

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, 1997

Commission File No. 0-21886

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

Maryland 52-0812977

(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

4724 SW Macadam Avenue 97201
Portland, Oregon

(Address of principal executive offices) (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 report), 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, 1997 was 6,727,423 shares.

BARRETT BUSINESS SERVICES, INC.

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PART I - Financial Information

Item 1. Financial Statements

BARRETT BUSINESS SERVICES, INC.
Balance Sheets
(Unaudited)
(In thousands)

	June 30, 1997	December 31, 1996
	-----	-----
Assets		
Current assets:		
Cash and cash equivalents	\$ 459	\$ 1,901
Trade accounts receivable, net	22,686	19,057
Note receivable	-	324
Prepaid expenses and other	1,485	914
Deferred tax asset (Note 4)	1,433	1,279
	-----	-----
Total current assets	26,063	23,475
Intangibles, net	12,785	10,226
Property and equipment, net	3,641	3,111
Restricted marketable securities		
and workers' compensation deposits	6,074	5,707
Other assets	143	127
	-----	-----
	\$48,706	\$42,646
	=====	=====
Liabilities and Stockholders' Equity		
Current liabilities:		
Advances on credit line	\$ 1,896	\$ -
Current portion of long-term debt	70	36
Income taxes payable (Note 4)	223	-
Accounts payable	715	667
Accrued payroll, payroll taxes		
and related benefits	9,967	7,354
Accrued workers' compensation claims		
liabilities	2,488	2,240
Customer safety incentives payable	1,005	1,015
Other accrued liabilities	559	606
	-----	-----
Total current liabilities	16,923	11,918
Long-term debt, net of current portion	819	838
Customer deposits	939	890
Long-term workers' compensation		
liabilities	608	613
Other long-term liabilities	1,014	-
	-----	-----
	20,303	14,259
	-----	-----
Commitments and contingencies		
Redeemable common stock, 159 shares issued		
and outstanding (Note 2)	-	2,825
Nonredeemable stockholders' equity:		
Common stock, \$.01 par value; 20,500		
shares authorized, 6,727 and 6,625		
shares issued and outstanding, respectively	67	66
Additional paid-in capital	11,685	10,929
Retained earnings	16,651	14,567
	-----	-----
	28,403	25,562

-----	-----
\$48,706	\$42,646
=====	=====

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)

	Three Months Ended June 30,	
	-----	-----
	1997	1996
	-----	-----
Revenues:		
Staffing services	\$38,403	\$27,091
Professional employer services	32,052	24,780
	-----	-----
	70,455	51,871
Cost of revenues:		
Direct payroll costs	54,164	39,160
Payroll taxes and benefits	6,794	4,989
Workers' compensation	1,973	1,213
Safety incentives	381	362
	-----	-----
	63,312	45,724
	-----	-----
Gross margin	7,143	6,147
Selling, general and administrative expenses	4,857	3,939
Amortization of intangibles	275	209
	-----	-----
Income from operations	2,011	1,999
Other income (expense):		
Interest expense	(42)	(21)
Interest income	87	126
Other, net	-	1
	-----	-----
	45	106
	-----	-----
Income before provision for income taxes	2,056	2,105
Provision for income taxes	802	800
	-----	-----
Net income	\$ 1,254	\$ 1,305
	=====	=====
Primary earnings per share (Note 6)	\$.19	\$.19
	=====	=====
Primary weighted average number of common stock equivalent shares outstanding	6,736	6,978
	=====	=====

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

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(Unaudited)
(In thousands, except per share amounts)

	Six Months Ended June 30,	
	1997	1996
Revenues:		
Staffing services	\$ 71,134	\$49,719
Professional employer services	62,101	45,337
	133,235	95,056
Cost of revenues:		
Direct payroll costs	102,203	71,878
Payroll taxes and benefits	13,253	9,322
Workers' compensation	3,828	1,983
Safety incentives	704	709
	119,988	83,892
Gross margin	13,247	11,164
Selling, general and administrative expenses	9,372	7,567
Amortization of intangibles	592	369
Income from operations	3,283	3,228
Other income (expense):		
Interest expense	(67)	(42)
Interest income	189	252
Other, net	1	-
	123	210
Income before provision for income taxes	3,406	3,438
Provision for income taxes	1,322	1,306
Net income	\$ 2,084	\$ 2,132
Primary earnings per share (Note 6)	\$.31	\$.31
Primary weighted average number of common stock equivalent shares outstanding	6,768	6,883

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

BARRETT BUSINESS SERVICES, INC.

Statements of Cash Flows
(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	1997	1996
Cash flows from operating activities:		
Net income	\$ 2,084	\$ 2,132
Reconciliation of net income to cash from operations:		
Depreciation and amortization	775	512
Changes in certain assets and liabilities, net		

of assets acquired and liabilities assumed:		
Trade accounts receivable, net	(3,083)	(2,954)
Note receivable	324	-
Prepaid expenses and other	(505)	(153)
Deferred tax asset	(154)	273
Accounts payable	39	(262)
Accrued payroll, payroll taxes and related benefits	2,606	2,543
Accrued workers' compensation claims liabilities	248	(777)
Customer safety incentives payable	(10)	205
Income taxes payable	212	443
Other accrued liabilities	(171)	(92)
Customer deposits and long-term workers' compensation liabilities	44	183
Other long-term liabilities	14	-
	-----	-----
Net cash provided by operating activities	2,423	2,053
	-----	-----
Cash flows from investing activities:		
Cash paid for acquisitions, including other direct costs (Note 3)	(2,246)	(113)
Purchases of fixed assets, net of amounts purchased in acquisitions	(639)	(206)
Proceeds from maturities of marketable securities	3,782	3,244
Purchases of marketable securities	(4,149)	(4,380)
	-----	-----
Net cash used in investing activities	(3,252)	(1,455)
	-----	-----
Cash flows from financing activities:		
Payment of credit line assumed in acquisition	(401)	-
Proceeds from credit line borrowings	1,896	-
Payments on long-term debt	(40)	(16)
Repurchase of common stock	(2,825)	-
Proceeds from exercise of stock options and warrants	757	109
	-----	-----
Net cash (used in) provided by financing activities	(613)	93
	-----	-----
Net (decrease)increase in cash and cash equivalents	(1,442)	691
Cash and cash equivalents, beginning of period	1,901	3,218
	-----	-----
Cash and cash equivalents, end of period	\$ 459	\$ 3,909
	=====	=====
Supplemental schedule of noncash activities:		
Acquisition of other businesses:		
Cost of acquisitions in excess of fair market value of net assets acquired	\$ 3,179	\$ 2,898
Tangible assets acquired	674	472
Liabilities assumed	1,607	52
Common stock issued in connection with acquisitions	-	3,205

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

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 generally accepted accounting principles 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 financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 1996 Annual Report on Form 10-K at pages 28-51. The results of operations for an interim period are not necessarily indicative of the results of operations for a full year.

In February 1997, the Financial Accounting Standards Board

issued Statement of Financial Accounting Standards ("SFAS") No. 128 "Earnings Per Share." SFAS 128 replaces APB Opinion 15, "Earnings Per Share," and simplifies the computation of EPS by replacing the presentation of primary EPS with a presentation of basic EPS. In accordance with this pronouncement, the Company will adopt the new standard for periods ending after December 15, 1997. The impact of the SFAS 128 EPS calculation for the three and six-month periods ended June 30, 1997 is not material.

Certain prior year amounts have been reclassified to conform with the 1997 presentation. Such reclassifications had no impact on net income or stockholders' equity.

NOTE 2 - REDEEMABLE COMMON STOCK:

On April 11, 1997, pursuant to a Plan and Agreement of Reorganization between StaffAmerica, Inc. and the Company dated April 1, 1996, the Company repurchased from StaffAmerica and its two shareholders all 159,154 shares of common stock previously issued by the Company as consideration for the acquisition, for a total of \$2,824,984 or \$17.75 per share. Upon completion of the share repurchase, the Company canceled the shares of common stock.

NOTE 3 - ACQUISITIONS:

Effective February 1, 1997, the Company acquired D&L Personnel Department Specialists, Inc., dba HR Only, a staffing services company which specializes in human resource professionals with offices in Los Angeles and Orange County, California. The Company paid \$1,800,000 in cash for all of the outstanding common stock of HR Only and \$1,200,000 in cash for noncompete agreements with certain individuals, of which \$1,000,000 will be deferred with

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simple interest at 5% per annum for five years and then be paid ratably over the succeeding five-year period. The deferred portion of the noncompete agreement is presented on the balance sheet in other long-term liabilities. HR Only's revenues for the fiscal year ended January 31, 1997 were approximately \$4.3 million. The transaction was accounted for under the purchase method of accounting, which resulted in \$3,027,000 of intangible assets, including \$92,000 for acquisition-related costs, and \$65,000 of net tangible assets.

Effective April 13, 1997, the Company acquired certain assets of JRL Services, Inc., dba TLC Staffing, a provider of clerical staffing services located in Tucson, Arizona. TLC Staffing had revenues of approximately \$800,000 (unaudited) for the year ended December 31, 1996. The Company paid \$150,000 in cash for the assets, assumed an \$18,000 office lease liability and incurred approximately \$4,000 in acquisition related costs. The transaction was accounted for under the purchase method of accounting, which resulted in \$152,000 of intangible assets and \$2,000 of fixed assets.

NOTE 4 - PROVISION FOR INCOME TAXES:

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

	June 30, 1997	December 31, 1996
	-----	-----
<S>	<C>	<C>
Accrued workers' compensation claims liabilities	\$1,213	\$1,113
Allowance for doubtful accounts	30	10
Tax depreciation in excess of book depreciation	(161)	(154)
Safety incentives	284	281
Book amortization of intangibles in excess of tax amortization	67	29
	-----	-----
	\$1,433	\$1,279
	=====	=====

The provision for income taxes for the six months ended June 30, 1997 and 1996, is as follows (in thousands):

<TABLE>
<CAPTION>

	Six Months Ended June 30, 1997 -----	Six Months Ended June 30, 1996 -----
<S>	<C>	<C>
Current:		
Federal	\$1,195	\$ 843
State	281	190
	-----	-----
	1,476	1,033
Deferred:		
Federal	(127)	228
State	(27)	45
	-----	-----
	(154)	273
	-----	-----
Provision for income taxes	\$1,322	\$1,306
	=====	=====

</TABLE>

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NOTE 5 - STOCK INCENTIVE PLAN:

In 1993, the Company adopted 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 1,300,000.

The following table summarizes options granted under the Plan in 1997:

Outstanding at December 31, 1996	491,998	\$ 3.50 to \$16.36
Options granted	111,011	\$13.38 to \$17.94
Options exercised	(42,375)	\$ 3.50 to \$15.06
Options canceled or expired	(39,375)	\$ 3.50 to \$15.06

Outstanding at June 30, 1997	521,259	\$ 3.50 to \$17.94
	=====	
Exercisable at June 30, 1997	199,708	
	=====	
Available for grant at June 30, 1997	612,616	
	=====	

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

NOTE 6- NET INCOME PER SHARE:

Net income per share for 1997 is computed based on the weighted average number of actual shares of common stock outstanding during the period, without giving effect to securities that would otherwise be considered to be common stock equivalents because such securities aggregate less than 3% of shares outstanding and, thus, are not considered dilutive. Net income per share for 1996 is computed based on the weighted average number of common stock and common stock equivalent shares outstanding during the period; common stock equivalents aggregated more than 3% of shares outstanding for such period.

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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-month periods ended June 30, 1997 and 1996.

<TABLE>
<CAPTION>

	Percentage of Total Revenues -----	
Three Months Ended		Six Months Ended

	June 30,		June 30,	
	1997	1996	1997	1996
Revenues:				
<S>	<C>	<C>	<C>	<C>
Staffing services	54.5%	52.2%	53.4%	52.3%
Professional employer services	45.5	47.8	46.6	47.7
Total revenues	100.0	100.0	100.0	100.0
Cost of revenues:				
Direct payroll costs	76.9	75.5	76.7	75.6
Payroll taxes and benefits	9.7	9.6	10.0	9.8
Workers' compensation	2.8	2.3	2.9	2.1
Safety incentives	.5	.7	.5	.8
Total cost of revenues	89.9	88.1	90.1	88.3
Gross margin	10.1	11.9	9.9	11.7
Selling, general and administrative expenses	6.9	7.6	7.0	8.0
Amortization of intangibles	.4	.4	.4	.3
Income from operations	2.8	3.9	2.5	3.4
Other income (expense)	.1	.2	.1	.2
Pretax income	2.9	4.1	2.6	3.6
Provision for income taxes	1.1	1.6	1.0	1.4
Net income	1.8	2.5	1.6	2.2

</TABLE>

Three months ended June 30, 1997 and 1996

Net income for the second quarter of 1997 was \$1,254,000, a decrease of \$51,000 or 3.9% from the same period in 1996. The decrease in net income was attributable to a lower gross margin percent and increased selling, general and administrative expenses. Earnings per share for the second quarter of 1997 were \$.19, the same amount as the second quarter of 1996.

Revenues for the second quarter of 1997 totaled approximately \$70.5 million, an increase of approximately \$18.6 million or 35.8% over the second quarter of 1996. The quarter-over-quarter internal growth rate of revenues was 25.1%. The percentage increase in total revenues exceeded the internal growth rate of revenues primarily due to the acquisition of five staffing and PEO businesses since July 1, 1996.

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The higher internal growth rate of revenues of 25.1% for the 1997 second quarter compared to 4.8% for the 1996 second quarter was primarily attributable to the opening of four new branch offices during 1996 and early 1997 in Boise, Idaho, Tucson, Arizona, Ontario, California, and Flint, Michigan, coupled with the continued growth in business at existing branch offices. Staffing services revenue increased approximately \$11.3 million or 41.8%, while professional employer services revenue increased approximately \$7.3 million or 29.3%, which resulted in an increase in the mix of staffing services to 54.5% of total revenues for the second quarter of 1997, as compared to 52.2% for the second quarter of 1996. The mix of professional employer services revenues had a corresponding decline from 47.8% for the second quarter of 1996 to 45.5% for the second quarter of 1997.

Gross margin for the second quarter of 1997 totaled approximately \$7.1 million, which represented an increase of \$1.0 million or 16.2% over the second quarter of 1996. The gross margin percent decreased to 10.1% of revenues for the second quarter of 1997, as compared to 11.9% for the same period of 1996. The decline in the gross margin percentage was due to higher direct payroll costs and workers' compensation expense, both in terms of total dollars and as a percentage of revenues. The increase in the percentage of direct payroll costs from 75.5% for the second quarter of 1996 to 76.9% for the second quarter of 1997 was primarily attributable to increased business activity in contract staffing and on-site management arrangements, which also have a lower workers' compensation risk profile. The increase in workers' compensation expense to 2.8% of revenues for the 1997 second quarter, up from the 1996 second quarter level of 2.3% of revenues, was due to a higher incidence of injuries during the 1997 period as compared to 1996 and management's decision to (i) continue to increase the Company's accrual for future adverse loss development

of open claims, and (ii) build an accrual for potential future catastrophic workers' compensation claims.

The following table summarizes certain indicators of performance regarding the Company's self-insured workers' compensation program for each of the first two quarters of 1997 and 1996.

Self-Insured Workers' Compensation Profile

<TABLE>

<CAPTION>

	No. of Injury Claims		Total Workers' Comp Expense (in thousands)		Total Workers' Comp Expense as a % of Total Payroll	
	1997	1996	1997	1996	1997	1996
	----	----	----	----	----	----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Q1	321	193	\$1,855	\$ 770	3.9%	2.4%
Q2	419	312	1,973	1,213	3.6	3.1
	---	---	-----	-----	---	---
YTD	740	505	\$3,828	\$1,983	3.7%	2.8%
	===	===	=====	=====	===	===

</TABLE>

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Selling, general and administrative expenses for the 1997 second quarter amounted to approximately \$4.9 million, an increase of \$918,000 or 23.3% over the comparable period in 1996. These expenses, however, decreased from 7.6% of revenues for the second quarter of 1996 to 6.9% of revenues for the second quarter of 1997. The increase in total dollars was primarily attributable to additional branch office expenses as a result of the five acquisitions since July 1, 1996, and the opening of four new offices in 1996 and early 1997.

Amortization of intangibles totaled \$275,000, or .4% of revenues for the second quarter of 1997, which compares to \$209,000 or .4% of revenues for the same period in 1996. The increased amortization expense was primarily due to amortization from the Company's five acquisitions since July 1, 1996.

The Company offers various employee benefit plans to its employees, including its worksite employees. These employee benefit plans include a savings plan (the "401(k) 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, 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 12-14 of the Company's 1996 Annual Report on Form 10-K for a more detailed discussion of this issue.

Six Months Ended June 30, 1997 and 1996

Net income for the six months ended June 30, 1997 was \$2,084,000, a decrease of \$48,000 or 2.3% from the same period in 1996. The decrease in net income was primarily due to a lower gross margin percentage owing to increased direct payroll costs and workers' compensation expense. Net income per share for the six months ended June 30, 1997 was \$.31, the same amount as the six months ended June 30, 1996.

Revenues for the six months ended June 30, 1997 totaled approximately \$133.2 million, an increase of approximately \$38.2 million or 40.2% over the comparable period of 1996. The internal growth rate of revenues was 25.1%. The growth rate of total revenues exceeded the internal growth rate of revenues primarily due to the acquisition of five staffing and PEO businesses between August 1996 and April 1997.

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The higher internal growth rate of revenues of 25.1% for 1997 compared to the 1996 period internal growth rate of 5.1% was primarily attributable to the opening of four new branch offices during 1996 and in early 1997, coupled with the continued growth in business at existing branch offices.

Gross margin for the six months ended June 30, 1997 totaled approximately \$13.2 million, which represented an increase of \$2.1 million or 18.7% over the same period of 1996. The gross margin percent decreased to 9.9% of revenues for the first six months of 1997, as compared to 11.7% for the same period of 1996. The decline in the gross margin percentage was due to higher direct payroll costs and workers' compensation expense, both in terms of total dollars and as a percentage of revenues. The increase in the percentage of direct payroll costs from 75.6% for the first six months of 1996 to 76.7% for the first six months of 1997 was primarily attributable to increased business activity in contract staffing and on-site management arrangements. The increase in workers' compensation expense to 2.9% of revenues for the six months ended June 30, 1997, up from the 1996 period of 2.1% of revenues, was due to a higher incidence of injuries during the 1997 period as compared to 1996 and management's decision to (i) continue to increase the Company's accrual for future adverse loss development of open claims, and (ii) build an accrual for potential future catastrophic workers' compensation claims.

Selling, general and administrative expenses for the six months ended June 30, 1997 amounted to approximately \$9.4 million, an increase of \$1.8 million or 23.9% over the comparable period in 1996. These expenses, however, decreased from 8.0% of revenues for the 1996 period to 7.0% of revenues for 1997. The increase in total dollars was primarily attributable to additional branch office expenses as a result of the five acquisitions made since July 1, 1996, and the opening of four new offices.

Amortization of intangibles totaled \$592,000 or .4% of revenues for the six-month period ended June 30, 1997, which compares to \$369,000 for the same period in 1996. The increased amortization expense was attributable to amortization from the five acquisitions made since July 1, 1996.

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 expense 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 in 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 may tend to represent a smaller

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percentage of revenues later in the Company's fiscal year as federal and state statutory wage limits for unemployment and social security taxes are exceeded by 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 the current quarter.

Liquidity and Capital Resources

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The Company's cash position of \$459,000 at June 30, 1997 decreased by \$1,442,000 from December 31, 1996. The decrease was primarily due to cash used in financing activities to satisfy the Company's obligation to repurchase shares of its common stock, offset in part by the cash provided by operating activities.

Net cash provided by operating activities for the six months ended June 30, 1997 amounted to \$2,423,000 as compared to \$2,053,000 for the comparable 1996 period. For the 1997 period, cash flow generated by net income, together with an increase of \$2,606,000 in accrued payroll and benefits, was offset in part by a \$3,083,000 increase in trade accounts receivable. The \$1,014,000 increase in other long-term liabilities includes the \$1,000,000 deferred noncompete agreement arising from the acquisition of HR Only and is reflected in the supplemental schedule of noncash activities within the liabilities assumed caption.

Net cash used in investing activities totaled \$3,252,000 for the six months ended June 30, 1997, as compared to \$1,455,000 for the similar 1996 period. For the 1997 period, the principal use of cash for investing activities was the acquisition of HR Only and funds used to purchase office equipment and software. The Company presently has no material long-term capital commitments.

Net cash used in financing activities for the six-month period ended June 30, 1997 was \$613,000, which compares to net cash provided by financing activities of \$93,000 for the comparable 1996 period. For the 1997 period, the principal use of cash for financing activities arose from the Company's obligation to redeem 159,154 shares of its common stock at a value of

\$2,824,984 pursuant to a Plan and Agreement of Reorganization between StaffAmerica, Inc. and the Company, offset in part by net proceeds from borrowings on the Company's revolving credit line in the amount of \$1,896,000 and proceeds from the exercise of stock options and warrants totaling \$757,000. As of the date of this report, an underwriter continues to hold warrants to purchase 30,000 shares of common stock at \$4.20 per share issued in connection with the Company's 1993 initial public offering of its common stock.

The Company's business strategy continues to focus on growth through the acquisition of additional personnel-related businesses, both in its existing markets and other strategic geographic areas, together with the expansion of operations at existing offices. As disclosed in Note 3 to the financial statements included herein, the Company purchased, during February 1997, a staffing services company located in the Los Angeles, California area for \$2,092,000 in cash, plus an additional

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\$1,000,000 for a noncompete agreement which will be paid ratably, with accrued interest, over five years beginning after the end of the fifth year following the acquisition. As also disclosed in Note 3, the Company purchased in April 1997, certain assets of a staffing services company located in Tucson, Arizona for \$154,000 in cash. The Company actively explores proposals for various acquisition opportunities on an ongoing basis, but there can be no assurance that any additional transactions will be consummated.

Management recently renewed the Company's credit arrangement with its principal bank on terms and conditions which were generally more favorable than the prior agreement. The amount of the credit facility remained unchanged, which primarily includes an unsecured \$4.0 million revolving credit facility and \$1.6 million for previously existing standby letters of credit in connection with certain workers' compensation surety arrangements. Management expects the funds anticipated to be generated from operations, together with the 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.

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

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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 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, the tax-qualified status of the Company's 401(k) savings plan, the outcome of various legal proceedings, 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, uncertainties regarding government regulation of PEOs, including the possible adoption by the IRS of an unfavorable 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

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statements contained herein to reflect future events or developments.

Part II - Other Information

Item 1. Legal Proceedings

A lawsuit was filed in the Circuit Court of the State of Oregon for the County of Multnomah on February 5, 1997, by Javier and Ester Munoz, husband and wife, against Asger M. Nielson, doing business as Nielson and Son ("Nielson"), Rain-Master Roofing, Inc. ("Rain-Master"), and the Company. Mr. Munoz was employed by the Company under a PEO arrangement with Rain-Master, which is in the roofing business. On February 1, 1995, Rain-Master was providing

roofing services at a construction site for which Nielson was serving as a general contractor. Mr. Munoz fell from the roof at the site in the course of his employment and is now a paraplegic as a result of the injuries he suffered. Until the filing of the lawsuit referred to above, Mr. Munoz's claim was being defended as a workers' compensation claim. In the lawsuit, the plaintiffs are seeking damages in the amount of \$10,000,000 pursuant to claims for relief based on employer liability, intentional injury, product liability, negligence, breach of implied warranty and loss of consortium. On July 14, 1997, the court granted the Company's motion to dismiss the Company as a party to the lawsuit. The dismissal is without prejudice such that the plaintiff may seek to file an amended complaint alleging facts which would serve as a basis for a claim against the Company.

On March 11, 1997, a Notice of Intent to Revoke Farm/Forest Labor Contractor License and to Assess Civil Penalties (the "Notice") was served on the Company by the Bureau of Labor and Industries of the State of Oregon (the "Bureau"). The Notice also names Daniel A. Hatfield, an employee of the Company. The Notice proposes to assess civil penalties in the amount of \$488,000, based on the numbers of workers allegedly affected, for alleged noncompliance with various duties imposed on farm labor contracts by Oregon law, including licensing violations, failure to comply with wage payment laws, and failure to maintain and to provide workers and the Bureau with required documentation. A default judgment entered against the Company was withdrawn by an administrative law judge on April 23, 1997. Management intends to vigorously contest the claims asserted in the Notice; an administrative hearing is presently scheduled for September 1997.

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

The Company held its 1997 annual meeting of stockholders on May 14, 1997. The following directors were elected at the annual meeting:

		FOR	WITHHELD	ABSTENTIONS AND BROKER NON-VOTES
		---	-----	-----
<S>		<C>	<C>	
	Robert R. Ames	6,170,376	211,710	
	Jeffrey L. Beaudoin	6,170,476	211,610	
	Stephen A. Gregg	6,170,376	211,710	
	Anthony Meeker	6,170,476	211,610	
	Stanley G. Renecker	6,170,276	211,810	
	William W. Sherertz	6,170,276	211,810	

</TABLE>

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

		FOR	AGAINST	ABSTENTIONS AND BROKER NON-VOTES
		---	-----	-----
<S>		<C>	<C>	<C>
	Approval of amendment to the Company's 1993 Stock Incentive Plan	3,961,585	520,466	1,900,035
	Approval of the appointment of Price Waterhouse LLP as independent accountants	6,366,186	14,400	1,500

</TABLE>

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) Reports on Form 8-K

Except as set forth in the Registrant's Quarterly Report on Form 10-Q, Item 6 (b), for the quarterly period ended March 31, 1997, no reports on Form 8-K were filed by the Registrant during the quarter for which this report is filed.

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 12, 1997

By: /s/ Michael D. Mulholland

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

EXHIBIT INDEX

EXHIBIT

- | | |
|-----|--|
| 4.1 | Loan agreement between the Registrant and Wells Fargo Bank, N.A. dated May 30, 1997. |
| 11 | Statement of Calculation of Average Common Shares Outstanding |
| 27 | Financial Data Schedule |

[LOGO]

WELLS FARGO
Portland Commercial Banking
MAC #6101-192
1300 Southwest Fifth Avenue
P.O. Box 3131
Portland, OR 97208-3131

May 30, 1997

Barrett Business Services, Inc.
4724 SW Macadam Avenue
Portland, OR 97201

Gentlemen:

This letter is to confirm that Wells Fargo Bank, National Association ("Bank"), subject to all terms and conditions contained herein, has agreed to make available to Barrett Business Services, Inc. ("Borrower") the following described credit accommodations (each, a "Credit" and collectively, the "Credits"):

1. A revolving line of credit under which Bank will make advances to Borrower from time to time up to and including May 31, 1998, not to exceed at any time the maximum principal amount of Four Million Dollars (\$4,000,000.00) ("Line of Credit"), the proceeds of which shall be used for working capital.

2. A term loan in the original principal amount of Six Hundred Ninety-three Thousand Seven Hundred Fifty Dollars (\$693,750.00) ("Term Loan"), on which the outstanding principal amount as of the date hereof is \$585,236.50. Subject to the terms and conditions of this letter, Bank hereby confirms that the Term Loan remains in full force and effect.

3. A standby letter of credit for the account of Borrower ("Standby Letter of Credit A") in the principal amount of Fifty Thousand Dollars (\$50,000.00).

4. A standby letter of credit for the account of Borrower ("Standby Letter of Credit B") in the principal amount of One Million Five Hundred Seventy-two Thousand Dollars (\$1,572,000.00).

I. CREDIT TERMS:

1. LINE OF CREDIT:

(a) Line of Credit Note. Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a

Barrett Business Services, Inc.
May 30, 1997
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promissory note substantially in the form of Exhibit A attached hereto ("Line of Credit Note"), all terms of which are incorporated herein by this reference.

(b) Letter of Credit Subfeature. As a subfeature under the Line of Credit, Bank agrees from time to time during the term thereof to issue standby letters of credit for the account of Borrower (each, a "Letter of Credit" and collectively, "Letters of Credit"); provided however, that the form and substance of each Letter of Credit shall be subject to approval by Bank, in its sole discretion; and provided further, that the aggregate undrawn amount of all outstanding Letters of Credit shall not at any time exceed Four Million Dollars (\$4,000,000.00). Each Letter of Credit shall be issued for a term not to exceed 365 days, as designated by Borrower; provided however, that no Letter of Credit shall have an expiration date subsequent to the maturity date of the Line of Credit. The undrawn amount of all Letters of Credit shall be reserved under the Line of Credit and shall not be available for borrowings thereunder. Each Letter of Credit shall be subject to the additional terms and conditions of the Letter of Credit Agreement and related documents, if any, required by Bank in connection with the issuance thereof. Each draft paid by Bank under a Letter of Credit shall be deemed an advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions of this letter applicable to such advances; provided however, that if advances under the Line of Credit are not available, for any reason, at the time any draft is paid by

Bank, then Borrower shall immediately pay to Bank the full amount of such draft, together with interest thereon from the date such amount is paid by Bank to the date such amount is fully repaid by Borrower, at the rate of interest applicable to advances under the Line of Credit. In such event Borrower agrees that Bank, in its sole discretion, may debit any demand deposit account maintained by Borrower with Bank for the amount of any such draft.

(c) Borrowing and Repayment. Borrower may from time to time during the term of the Line of Credit borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions contained herein or in the Line of Credit Note; provided however, that the total outstanding borrowings under the Line of Credit shall not at any time exceed the maximum principal amount available thereunder, as set forth above. Notwithstanding the foregoing, Borrower shall maintain a zero balance on advances under the Line of Credit for a period of at least 30 consecutive days during each fiscal year.

Barrett Business Services, Inc.
May 30, 1997
Page 3

2. TERM LOAN:

(a) Term Note. Borrower's obligation to repay the Term Loan is evidenced by a promissory note substantially in the form of Exhibit B attached hereto ("Term Note"), all terms of which are incorporated herein by this reference. Any reference in the Term Note to any prior loan agreement between Bank and Borrower shall be deemed a reference to this letter.

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

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

3. STANDBY LETTER OF CREDIT A:

(a) Standby Letter of Credit A. Standby Letter of Credit A has been issued by Bank for the benefit of Argonaut Insurance Company to finance worker's compensation obligations. Standby Letter of Credit A has an expiration date of August 31, 1997, and is subject to the additional terms of the Application and Agreement for Standby Letter of Credit A required by Bank in connection with the issuance thereof (the "Letter of Credit A Agreement"). Subject to the terms and conditions of this letter, Bank hereby confirms that Standby Letter of Credit A remains in full force and effect.

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

4. STANDBY LETTER OF CREDIT B:

(a) Standby Letter of Credit B. Standby Letter of Credit B has been issued by Bank for the benefit of Self-Insurance Plans, State of California, to serve as a surety deposit pursuant to state worker's compensation regulations. Standby Letter of Credit B has an expiration date of April 10, 1998, and is subject to the additional terms of the Application and Agreement for Standby Letter of Credit B required by Bank in connection with the issuance thereof (the "Letter of Credit B Agreement"). Subject to the terms and conditions of this letter, Bank hereby confirms that Standby Letter of Credit B remains in full force and effect.

Barrett Business Services, Inc.
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(b) Repayment of Drafts. Each draft paid by Bank under Standby Letter of Credit B shall be repaid by Borrower in accordance with the provisions of Letter of Credit B Agreement.

5. COLLATERAL:

As security for all indebtedness of Borrower to Bank under the Term Loan, 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. 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.

II. INTEREST/FEES:

1. Interest. The outstanding principal balances of the Line of Credit and Term Loan shall bear interest at the rates of interest set forth in the Line of Credit Note and Term Note. The amount of each draft paid by Bank under Standby Letter of Credit A and Standby Letter of Credit B shall bear interest from the date such draft is paid by Bank to the date such amount is fully repaid by Borrower at a rate per annum equal to the Prime Rate in effect from time to time.

a. Prime Rate. The "Prime Rate" is a base rate that Bank from time to time establishes and which serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto. Each change in the rate of interest shall become effective on the date each Prime Rate change is announced within Bank.

b. Computation and Payment. Interest on the Line of Credit shall be computed on the basis of a 360-day year, actual days elapsed. Interest on the Term Loan shall be computed on the basis of a 366-day year, actual days elapsed. Interest shall be payable at the times and places set forth in the Line of Credit Note and Term Note.

2. Unused Commitment Fee. Borrower shall pay to Bank a fee equal to one-eighths percent (0.125%) per annum (computed on the basis of a 360-day year, actual days elapsed) on the average

Barrett Business Services, Inc.
May 30, 1997
Page 5

daily unused amount of the Line of Credit, which fee shall be calculated on a quarterly basis by Bank and shall be due and payable by Borrower in arrears on the last day of each March, June, September and December.

3. Letter of Credit Fees. Borrower shall pay to Bank fees upon the issuance of each Letter of Credit, Standby Letter of Credit A or Standby Letter of Credit B, upon the payment or negotiation by Bank of each draft under any Letter of Credit, Standby Letter of Credit A or Standby Letter of Credit B and upon the occurrence of any other activity with respect to any Letter of Credit, Standby Letter of Credit A or Standby Letter of Credit B (including without limitation, the transfer, amendment or cancellation of any Letter of Credit, Standby Letter of Credit A or Standby Letter of Credit B) determined in accordance with Bank's standard fees and charges then in effect for such activity.

4. Collection of Payments. Borrower authorizes Bank to collect all principal, interest and fees due under each Credit by charging Borrower's demand deposit account number 4159-583848 with Bank, or any other demand deposit account maintained by Borrower with Bank, for the full amount thereof. Should there be insufficient funds in any such demand deposit account to pay all such sums when due, the full amount of such deficiency shall be immediately due and payable by Borrower.

III. REPRESENTATIONS AND WARRANTIES:

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

1. Legal Status. Borrower is a corporation, duly organized and existing and in good standing under the laws of the state of Maryland, and is qualified or licensed to do business in all jurisdictions in which such qualification or licensing is required or in which the failure to so qualify or to be so licensed could have a material adverse effect on Borrower.

2. Authorization and Validity. This letter, the Line of Credit Note, Term Note, Standby Letter of Credit A, Standby Letter of Credit B, and each other document, contract or instrument deemed necessary by Bank to evidence any extension of

credit to Borrower pursuant to the terms and conditions hereof, or now or at any time hereafter required by or delivered to Bank in connection with this letter (collectively, the "Loan Documents") have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Borrower or the party which executes the same, enforceable in accordance with their respective terms.

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

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

5. Correctness of Financial Statement. The financial statement of Borrower dated March 31, 1997, a true copy of which has been delivered by Borrower to Bank prior to the date hereof, (a) is complete and correct and presents fairly the financial condition of Borrower, (b) discloses all liabilities of Borrower that are required to be reflected or reserved against under generally accepted accounting principles, whether liquidated or unliquidated, fixed or contingent, and (c) has been prepared in accordance with generally accepted accounting principles consistently applied. Since the date of such financial statement there has been no material adverse change in the condition or operation of Borrower, nor has Borrower mortgaged, pledged, granted a security interest in or otherwise encumbered any of its assets or properties except in favor of Bank or as otherwise permitted by Bank in writing.

6. Income Tax Returns. Borrower has no knowledge of any pending assessments or adjustments of its income tax payable with respect to any year.

7. No Subordination. There is no agreement, indenture, contract or instrument to which Borrower is a party or by which

Barrett Business Services, Inc.
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Borrower may be bound that requires the subordination in right of payment of any of Borrower's obligations subject to this letter to any other obligation of Borrower.

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

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

10. Other Obligations. Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation.

11. Environmental Matters. Except as disclosed by Borrower to Bank in writing prior to the date hereof, Borrower is in compliance in all material respects with all applicable federal or state environmental, hazardous waste, health and safety statutes, and any rules or regulations adopted pursuant thereto, which govern or affect any of Borrower's operations and/or properties, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and

Reauthorization Act of 1986, the Federal Resource Conservation and Recovery Act of 1976, and the Federal Toxic Substances Control Act, as any of the same may be amended, modified or supplemented from time to time. None of the operations of Borrower is the subject of any federal or state investigation evaluating whether any remedial action involving a material expenditure is needed to respond to a release of any toxic or hazardous waste or substance into the environment. Borrower has no material contingent liability in connection with

Barrett Business Services, Inc.
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any release of any toxic or hazardous waste or substance into the environment.

12. Real Property Collateral. Except as disclosed by Borrower to Bank in writing prior to the date hereof, with respect to any real property collateral required hereby:

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

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

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

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

IV. CONDITIONS:

1. Conditions of Initial Extension of Credit. The obligation of Bank to grant any of the Credits is subject to fulfillment to Bank's satisfaction of all of the following conditions:

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

(b) Financial Condition. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower, nor any material decline, as determined

Barrett Business Services, Inc.
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by Bank, in the market value of any collateral required hereunder or a substantial or material portion of the assets of Borrower.

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

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

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

2. Conditions of Each Extension of Credit. The obligation of Bank to make each extension of credit requested by Borrower hereunder shall be subject to the fulfillment to Bank's satisfaction of each of the following conditions:

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

Barrett Business Services, Inc.
May 30, 1997
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(b) Documentation. Bank shall have received all additional documents which may be required in connection with such extension of credit.

(c) Additional Letter of Credit Documentation. Prior to the issuance of each Letter of Credit, Standby Letter of Credit A or Standby Letter of Credit B, Bank shall have received a Letter of Credit Agreement, a Letter of Credit A Agreement or a Letter of Credit B Agreement, properly completed and duly executed by Borrower.

V. COVENANTS:

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

1. Punctual Payment. Punctually pay all principal, interest, fees or other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein, and immediately upon demand by Bank.

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

3. Financial Statements. Provide to Bank all of the following, in form and detail satisfactory to Bank:

(a) not later than 90 days after and as of the end of each fiscal year, an audited financial statement of Borrower, prepared by a certified public accountant acceptable to Bank, to include balance sheet, income statement, statement of cash flow, statement of retained earnings and a copy of Borrower's Form 10-K report filed with the Securities and Exchange Commission;

(b) not later than 45 days after and as of the end of each fiscal quarter, a copy of Borrower's Form 10-Q report filed with the Securities and Exchange Commission;

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

4. Compliance. Preserve and maintain all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business; and comply with the provisions of all documents pursuant to which Borrower is organized and/or which govern Borrower's continued existence and with the requirements of all laws, rules, regulations and orders of a governmental agency applicable to Borrower and/or its business.

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

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

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

8. 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 \$10,000,000.00 or more without the prior written approval of Bank, which approval shall not be unreasonably withheld; nor sell, lease, transfer or otherwise dispose of all

Barrett Business Services, Inc.
May 30, 1997
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or a substantial or material portion of Borrower's assets except in the ordinary course of its business.

9. Guaranties. Not guarantee or become liable in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for, nor pledge or hypothecate any assets of Borrower as security for, any liabilities or obligations of any other person or entity, except any of the foregoing in favor of Bank.

10. Loans, Advances, Investments. Not make any loans or advances to or investments in any person or entity, except any of the foregoing existing as of, and disclosed to Bank prior to, the date hereof, or any loans or advances or investments made in the normal course, such as short term advances to employees or investments of excess cash.

11. Pledge of Accounts. Borrower shall give Bank at least fifteen (15) days prior notice of any intent by Borrower to pledge, grant or permit to exist a security interest in, or lien upon, any of its accounts, general intangibles that constitute payment rights, and other rights to payment, (the foregoing, together with the proceeds thereof being, collectively, "Receivables Collateral") in favor of any party other than Bank (an "Other Lender"). Borrower agrees that in such event, Borrower shall grant to Bank a security interest and lien in the Receivables Collateral to secure all of Borrower's obligations to Bank under the Line of Credit, and Bank and any such Other Lender's rights and interests in and to the Receivables Collateral shall be of equal priority, with each of Bank and such Other Lender to share the Receivables Collateral on a pro-rata basis, based on the maximum principal amount of, respectively the loan from the Other Lender and the maximum principal amount of the Line of Credit. Further, in such event, borrower agrees to execute, and any such pledge of receivables collateral to an Other Lender would be made subject to the execution by such other lender of, appropriate documents to effectuate the foregoing.

12. 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:

Total Liabilities divided by Net Worth not at any time greater than 1.5 to 1.0, with "Total Liabilities" defined as the

Barrett Business Services, Inc.
May 30, 1997
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aggregate of current liabilities and non-current liabilities, and with "Net Worth" defined as the aggregate of assets minus liabilities.

VI. DEFAULT, REMEDIES:

1. Default, Remedies. Upon the violation of any term or condition of any of the Loan Documents, or upon the occurrence of any default or defined event of default under any of the Loan Documents: (a) all indebtedness of Borrower under

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

2. No Waiver. No delay, failure or discontinuance of Bank in exercising any right, power or remedy under any of the Loan Documents shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Bank of any breach of or default under any of the Loan Documents must be in writing and shall be effective only to the extent set forth in such writing.

VII. MISCELLANEOUS:

1. Notices. All notices, requests and demands which any party is required or may desire to give to any other party under any provision of this letter must be in writing delivered to each party at its address first set forth above, or to such other address as any party may designate by written notice to all other parties. Each such notice, request and demand shall be deemed

Barrett Business Services, Inc.
May 30, 1997
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given or made as follows: (a) if sent by hand delivery, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

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

3. Successors, Assignment. This letter shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that Borrower may not assign or transfer its interest hereunder without Bank's prior written consent. Bank reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Bank's rights and benefits under each of the Loan Documents. In connection therewith Bank may disclose all documents and information which Bank now has or hereafter may acquire relating to any of the Credits, Borrower or its business, or any collateral required hereunder.

4. Entire Agreement; Amendment. This letter and the other Loan Documents constitute the entire agreement between Borrower and Bank with respect to the Credits and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof. This letter may be amended or modified only in writing signed by each party hereto.

Barrett Business Services, Inc.
May 30, 1997
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5. No Third Party Beneficiaries. This letter is made and entered into for

the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other person or entity shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, this letter or any other of the Loan Documents to which it is not a party.

6. Severability of Provisions. If any provision of this letter shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this letter.

7. Governing Law. This letter shall be governed by and construed in accordance with the laws of the State of Oregon.

8. Arbitration.

(a) Arbitration. Upon the demand of any party, any Dispute shall be resolved by binding arbitration (except as set forth in (e) below) in accordance with the terms of this letter. A "Dispute" shall mean any action, dispute, claim or controversy of any kind, whether in contract or tort, statutory or common law, legal or equitable, now existing or hereafter arising under or in connection with, or in any way pertaining to, any of the Loan Documents, or any past, present or future extensions of credit and other activities, transactions or obligations of any kind related directly or indirectly to any of the Loan Documents, including without limitation, any of the foregoing arising in connection with the exercise of any self-help, ancillary or other remedies pursuant to any of the Loan Documents. Any party may by summary proceedings bring an action in court to compel arbitration of a Dispute. Any party who fails or refuses to submit to arbitration following a lawful demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any Dispute.

(b) Governing Rules. Arbitration proceedings shall be administered by the American Arbitration Association ("AAA") or such other administrator as the parties shall mutually agree upon in accordance with the AAA Commercial Arbitration Rules. All Disputes submitted to arbitration shall be resolved in accordance with the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the Loan Documents. The arbitration shall be conducted at a location in Oregon selected by the AAA or other administrator.

Barrett Business Services, Inc.
May 30, 1997
Page 16

If there is any inconsistency between the terms hereof and any such rules, the terms and procedures set forth herein shall control. All statutes of limitation applicable to any Dispute shall apply to any arbitration proceeding. All discovery activities shall be expressly limited to matters directly relevant to the Dispute being arbitrated. Judgment upon any award rendered in an arbitration may be entered in any court having jurisdiction; provided however, that nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. ss.91 or any similar applicable state law.

(c) No Waiver; Provisional Remedies, Self-Help and Foreclosure. No provision hereof shall limit the right of any party to exercise self-help remedies such as setoff, foreclosure against or sale of any real or personal property collateral or security, or to obtain provisional or ancillary remedies, including without limitation injunctive relief, sequestration, attachment, garnishment or the appointment of a receiver, from a court of competent jurisdiction before, after or during the pendency of any arbitration or other proceeding. The exercise of any such remedy shall not waive the right of any party to compel arbitration hereunder.

(d) Arbitrator Qualifications and Powers; Awards. Arbitrators must be active members of the Oregon State Bar or retired judges of the state or federal judiciary of Oregon, with expertise in the substantive law applicable to the subject matter of the Dispute. Arbitrators are empowered to resolve Disputes by summary rulings in response to motions filed prior to the final arbitration hearing. Arbitrators (i) shall resolve all Disputes in accordance with the substantive law of the state of Oregon, (ii) may grant any remedy or relief that a court of the state of Oregon could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award, and (iii) shall have the power to award recovery of all costs and fees, to impose sanctions and to take such other actions as they deem necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the Oregon Rules of Civil Procedure or other applicable law. Any Dispute in which the amount in controversy is \$5,000,000 or less shall be decided by a single arbitrator who shall not render an award of greater than \$5,000,000 (including damages, costs, fees and expenses). By submission to a single arbitrator, each

party expressly waives any right or claim to recover more than \$5,000,000. Any Dispute in which the amount in controversy exceeds \$5,000,000 shall be decided by majority vote of a panel of three arbitrators;

Barrett Business Services, Inc.
May 30, 1997
Page 17

provided however, that all three arbitrators must actively participate in all hearings and deliberations.

(e) Judicial Review. Notwithstanding anything herein to the contrary, in any arbitration in which the amount in controversy exceeds \$25,000,000, the arbitrators shall be required to make specific, written findings of fact and conclusions of law. In such arbitrations (i) the arbitrators shall not have the power to make any award which is not supported by substantial evidence or which is based on legal error, (ii) an award shall not be binding upon the parties unless the findings of fact are supported by substantial evidence and the conclusions of law are not erroneous under the substantive law of the state of Oregon, and (iii) the parties shall have in addition to the grounds referred to in the Federal Arbitration Act for vacating, modifying or correcting an award the right to judicial review of (A) whether the findings of fact rendered by the arbitrators are supported by substantial evidence, and (B) whether the conclusions of law are erroneous under the substantive law of the state of Oregon. Judgment confirming an award in such a proceeding may be entered only if a court determines the award is supported by substantial evidence and not based on legal error under the substantive law of the state of Oregon.

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

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY BANK 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.

Barrett Business Services, Inc.
May 30, 1997
Page 18

Your acknowledgment of this letter shall constitute acceptance of the foregoing terms and conditions. Bank's commitment to extend any credit to Borrower pursuant to the terms of this letter shall terminate on July 15, 1997, unless this letter is acknowledged by Borrower and returned to Bank on or before that date.

Sincerely,

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: /s/ Marlene Roberts
Marlene Roberts
Vice President

Acknowledged and accepted as of 7-7-97:

Barrett Business Services, Inc.

By: /s/ Michael D. Mulholland

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REVOLVING LINE OF CREDIT NOTE

\$4,000,000.00

Portland, Oregon
May 30, 1997

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-19, 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 Four Million Dollars (\$4,000,000.00), 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) "Federal Funds Rate" means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations of such rates on such day received by Bank from three Federal funds brokers of recognized standing selected by it.

(c) "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.

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

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

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

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

(e) "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 equal to the Prime Rate in effect from time to time, (ii) at a fluctuating rate per annum equal to one and three-quarters of one percent (1.75%) above the Federal Funds Rate in effect from time to time, or (iii) at a fixed rate per annum determined by Bank to be one and one-quarter percent (1.25%) above LIBOR in effect on the first day of the applicable Fixed Rate Term. When interest is determined in relation to the Prime Rate or Federal Funds Rate, each change in the rate of interest hereunder shall become effective on the date each Prime Rate or Federal Funds Rate change is announced within Bank. With respect to each LIBOR

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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, to the Federal Funds 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 or to the Federal Funds 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 so long as, with respect to each LIBOR selection, (A) Bank receives written confirmation from Borrower not later than three (3) Business Days after such telephone notice is given, and (B) such notice is given to Bank prior to 10:00 a.m., California time, on the first day of the Fixed Rate Term. For each LIBOR option requested hereunder, Bank will quote the applicable fixed rate to Borrower at approximately 10:00 a.m., California time, on the first day of the Fixed Rate Term. If Borrower does not immediately accept the rate quoted by Bank, any subsequent acceptance by Borrower shall be subject to a redetermination by Bank of the applicable fixed rate; provided however, that if Borrower fails to accept any such rate by 11:00 a.m., California time, on the Business Day such quotation is given, then the quoted rate shall expire and Bank shall have no obligation to permit a LIBOR option to be selected on such day. 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) Additional LIBOR Provisions.

(i) If Bank at any time shall determine that for any reason adequate and reasonable means do not exist for ascertaining LIBOR, then Bank shall promptly give notice thereof to Borrower. If such notice is given and until such notice has been withdrawn by Bank, then (A) no new LIBOR option may be selected by Borrower, and (B) any portion of the outstanding principal

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balance hereof which bears interest determined in relation to LIBOR, subsequent to the end of the Fixed Rate Term applicable thereto, shall bear interest determined in relation to the Prime Rate.

(ii) If any law, treaty, rule, regulation or determination of a court or governmental authority or any change therein or in the interpretation or application thereof (each, a "Change in Law") shall make it unlawful for Bank

(A) to make LIBOR options available hereunder, or (B) to maintain interest rates based on LIBOR, then in the former event, any obligation of Bank to make available such unlawful LIBOR options shall immediately be cancelled, and in the latter event, any such unlawful LIBOR-based interest rates then outstanding shall be converted, at Bank's option, so that interest on the portion of the outstanding principal balance subject thereto is determined in relation to the Prime Rate; provided however, that if any such Change in Law shall permit any LIBOR-based interest rates to remain in effect until the expiration of the Fixed Rate Term applicable thereto, then such permitted LIBOR-based interest rates shall continue in effect until the expiration of such Fixed Rate Term. Upon the occurrence of any of the foregoing events, Borrower shall pay to Bank immediately upon demand such amounts as may be necessary to compensate Bank for any fines, fees, charges, penalties or other costs incurred or payable by Bank as a result thereof and which are attributable to any LIBOR options made available to Borrower hereunder, and any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

(iii) If any Change in Law or compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority shall:

- (A) subject Bank to any tax, duty or other charge with respect to any LIBOR options, or change the basis of taxation of payments to Bank of principal, interest, fees or any other amount payable hereunder (except for changes in the rate of tax on the overall net income of Bank); or
- (B) impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances or loans by, or any other acquisition of funds by any office of Bank; or
- (C) impose on Bank any other condition;

and the result of any of the foregoing is to increase the cost to Bank of making, renewing or maintaining any LIBOR options hereunder and/or to reduce any amount receivable by Bank in connection therewith, then in any such case, Borrower shall pay to Bank immediately upon demand such amounts as may be necessary

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to compensate Bank for any additional costs incurred by Bank and/or reductions in amounts received by Bank which are attributable to such LIBOR options. In determining which costs incurred by Bank and/or reductions in amounts received by Bank are attributable to any LIBOR options made 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, 1997.

(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 May 31, 1998.

(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 account of any Borrower with the holder, 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.

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(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 and/or Federal Funds Rate, if any, and second, to the outstanding principal balance of this Note which bears interest determined in relation to LIBOR, with such payments applied to the oldest Fixed Rate Term first.

PREPAYMENT:

(a) Prime Rate/Federal Funds Rate. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to the Prime Rate or Federal Funds 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 Five Hundred Thousand Dollars (\$500,000.00); 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

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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:

(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 debt or other liability in default exceeds \$5,000,000.00.

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(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, is 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 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

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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

Title: Vice President-Finance

BARRETT BUSINESS SERVICES, INC.
STATEMENT OF CALCULATION OF AVERAGE
COMMON SHARES OUTSTANDING

<TABLE>
<CAPTION>

Three Months
Ended
June 30, 1997

Primary Earnings Per Share:

<S>		<C>
	Weighted average number of shares	6,735,682
	Stock option plan shares to be issued at prices ranging from \$3.50 to \$17.9375 per share	507,231
	Warrant issues at a price of \$4.20 per share	39,231
	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	(450,218)
	Total Primary Shares	6,831,926 =====

Fully Diluted Earnings Per Share:

	Weighted average number of shares	6,735,682
	Stock option plan shares to be issued at prices ranging from \$3.50 to \$17.9375 per share	507,231
	Warrant issues at a price of \$4.20 per share	39,231
	Less: Assumed purchase at the higher of ending or 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	(450,210)
	Total Diluted Shares	6,831,934 =====

</TABLE>

Note: The effect of common stock equivalents upon the primary and fully diluted earnings per share calculation is less than 3%; therefore, earnings per share are based on the weighted average number of shares outstanding during the period.

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

This schedule contains summary financial information extracted from the Company's balance sheets and related statements of operations for the period ended June 30, 1997 and is qualified in its entirety by reference to such financial statements.

</LEGEND>

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<NAME> Barrett Business Services, Inc.
<MULTIPLIER> 1,000

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