtor to Bank; (b) all obligations of Debtor and rights of Bank under this Agreement; and (c) all present and future obligations of Debtor to Bank of other kinds. 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, and whether Debtor may be liable individually or jointly, 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, including without limitation, the payment of all Indebtedness of

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Debtor to Bank, and the termination of all commitments of Bank to extend credit to Debtor, existing at the time Bank receives written notice from Debtor of the termination of this Agreement.

4. OBLIGATIONS OF BANK. Bank shall have no duty to take any steps necessary to preserve the rights of Debtor against prior parties, or to initiate any action to protect against the possibility of a decline in the market value of the Collateral or Proceeds. Bank shall not be obligated to take any action with respect to the Collateral or Proceeds requested by Debtor unless such request is made in writing and Bank determines, in its sole discretion, that the requested action would not unreasonably jeopardize the value of the Collateral and Proceeds as security for the Indebtedness.

5. REPRESENTATIONS AND WARRANTIES. Debtor represents and warrants to Bank that: (a) Debtor is the sole owner of the Collateral and Proceeds; (b) Debtor has the right to grant a security interest in the Collateral and Proceeds; (c) 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 heretofore disclosed by Debtor to Bank, in writing; (d) all statements contained herein and, where applicable, in the Collateral, are true and complete in all material respects; (e) no financing statement or control agreement covering any of the Collateral or Proceeds, and naming any secured party other than Bank, exists or is on file in any public office or remains in effect; (f) no person or entity, other than Debtor, Bank and Intermediary, has any interests in or control over the Collateral; and (g) specifically with respect to Collateral and Proceeds consisting of investment securities, instruments, chattel paper, documents, contracts, insurance policies or any like property, (i) all persons appearing to be obligated thereon have authority and capacity to contract and are bound as they appear to be, and (ii) the same comply with applicable laws concerning form, content and manner of preparation and execution.

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 pay all costs and expenses, including reasonable attorneys' fees, incurred by Bank in the perfection and preservation of the Collateral or Bank's interest therein and/or the realization, enforcement and exercise of Bank's rights, powers and remedies hereunder; (iv) to permit Bank to exercise its powers; (v) to execute and deliver such documents as Bank deems necessary to create, perfect and continue the security interests contemplated hereby; and (vi) not to change its chief place of business (or personal residence, if applicable) or the places where Debtor keeps any of the Collateral or Debtor's records concerning the Collateral and Proceeds without first giving Bank written notice of the address to which Debtor is moving same.

(b) Debtor agrees with regard to the Collateral and Proceeds, unless Bank agrees otherwise in writing: (i) not to permit any security interest in or lien on the Collateral or Proceeds, except in favor of Bank and except liens in favor of Intermediary to the extent expressly permitted by Bank in writing; (ii) not to hypothecate or permit the transfer by operation of law of any of the Collateral or Proceeds or any interest therein; (iii) to keep, in

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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; (iv) if requested by Bank, to receive and use reasonable diligence to collect Proceeds, in trust and as the property of Bank, and to immediately endorse as appropriate and deliver such Proceeds to Bank daily in the exact form in which they are received together with a collection report in form satisfactory to Bank; (v) in the event Bank elects to receive payments of Proceeds hereunder, to pay all expenses incurred by Bank in connection therewith, including expenses of accounting, correspondence, collection efforts, filing, recording, record keeping and expenses incidental thereto; (vi) to provide any service and do any other acts which may be necessary to keep all Collateral and Proceeds free and clear of all defenses, rights of offset and counterclaims; and (vii) if the Collateral or Proceeds consists of securities and so long as no Event of Default exists, to vote said securities and to give consents, waivers and ratifications with respect thereto, provided that no vote shall be cast or consent, waiver or ratification given or action taken which would impair Bank's interests in the Collateral and Proceeds or be inconsistent with or violate any provisions of this Agreement. Debtor further agrees that any party now or at any time hereafter authorized by Debtor to advise or otherwise act with respect to the Securities Account shall be subject to all terms and conditions contained herein and in any control, custodial or other similar agreement at any time in effect among Bank, Debtor and Intermediary relating to the Collateral.

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 notify any person obligated on any security, instrument or other document subject to this Agreement of Bank's rights hereunder; (c) to collect by legal proceedings or otherwise all dividends, interest, principal or other sums now or hereafter payable upon or on account of the Collateral or Proceeds; (d) to enter into any extension, reorganization, deposit, merger or consolidation agreement, or any other agreement relating to or affecting the Collateral or Proceeds, and in connection therewith to deposit or surrender control of the Collateral and Proceeds, to accept other property in exchange for the Collateral and Proceeds, and to do and perform such acts and things as Bank may deem proper, with any money or property received in exchange for the Collateral or Proceeds, at Bank's option, to be applied to the Indebtedness or held by Bank under this Agreement; (e) to make any compromise or settlement Bank deems desirable or proper in respect of the Collateral and Proceeds; (f) to insure, process and preserve the Collateral and Proceeds; (g) to exercise all rights, powers and remedies which Debtor would have, but for this Agreement, with respect to all Collateral and Proceeds subject hereto; and (h) 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. To effect the purposes of this Agreement or otherwise upon instructions of Debtor, or any of them, Bank may cause any Collateral and/or Proceeds to be transferred to Bank's name or the name of Bank's nominee. If an Event of Default has occurred and is continuing, any or all Collateral and/or Proceeds consisting of securities may be registered, without notice, in the name of Bank or its nominee, and thereafter Bank or its nominee may exercise, without notice, all voting and corporate rights at any meeting of the shareholders of the issuer thereof, any and all rights of conversion, exchange or subscription, or any other rights, privileges or options pertaining to such Collateral

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and/or Proceeds, all as if it were the absolute owner thereof. The foregoing shall include, without limitation, the right of Bank or its nominee to exchange, as its discretion, any and all Collateral and/or Proceeds upon the merger, consolidation, reorganization, recapitalization or other readjustment of the issuer thereof, or upon the exercise by the issuer thereof or Bank of any right, privilege or option pertaining to any shares of the Collateral and/or Proceeds, and in connection therewith, the right to deposit and deliver any and all of the Collateral and/or Proceeds with any committee, depository, transfer agent, registrar or other designated agency upon such terms and conditions as Bank may determine. All of the foregoing rights, privileges or options may be exercised without liability on the part of Bank or its nominee except to account for property actually received by Bank. Bank shall have no duty to exercise any of the foregoing, or any other rights, privileges or options with respect to the collateral or Proceeds and shall not be responsible for any failure to do so or delay in so doing.

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, together with interest at a rate determined in accordance with the provisions of Section 15 hereof, 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: (1) any default (for which any applicable cure period has expired) in the payment or performance of any obligation, or any defined event of default, under (i) any contract or instrument evidencing any Indebtedness, (ii) any other agreement between any Debtor and Bank, including without limitation any loan agreement, relating to or executed in connection with any Indebtedness, or (iii) any control, custodial or other similar agreement in effect among Bank, Debtor and Intermediary relating to the Collateral; (b) any representation or warranty made by any Debtor herein shall prove to be incorrect, false or misleading in any material respect when made; (c) any Debtor shall fail to observe or perform any obligation or agreement contained herein; (d) any attachment or like levy on any property of any 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 Oregon Uniform Commercial Code or otherwise provided by law, including without limitation, the right 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. 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

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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, 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 auction, are all commercially reasonable since differences in the sales prices generally realized in the different kinds of sales are ordinarily offset by the differences in the costs and credit risks of such sales.

While an Event of Default exists: (a) Debtor will not dispose of any of the Collateral or Proceeds except on terms approved by Bank; (b) Bank may appropriate the Collateral and apply all Proceeds toward repayment of the Indebtedness in such order of application as Bank may from time to time elect; (c) Bank may take any action with respect to the Collateral contemplated by any control, custodial or other similar agreement then in effect among Bank, Debtor and Intermediary; and (d) at Bank's request, Debtor will assemble and deliver all books and records pertaining to the Collateral or Proceeds to Bank at a reasonably convenient place designated by Bank. For any Collateral or Proceeds consisting of securities, Bank shall have no obligation to delay a sale of any portion thereof for the period of time necessary to permit the issuer thereof to register such securities for public sale under any applicable state or Federal law, even if the issuer thereof would agree to do so.

11. DISPOSITION OF COLLATERAL AND PROCEEDS. 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. Any proceeds of any disposition of any of the 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 or application as Bank may from time to time elect.

12. STATUTE OF LIMITATIONS. Until all Indebtedness shall have been paid in full and all commitments by Bank to extend credit to Debtor have been terminated, the power of sale and all other rights, powers, privileges and remedies granted to Bank hereunder shall continue to exist and may be exercised by Bank at any time and from time to time irrespective of the fact that the Indebtedness 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. (a) The obligations of Debtor are joint and several; (b) Debtor hereby waives any right (i) to require Bank to make any presentment or demand, or give any notice of nonpayment or nonperformance, protest, notice of protest or notice of dishonor hereunder, (ii) to direct the application of payments or security for Indebtedness of Debtor or indebtedness of customers of Debtor, or (iii) to require proceedings against others or to require exhaustion of security; and (c) Debtor hereby consents to extensions, forbearances or alterations

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of the terms of Indebtedness, the release or substitution of security, and the release of any guarantors; provided however, that in each instance, Bank believes in good faith that the action in question is commercially reasonable in that it does not unreasonably increase the risk of nonpayment of the Indebtedness to which the action applies. Until all Indebtedness 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.

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 personal 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 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 reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in exercising any right, power, privilege or remedy conferred by this Agreement or in the enforcement thereof, 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. 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. Deleted.

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 the State of Oregon.

20. ADDENDUM. Additional terms and conditions relating to the Securities Account are set forth in an Addendum attached hereto and incorporated herein by this reference.

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Debtor warrants that its chief executive office (or personal residence, if applicable) is located at the following address: 4724 SW MACADAM AVENUE, PORTLAND, OR 97201.

IN WITNESS WHEREOF, this Agreement has been duly executed as of MAY 31, 2001.

Barrett Business Services, Inc.

By: /s/ Michael D. Mulholland

Michael D. Mulholland, Vice President- Finance

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ADDENDUM TO SECURITY AGREEMENT: SECURITIES ACCOUNT

THIS ADDENDUM is attached to and made a part of that certain Security Agreement: Securities Account executed by BARRETT BUSINESS SERVICES, INC. ("Debtor") in favor of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank"), dated as of May 31, 2001 (the "Agreement").

The following provisions are hereby incorporated into the Agreement:

1. Securities Account Activity. So long as no Event of Default exists, Debtor, or any party authorized by Debtor to act with respect to the Securities Account, may (a) receive payments of interest and/or cash dividends earned on financial assets maintained in the Securities Account, and (b) trade financial assets maintained in the Securities Account. Without Bank's prior written consent, except as permitted by the preceding sentence, neither Debtor nor any party other than Bank may withdraw or receive any distribution of any Collateral from the Securities Account. The Collateral Value of the Securities Account shall at all times be equal to or greater than \$1,295,000.00. In the event that the Collateral Value, for any reason and at any time, is less than the required amount, Debtor shall promptly make a principal reduction on the Indebtedness or deposit additional assets of a nature satisfactory to Bank into the Securities Account, in either case in amounts or with values sufficient to achieve the required Collateral Value.

2. "Collateral Value" means 100% of the par value of the Securities Account.

3. Exclusion from Collateral. Notwithstanding anything herein to the contrary, the terms "Collateral" and "Proceeds" do not include, and Bank disclaims a security interest in all Common Trust Funds now or hereafter maintained in the Securities Account.

4. "Common Trust Funds" means common trust funds as described in 12 CFR 9.18 and includes, without limitation, common trust funds maintained by Bank for the exclusive use of its fiduciary clients.

5. Limitation on Indebtedness. Notwithstanding anything in this Agreement to the contrary, the Indebtedness secured hereby is limited to all obligations of Debtor arising under or in connection with that certain Term Loan executed by Debtor and payable to the order of Bank, dated as of May 31, 1999, in the original principal amount of \$8,000,000.00 now \$1,100,000.00, and all extensions, renewals or modifications thereof, and restatements or substitutions therefor.

IN WITNESS WHEREOF, this Addendum has been executed as of the same date as the Agreement.

BARRETT BUSINESS SERVICES, INC.

WELLS FARGO BANK,

By: /s/ Michael D. Mulholland

Michael D. Mulholland,
Vice President - Finance

NATIONAL ASSOCIATION
By: /s/ Julie Wilson

Julie Wilson, Vice President

BARRETT BUSINESS SERVICES, INC.
 STATEMENT OF CALCULATION OF BASIC
 AND DILUTED COMMON SHARES OUTSTANDING

	Three Months Ended June 30, 2001 -----
Weighted average number of basic shares outstanding	6,251,552
Stock option plan shares to be issued at prices ranging from \$1.45 to \$17.94 per share	-
Less: Assumed purchase at average market price during the period using proceeds received upon exercise of options and purchase of stock, and using tax benefits of compensation due to premature dispositions	- -----
Weighted average number of diluted shares outstanding	6,251,552 -----

As a result of the net loss reported for the three months ended June 30, 2001, 22,999 of potential common shares have been excluded from the calculation of diluted loss per share because their effect would be anti-dilutive.