

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

---

**FORM 10-Q**

---

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

**For the Quarterly Period Ended June 30, 2009**

**Commission File No. 0-21886**

---

**BARRETT BUSINESS SERVICES, INC.**

(Exact name of registrant as specified in its charter)

---

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

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

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

**98662**  
(Zip Code)

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

---

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

Number of shares of common stock, \$.01 par value, outstanding at July 31, 2009 was 10,356,908 shares.

---

[Table of Contents](#)

BARRETT BUSINESS SERVICES, INC.

INDEX

|   | <u>Page</u> |
|---|-------------|
| <a href="#">Part I - Financial Information</a>  |             |
| Item 1. <a href="#">Unaudited Interim Consolidated Financial Statements</a>                                   |             |
| <a href="#">Consolidated Balance Sheets - June 30, 2009 and December 31, 2008</a>                             | 3           |
| <a href="#">Consolidated Statements of Operations - Three Months Ended June 30, 2009 and 2008</a>             | 4           |
| <a href="#">Consolidated Statements of Operations - Six Months Ended June 30, 2009 and 2008</a>               | 5           |
| <a href="#">Consolidated Statements of Cash Flows - Six Months Ended June 30, 2009 and 2008</a>               | 6           |
| <a href="#">Notes to Unaudited Interim Consolidated Financial Statements</a>                                  | 7           |
| Item 2. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a> | 16          |
| Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>                            | 25          |
| Item 4. <a href="#">Controls and Procedures</a>   | 25          |
| <a href="#">Part II - Other Information</a>   |             |
| Item 1A. <a href="#">Risk Factors</a>   | 27          |
| Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>                           | 27          |
| Item 4. <a href="#">Submission of Matters to Vote of Security Holders</a>                                     | 27          |
| Item 5. <a href="#">Other Information</a>   | 28          |
| Item 6. <a href="#">Exhibits</a>  | 28          |
| <a href="#">Signatures</a>  | 29          |
| <a href="#">Exhibit Index</a>   | 30          |

[Table of Contents](#)

## Part I - Financial Information

## Item 1. Financial Statements

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

|  | June 30,<br>2009  | December 31,<br>2008 |
|--|-------------------|----------------------|
| <b>ASSETS</b>  |                   |                      |
| Current assets:  |                   |                      |
| Cash and cash equivalents  | \$ 27,137         | \$ 42,214            |
| Marketable securities  | 13,114            | 17,968               |
| Trade accounts receivable, net   | 41,466            | 34,389               |
| Income taxes receivable  | 2,555             | —                    |
| Prepaid expenses and other   | 2,796             | 1,440                |
| Deferred income taxes  | 3,781             | 2,373                |
| Workers' compensation receivables for insured claims   | 225               | 225                  |
| Total current assets   | 91,074            | 98,609               |
| Marketable securities  | 11,184            | 427                  |
| Goodwill, net  | 47,338            | 47,338               |
| Property, equipment and software, net  | 15,265            | 15,503               |
| Restricted marketable securities and workers' compensation deposits                                      | 3,283             | 2,701                |
| Other assets   | 1,639             | 1,645                |
| Workers' compensation receivables for insured losses and recoveries                                      | 3,626             | 3,837                |
|  | <u>\$ 173,409</u> | <u>\$ 170,060</u>    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                   |                      |
| Current liabilities:   |                   |                      |
| Accounts payable   | \$ 876            | \$ 881               |
| Accrued payroll, payroll taxes and related benefits  | 38,851            | 32,296               |
| Other accrued liabilities  | 453               | 902                  |
| Workers' compensation claims liabilities   | 11,299            | 7,186                |
| Workers' compensation claims liabilities for insured claims  | 225               | 225                  |
| Safety incentives liability  | 4,593             | 4,626                |
| Total current liabilities  | 56,297            | 46,116               |
| Customer deposits  | 626               | 706                  |
| Long-term workers' compensation claims liabilities   | 13,667            | 5,235                |
| Long-term workers' compensation claims liabilities for insured claims                                    | 2,366             | 2,438                |
| Deferred income taxes  | 2,946             | 4,394                |
| Deferred gain on sale and leaseback  | 488               | 549                  |
| Commitments and contingencies  |                   |                      |
| Stockholders' equity:  |                   |                      |
| Preferred stock, \$.01 par value; 500,000 shares authorized; no shares issued and outstanding            | —                 | —                    |
| Common stock, \$.01 par value; 20,500 shares authorized, 10,357 and 10,583 shares issued and outstanding | 104               | 106                  |
| Additional paid-in capital   | 28,849            | 30,959               |
| Other comprehensive income   | 113               | 25                   |
| Retained earnings  | 67,953            | 79,532               |
|  | <u>97,019</u>     | <u>110,622</u>       |
|  | <u>\$ 173,409</u> | <u>\$ 170,060</u>    |

The accompanying notes are an integral part of these financial statements

[Table of Contents](#)

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

|   | Three Months Ended |                 |
|---|--------------------|-----------------|
|   | June 30,           |                 |
|   | 2009               | 2008            |
| Revenues:   |                    |                 |
| Staffing services                                     | \$ 28,002          | \$40,604        |
| Professional employer service fees                    | 29,263             | 31,579          |
| Total revenues  | <u>57,265</u>      | <u>72,183</u>   |
| Cost of revenues:                                     |                    |                 |
| Direct payroll costs                                  | 21,127             | 29,943          |
| Payroll taxes and benefits                            | 19,434             | 20,721          |
| Workers' compensation                                 | 18,927             | 7,465           |
| Total cost of revenues                                | <u>59,488</u>      | <u>58,129</u>   |
| Gross margin  | (2,223)            | 14,054          |
| Selling, general and administrative expenses          | 8,336              | 9,165           |
| Depreciation and amortization                         | 410                | 382             |
| (Loss) income from operations                         | <u>(10,969)</u>    | <u>4,507</u>    |
| Other income:   |                    |                 |
| Investment income, net                                | 239                | 535             |
| Other   | 54                 | 52              |
| Other income  | <u>293</u>         | <u>587</u>      |
| (Loss) income before income taxes                     | (10,676)           | 5,094           |
| (Benefit from) provision for income taxes             | <u>(3,944)</u>     | <u>1,844</u>    |
| Net (loss) income                                     | <u>\$ (6,732)</u>  | <u>\$ 3,250</u> |
| Basic (loss) earnings per share                       | <u>\$ (.65)</u>    | <u>\$ .30</u>   |
| Weighted average number of basic shares outstanding   | <u>10,355</u>      | <u>10,937</u>   |
| Diluted (loss) earnings per share                     | <u>\$ (.65)</u>    | <u>\$ .29</u>   |
| Weighted average number of diluted shares outstanding | <u>10,355</u>      | <u>11,221</u>   |

The accompanying notes are an integral part of these financial statements

[Table of Contents](#)

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

|   | Six Months Ended  |                 |
|---|-------------------|-----------------|
|   | June 30,          |                 |
|   | 2009              | 2008            |
| Revenues:   |                   |                 |
| Staffing services                                     | \$ 52,044         | \$ 76,423       |
| Professional employer service fees                    | 56,293            | 61,954          |
| Total revenues  | <u>108,337</u>    | <u>138,377</u>  |
| Cost of revenues:                                     |                   |                 |
| Direct payroll costs                                  | 39,196            | 56,326          |
| Payroll taxes and benefits                            | 42,061            | 45,166          |
| Workers' compensation                                 | 25,614            | 14,269          |
| Total cost of revenues                                | <u>106,871</u>    | <u>115,761</u>  |
| Gross margin  | 1,466             | 22,616          |
| Selling, general and administrative expenses          | 16,376            | 17,834          |
| Depreciation and amortization                         | 796               | 758             |
| (Loss) income from operations                         | <u>(15,706)</u>   | <u>4,024</u>    |
| Other income:   |                   |                 |
| Investment income, net                                | 489               | 1,173           |
| Other   | (81)              | 40              |
| Other income  | <u>408</u>        | <u>1,213</u>    |
| (Loss) income before income taxes                     | (15,298)          | 5,237           |
| (Benefit from) provision for income taxes             | (5,392)           | 1,896           |
| Net (loss) income                                     | <u>\$ (9,906)</u> | <u>\$ 3,341</u> |
| Basic (loss) earnings per share                       | <u>\$ (.95)</u>   | <u>\$ .30</u>   |
| Weighted average number of basic shares outstanding   | <u>10,426</u>     | <u>11,012</u>   |
| Diluted (loss) earnings per share                     | <u>\$ (.95)</u>   | <u>\$ .30</u>   |
| Weighted average number of diluted shares outstanding | <u>10,426</u>     | <u>11,322</u>   |

The accompanying notes are an integral part of these financial statements

[Table of Contents](#)

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

|  | Six Months Ended<br>June 30, |                  |
|--|------------------------------|------------------|
|  | 2009                         | 2008             |
| Cash flows from operating activities:  |                              |                  |
| Net (loss) income  | \$ (9,906)                   | \$ 3,341         |
| Reconciliations of net (loss) income to net cash provided by (used in) operating activities: |                              |                  |
| Depreciation and amortization  | 796                          | 758              |
| Losses (gains) recognized on marketable securities   | 80                           | (42)             |
| Purchase of marketable securities  | —                            | (31)             |
| Gain recognized on sale and leaseback  | (61)                         | (61)             |
| Deferred income taxes  | (2,911)                      | 2                |
| Share based compensation   | 50                           | —                |
| Changes in certain assets and liabilities, net of amounts purchased in acquisitions:         |                              |                  |
| Trade accounts receivable, net   | (7,077)                      | (8,623)          |
| Income taxes receivable  | (2,555)                      | —                |
| Prepaid expenses and other   | (1,356)                      | 342              |
| Accounts payable   | (5)                          | (304)            |
| Accrued payroll, payroll taxes and related benefits  | 6,555                        | 4,302            |
| Income taxes payable   | —                            | 527              |
| Other accrued liabilities  | (449)                        | (351)            |
| Workers' compensation claims liabilities   | 12,684                       | 2,225            |
| Safety incentives liability  | (33)                         | (1,248)          |
| Customer deposits and other assets, net  | (100)                        | (101)            |
| Net cash (used in) provided by operating activities  | <u>(4,288)</u>               | <u>736</u>       |
| Cash flows from investing activities:  |                              |                  |
| Cash paid for acquisitions, including other direct costs                                     | —                            | (3,838)          |
| Purchase of property and equipment, net of amounts purchased in acquisitions                 | (532)                        | (441)            |
| Proceeds from sales and maturities of marketable securities                                  | 8,169                        | 72,378           |
| Purchase of marketable securities  | (14,009)                     | (55,356)         |
| Proceeds from maturities of restricted marketable securities                                 | 1,982                        | 1,693            |
| Purchase of restricted marketable securities   | (2,564)                      | (2,839)          |
| Net cash (used in) provided by investing activities  | <u>(6,954)</u>               | <u>11,597</u>    |
| Cash flows from financing activities:  |                              |                  |
| Proceeds from credit-line borrowings   | 323                          | 5,040            |
| Payments on credit-line borrowings   | (323)                        | (5,040)          |
| Proceeds from exercise of stock options  | 19                           | 221              |
| Dividends paid   | (1,673)                      | (1,752)          |
| Repurchase of common stock   | (2,194)                      | (3,997)          |
| Tax benefit of stock option exercises  | 13                           | 58               |
| Net cash used in financing activities  | <u>(3,835)</u>               | <u>(5,470)</u>   |
| Net (decrease) increase in cash and cash equivalents   | (15,077)                     | 6,863            |
| Cash and cash equivalents, beginning of period   | 42,214                       | 9,777            |
| Cash and cash equivalents, end of period   | <u>\$ 27,137</u>             | <u>\$ 16,640</u> |
| Supplemental schedule of noncash investing activities:                                       |                              |                  |
| Acquisitions of other businesses:  |                              |                  |
| Cost of acquisitions in excess of fair market value of net assets acquired                   | \$ —                         | \$ 3,808         |
| Intangible assets acquired   | —                            | 15               |
| Tangible assets acquired   | —                            | 15               |
| Net cash paid for acquisitions   | <u>\$ —</u>                  | <u>\$ 3,838</u>  |

The accompanying notes are an integral part of these financial statements

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

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

The accompanying consolidated financial statements are unaudited and have been prepared by Barrett Business Services, Inc. ("Barrett", "BBSI" or the "Company"), pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures typically included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from such estimates and assumptions. The consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2008 Annual Report on Form 10-K at pages F1 - F25. The results of operations for an interim period are not necessarily indicative of the results of operations for a full year.

**Marketable securities**

As of June 30, 2009, the Company's marketable securities consisted of tax-exempt municipal securities, variable rate demand notes ("VRDN"), closed-end bond funds, equity securities, U.S. treasuries and corporate bonds. The Company classifies municipal securities, VRDN, the closed-end bond funds, U.S. treasuries and certain of its corporate bonds as available for sale; they are reported at fair value with unrealized gains and losses, net of taxes, shown as a component of other comprehensive income (loss) in stockholders' equity. In the event a loss is determined to be other-than-temporary, the loss will be recognized in the statement of operations. The equity securities are classified as trading and are reported at fair value with unrealized gains and losses, net of taxes, shown as a component of net income. Certain of the Company's corporate bonds are classified as held-to-maturity and are reported at amortized cost.

**Allowance for doubtful accounts**

The Company had an allowance for doubtful accounts of \$306,000 and \$409,000 at June 30, 2009 and December 31, 2008, respectively. The Company must make estimates of the collectibility of accounts receivable. Management analyzes historical bad debts, customer concentrations, customer creditworthiness, current economic conditions and changes in customers' payment trends when evaluating the adequacy of the allowance for doubtful accounts. The Company deems an account balance uncollectible only after it has pursued all available assets of the customer and, where applicable, the assets of the personal guarantor.

**Workers' compensation claims**

The Company is a self-insured employer with respect to workers' compensation coverage for all of its employees (including employees subject to Professional Employer Organization ("PEO") contracts) working in California, Oregon, Maryland, Delaware and Colorado. In the state of Washington, state law allows only the Company's staffing services and internal management employees to be covered under the Company's self-insured workers' compensation program. To manage our financial exposure, in the event of catastrophic injuries

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

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

**Workers' compensation claims (Continued)**

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

The Company has provided a total of \$27.6 million and \$15.1 million at June 30, 2009 and December 31, 2008, respectively, as an estimated future liability for unsettled workers' compensation claims liabilities. Included in the foregoing liabilities are insured claims that will be paid by the Company's former excess workers' compensation insurer and for which the Company has reported a receivable from the insurer for the insured claims liability. Insured claims totaled \$2.6 million and \$2.7 million at June 30, 2009 and December 31, 2008, respectively. The estimated liability for unsettled workers' compensation claims represents management's best estimate based upon an actuarial valuation provided by a third party actuary. Included in the claims liabilities are case reserve estimates for reported losses, plus additional amounts based on projections for incurred but not reported claims and anticipated increases in case reserve estimates. These estimates are continually reviewed and adjustments to liabilities are reflected in current operating results as they become known.

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

**Safety incentives liability**

Safety incentives represent cash incentives paid to certain PEO client companies for maintaining safe-work practices in order to minimize workplace injuries, thereby meeting certain established loss objectives. The Company has provided \$4.6 million at June 30, 2009 and December 31, 2008, respectively, as an estimate of the liability for unpaid safety incentives. The incentive is based on a percentage of annual payroll and is paid annually to customers who meet predetermined workers' compensation claims cost objectives. Safety incentive payments



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

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

**Safety incentives liability (Continued)**

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

**Comprehensive income (loss)**

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

**Subsequent Events**

We have evaluated events and transactions occurring after the balance sheet date through August 10, 2009, which is the date that the financial statements are issued, and noted no events that are subject to recognition or disclosure.

**Note 2 - Recent Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years for financial assets and liabilities. The effective date of the provisions of SFAS 157 for non-financial assets and liabilities, except for items recognized at fair value on a recurring basis, was deferred by the FASB Staff Position SFAS 157-2 and are effective for fiscal years beginning after November 15, 2008. The adoption of SFAS 157 for both financial and non-financial assets and liabilities has not had a material effect on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R) "Business Combinations," ("SFAS 141(R)"). SFAS 141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS 141(R) has not had a material effect on our consolidated financial statements.

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

**Note 2 - Recent Accounting Pronouncements (Continued)**

In May 2009, the FASB issued Statement No. 165, "Subsequent Events" ("SFAS 165"). SFAS 165 requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. We adopted SFAS 165 effective for the second quarter of 2009. See Note 1 for the disclosure.

In June 2009, the FASB issued SFAS No. 168 "The FASB Accounting Standards Codification" and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162" ("SFAS 168"). SFAS 168 provides for the FASB Accounting Standards Codification™ (Codification) to become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We believe the adoption of SFAS 168 will not have a material effect on our consolidated financial statements.

**Note 3 - Acquisitions**

Effective February 4, 2008, the Company acquired certain assets of First Employment Services, Inc., a privately held staffing company with offices in Tempe and Phoenix, Arizona. The Company paid \$3.8 million in cash upon closing and agreed to pay additional consideration of \$1.2 million in cash contingent upon the first 12 months of financial performance. Management completed the evaluation of the financial performance criteria for the 12-month period during the first quarter of 2009 and determined no additional consideration was due. The transaction resulted in the recognition of \$3.8 million of goodwill, \$15,000 of other assets and \$15,000 of fixed assets. The Company's consolidated income statements for the six months ended June 30, 2008 include First Employment's results of operations since February 4, 2008.

**Note 4 - Basic and Diluted Earnings Per Share**

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

[Table of Contents](#)

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

**Note 4 - Basic and Diluted Earnings Per Share (Continued)**

|   | Three Months Ended<br>June 30, |                   | Six Months Ended<br>June 30, |                   |
|---|--------------------------------|-------------------|------------------------------|-------------------|
|   | 2009                           | 2008              | 2009                         | 2008              |
| Weighted average number of basic shares outstanding   | 10,354,765                     | 10,936,871        | 10,425,643                   | 11,011,865        |
| Stock option plan shares to be issued at prices ranging from \$2.00 to \$17.50 per share  | —                              | 670,014           | —                            | 686,840           |
| 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 | —                              | (386,049)         | —                            | (376,549)         |
| Weighted average number of diluted shares outstanding   | <u>10,354,765</u>              | <u>11,220,836</u> | <u>10,425,643</u>            | <u>11,322,156</u> |

As a result of the net loss reported for the three months and six months ended June 30, 2009, 191,856 and 191,656, respectively, of potential common shares have been excluded from the calculation of diluted loss per share because their effect would be anti-dilutive.

**Note 5 - Stock Incentive Plans and Stock-Based Compensation**

The Company's 2009 Stock Incentive Plan (the "2009 Plan"), which provides for stock-based awards to Company employees, non-employee directors and outside consultants or advisors, was approved by shareholders on May 13, 2009. No options have been issued under the 2009 Plan. The number of shares of common stock reserved for issuance under the 2009 Plan is 1,000,000, of which the aggregate number of shares for which incentive stock options may be granted under the Plan is 900,000. No new grants of stock options may be made under the Company's 2003 Stock Incentive Plan (the "2003 Plan"). At June 30, 2009, there were option awards covering 571,319 shares outstanding under the 2003 Plan and its predecessor, the 1993 Stock Incentive Plan. Outstanding options under both plans generally expire ten years after the date of grant. Options are generally exercisable in four equal annual installments beginning one year after the date of grant.

The Company applies SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"), to account for compensation expense for options awarded under its stock incentive plans. SFAS 123R requires the grant-date fair value of all share-based payment awards, including employee

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

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

stock options, to be recognized as employee compensation expense over the requisite service period.

The following table summarizes options activity in 2009:

|   | Number<br>of Options    | Grant Prices   |                   |
|---|-------------------------|----------------|-------------------|
|   |                         | \$             | to \$             |
| Outstanding at December 31, 2008            | 501,006                 | \$ 2.00        | to \$17.50        |
| Options granted                             | 79,500                  | \$10.74        | to \$11.08        |
| Options exercised                           | (9,187)                 | \$ 2.01        | to \$ 2.58        |
| Options cancelled or expired                | —                       |                |                   |
| <b>Outstanding at June 30, 2009</b>         | <b><u>571,319</u></b>   | <b>\$ 2.00</b> | <b>to \$17.50</b> |
| Exercisable at June 30, 2009                | <u>484,319</u>          |                |                   |
| <b>Available for grant at June 30, 2009</b> | <b><u>1,000,000</u></b> |                |                   |

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

| (\$ in thousands, except per share data)           | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |          |
|--|--------------------------------|--------|------------------------------|----------|
|  | 2009                           | 2008   | 2009                         | 2008     |
| Intrinsic value of options exercised in the period | \$ 35                          | \$ 998 | \$ 68                        | \$ 1,056 |

|  | As of June 30, |            |
|--|----------------|------------|
|  | 2009           | 2008       |
| Stock options:                                 |                |            |
| Number of options                              | 571,319        | 571,318    |
| Options fully vested and currently exercisable | 484,319        | 561,318    |
| Weighted average exercise price                | \$ 7.65        | \$ 7.86    |
| Aggregate intrinsic value                      | \$ 2,294       | \$ 3,038   |
| Weighted average contractual term of options   | 5.25 years     | 5.57 years |

The aggregate intrinsic value of stock options represents the difference between the Company's closing stock price at the end of the period and the relevant exercise price multiplied by the number of options outstanding at the end of the period at each such price.

Stock-based compensation expense recognized under SFAS 123R for the three months ended June 30, 2009 and 2008 was \$25,000 and \$0, respectively, and for the six months ended June 30, 2009 and 2008, was \$50,000 and \$0, respectively.

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

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

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

|                           | Three Months Ended<br>March 31, 2009 |
|---------------------------|--------------------------------------|
| Stock options:            |                                      |
| Risk-free interest rate   | 1.36%                                |
| Expected dividend yield   | 2.93%                                |
| Expected term             | 7.1 years                            |
| Expected volatility       | 61.94%                               |
| Estimated forfeiture rate | 4.24%                                |

There were no stock-based awards granted during the quarter ended June 30, 2009.

The following table summarizes stock-based compensation expense related to stock option awards under SFAS 123R for the six months ended June 30, 2009 and 2008 (in thousands):

|   | Three Months Ended<br>June 30, |             | Six Months Ended<br>June 30, |             |
|---|--------------------------------|-------------|------------------------------|-------------|
|   | 2009                           | 2008        | 2009                         | 2008        |
| Stock-based compensation expense included in selling, general and administrative expenses | \$ 25                          | \$ —        | \$ 50                        | \$ —        |
| Income tax benefit related to stock-based compensation                                    | 10                             | —           | 20                           | —           |
| Stock-based compensation expense related to stock options, net of tax                     | <u>\$ 15</u>                   | <u>\$ —</u> | <u>\$ 30</u>                 | <u>\$ —</u> |

As of June 30, 2009, unamortized compensation expense related to stock options was \$342,000.

[Table of Contents](#)

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

**Note 6 - Workers' Compensation**

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

|  | Three Months Ended |                  | Six Months Ended |                  |
|--|--------------------|------------------|------------------|------------------|
|  | June 30,           |                  | June 30,         |                  |
|  | 2009               | 2008             | 2009             | 2008             |
| Beginning balance                        |                    |                  |                  |                  |
| Workers' compensation claims liabilities | \$ 15,739          | \$ 13,118        | \$ 15,084        | \$ 12,741        |
| Add: claims expense accrual              | 15,236             | 4,456            | 18,655           | 7,994            |
| Less: claim payments related to:         |                    |                  |                  |                  |
| Current year                             | 611                | 736              | 711              | 894              |
| Prior years                              | 2,807              | 2,278            | 5,471            | 5,281            |
| Total paid                               | <u>3,418</u>       | <u>3,014</u>     | <u>6,182</u>     | <u>6,175</u>     |
| Ending balance                           |                    |                  |                  |                  |
| Workers' compensation claims liabilities | <u>\$ 27,557</u>   | <u>\$ 14,560</u> | <u>\$ 27,557</u> | <u>\$ 14,560</u> |
| Incurred but not reported (IBNR)         | <u>\$ 17,011</u>   | <u>\$ 5,918</u>  | <u>\$ 17,011</u> | <u>\$ 5,918</u>  |

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

[Table of Contents](#)BARRETT BUSINESS SERVICES, INC.  
Notes to Consolidated Financial Statements (Unaudited) (Continued)**Note 7 - Fair Value Measurement**

The Company has determined that its marketable securities should be presented at their fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company has determined that its closed-end bond funds, U.S. treasuries and equity securities components of its marketable securities fall into the Level 1 category, which values assets at the quoted prices in active markets for the same identical assets. The Company has also determined its municipal bonds, VRDN and corporate bonds components fall into the Level 2 category, which values assets using inputs other than quoted prices that are observable for the asset either directly or indirectly. There were no assets or liabilities where Level 3 valuation techniques were used and there were no assets and liabilities measured at fair value on a non-recurring basis.

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

|                            | June 30, 2009    |                                 |                  | December 31, 2008 |                                 |                  |
|----------------------------|------------------|---------------------------------|------------------|-------------------|---------------------------------|------------------|
|                            | Cost Basis       | Gross Unrealized Gains (Losses) | Recorded Basis   | Cost Basis        | Gross Unrealized Gains (Losses) | Recorded Basis   |
| Current:                   |                  |                                 |                  |                   |                                 |                  |
| Trading:                   |                  |                                 |                  |                   |                                 |                  |
| Equity securities          | \$ 349           | \$ (172)                        | \$ 177           | \$ 349            | \$ (92)                         | \$ 257           |
| Available-for-sale:        |                  |                                 |                  |                   |                                 |                  |
| Municipal bonds            | 11,289           | 35                              | 11,324           | 16,704            | 55                              | 16,759           |
| Variable rate demand notes | 400              | —                               | 400              | 401               | —                               | 401              |
| Closed-end bond funds      | 491              | 221                             | 712              | 491               | 60                              | 551              |
| U.S. treasuries            | 501              | —                               | 501              | —                 | —                               | —                |
|                            | <u>\$ 13,030</u> | <u>\$ 84</u>                    | <u>\$ 13,114</u> | <u>\$ 17,945</u>  | <u>\$ 23</u>                    | <u>\$ 17,968</u> |
| Long term:                 |                  |                                 |                  |                   |                                 |                  |
| Available-for-sale:        |                  |                                 |                  |                   |                                 |                  |
| Corporate bonds            | \$ 10,752        | \$ —                            | \$ 10,752        | \$ —              | \$ —                            | \$ —             |
| Held-to-maturity:          |                  |                                 |                  |                   |                                 |                  |
| Corporate bonds            | 432              | —                               | 432              | 427               | —                               | 427              |
|                            | <u>\$ 11,184</u> | <u>\$ —</u>                     | <u>\$ 11,184</u> | <u>\$ 427</u>     | <u>—</u>                        | <u>427</u>       |

---

## Table of Contents

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

#### Overview

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

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

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

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

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



## Table of Contents

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

#### Results of Operations

The following table sets forth a percentages of total revenues represented by selected items in the Company's Consolidated Statements of Operations for the three and six months ended June 30, 2009 and 2008.

|  | Percentage of Total Revenues   |              |                              |              |
|--|--------------------------------|--------------|------------------------------|--------------|
|  | Three Months Ended<br>June 30, |              | Six Months Ended<br>June 30, |              |
|  | 2009                           | 2008         | 2009                         | 2008         |
| Revenues:                                    |                                |              |                              |              |
| Staffing services                            | 48.9%                          | 56.3%        | 48.0%                        | 55.2%        |
| Professional employer service fees           | <u>51.1</u>                    | <u>43.7</u>  | <u>52.0</u>                  | <u>44.8</u>  |
| Total revenues                               | <u>100.0</u>                   | <u>100.0</u> | <u>100.0</u>                 | <u>100.0</u> |
| Cost of revenues:                            |                                |              |                              |              |
| Direct payroll costs                         | 36.9                           | 41.5         | 36.2                         | 40.7         |
| Payroll taxes and benefits                   | 33.9                           | 28.7         | 38.8                         | 32.7         |
| Workers' compensation                        | <u>33.1</u>                    | <u>10.3</u>  | <u>23.6</u>                  | <u>10.3</u>  |
| Total cost of revenues                       | <u>103.9</u>                   | <u>80.5</u>  | <u>98.6</u>                  | <u>83.7</u>  |
| Gross margin                                 | (3.9)                          | 19.5         | 1.4                          | 16.3         |
| Selling, general and administrative expenses | 14.6                           | 12.7         | 15.1                         | 12.9         |
| Depreciation and amortization                | <u>0.7</u>                     | <u>0.5</u>   | <u>0.7</u>                   | <u>0.5</u>   |
| (Loss) income from operations                | (19.2)                         | 6.3          | (14.4)                       | 2.9          |
| Other income                                 | <u>0.5</u>                     | <u>0.8</u>   | <u>0.3</u>                   | <u>0.9</u>   |
| (Loss) income before taxes                   | (18.7)                         | 7.1          | (14.1)                       | 3.8          |
| (Benefit from) provision for income taxes    | <u>(6.9)</u>                   | <u>2.6</u>   | <u>(5.0)</u>                 | <u>1.4</u>   |
| Net (loss) income                            | <u>(11.8)%</u>                 | <u>4.5%</u>  | <u>(9.1)%</u>                | <u>2.4%</u>  |

We report PEO revenues in accordance with the requirements of Emerging Issues Task Force No. 99-19, "Reporting Revenues Gross as a Principal Versus Net as an Agent" ("EITF No. 99-19"), which requires us to report such revenues on a net basis because we are not the primary obligor for the services provided by our PEO clients to their customers pursuant to our PEO contracts. We present for comparison purposes the gross revenues and cost of revenues information set forth in the table below. Although not in accordance with GAAP, management believes this information is more informative as to the level of our business activity and more illustrative of how we manage our operations, including the preparation of our internal operating forecasts, because it presents our PEO services on a basis comparable to our staffing services.

[Table of Contents](#)

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

Results of Operations (Continued)

The presentation of revenues on a net basis and the relative contributions of staffing and PEO revenues can create volatility in our gross margin percentage. The general impact of fluctuations in our revenue mix is described below.

- A relative increase in staffing revenues will typically result in a lower gross margin percentage. Staffing revenues are presented at gross with the related direct costs reported in cost of sales. While staffing relationships typically have higher margins than PEO relationships, an increase in staffing revenues and related costs presented at gross dilutes the impact of the net PEO revenue on gross margin percentage.
- A relative increase in PEO revenue will result in a higher gross margin percentage. Improvement in gross margin percentage occurs because incremental PEO revenue dollars are reported as revenue net of all related direct costs.

| (in thousands)                 | Unaudited<br>Three Months Ended<br>June 30, |                  | Unaudited<br>Six Months Ended<br>June 30, |                  |
|--------------------------------|---|------------------|---|------------------|
|                                | 2009  | 2008             | 2009                                      | 2008             |
| Revenues:                      |   |                  |   |                  |
| Staffing services              | \$ 28,002                                   | \$ 40,604        | \$ 52,044                                 | \$ 76,423        |
| Professional employer services | <u>220,150</u>                              | <u>228,891</u>   | <u>423,975</u>                            | <u>452,652</u>   |
| Total revenues                 | <u>248,152</u>                              | <u>269,495</u>   | <u>476,019</u>                            | <u>529,075</u>   |
| Cost of revenues:              |   |                  |   |                  |
| Direct payroll costs           | 210,720                                     | 225,887          | 404,276                                   | 443,740          |
| Payroll taxes and benefits     | 19,434                                      | 20,721           | 42,061                                    | 45,166           |
| Workers' compensation          | <u>20,221</u>                               | <u>8,833</u>     | <u>28,216</u>                             | <u>17,553</u>    |
| Total cost of revenues         | <u>250,375</u>                              | <u>255,441</u>   | <u>474,553</u>                            | <u>506,459</u>   |
| Gross margin                   | <u>\$ (2,223)</u>                           | <u>\$ 14,054</u> | <u>\$ 1,466</u>                           | <u>\$ 22,616</u> |

[Table of Contents](#)

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

Results of Operations (Continued)

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

| (in thousands)                 | Unaudited<br>Three Months Ended June 30, |                   |                     |                     |                                 |                  |
|--------------------------------|--|-------------------|---------------------|---------------------|---------------------------------|------------------|
|                                | Gross Revenue<br>Reporting Method        |                   | Reclassification    |                     | Net Revenue<br>Reporting Method |                  |
|                                | 2009                                     | 2008              | 2009                | 2008                | 2009                            | 2008             |
| Revenues:                      |  |                   |                     |                     |                                 |                  |
| Staffing services              | \$ 28,002                                | \$ 40,604         | \$ —                | \$ —                | \$ 28,002                       | \$ 40,604        |
| Professional employer services | 220,150                                  | 228,891           | (190,887)           | (197,312)           | 29,263                          | 31,579           |
| Total revenues                 | <u>\$ 248,152</u>                        | <u>\$ 269,495</u> | <u>\$ (190,887)</u> | <u>\$ (197,312)</u> | <u>\$ 57,265</u>                | <u>\$ 72,183</u> |
| Cost of revenues               | <u>\$ 250,375</u>                        | <u>\$ 255,441</u> | <u>\$ (190,887)</u> | <u>\$ (197,312)</u> | <u>\$ 59,488</u>                | <u>\$ 58,129</u> |

| (in thousands)                 | Unaudited<br>Six Months Ended June 30, |                   |                     |                     |                                 |                   |
|--------------------------------|--|-------------------|---------------------|---------------------|---------------------------------|-------------------|
|                                | Gross Revenue<br>Reporting Method      |                   | Reclassification    |                     | Net Revenue<br>Reporting Method |                   |
|                                | 2009                                   | 2008              | 2009                | 2008                | 2009                            | 2008              |
| Revenues:                      |  |                   |                     |                     |                                 |                   |
| Staffing services              | \$ 52,044                              | \$ 76,423         | \$ —                | \$ —                | \$ 52,044                       | \$ 76,423         |
| Professional employer services | 423,975                                | 452,652           | (367,682)           | (390,698)           | 56,293                          | 61,954            |
| Total revenues                 | <u>\$ 476,019</u>                      | <u>\$ 529,075</u> | <u>\$ (367,682)</u> | <u>\$ (390,698)</u> | <u>\$ 108,337</u>               | <u>\$ 138,377</u> |
| Cost of revenues               | <u>\$ 474,553</u>                      | <u>\$ 506,459</u> | <u>\$ (367,682)</u> | <u>\$ (390,698)</u> | <u>\$ 106,871</u>               | <u>\$ 115,761</u> |

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

**Three months ended June 30, 2009 and 2008**

Net loss for the second quarter of 2009 amounted to \$6.7 million, a decline of \$10.0 million from net income of \$3.3 million for the second quarter of 2008. The decline for the second quarter of 2009 was primarily due to lower revenues and lower gross margin dollars primarily resulting from an \$11.8 million increase in worker compensation expense due to the Company's change in estimate of its workers' compensation claims liabilities as of June 30, 2009. Diluted loss per share for the second quarter of 2009 was \$.65 compared to a diluted earnings per share of \$.29 for the comparable 2008 period.

---

[Table of Contents](#)

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

Results of Operations (Continued)

*Three months ended June 30, 2009 and 2008 (Continued)*

Revenues for the second quarter of 2009 totaled \$57.3 million, a decrease of approximately \$14.9 million or 20.7%, which reflects a decrease in both the Company's staffing service revenue and PEO service fee revenue. Staffing services revenue decreased approximately \$12.6 million or 31.0% due to a continued decline in demand for our staffing services from existing customers in the majority of our markets. Management expects demand for the Company's staffing services will continue to reflect overall economic conditions in its market areas. PEO service fee revenue decreased approximately \$2.3 million or 7.3% from the comparable 2008 quarter. While our PEO business from new customers during the second quarter of 2008 exceeded our loss of PEO business from former customers, the overall decline in PEO business resulted from decreased hours worked at existing PEO customer worksites.

Gross margin for the second quarter of 2009 represented a loss of approximately \$2.2 million, or a decrease of \$16.3 million from the second quarter of 2008, primarily due to the \$11.8 million additional workers' compensation expense adjustment, a 20.7% decline in revenues and higher payroll taxes and benefits as a percentage of revenues. The increase in payroll taxes and benefits, as a percentage of revenues, from 28.7% for the second quarter of 2008 to 33.9% for the second quarter of 2009, was principally due to higher statutory state unemployment tax rates in various states in which the Company operates as compared to the second quarter of 2008 as well as to an increase in business mix of PEO services where payroll taxes and benefits are presented at gross cost whereas the related direct payroll costs are netted against PEO services revenue.

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

Workers' compensation expense, as a percent of revenues, increased from 10.3% in the second quarter of 2008 to 33.1% in the second quarter of 2009. Workers' compensation expense for the second quarter of 2009 totaled \$18.9 million, compared to \$7.5 million for the second quarter of 2008. The increase in the expense as a percentage of revenues was primarily due to the \$11.8 million additional workers' compensation expense adjustment.

The decrease in direct payroll costs, as a percentage of revenues, from 41.5% for the second quarter of 2008 to 36.9% for the second quarter of 2009 was largely due to the significant decline in staffing services business.

---

## [Table of Contents](#)

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

#### Results of Operations (Continued)

Selling, general and administrative ("SG&A") expenses for the second quarter of 2009 amounted to approximately \$8.3 million, a decline of \$829,000 or 9.0% from the second quarter of 2008. The decrease from the second quarter of 2008 was primarily attributable to lower branch management payroll, profit sharing and commissions due to the decline in business activity and profitability.

Other income for the second quarter of 2009 was \$293,000 compared to other income of \$587,000 for the second quarter of 2008. The decline in other income for the second quarter of 2009 was primarily attributable to decreased investment income earned on the Company's cash and investments resulting from a significant decline in investment yields compared to the 2008 second quarter.

#### *Six months ended June 30, 2009 and 2008*

Net loss for the six months ended June 30, 2009 amounted to \$9.9 million, a decline of \$13.2 million from net income of \$3.3 million for the comparable period of 2008. The decline for the six months ended June 30, 2009 was primarily due to lower revenues and lower gross margin dollars principally due to an \$11.8 million increase in workers' compensation expense resulting from the Company's change in estimate of its workers' compensation reserves during the second quarter of 2009. Diluted loss per share for the first six months of 2009 was \$.95 compared to diluted earnings per share of \$.30 for the comparable 2008 period.

Revenues for the six months ended June 30, 2009 totaled \$108.3 million, a decrease of approximately \$30.0 million or 21.7%, which reflects a decrease in both the Company's staffing service revenue and PEO service fee revenue. Staffing services revenue decreased approximately \$24.4 million or 31.9% due to a significant decline in demand for our staffing services from existing customers in the majority of our markets. PEO service fee revenue decreased approximately \$5.6 million or 9.1% from the comparable 2008 period primarily due to a decline in business as a result of decreased hours worked at existing PEO customer worksites, partially offset by the net effect of the addition of new customers.

Gross margin for the six months ended June 30, 2009 totaled approximately \$1.5 million, which represented a decrease of \$21.2 million from the comparable period of 2008, primarily due to the \$11.8 million additional workers' compensation expense adjustment, a 21.7% decline in revenues and higher payroll taxes and benefits as a percentage of revenues. The gross margin percent decreased from 16.3% of revenues for the first six months of 2008 to 1.4% for the first six months of 2009. The increase in payroll taxes and benefits, as a percentage of revenues, from 32.7% for the first six months of 2008 to 38.8% for the first six months of 2009, was principally due to higher statutory state unemployment tax rates in various states in which the Company operates in 2009 as compared to 2008.

Workers' compensation expense, as a percent of revenues, increased from 10.3% in the first six months of 2008 to 23.6% in the first six months of 2009. Workers' compensation expense for the first six months of 2009 totaled \$25.6 million, compared to \$14.3 million for the first six months of 2008. The increase in the expense as a percentage of revenues was primarily due to the \$11.8 million additional workers' compensation expense adjustment. The decrease in direct payroll costs, as a percentage of revenues, from 40.7% for the first six months of 2008 to 36.2% for the first six months of 2009 was largely due to the significant decline in staffing services business.

---

## Table of Contents

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

#### Results of Operations (Continued)

##### *Six months ended June 30, 2009 and 2008 (Continued)*

SG&A expenses for the first six months of 2009 amounted to approximately \$16.4 million, a decline of \$1.5 million or 8.2% from the first six months of 2008. The decrease from the first six months of 2008 was primarily attributable to lower branch management payroll, lower profit sharing and an overall reduction in variable operating expenses due to the decline in business activity.

Other income for the first six months of 2009 was \$408,000 compared to other income of \$1.2 million for the comparable period of 2008. The decline in other income for the first six months of 2009 was primarily attributable to decreased investment income earned on the Company's cash and investments resulting from a significant decline in investment yields.

#### Factors Affecting Quarterly Results

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

#### Liquidity and Capital Resources

The Company's cash position for the six months ended June 30, 2009 decreased \$15.1 million from December 31, 2008, which compares to an increase of \$6.9 million for the comparable period in 2008. The decrease in cash at June 30, 2009 as compared to December 31, 2008, was primarily due to purchases of marketable securities of \$14.0 million, and a net loss from operating activities of \$9.9 million, offset in part by proceeds from sales and maturities of marketable securities of \$8.2 million.

---

## Table of Contents

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

#### Liquidity and Capital Resources (Continued)

Net cash used in operating activities for the six months ended June 30, 2009 amounted to \$4.3 million, compared to cash provided by operating activities of \$736,000 for the comparable 2008 period. For the six months ended June 30, 2009, cash flow was principally used by a \$9.9 million net loss, an increase in trade accounts receivable of \$7.1 million, and an increase in deferred income taxes and income taxes receivable totaling \$5.5 million, offset in part by an increase in workers' compensation claims liabilities of \$12.7 million and an increase in accrued payroll, payroll taxes and related benefits of \$6.6 million.

Net cash used in investing activities totaled \$7.0 million for the six months ended June 30, 2009 compared to cash provided by investing activities of \$11.6 million for the similar 2008 period. For the 2009 period, cash from investing activities was principally used in the purchase of marketable securities totaling \$14.0 million, offset in part by the proceeds from the sales and maturities of marketable securities of \$8.2 million. The transactions related to restricted marketable securities were scheduled maturities and the related replacement of such securities held for workers' compensation surety deposit purposes. The Company presently has no material long-term capital commitments.

Net cash used in financing activities for the six-month period ended June 30, 2009, was \$3.8 million as compared to \$5.5 million for the similar 2008 period. For the 2009 period, the principal use of cash for financing activities was the Company's repurchase of 235,800 shares of its common stock for \$2.2 million under the approved repurchase program and the payment of regular quarterly cash dividends totaling \$1.7 million to holders of the Company's Common Stock.

As disclosed in Note 3 to the consolidated financial statements in this report, the Company acquired certain assets of First Employment Services, Inc., a privately held staffing services company with offices in Tempe and Phoenix, Arizona, effective February 4, 2008. As consideration for the acquisition, the Company paid \$3.8 million in cash and agreed to pay additional consideration of \$1.2 million contingent upon the first 12 months of financial performance. Management completed the evaluation of the financial performance criteria for the 12-month period during the first quarter of 2009 and determined no additional consideration was due.

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

Effective May 27, 2009, the Company chose to eliminate its line of credit with its principal bank and subsequently amended its credit agreement with the bank. The Standby Letter of Credit Agreement dated as of June 30, 2009 (the "Credit Agreement") provides for standby letters of credit as to which there were \$6.7 million outstanding at June 30, 2009 in connection with various surety deposit requirements for workers' compensation purposes.

---

## Table of Contents

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

#### Liquidity and Capital Resources (Continued)

Pursuant to the Credit Agreement, the Company is required to maintain compliance with the following covenants: (1) to incur a net loss after taxes of no more than \$8.0 million for the year ending December 31, 2009 and maintain net income after taxes not less than \$1.00 (one dollar) on an annual basis thereafter, determined as of each fiscal year end; (2) to maintain liquid assets (defined as unencumbered cash, cash equivalents, and publicly traded and quoted marketable securities) having an aggregate fair market value at all times not less than \$10.0 million, determined as of the end of each fiscal quarter; and (3) to not borrow or permit to exist indebtedness (other than from or to the bank), or mortgage, pledge, grant, or permit to exist a security interest in, or a lien upon, all or any portion of the Company's assets now owned or hereafter acquired, except for purchase money indebtedness (and related security interests) which does not at any time exceed \$500,000.

Management expects that current liquid assets and the funds anticipated to be generated from operations will be sufficient in the aggregate to fund the Company's working capital needs for the next twelve months.

#### Inflation

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

#### Forward-Looking Information

Statements in this report which are not historical in nature, including discussion of economic conditions in the Company's market areas and effect on revenue levels, the potential for and effect of past and future acquisitions, the effect of changes in the Company's mix of services on gross margin, the adequacy of the Company's workers' compensation reserves and the effect of changes in estimate of its claims liabilities, the adequacy of the Company's allowance for doubtful accounts, the effect of the Company's formation of a wholly owned, fully licensed captive insurance subsidiary and becoming self-insured for certain business risks, the effectiveness of the Company's management information systems, payment of future dividends, and the availability of working capital to meet the Company's funding requirements, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors with respect to the Company include difficulties associated with integrating acquired businesses and clients into the Company's operations, economic trends in the Company's service areas, material deviations from expected future workers' compensation claims experience, the effect of changes in the workers' compensation regulatory environment in one or more of the Company's primary markets, collectibility of accounts receivable, the carrying values of deferred income tax assets and goodwill, which may be affected by the Company's future operating results, the availability of capital or letters of credit necessary to meet state-mandated surety deposit requirements for



---

[Table of Contents](#)

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

Forward-Looking Information (Continued)

maintaining the Company's status as a qualified self-insured employer for workers' compensation coverage, and the use of \$40.3 million in cash and current marketable securities, among others. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

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

The Company's exposure to market risk for changes in interest rates primarily relates to its investment portfolio of liquid assets. As of June 30, 2009, the Company's investment portfolio consisted principally of approximately \$26.8 million in tax-exempt money market funds, \$12.2 million in tax-exempt municipal bonds with an average maturity of 92 days, and approximately \$11.9 million in bond funds and corporate bonds. Based on the Company's overall interest exposure at June 30, 2009, a 100 basis point increase in market interest rates would not have a material effect on the fair value of the Company's investment portfolio of liquid assets or its results of operations because of the predominantly short maturities of the securities within the investment portfolio.

**Item 4. Controls and Procedures**

Disclosure Controls and Procedures

The Company conducted an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of June 30, 2009, continued to be ineffective in providing a reasonable level of assurance that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, as a result of the material weakness identified as of December 31, 2006 and that continued to exist as of June 30, 2009, the nature of which is summarized below.

---

[Table of Contents](#)

**Item 4. Controls and Procedures (Continued)**

Internal Control Over Financial Reporting

In our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2008, a material weakness existed and is summarized as follows:

Our Company did not maintain effective controls over information technology (“IT”); specifically, general IT controls over program changes and program development were ineffectively designed and/or operating as of December 31, 2008. These aggregate deficiencies, along with their associated reflection on the control environment, resulted in more than a remote likelihood that a material misstatement of the Company’s annual or interim financial statements would not be prevented or detected.

In order to address the material weakness over program changes to our IT systems described above and to ensure that adequate personnel resources, independent oversight and documentation for financial reporting are in place, management initiated the following remedial action during 2008 and completed these priorities during the first quarter of 2009:

1. Application user acceptance testing.
2. Systematic testing of automated functionality.
3. Validation of data conversion and migration to the Company’s upgraded financial system.
4. Formal authorization for deployment of the financial system upgrade.

In addition to implementing changes in our IT systems, we are evaluating our entity level controls and business application controls that will serve as compensating controls for the weaknesses in our IT controls.

Management completed a software upgrade to its primary financial application system in late March 2009 and continues to document, implement and test IT system controls related to areas described above. Management believes that these measures coupled with the identification and documentation of compensating entity level and business process controls, when fully tested, will mitigate the material weakness described above. Until testing is completed, however, we cannot yet conclude that any changes in our internal control over financial reporting occurred during the quarter ended June 30, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Audit Committee of the Board of Directors will continue to monitor the effectiveness of our internal controls and procedures on an ongoing basis and will instruct management to take further action as appropriate.

## Table of Contents

### Part II - Other Information

#### Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our 2008 Annual Report on Form 10-K.

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

In November 2006, the Board adopted a stock repurchase program and authorized the repurchase of up to 500,000 shares of the Company's stock from time to time in open market purchases. In November 2007, the Board approved an increase in the authorized shares to be repurchased up to 1.0 million shares. In October 2008, the Board approved a second increase in the authorized shares to be repurchased up to 3.0 million shares. The following table summarizes information related to stock repurchases during the quarter ended June 30, 2009.

| Month | Shares Repurchased | Average Price Per Share | Total Value of Shares Repurchased as Part of Publicly Announced Plan | Maximum Number of Shares that May Yet Be Repurchased Under the Plan |
|-------|--------------------|-------------------------|--|---|
| April | 2,100              | \$ 9.48                 | \$ 19,900  | 1,891,500   |
| May   | —                  | —                       | —  | —   |
| June  | —                  | —                       | —  | —   |
| Total | <u>2,100</u>       |                         | <u>\$ 19,900</u>   |   |

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

The Company held its 2009 annual meeting of stockholders on May 13, 2009. The following directors were elected at the annual meeting:

|                       | For       | Withheld  | Exception |
|-----------------------|-----------|-----------|-----------|
| Thomas J. Carley      | 6,150,700 | 3,763,338 |           |
| James B. Hicks, Ph.D. | 6,151,111 | 3,762,927 |           |
| Roger L. Johnson      | 6,142,185 | 3,771,853 |           |
| Jon L. Justesen       | 8,222,188 | 1,691,850 |           |
| Anthony Meeker        | 6,150,764 | 3,763,274 |           |
| William W. Sherertz   | 9,543,806 | 370,232   |           |

The second matter presented for action at the annual meeting was approved by the following vote:

|   | For       | Against | Abstain |
|---|-----------|---------|---------|
| Approval of the 2009 Stock Incentive Plan | 7,500,411 | 255,738 | 11,179  |

BARRETT BUSINESS SERVICES, INC.

**Item 5. Other Information**

At the 2009 annual meeting of stockholders on May 13, 2009, the Company's stockholders approved the 2009 Stock Incentive Plan ("the "Plan"). The description of the Plan included under the heading "Item 2 - Approval of the 2009 Stock Incentive Plan" in the Company's Proxy Statement filed with the Securities and Exchange Commission April 10, 2009 is incorporated herein by reference. A copy of the Plan is attached to this report as Exhibit 10.2 and incorporated herein by reference. No awards have been granted under the Plan.

**Item 6. Exhibits**

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

SIGNATURES

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

Date: August 10, 2009

BARRETT BUSINESS SERVICES, INC.  
(Registrant)

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

EXHIBIT INDEX

Exhibit

|      |   |
|------|---|
| 10.1 | Standby Letter of Credit Agreement dated as of June 30, 2009, between the Registrant and Wells Fargo Bank, N.A. |
| 10.2 | 2009 Stock Incentive Plan of the Registrant.  |
| 31.1 | Certification of the Chief Executive Officer under Rule 13a-14(a).  |
| 31.2 | Certification of the Chief Financial Officer under Rule 13a-14(a).  |
| 32   | Certification pursuant to 18 U.S.C. Section 1350.   |

## STANDBY LETTER OF CREDIT AGREEMENT

## To: WELLS FARGO BANK, NATIONAL ASSOCIATION

Applicant hereby agrees for good and valuable consideration that the Existing Agreement, regardless of whether it was addressed to you or some other person or entity, be replaced in its entirety by this Agreement so that the Existing Credits which were originally issued under and in connection with the Existing Agreement will now be deemed for all purposes Credits issued under and in connection with this Agreement and not the Existing Agreement. Applicant also hereby requests that you, Wells Fargo Bank, National Association ("Wells Fargo"), issue in your name and at your sole option, unless provided otherwise in any Loan Document, one or more standby letters of credit pursuant to Applications for the issuance of such Credits and the terms and conditions of this Agreement. The Existing Credits were issued at Applicant's request for Applicant's account, and Each other Credit will be issued at Applicant's request and for its account, and, unless otherwise specifically provided in any Loan Document, at your option. Applicant agrees that the terms and conditions in this Agreement shall apply to each Application and the Credit issued pursuant to each Application, and to transactions under each Application, each Credit and this Agreement.

SECTION 1. **DEFINITIONS.** As used in this Agreement, the following terms shall have the meanings set forth after each term: "**Agreement**" means this Standby Letter of Credit Agreement as it may be revised or amended from time to time. "**Applicant**" means collectively each person and/or entity signing this Agreement as Applicant. "**Application**" means the Existing Application and your printed form titled "Application For Standby Letter of Credit" or any other form acceptable to you on which Applicant applies for the issuance by you of a Credit and/or an application for amendment of a Credit or any combination of such applications, as the context may require. "**Beneficiary**" means the person or entity named on an Application as the beneficiary or any transferee of such beneficiary. "**Collateral**" means the Property, together with the proceeds of such Property, securing any or all of Applicant's obligations and liabilities at any time existing under or in connection with any L/C Document and/or any Loan Document. "**Commission Fee**" means the fee, computed at the commission fee rate specified by you or specified in any Loan Document, charged by you at the time or times specified by you on the amount of each Credit and on the amount of each increase in a Credit for the time period each Credit is outstanding. "**Credit**" means the Existing Credits and any instrument or document titled "Irrevocable Standby Letter of Credit" or "Standby Letter of Credit", or any instrument or document whatever it is titled or whether or not it is titled functioning as a standby letter of credit, issued under or pursuant to an Application, and all renewals, extensions and amendments of such instrument or document. "**Demand**" means any sight draft, electronic or telegraphic transmission or other written demand drawn or made, or purported to be drawn or made, under or in connection with any Credit. "**Document**" means any instrument, statement, certificate or other document referred to in or related to any Credit or required by any Credit to be presented with any Demand. "**Dollars**" means the lawful currency at any time for the payment of public or private debts in the United States of America. "**Event of Default**" means any of the events set forth in Section 13 of this Agreement. "**Expiration Date**" means the date any Credit expires. "**Existing Agreement**" means that certain Standby Letter of Credit Agreement dated December 8, 2000 signed by Applicant in favor of Wells Fargo Bank, National Association, as such Existing Agreement may have been amended or replaced from time to time. "**Existing Applications**" means that certain (1) Application For Standby Letter of Credit dated December 18, 1998 signed by Applicant in favor of Wells Fargo Bank, National Association requesting the issuance of Existing Credit number NZS314605, (2) Application For Standby Letter of Credit dated June 20, 2001 signed by Applicant in favor of Wells Fargo Bank, National Association requesting the issuance of the Existing Credit number NZS401574, (3) Application For Standby Letter of Credit dated December 5, 2003 signed by Applicant in favor of Wells Fargo Bank, National Association requesting the issuance of the Existing Credit number NZS504587, and (4) Application For Standby Letter of Credit dated April 7, 2006 signed by Applicant in favor of Wells Fargo Bank, National Association requesting the issuance of the Existing Credit number NZS568994, as such Existing Applications may have been amended or replaced from time to time. "**Existing Credits**" means that certain (1) standby letter of credit number NZS314605 issued on December 18, 1998 by you for the account of Applicant, (2) standby letter of credit number NZS401574 issued on June 20, 2001 by you for the account of Applicant, (3) standby letter of credit number NZS504587 issued on December 8, 2003 by you for the account of Applicant, and (4) standby letter of credit number NZS568994 issued on April 11, 2006 by you for the account of Applicant, as such Existing Credits may have been amended or replaced from time to time. "**Guarantor**" means any person or entity guaranteeing the payment and/or performance of any or all of Applicant's obligations under or in connection with any L/C Document and/or any Loan Document. "**Holding Company**" means any company or other entity directly or indirectly controlling you. "**L/C Document**" means this Agreement, each Application, each Credit, and each Demand. "**Loan Document**" means each and any promissory note, loan agreement, security agreement, pledge agreement, guarantee or other agreement executed in connection with, or relating to, any extension of credit under which any Credit is issued. "**Maximum Rate**" means the maximum amount of interest (as defined by applicable laws), if any, permitted to be paid, taken, reserved, received, collected or charged under applicable laws, as the same may be amended or modified from time to time. "**Negotiation Fee**" means the fee, computed at the negotiation fee rate specified by you or specified in any Loan Document, charged by you on the amount of each Demand paid by you or any other bank specified by you when each Demand is paid. "**Payment Office**" means the office specified by you or specified in any Loan Document as the office where reimbursements and other payments under or in connection with any L/C Document are to be made by Applicant. "**Prime Rate**" means the rate of interest most recently announced within Wells Fargo at its principal office as its Prime Rate, with the understanding that the Prime Rate is one of Wells Fargo'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 Wells Fargo may designate. "**Property**" means all forms of property, whether tangible or intangible, real, personal or mixed. "**Rate of Exchange**" means Wells Fargo's then current selling rate of exchange in San Francisco, California for sales of the currency of payment of any Demand, or of any fees or expenses or other amounts payable under this Agreement, for cable transfer to the country of which such currency is the legal tender. "**UCP**" means the Uniform Customs and Practice for Documentary Credits, an International Chamber of Commerce publication, or any substitution therefor or replacement thereof. "**Unpaid and Undrawn Balance**" means at any time the entire amount which has not been paid by you under all the Credits issued for Applicant's account, including, without limitation, the amount of each Demand on which you have not yet effected payment as well as the amount undrawn under all such Credits. "**Wells Fargo & Company**" means Wells Fargo & Company, a Delaware corporation.

SECTION 2. **HONORING DEMANDS AND DOCUMENTS.** You may receive, accept and honor, as complying with the terms of any Credit, any Demand and any Documents accompanying such Demand; provided, however, that such Demand and accompanying Documents appear on their face to comply substantially with the provisions of such Credit and are, or appear on their face to be, signed or issued by (a) a person or entity authorized under such Credit to draw, sign or issue such Demand and accompanying Documents, or (b) an administrator, executor, trustee in bankruptcy, debtor in possession, assignee for the benefit of creditors, liquidator, receiver or other legal representative or successor in interest by operation of law of any such person or entity.

SECTION 3. **REIMBURSEMENT FOR PAYMENT OF DEMANDS.** Applicant shall reimburse you for all amounts paid by you on each Demand, including, without limitation, all such amounts paid by you to any paying, negotiating or other bank. If in connection with the issuance of any Credit, you agree to pay any other bank the amount of any payment or negotiation made by such other bank under such Credit upon your receipt of a cable, telex or other written telecommunication advising you of such payment or negotiation, or authorize any other bank to debit your account for the amount of such payment or negotiation, Applicant agrees to reimburse you for all such amounts paid by you, or debited to your account with such other bank, even if any Demand or Document specified in such Credit fails to arrive in whole or in part or if, upon the arrival of any such Demand or Document, the terms of such Credit have not been complied with or such Demand or Document does not conform to the requirements of such Credit or is not otherwise in order.

SECTION 4. **FEES AND EXPENSES.** Applicant agrees to pay to you (a) all Commission Fees, Negotiation Fees, cable fees, amendment fees, non-usage fees, and cancellation fees of, and all out-of-pocket expenses incurred by, you under or in connection with any L/C Document, and (b) all fees and charges of banks or other entities other than you under or in connection with any L/C Document if any Application (i) does not indicate who will pay such fees and charges, (ii) indicates that such fees and charges are to be paid by Applicant, or (iii) indicates that such fees and charges are to be paid by the Beneficiary and the Beneficiary does not, for any reason whatsoever, pay such fees or charges. There shall be no refund of any portion of any Commission Fee in the event any Credit is used, reduced, amended, modified or terminated before its Expiration Date.

**SECTION 5. DEFAULT INTEREST.** Unless otherwise specified in any Loan Document, or on an Application and agreed to by you, all amounts to be reimbursed by Applicant to you, and all fees and expenses to be paid by Applicant to you, and all other amounts due from Applicant to you under or in connection with any L/C Documents, will bear interest (to the extent permitted by law), payable on demand, from the date you paid the amounts to be reimbursed or the date such fees, expenses and other amounts were due until such amounts are paid in full, at a rate per annum (computed on the basis of a 360-day year, actual days elapsed) which is the lesser of (a) four percent (4%) above the Prime Rate in effect from time to time, or (b) the Maximum Rate.

**SECTION 6. TIME AND METHOD OF REIMBURSEMENT AND PAYMENT.** Unless otherwise specified in this Section, in any Loan Document, or on an Application and agreed to by you, all amounts to be reimbursed by Applicant to you, all fees and expenses to be paid by Applicant to you, and all interest and other amounts due to you from Applicant under or in connection with any L/C Documents will be reimbursed or paid at the Payment Office in Dollars in immediately available funds without setoff or counterclaim (i) on demand or, (ii) at your option by your debiting any of Applicant's accounts with you, with each such debit being made without presentment, protest, demand for reimbursement or payment, notice of dishonor or any other notice whatsoever, all of which are hereby expressly waived by Applicant. Each such debit will be made at the time each Demand is paid by you or, if earlier, at the time each amount is paid by you to any paying, negotiating or other bank, or at the time each fee and expense is to be paid or any interest or other amount is due under or in connection with any L/C Documents. If any Demand or any fee, expense, interest or other amount payable under or in connection with any L/C Documents is payable in a currency other than Dollars, Applicant agrees to reimburse you for all amounts paid by you on such Demand, and/or to pay you all such fees, expenses, interest and other amounts, in one of the three following ways, as determined by you in your sole discretion in each case: (a) at such place as you shall direct, in such other currency; or (b) at the Payment Office in the Dollar equivalent of the amount of such other currency calculated at the Rate of Exchange on the date determined by you in your sole discretion; or (c) at the Payment Office in the Dollar equivalent, as determined by you (which determination shall be deemed correct absent manifest error), of such fees, expenses, interest or other amounts or of the actual cost to you of paying such Demand. Applicant assumes all political, economic and other risks of disruptions or interruptions in any currency exchange.

**SECTION 7. AGREEMENTS OF APPLICANT.** Applicant agrees that (a) unless otherwise specifically provided in any Loan Document, you shall not be obligated at any time to issue any Credit for Applicant's account; (b) unless otherwise specifically provided in any Loan Document, if any Credit is issued by you for Applicant's account, you shall not be obligated to issue any further Credit for Applicant's account or to make other extensions of credit to Applicant or in any other manner to extend any financial consideration to Applicant; (c) you have not given Applicant any legal or other advice with regard to any L/C Document or Loan Document; (d) if you at any time discuss with Applicant the wording for any Credit, any such discussion will not constitute legal or other advice by you or any representation or warranty by you that any wording or Credit will satisfy Applicant's needs; (e) Applicant is responsible for the wording of each Credit, including, without limitation, any drawing conditions, and will not rely on you in any way in connection with the wording of any Credit or the structuring of any transaction related to any Credit; (f) Applicant, and not you, is responsible for entering into the contracts relating to the Credits between Applicant and the Beneficiaries and for causing Credits to be issued; (g) you may, as you deem appropriate, modify or alter and use in any Credit the terminology contained on the Application for such Credit; (h) unless the Application for a Credit specifies whether the Documents to be presented with a Demand under such Credit must be sent to you in one parcel or in two parcels or may be sent to you in any number of parcels, you may, if you so desire, make such determination and specify in the Credit whether such Documents must be sent in one parcel or two parcels or may be sent in any number of parcels; (i) you shall not be deemed Applicant's agent or the agent of any Beneficiary or any other user of any Credit, and neither Applicant, nor any Beneficiary nor any other user of any Credit shall be deemed your agent; (j) Applicant will promptly examine all Documents and each Credit if and when they are delivered to Applicant and, in the event of any claim of noncompliance of any Documents or any Credit with Applicant's instructions or any Application, or in the event of any other irregularity, Applicant will promptly notify you in writing of such noncompliance or irregularity, Applicant being conclusively deemed to have waived any such claim of noncompliance or irregularity unless such notice is promptly given; (k) all directions and correspondence relating to any L/C Document are to be sent at Applicant's risk; (l) if any Credit has a provision concerning the automatic extension of its Expiration Date, you may, at your sole option, give notice of nonrenewal of such Credit and if Applicant does not at any time want such Credit to be renewed Applicant will so notify you at least fifteen (15) calendar days before you are to notify the Beneficiary of such Credit or any advising bank of such nonrenewal pursuant to the terms of such Credit; (m) Applicant will not seek to obtain, apply for, or acquiesce in any temporary or permanent restraining order, preliminary or permanent injunction, permanent injunction or any other pretrial or permanent injunctive or similar relief, restraining, prohibiting or enjoining you, any of your correspondents or any advising, confirming, negotiating, paying or other bank from paying or negotiating any Demand or honoring any other obligation under or in connection with any Credit; and (n) Applicant will have a net loss of no more than \$8,000,000 for the fiscal year ending December 31, 2009 and maintain a net income after taxes of not less than \$1.00 on an annual basis thereafter, determined as of the end of each of Applicant's fiscal years; (o) Applicant will maintain liquid assets (defined as unencumbered cash, cash equivalents, and publicly traded and quoted marketable securities acceptable to you) having an aggregate fair market value not at any time less than \$10,000,000.00, determined as of the end of each of Applicant's fiscal quarters; (p) Applicant will deliver to you, not later than 95 calendar days after the end of each of Applicant's fiscal years, copies of all Applicant's filings with the Securities and Exchange Commission for the fiscal year just ended, including, without limitation, Applicant's 10K filing for the fiscal year just ended; (q) Applicant will deliver to you, not later than 50 calendar days after the end of each of Applicant's fiscal quarters, copies of all Applicant's filings with the Securities and Exchange Commission for the fiscal quarter just ended, including, without limitation, Applicant's 10Q filing for the fiscal quarter just ended; (r) Applicant will not mortgage, pledge, grant or permit to exist a security interest in, or a lien upon, all or any portion of Borrower's assets now owned or hereafter acquired, except for any of the foregoing in your favor and except for security interests covering purchase money indebtedness which does not at any time exceed \$500,000.00; (s) Applicant will not create, incur, assume or permit to exist any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except the liabilities of Applicant to you and except for purchase money indebtedness which Applicant incurs in an amount not exceeding \$500,000.00 during each of Applicant's fiscal years; and (t) except for Applicant's obligations specifically affected by those actions or failures to act referred to in subsections (ii) and (vii) of this Section 7(t) which you have performed or approved or accepted, Applicant's obligations under or in connection with each L/C Document and Loan Document shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of each such L/C Document and Loan Document under all circumstances whatsoever, including, without limitation, the following circumstances, the circumstances listed in Section 12(b) through (u) of this Agreement, and any other event or circumstance similar to such circumstances: (i) any lack of validity or enforceability of any L/C Document, any Loan Document, any Document or any agreement relating to any of the foregoing; (ii) any amendment of or waiver relating to, or any consent to or departure from, any L/C Document, any Loan Document or any Document; (iii) any release or substitution at any time of any Property held as Collateral; (iv) your failure to deliver to Applicant any Document you have received with a drawing under a Credit because doing so would, or is likely to, violate any law, rule or regulation of any government authority; (v) the existence of any claim, set-off, defense or other right which Applicant may have at any time against you or any Beneficiary (or any person or entity for whom any Beneficiary may be acting) or any other person or entity, whether under or in connection with any L/C Document, any Loan Document, any Document or any Property referred to in or related to any of the foregoing or under or in connection with any unrelated transaction; (vi) any breach of contract or other dispute between or among any two or more of you, Applicant, any Beneficiary, any transferee of any Beneficiary, any person or entity for whom any Beneficiary or any transferee of any Beneficiary may be acting, or any other person or entity; or (vii) any delay, extension of time, renewal, compromise or other indulgence granted or agreed to by you with or without notice to Applicant, or Applicant's approval, in respect of any of Applicant's indebtedness or other obligations to you under or in connection with any L/C Document or any Loan Document.

**SECTION 8. COMPLIANCE WITH LAWS AND REGULATIONS.** Applicant represents and warrants to you that no Application, Credit or transaction under any Application and/or Credit will contravene any law or regulation of the government of the United States or any state thereof. Applicant agrees (a) to comply with all federal, state and foreign exchange regulations and other government laws and regulations now or hereafter applicable to any L/C Document, to any payments under or in connection with any L/C Document, to each transaction under or in connection with any L/C Document, or to the import, export, shipping or financing of the Property referred to in or shipped under or in connection with any Credit, and (b) to reimburse you for such amounts as you may be required to expend as a result of such laws or regulations, or any change therein or in the interpretation thereof by any court or administrative or government authority charged with the administration of such laws or regulations.



**SECTION 9. TAXES, RESERVES AND CAPITAL ADEQUACY REQUIREMENTS.** In addition to, and notwithstanding any other provision of any L/C Document or any Loan Document, in the event that any law, treaty, rule, regulation, guideline, request, order, directive or determination (whether or not having the force of law) of or from any government authority, including, without limitation, any court, central bank or government regulatory authority, or any change therein or in the interpretation or application thereof, (a) does or shall subject you to any tax of any kind whatsoever with respect to the L/C Documents, or change the basis of taxation of payments to you of any amount payable thereunder (except for changes in the rate of tax on your net income); (b) does or shall impose, modify or hold applicable any reserve, special deposit, assessment, compulsory loan, Federal Deposit Insurance Corporation insurance or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances or loans by, other credit extended by or any other acquisition of funds by, any of your offices; (c) does or shall impose, modify or hold applicable any capital adequacy requirements (whether or not having the force of law); or (d) does or shall impose on you any other condition; and the result of any of the foregoing is (i) to increase the cost to you of issuing or maintaining any Credit or of performing any transaction under any L/C Document, (ii) to reduce any amount receivable by you under any L/C Document, or (iii) to reduce the rate of return on your capital or the capital of the Holding Company to a level below that which you or the Holding Company could have achieved but for any imposition, modification or application of any capital adequacy requirement (taking into consideration your policy and the policy of the Holding Company, as the case may be, with respect to capital adequacy), and any such increase or reduction is material (as determined by you or the Holding Company, as the case may be, in your or the Holding Company's sole discretion); then, in any such case, Applicant agrees to pay to you or the Holding Company, as the case may be, such amount or amounts as may be necessary to compensate you or the Holding Company for (A) any such additional cost, (B) any reduction in the amount received by you under any L/C Document, or (C) to the extent allocable (as determined by you or the Holding Company, as the case may be, in your or the Holding Company's sole discretion) to any L/C Document, any reduction in the rate of return on your capital or the capital of the Holding Company.

**SECTION 10. COLLATERAL.** In addition to, and not in substitution for, any Property delivered, conveyed, transferred or assigned to you under any Loan Document as security for any or all of Applicant's obligations and liabilities to you at any time existing under or in connection with any L/C Document or any Loan Document, Applicant grants to you a security interest in and to the following Collateral, whether or not any such Collateral is in your possession or control or the possession or control of your agents or correspondents or in transit to, or set apart for, you or your agents or correspondents, until such time as all Applicant's obligations and liabilities to you at any time existing under or in connection with each L/C Document and each Loan Document have been fully paid and discharged, all as security for such obligations and liabilities, (a) all Applicant's property, claims, demands, right, title and interest in and to the balance of each of Applicant's deposit accounts with you now or at any time hereafter existing, and all evidences of such deposit accounts, (b) all Property belonging to Applicant or in which it may have an interest, now or at any time hereafter delivered, conveyed, transferred, assigned, pledged or paid to you or your agents or correspondents in any manner whatsoever, whether as security or for safekeeping or otherwise, including, without limitation, any items received for collection or transmission, and the proceeds of such items, whether or not such Property is in whole or in part released to Applicant on trust or bailee receipt or otherwise, and (c) where Applicant is more than one person or entity, all right, title and interest of each of Applicants in and to all the Property which any of Applicants may now or hereafter obtain as security for the obligations of any one or more of Applicants to one or more of the others of Applicants arising under or in connection with the transaction to which any Credit relates. Further, in addition to, and not in substitution for, any Property delivered, conveyed, transferred or assigned to you under any Loan Document as security for any or all of Applicant's obligations and liabilities to you at any time existing under or in connection with any L/C Document or any Loan Document, Applicant agrees to deliver, convey, transfer and assign to you on demand, as security, Property of a value and character satisfactory to you, (i) if you at any time feel insecure about Applicant's ability or willingness to repay any amounts which you have paid or may pay in the future on any Demand or in honoring any other of your obligations under or in connection with any Credit, or (ii) without limiting the generality of the foregoing, if any temporary or permanent restraining order, preliminary or permanent injunction, or any other pretrial or permanent injunctive or similar relief is obtained restraining, prohibiting or enjoining you, any of your correspondents, or any advising, confirming, negotiating, paying or other bank from paying or negotiating any Demand or honoring any other obligation under or in connection with any Credit. Applicant agrees that the receipt by you or any of your agents or correspondents at any time of any kind of security, including, without limitation, cash, shall not be deemed a waiver of any of your rights or powers under this Agreement. Applicant agrees to sign and deliver to you on demand, all such deeds of trust, security agreements, financing statements and other documents as you shall at any time request which are necessary or desirable (in your sole opinion) to grant to you an effective and perfected security interest in and to any or all of the Collateral. Applicant agrees to pay all filing and recording fees related to the perfection of any security interest granted to you in accordance with this Section. Applicant hereby agrees that any or all of the Collateral may be held and disposed of as provided in this Agreement by you. Upon any transfer, sale, delivery, surrender or endorsement of any Document or Property which is or was part of the Collateral, Applicant will indemnify and hold you and your agents and correspondents harmless from and against each and every claim, demand, action or suit which may arise against you or any of your agents or correspondents by reason of such transfer, sale, delivery, surrender or endorsement.

**SECTION 11. INDEMNIFICATION.** Except to the extent any of the following are caused by your lack of good faith, gross negligence, willful misconduct, failure to honor any Demand presented under any Credit when such Demand and its accompanying Documents appear on their face to comply strictly with the terms of such Credit, or honor of any Demand under a Credit when such Demand and its accompanying Documents do not appear on their face to comply substantially with the terms of such Credit, Applicant agrees, notwithstanding any other provision of this Agreement, to reimburse and indemnify you for (a) all amounts paid by you to any Beneficiary under or in connection with any guarantee or similar undertaking issued by such Beneficiary to a third party at Applicant's request, whether such request is communicated directly by Applicant or through you to such Beneficiary; and (b) all damages, losses, liabilities, actions, claims, suits, penalties, judgments, obligations, costs or expenses, of any kind whatsoever and howsoever caused, including, without limitation, attorneys' fees and interest, paid, suffered or incurred by, or imposed upon, you directly or indirectly arising out of or in connection with (i) any L/C Document, any Loan Document, any Document or any Property referred to in or related to any Credit; (ii) Applicant's failure to comply with any of its obligations under this Agreement; (iii) the issuance of any Credit; (iv) the transfer of any Credit; (v) any guarantee or similar undertaking, or any transactions thereunder, issued by any Beneficiary to a third party at Applicant's request, whether such request is communicated directly by Applicant or through you to such Beneficiary; (vi) any communication made by you, on Applicant's instructions, to any Beneficiary requesting that such Beneficiary issue a guarantee or similar undertaking to a third party or the issuance of any such guarantee or similar undertaking; (vii) the collection of any amounts Applicant owes to you under or in connection with any L/C Document or any Loan Document; (viii) the foreclosure against, or other enforcement of, any Collateral; (ix) the protection, exercise or enforcement of your rights and remedies under or in connection with any L/C Document or any Loan Document; (x) any court decrees or orders, including, without limitation, temporary or permanent restraining orders, preliminary or permanent injunctions, or any other pretrial or permanent injunctive or similar relief, restraining, prohibiting or enjoining or seeking to restrain, prohibit or enjoin you, any of your correspondents or any advising, confirming, negotiating, paying or other bank from paying or negotiating any Demand or honoring any other obligation under or in connection with any Credit; or (xi) any Credit being governed by laws or rules other than the UCP in effect on the date such Credit is issued. The indemnity provided in this Section will survive the termination of this Agreement and the expiration or cancellation of any or all the Credits. Without limiting any provision of this Agreement, it is the express intention of the parties to this Agreement that the indemnity contained in this Section shall apply to each person to be indemnified without regard to the sole or contributory negligence of such person.

**SECTION 12. LIMITATION OF LIABILITY.** Notwithstanding any other provision of this Agreement, neither you nor any of your agents or correspondents will have any liability to Applicant for any action, neglect or omission under or in connection with any L/C Document, Loan Document or Credit, including, without limitation, the issuance or any amendment of any Credit, the failure to issue or amend any Credit, or the honoring or dishonoring of any Demand under any Credit, and such action or neglect or omission will bind Applicant, except to the extent any such action or neglect or omission is caused by, or arises from, your lack of good faith, gross negligence, willful misconduct, failure to honor any Demand presented under any Credit when such Demand and its accompanying Documents appear on their face to comply strictly with the terms of such Credit, or honor of any Demand under a Credit when such Demand and its accompanying Documents do not appear on their

face to comply substantially with the terms of such Credit. Notwithstanding any other provision of any L/C Document, but without in any way affecting, except as specifically provided in this sentence, your obligation under this Agreement to honor any Demand presented under any Credit when such Demand and its accompanying Documents appear on their face to comply strictly with the terms of such Credit and to dishonor any Demand under a Credit when such Demand and its accompanying Documents do not appear on their face to comply substantially with the terms of such Credit, in no event shall you or your officers or directors be liable or responsible for the following, regardless of whether any claim is based on contract or tort: (a) any special, consequential, indirect or incidental damages, including, without limitation, lost profits, arising out of or in connection with the issuance of any Credit or any action taken or not taken by you in connection with any L/C Document, any Loan Document, or any Document or Property referred to in or related to any Credit; (b) the honoring of any Demand in accordance with any order or directive of any court or government or regulatory body or entity requiring such honor despite any temporary restraining order, restraining order, preliminary injunction, permanent injunction or any type of pretrial or permanent injunctive relief or any similar relief, however named, restraining, prohibiting or enjoining such honor; (c) the dishonoring of any Demand in accordance with any legal or other restriction in force at the time and in the place of presentment or payment; (d) verifying the existence or reasonableness of any act or condition referenced, or any statement made, in connection with any drawing or presentment under any Credit; (e) the use which may be made of any Credit; (f) the validity of any purported transfer of any Credit or the identity of any purported transferee of any Beneficiary; (g) any acts or omissions of any Beneficiary or any other user of any Credit; (h) the form, validity, sufficiency, correctness, genuineness or legal effect of any Demand or any Document, or of any signatures or endorsements on any Demand or Document, even if any Demand or any Document should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged; (i) payment by you of any Demand when the Demand and any accompanying Documents appear on their face to comply substantially with the terms of the Credit to which they relate or dishonor by you of any Demand when the Demand and any accompanying Documents do not strictly comply on their face with the terms of the Credit to which they relate; (j) the failure of any Demand or Document to bear any reference or adequate reference to the Credit to which it relates; (k) the failure of any Document to accompany any Demand; (l) the failure of any person or entity to note the amount of any Demand on the Credit to which it relates or on any Document; (m) the failure of any person or entity to surrender or take up any Credit; (n) the failure of any Beneficiary to comply with the terms of any Credit or to meet the obligations of such Beneficiary to Applicant; (o) the failure of any person or entity to send or forward Documents if and as required by the terms of any Credit; (p) any errors, inaccuracies, omissions, interruptions or delays in transmission or delivery of any messages, directions or correspondence by mail, cable, telegraph, wireless or otherwise, whether or not they are in cipher; (q) any notice of nonrenewal of a Credit sent by you not being received on time or at any time by the Beneficiary of such Credit; (r) any inaccuracies in the translation of any messages, directions or correspondence; (s) any Beneficiary's use of the proceeds of any Demand; (t) any Beneficiary's failure to repay to you or Applicant the proceeds of any Demand if the terms of any Credit require such repayment; or (u) any act, error, neglect, default, negligence, gross negligence, omission, willful misconduct, lack of good faith, insolvency or failure in business of any of your agents or correspondents or of any advising, confirming, negotiating, paying or other bank. Except to the extent caused by, or arising from, your lack of good faith, gross negligence, willful misconduct, failure to honor any Demand presented under any Credit when such Demand and its accompanying Documents appear on their face to comply strictly with the terms of such Credit, or honor of any Demand under a Credit when such Demand and its accompanying Documents do not appear on their face to comply substantially with the terms of such Credit, the occurrence of any one or more of the contingencies referred to in the preceding sentence shall not affect, impair or prevent the vesting of your rights or powers under this Agreement or any Loan Document or Applicant's obligation to make reimbursement or payment to you under this Agreement or any Loan Document. The provisions of this Section will survive the termination of this Agreement and any Loan Documents and the expiration or cancellation of any or all the Credits.

**SECTION 13. EVENTS OF DEFAULT.** Each of the following shall constitute an Event of Default under this Agreement: (a) Applicant's or any Guarantor's failure to pay any principal, interest, fee or other amount when due under or in connection with any L/C Document or any Loan Document; (b) Applicant's failure to deliver to you Property of a value and character satisfactory to you at any time you have demanded security from Applicant pursuant to Section 10 of this Agreement; (c) the occurrence and continuance of any default or defined event of default under any Loan Document or any other agreement, document or instrument signed or made by Applicant or any Guarantor in your favor; (d) Applicant's or any Guarantor's failure to perform or observe any term, covenant or agreement contained in this Agreement or any Loan Document (other than those referred to in subsections (a), (b) and (c) of this Section, or the breach of any other obligation owed by Applicant or any Guarantor to you, and any such failure or breach shall be impossible to remedy or shall remain unremedied for thirty (30) calendar days after such failure or breach occurs; (e) any representation, warranty or certification made or furnished by Applicant or any Guarantor under or in connection with any L/C Document, any Loan Document or any Collateral, or as an inducement to you to enter into any L/C Document or Loan Document or to accept any Collateral, shall be materially false, incorrect or incomplete when made; (f) any material provision of this Agreement or any Loan Document shall at any time for any reason cease to be valid and binding on Applicant or any Guarantor or shall be declared to be null and void, or the validity or enforceability thereof shall be contested by Applicant, any Guarantor or any government agency or authority, or Applicant or any Guarantor shall deny that it has any or further liability or obligation under this Agreement or any Loan Document; (g) Applicant's or any Guarantor's failure to pay or perform when due any indebtedness or other obligation Applicant or such Guarantor has to any person or entity other than you if such failure gives the payee of such indebtedness or the beneficiary of the performance of such obligation the right to accelerate the time of payment of such indebtedness or the performance of such obligation; (h) any guarantee of, or any security covering, any of Applicant's indebtedness to you arising under or in connection with any L/C Document or any Loan Document fails to be in full force and effect at any time; (i) any material adverse change in Applicant's or any Guarantor's financial condition; (j) Applicant or any Guarantor suspends the transaction of its usual business or is expelled or suspended from any exchange; (k) Applicant or any Guarantor dies or is incapacitated; (l) Applicant or any Guarantor dissolves or liquidates; (m) Applicant or any Guarantor is not generally paying its debts as they become due; (n) Applicant or any Guarantor becomes insolvent, however such insolvency may be evidenced, or Applicant or any Guarantor makes any general assignment for the benefit of creditors; (o) a petition is filed by or against Applicant or any Guarantor seeking Applicant's or such Guarantor's liquidation or reorganization under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time, or a similar action is brought by or against Applicant or any Guarantor under any federal, state or foreign law; (p) a proceeding is instituted by or against Applicant or any Guarantor for any relief under any bankruptcy, insolvency or other law relating to the relief of debtors, reorganization, readjustment or extension of indebtedness or composition with creditors; (q) a custodian or a receiver is appointed for, or a writ or order of attachment, execution or garnishment is issued, levied or made against, any of Applicant's or any Guarantor's Property or assets; (r) an application is made by any of Applicant's or any Guarantor's judgment creditors for an order directing you to pay over money or to deliver other of Applicant's or such Guarantor's Property; or (s) any government authority or any court takes possession of any substantial part of Applicant's or any Guarantor's Property or assets or assumes control over Applicant's or any Guarantor's affairs.

**SECTION 14. REMEDIES.** Upon the occurrence and continuance of any Event of Default all amounts paid by you on any Demand which have not previously been repaid to you, together with all interest on such amounts, and the Unpaid and Undrawn Balance, if any, shall automatically be owing by Applicant to you and shall be due and payable by Applicant on demand without presentment or any other notice of any kind, including, without limitation, notice of nonperformance, notice of protest, notice of dishonor, notice of intention to accelerate, or notice of acceleration, all of which are expressly waived by Applicant. Upon payment of the Unpaid and Undrawn Balance to you Applicant shall have no further legal or equitable interest therein, and you will not be required to segregate on your books or records the Unpaid and Undrawn Balance paid by Applicant. After you receive the Unpaid and Undrawn Balance, you agree to pay to Applicant, upon termination of all of your liability under all the Credits and Demands, a sum equal to the amount which has not been drawn under all the Credits less all amounts due and owing to you from Applicant under or in connection with the L/C Documents and the Loan Documents. Further, upon the occurrence and continuance of any Event of Default, you may sell immediately, without demand for payment, advertisement or notice to Applicant, all of which are hereby expressly waived, any and all Collateral, received or to be received, at private sale or public auction or at brokers' board or upon any exchange or otherwise, at your option, in such parcel or parcels, at such times and places, for such prices and upon such terms and conditions as you may deem proper, and you may apply the net proceeds of each sale, together with any sums due from you to Applicant, to the payment of any and all obligations and liabilities due from Applicant to you under or in connection with the L/C Documents and the Loan Documents, all without prejudice to your rights against Applicant with respect to any and all such obligations and liabilities which may be or remain unpaid. If any such sale be at brokers' board or at public auction or upon any exchange, you may yourself be a purchaser at such sale free from any right of redemption, which Applicant hereby expressly waive and release.

All your rights and remedies existing under the L/C Documents and the Loan Documents are in addition to, and not exclusive of, any rights or remedies otherwise available to you under applicable law. In addition to any rights now or hereafter granted under applicable law, and not by way of limitation of any such rights, upon the occurrence and continuance of any Event of Default, Applicant hereby authorizes you at any time or from time to time, without notice to Applicant or to any other person (any such notice being hereby expressly waived by Applicant) and to the extent permitted by law, to appropriate and to apply any and all Applicant's deposits (general or special, including, without limitation, indebtedness evidenced by certificates of deposit) with you or elsewhere, whether matured or unmatured, and any other indebtedness at any time held or owing by you to or for Applicant's credit or its account, against and on account of Applicant's obligations and liabilities to you under or in connection with any of the L/C Documents or the Loan Documents, irrespective of whether or not you shall have made any demand for payment of any or all such obligations and liabilities or declared any or all such obligations and liabilities to be due and payable, and although any or all such obligations and liabilities shall be contingent or unmatured.

**SECTION 15. GENERAL WAIVERS.** No delay, extension of time, renewal, compromise or other indulgence which may occur or be granted by you under any L/C Document or any Loan Document shall impair your rights or powers under this Agreement or any Application. You shall not be deemed to have waived any of your rights under this Agreement or any Application unless such waiver is in writing signed by your authorized representative. No such waiver, unless expressly provided therein, shall be effective as to any transactions which occur subsequent to the date of such waiver or as to the continuance of any Event of Default after such waiver.

**SECTION 16. AMENDMENTS AND MODIFICATIONS TO THIS AGREEMENT AND THE CREDITS.** No amendment or modification of this Agreement shall be effective unless it is in writing signed by Applicant's and your authorized representative(s). At Applicant's verbal or written request, or with Applicant's verbal or written consent, and without extinguishing or otherwise affecting Applicant's obligations under this Agreement or any Loan Document, you may with respect to any Credit, in writing or by any other action, but you will not be obligated to, (a) increase the amount of such Credit, (b) extend the time for, and amend or modify the terms and conditions governing, the making and honoring of any Demand or Document or any other terms and conditions of such Credit, or (c) waive the failure of any Demand or Document to comply with the terms of such Credit, and any Collateral pledged or granted to you in connection with such Credit will secure Applicant's obligations to you with respect to such Credit as amended, modified or waived. No amendment to, or modification of, the terms of any Credit will become effective if the Beneficiary of such Credit or any confirming bank objects to such amendment or modification. If any Credit is amended or modified in accordance with this Section, Applicant shall be bound by, and obligated under, the provisions of this Agreement with respect to such Credit as so amended or modified, and any action taken by you or any advising, confirming, negotiating, paying or other bank in accordance with such amendment or modification.

**SECTION 17. SUCCESSORS AND ASSIGNS.** The terms and conditions of this Agreement and each Application shall bind Applicant's heirs, executors, administrators, successors and assigns, and all rights, benefits and privileges conferred on you under or in connection with each L/C Document and each Loan Document shall be and hereby are extended to, conferred upon and may be enforced by your successors and assigns. Applicant will not assign this Agreement or Applicant's obligations or liabilities to you under or in connection with any L/C Document or Loan Document to any person or entity without your prior written approval.

**SECTION 18. GOVERNING LAW.** This Agreement and each Application, and Applicant's and your performance under this Agreement and each Application, shall be governed by and be construed in accordance with the laws of the State of California. Unless you otherwise specifically agree in writing, each Credit, the opening of each Credit, the performance by you under each Credit, and the performance by the Beneficiary and any advising, confirming, negotiating, paying or other bank under each Credit, shall be governed by and be construed in accordance with the UCP in force on the date of the issuance of each Credit.

**SECTION 19. JURISDICTION AND SERVICE OF PROCESS.** Any suit, action or proceeding against Applicant under or with respect to any L/C Document may, at your sole option, be brought in (a) the courts of the State of California, (b) the United States District Courts in California, (c) the courts of Applicant's jurisdiction of incorporation or principal office, or (d) the courts of the jurisdiction where any Beneficiary, any advising, confirming, negotiating, paying or other bank, or any other person or entity has brought any suit, action or proceeding against you with respect to any Credit or any Demand, and Applicant hereby submits to the nonexclusive jurisdiction of such courts for the purpose of any such suit, action, proceeding or judgment and waives any other preferential jurisdiction by reason of domicile. Applicant will accept joinder in any suit, action or proceeding brought in any court or jurisdiction against you by any Beneficiary, any advising, confirming, negotiating, paying or other bank or any other person or entity with respect to any Credit or any Demand. Applicant irrevocably waives any objection, including, without limitation, any objection of the laying of venue or any objection based on the grounds of *forum non conveniens*, which Applicant may now or hereafter have to the bringing of any such action or proceeding. Applicant further waives any right to transfer or change the venue of any suit, action or proceeding brought against Applicant by you under or in connection with any L/C Document. Applicant irrevocably consents to the service of process in any action or proceeding in any court by the mailing of copies thereof by registered or certified mail, postage prepaid, to Applicant at its address specified next to its signature on this Agreement or at such other address as Applicant shall have notified to you in writing, such service to be effective ten (10) days after such mailing.

**SECTION 20. SEVERABILITY.** Any provision of any L/C Document which is prohibited or unenforceable in any jurisdiction shall be, only as to such jurisdiction, ineffective to the extent of such prohibition or unenforceability, but all the remaining provisions of such L/C Document and all the other L/C Documents shall remain valid.

**SECTION 21. HEADINGS.** The headings used in this Agreement are for convenience of reference only and shall not define or limit the provisions of this Agreement.

**SECTION 22. COMPLETE AGREEMENT.** The entire agreement with respect to each Credit will consist of this Agreement and the Application for such Credit, together with any written document or instrument signed by Applicant and you, or signed by Applicant and approved by you, which specifically references such Credit, the Application for such Credit, or this Agreement. Except as specifically provided in this Agreement, in any Application or in any written document or instrument referred to in the preceding sentence, no statements or representations not contained in this Agreement, such Application or such written document or instrument shall have any force or effect on this Agreement, such Application or such written document or instrument.

**SECTION 25. ORAL AGREEMENTS NOT ENFORCEABLE UNDER WASHINGTON LAW. ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR FOREBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.**

This Agreement is signed by Applicant's duly authorized representative or representatives on June 30, 2009.

**BARRETT BUSINESS SERVICES, INC.**

By: /s/ James D. Miller

Title: Vice President - Finance, Chief Financial Officer

8100 NE Parkway Drive

Suite 200

Vancouver, WA 98662

[ADDRESS]

BARRETT BUSINESS SERVICES, INC.

2009 STOCK INCENTIVE PLAN

Effective May 13, 2009

---

**TABLE OF CONTENTS**

|  | <u>Page</u> |
|--|-------------|
| ARTICLE 1        ESTABLISHMENT AND PURPOSE                                     | 1           |
| 1.1    Establishment   | 1           |
| 1.2    Purpose   | 1           |
| 1.3    Prior Plans   | 1           |
| 1.4    Reservation of Right to Amend to Comply with Section 409A               | 1           |
| ARTICLE 2        DEFINITIONS   | 1           |
| 2.1    Defined Terms   | 1           |
| 2.2    Gender and Number   | 4           |
| ARTICLE 3        ADMINISTRATION  | 5           |
| 3.1    General   | 5           |
| 3.2    Composition of the Committee  | 5           |
| 3.3    Authority of the Committee  | 5           |
| 3.4    Action by the Committee   | 5           |
| 3.5    Delegation  | 6           |
| 3.6    Liability of Committee Members  | 6           |
| 3.7    Costs of Plan   | 6           |
| ARTICLE 4        DURATION OF THE PLAN AND SHARES SUBJECT TO THE PLAN           | 6           |
| 4.1    Duration of the Plan  | 6           |
| 4.2    Shares Subject to the Plan  | 6           |
| ARTICLE 5        ELIGIBILITY   | 6           |
| ARTICLE 6        AWARDS  | 6           |
| 6.1    Types of Awards   | 6           |
| 6.2    General   | 7           |
| 6.3    Nonuniform Determinations   | 7           |
| 6.4    Award Agreements  | 7           |
| 6.5    Prohibition on Repricing of Stock Options and Stock Appreciation Rights | 7           |
| 6.6    Provisions Governing All Awards   | 8           |
| ARTICLE 7        OPTIONS   | 12          |
| 7.1    Types of Options  | 12          |
| 7.2    General   | 12          |

**TABLE OF CONTENTS**  
**(continued)**

|            | <u>Page</u>                                       |    |
|------------|---|----|
| 7.3        | Option Price                                      | 12 |
| 7.4        | Option Term                                       | 12 |
| 7.5        | Time of Exercise                                  | 12 |
| 7.6        | Special Rules for Incentive Stock Options         | 13 |
| 7.7        | Restricted Shares                                 | 13 |
| 7.8        | Limitation on Number of Shares Subject to Options | 13 |
| ARTICLE 8  | STOCK APPRECIATION RIGHTS                         | 14 |
| 8.1        | General   | 14 |
| 8.2        | Nature of Stock Appreciation Right                | 14 |
| 8.3        | Exercise  | 14 |
| 8.4        | Form of Payment                                   | 14 |
| 8.5        | Limitation on Number of Stock Appreciation Rights | 14 |
| ARTICLE 9  | RESTRICTED SHARE AWARDS                           | 14 |
| 9.1        | Restricted Share Awards                           | 14 |
| 9.2        | General   | 15 |
| 9.3        | Restriction Period                                | 15 |
| 9.4        | Forfeiture  | 15 |
| 9.5        | Settlement of Restricted Share Awards             | 15 |
| 9.6        | Rights as a Shareholder                           | 15 |
| ARTICLE 10 | OTHER STOCK-BASED AND COMBINATION AWARDS          | 16 |
| 10.1       | Other Stock-Based Awards                          | 16 |
| 10.2       | Combination Awards                                | 16 |
| ARTICLE 11 | DIVIDEND EQUIVALENTS                              | 16 |
| ARTICLE 12 | ADJUSTMENTS UPON CHANGES IN CAPITALIZATION, ETC   | 16 |
| 12.1       | Plan Does Not Restrict Corporation                | 16 |
| 12.2       | Adjustments by the Committee                      | 16 |
| ARTICLE 13 | AMENDMENT AND TERMINATION                         | 17 |
| ARTICLE 14 | MISCELLANEOUS                                     | 17 |
| 14.1       | Tax Withholding                                   | 17 |
| 14.2       | Unfunded Plan                                     | 17 |
| 14.3       | Payments to Trust                                 | 17 |

---

**TABLE OF CONTENTS**  
**(continued)**

|  | <u>Page</u> |
|--|-------------|
| 14.4 Annulment of Awards                                 | 17          |
| 14.5 Engaging in Competition With Corporation            | 18          |
| 14.6 Other Corporation Benefit and Compensation Programs | 18          |
| 14.7 Securities Law Restrictions                         | 18          |
| 14.8 Governing Law                                       | 18          |
| ARTICLE 15 SHAREHOLDER APPROVAL                          | 19          |

**BARRETT BUSINESS SERVICES, INC.**  
**2009 STOCK INCENTIVE PLAN**

ARTICLE 1  
**ESTABLISHMENT AND PURPOSE**

1.1 Establishment. Barrett Business Services, Inc. ("Corporation"), hereby establishes the Barrett Business Services, Inc., 2009 Stock Incentive Plan (the "Plan"), effective as of May 13, 2009 (the "Effective Date"), subject to shareholder approval as provided in Article 15.

1.2 Purpose. The purpose of the Plan is to promote and advance the interests of Corporation and its shareholders by enabling Corporation to attract, retain, and reward key employees, directors, and outside consultants of Corporation and its subsidiaries. It is also intended to strengthen the mutuality of interests between such employees, directors, and consultants and Corporation's shareholders. The Plan is designed to serve these purposes by offering stock options and other equity-based incentive awards, thereby providing a proprietary interest in pursuing the long-term growth, profitability, and financial success of Corporation.

1.3 Prior Plans. The Plan will be separate from the Barrett Business Services, Inc. 1993 Stock Incentive Plan and related Barrett Business Services, Inc. Stock Option Plan for California Residents and the Barrett Business Services, Inc., 2003 Stock Incentive Plan and related Barrett Business Services, Inc., Stock Incentive Plan for California Residents (the "Prior Plans"). The adoption of the Plan will neither affect nor be affected by the continued existence of the Prior Plans, except that after the effective date of the Plan, no further Awards will be granted under the Prior Plans.

1.4 Reservation of Right to Amend to Comply with Section 409A. The Board reserves the right to amend the Plan, either retroactively or prospectively, in whatever respect is required to achieve and maintain compliance with the requirements of Code Section 409A, and the regulations and guidance issued by the Department of the Treasury with respect to such requirements ("Section 409A").

ARTICLE 2  
**DEFINITIONS**

2.1 Defined Terms. For purposes of the Plan, the following terms have the meanings set forth below:

"**Award**" means an award or grant made to a Participant of Options, Stock Appreciation Rights, Restricted Share Awards or Other Stock-Based Awards pursuant to the Plan.

"**Award Agreement**" means an agreement as described in Section 6.4.

"**Board**" means the Board of Directors of Corporation.



“**Code**” means the Internal Revenue Code of 1986, as amended and in effect from time to time, or any successor thereto, together with rules, regulations, and interpretations promulgated thereunder. Where the context so requires, any reference to a particular Code section will be construed to refer to the successor provision to such Code section.

“**Committee**” means the committee appointed by the Board to administer the Plan as provided in Article 3 of the Plan.

“**Common Stock**” means the \$.01 par value Common Stock of Corporation.

“**Consultant**” means any consultant or adviser to Corporation or a Subsidiary selected by the Committee, who is not an employee of Corporation or a Subsidiary.

“**Continuing Restriction**” means a Restriction contained in Sections 6.6(g), 6.6(i), 14.4, 14.5, and 14.7 of the Plan and any other Restrictions expressly designated by the Committee in an Award Agreement as a Continuing Restriction.

“**Corporation**” means Barrett Business Services, Inc., a Maryland corporation, or any successor corporation.

“**Disability**” means the condition of being permanently “disabled” within the meaning of Section 22(e)(3) of the Code, namely being unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months. However, the Committee may change the foregoing definition of “Disability” or may adopt a different definition for purposes of specific Awards.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended and in effect from time to time, or any successor statute. Where the context so requires, any reference to a particular section of the Exchange Act, or to any rule promulgated under the Exchange Act, will be construed to refer to successor provisions to such section or rule.

“**Fair Market Value**” means, on any given day, the fair market value per share of the Common Stock determined as follows:

(a) If the Common Stock is traded on an established securities exchange, the closing sale price per share of Common Stock as reported for such day by the principal exchange on which the Common Stock is traded (as determined by the Committee) or, if the Common Stock was not traded on such day, on the next preceding day on which the Common Stock was traded;

(b) If trading activity in Common Stock is reported on the OTC Bulletin Board, the mean between the bid price and asked price quotes for such day as reported on the OTC Bulletin Board or, if there are no such quotes for Common Stock for such day, on the next preceding day for which bid and asked price quotes for Common Stock were reported on the OTC Bulletin Board; or

---

(c) If there is no market for Common Stock or if trading activities for Common Stock are not reported in one of the manners described above, the fair market value will be as determined by the Committee.

“**Incentive Stock Option**” or “**ISO**” means any Option granted pursuant to the Plan that is intended to be and is specifically designated in its Award Agreement as an “incentive stock option” within the meaning of Section 422 of the Code.

“**Non-Employee Board Director**” means a member of the Board who is not an employee of Corporation or any Subsidiary.

“**Non-Employee Subsidiary Director**” means a member of the board of directors of a Subsidiary who is neither an employee of Corporation or a Subsidiary nor a member of the Board.

“**Nonqualified Option**” or “**NQO**” means any Option granted pursuant to the Plan that is not an Incentive Stock Option.

“**Option**” means an ISO or an NQO.

“**Other Stock-Based Award**” means an Award as defined in Section 10.1.

“**Participant**” means an employee of Corporation or a Subsidiary, a Consultant, a Non-Employee Board Director, or a Non-Employee Subsidiary Director who is granted an Award under the Plan.

“**Plan**” means this Barrett Business Services, Inc., 2009 Stock Incentive Plan, as set forth in this document and as it may be amended from time to time.

“**Reporting Person**” means a Participant who is subject to the reporting requirements of Section 16(a) of the Exchange Act.

“**Restricted Share Award**” means a Restricted Share Award granted pursuant to Article 9 of the Plan.

“**Restriction**” means a provision in the Plan or in an Award Agreement that limits the exercisability or transferability, or which governs the forfeiture, of an Award or the Shares, cash, or other property payable pursuant to an Award.

“**Restriction Period**” means a designated period pursuant to the provisions of Section 9.3 of the Plan.

“**Retirement**” means:

(a) For Participants who are employees, retirement from active employment with Corporation and its Subsidiaries on or after age 65, or such earlier retirement date as approved by the Committee for purposes of the Plan;

---

(b) For Participants who are Non-Employee Board Directors or Non-Employee Subsidiary Directors, retirement from the applicable board of directors after attaining the maximum age (if any) specified in the articles of incorporation or bylaws of the applicable corporation; or

(c) For Participants who are Consultants, termination of service as a Consultant after attaining a retirement age specified by the Committee for purposes of an Award to such Consultant.

However, the Committee may change the foregoing definition of "Retirement" or may adopt a different definition for purposes of specific Awards.

"**Share**" means a share of Common Stock.

"**Stock Appreciation Right**" or "**SAR**" means an Award to benefit from the appreciation of Common Stock granted pursuant to the provisions of Article 8 of the Plan.

"**Subsidiary**" means a "subsidiary corporation" of Corporation, within the meaning of Section 425 of the Code, namely any corporation in which Corporation directly or indirectly controls 50 percent or more of the total combined voting power of all classes of stock having voting power.

"**Vest**," "**Vesting**," or "**Vested**" means:

(a) In the case of an Award that requires exercise, to be or to become immediately and fully exercisable and free of all Restrictions (other than Continuing Restrictions);

(b) In the case of an Award that is subject to forfeiture, to be or to become nonforfeitable, freely transferable, and free of all Restrictions (other than Continuing Restrictions); or

(c) In the case of an Award that is required to be earned by attaining specified Performance Goals, to be or to become earned and nonforfeitable, freely transferable, and free of all Restrictions (other than Continuing Restrictions); or

(d) In the case of any other Award as to which payment is not dependent solely upon the exercise of a right, election, or option, to be or to become immediately payable and free of all Restrictions (except Continuing Restrictions).

**2.2 Gender and Number.** Except where otherwise indicated by the context, any masculine or feminine terminology used in the Plan also includes the opposite gender; and the definition of any term in Section 2.1 in the singular also includes the plural, and vice versa.

---

ARTICLE 3  
ADMINISTRATION

3.1 General. The Plan will be administered by a Committee composed as described in Section 3.2.

3.2 Composition of the Committee. The Committee will be appointed by the Board and will consist of not less than a sufficient number of Non-Employee Board Directors so as to qualify the Committee to administer the Plan as contemplated by Section 162(m)(4)(C) of the Code and Rule 16b-3 under the Exchange Act. The Board may from time to time remove members from, or add members to, the Committee. Vacancies on the Committee, however caused, will be filled by the Board. In the event that the Committee ceases to satisfy the requirements of Section 162(m)(4)(C) or Rule 16b-3, the Board will reconstitute the Committee as necessary to satisfy such requirements.

3.3 Authority of the Committee. The Committee has full power and authority (subject to such orders or resolutions as may be issued or adopted from time to time by the Board) to administer the Plan in its sole discretion, including the authority to:

- (a) Construe and interpret the Plan and any Award Agreement;
- (b) Promulgate, amend, and rescind rules and procedures relating to the implementation of the Plan;
- (c) Select the employees, Non-Employee Board Directors, Non-Employee Subsidiary Directors, and Consultants who will be granted Awards;
- (d) Determine the number and types of Awards to be granted to each such Participant;
- (e) Determine the number of Shares, or Share equivalents, to be subject to each Award;
- (f) Determine the option price, purchase price, base price, or similar feature for any Award; and
- (g) Determine all the terms and conditions of all Award Agreements, consistent with the requirements of the Plan.

Decisions of the Committee, or any delegate as permitted by the Plan, will be final, conclusive, and binding on all Participants.

3.4 Action by the Committee. A majority of the members of the Committee will constitute a quorum for the transaction of business. Action approved by a majority of the members present at any meeting at which a quorum is present, or action in writing by all of the members of the Committee, will be the valid acts of the Committee.

3.5 Delegation. Notwithstanding the foregoing, the Committee may delegate to one or more officers of Corporation the authority to determine the recipients, types, amounts, and terms of Awards granted to Participants who are not Reporting Persons.

3.6 Liability of Committee Members. No member of the Committee will be liable for any action or determination made in good faith with respect to the Plan, any Award, or any Participant.

3.7 Costs of Plan. The costs and expenses of administering the Plan will be borne by Corporation.

ARTICLE 4  
**DURATION OF THE PLAN AND SHARES SUBJECT TO THE PLAN**

4.1 Duration of the Plan. The Plan is effective May 13, 2009, subject to approval by Corporation's shareholders as provided in Article 15. The Plan will remain in effect until Awards have been granted covering all the available Shares or the Plan is otherwise terminated by the Board. Termination of the Plan will not affect outstanding Awards.

4.2 Shares Subject to the Plan. The shares which may be made subject to Awards under the Plan are Shares of Common Stock, which may be either authorized and unissued Shares or reacquired Shares. No fractional Shares may be issued under the Plan. Subject to adjustment pursuant to Article 12, the maximum number of Shares for which Awards may be granted under the Plan is 1,000,000, of which the aggregate number of Shares for which ISOs may be granted under the Plan is 900,000. If an Award under the Plan is canceled or expires for any reason prior to having been fully Vested or exercised by a Participant or is settled in cash in lieu of Shares or is exchanged for other Awards, all Shares covered by such Awards will be added back into the number of Shares available for future Awards under the Plan.

ARTICLE 5  
**ELIGIBILITY**

Officers and other key employees of Corporation and its Subsidiaries (including employees who may also be directors of Corporation or a Subsidiary), Consultants, Non-Employee Board Directors, and Non-Employee Subsidiary Directors who, in the Committee's judgment, are or will be contributors to the long-term success of Corporation are eligible to receive Awards under the Plan.

ARTICLE 6  
**AWARDS**

6.1 Types of Awards. The types of Awards that may be granted under the Plan are:

- (a) Options governed by Article 7 of the Plan;
- (b) Stock Appreciation Rights governed by Article 8 of the Plan;
- (c) Restricted Share Awards governed by Article 9 of the Plan; and
- (d) Other Stock-Based Awards or combination awards governed by Article 10 of the Plan.

---

In the discretion of the Committee, any Award may be granted alone, in addition to, or in tandem with other Awards under the Plan.

6.2 General. Subject to the limitations of the Plan, the Committee may cause Corporation to grant Awards to such Participants, at such times, of such types, in such amounts, for such periods, with such option prices, purchase prices, or base prices, and subject to such terms, conditions, limitations, and restrictions as the Committee, in its discretion, deems appropriate. Awards may be granted as additional compensation to a Participant or in lieu of other compensation to such Participant. A Participant may receive more than one Award and more than one type of Award under the Plan.

6.3 Nonuniform Determinations. The Committee's determinations under the Plan or under one or more Award Agreements, including, without limitation, (a) the selection of Participants to receive Awards, (b) the type, form, amount, and timing of Awards, (c) the terms of specific Award Agreements, and (d) elections and determinations made by the Committee with respect to exercise or payments of Awards, need not be uniform and may be made by the Committee selectively among Participants and Awards, whether or not Participants are similarly situated.

6.4 Award Agreements. Each Award will be evidenced by a written Award Agreement between Corporation and the Participant. Award Agreements may, subject to the provisions of the Plan, contain any provision approved by the Committee.

6.5 Prohibition on Repricing of Stock Options and Stock Appreciation Rights. Except for adjustments pursuant to Article 12 hereof, at no time shall the exercise price of an Option or the base price of a Stock Appreciation Right granted hereunder be subsequently repriced during the period of its exercisability. For purposes of this Section 6.5, repricing means any of the following or any other action that has the same effect:

- (a) Lowering the exercise or base price after the Option or Stock Appreciation Right is granted;
- (b) Any other action that is treated as a repricing under generally accepted accounting principles; or
- (c) Canceling an Option or Stock Appreciation Right at a time when its exercise or base price exceeds the Fair Market Value of the underlying Shares, in exchange for cash or an Other Stock-Based Award, unless the cancellation and exchange occurs in connection with a merger, acquisition, spin-off or other similar corporate transaction.

---

6.6 Provisions Governing All Awards. All Awards are subject to the following provisions:

(a) Alternative Awards. If any Awards are designated in their Award Agreements as alternative to each other, the exercise of all or part of one Award will automatically cause an immediate equal (or pro rata) corresponding termination of the other alternative Award or Awards.

(b) Rights as Shareholders. No Participant will have any rights of a shareholder with respect to Shares subject to an Award until such Shares are issued in the name of the Participant.

(c) Employment Rights. Neither the adoption of the Plan nor the granting of any Award confers on any person the right to continued employment with Corporation or any Subsidiary or the right to remain as a director of or a Consultant to Corporation or any Subsidiary, as the case may be, nor does it interfere in any way with the right of Corporation or a Subsidiary to terminate such person's employment or to remove such person as a Consultant or as a director at any time for any reason, or for no reason, with or without cause.

(d) Restriction on Transfer. Unless otherwise expressly provided in an individual Award Agreement, no Award (other than Shares granted under a Restricted Share Award after they Vest) will be transferable other than by will or the laws of descent and distribution and each Award will be exercisable (if exercise is required), during the lifetime of the Participant, only by the Participant or, in the event the Participant becomes legally incompetent, by the Participant's guardian or legal representative. Notwithstanding the foregoing, the Committee, in its discretion, may provide in any Award Agreement that the Award:

- May be freely transferred;
- May be freely transferred to a class of transferees specified in the Award Agreement; or
- May be transferred, but only subject to any terms and conditions specified in the Award Agreement (including, without limitation, a condition that an Award may only be transferred without payment of consideration).

Furthermore, notwithstanding the foregoing, any Award Agreement may provide that the Award or the Shares subject to the Award may be surrendered to Corporation pursuant to Section 6.5(h) in connection with the payment of the purchase or option price of another Award or the payment of the Participant's federal, state, or local tax withholding obligation with respect to the exercise or payment of another Award.

(e) Termination of Employment. The terms and conditions under which an Award may be exercised, if at all, after a Participant's termination of employment or service as a Non-Employee Board Director, Non-Employee Subsidiary Director, or Consultant will be determined by the Committee and specified in the applicable Award Agreement.

---

(f) **Change in Control.** The Committee, in its discretion, may provide in any Award Agreement that:

(i) In the event of a change in control of Corporation (as the Committee may define such term in the Award Agreement), all or a specified portion of the Award (to the extent then outstanding) will become immediately Vested in full to the extent not previously Vested. Any such acceleration of Award Vesting must comply with applicable regulatory requirements and any Participant will be entitled to decline the accelerated Vesting of all or any portion of his or her Award, if he or she determines that such acceleration may result in adverse tax consequences to him or her; and

(ii) In the event the Board approves a proposal for: (i) a merger, exchange or consolidation transaction in which Corporation is not the resulting or surviving corporation (or in which Corporation is the resulting or surviving corporation but becomes a subsidiary of another corporation); (ii) the transfer of all or substantially all the assets of Corporation; (iii) a sale of 30 percent or more of the combined voting power of Corporation's voting securities; or (iv) the dissolution or liquidation of Corporation (each, a "Transaction"), the Committee will notify Participants in writing of the proposed Transaction (the "Proposal Notice") at least 30 days prior to the effective date of the proposed Transaction. The Committee may, in its sole discretion, and to the extent possible under the structure of the Transaction, select one of the following alternatives for treating outstanding Awards under the Plan:

(A) The Committee may provide that outstanding Awards will be converted into or replaced by Awards of a similar type in the stock of the surviving or acquiring corporation in the Transaction. The amount and type of securities subject to and the exercise price (if applicable) of the replacement or converted Awards will be determined by the Committee based on the exchange ratio, if any, used in determining shares of the surviving corporation to be issued to holders of Shares of Corporation. If there is no exchange ratio in the Transaction, the Committee will, in making its determination, take into account the relative values of the companies involved in the Transaction and such other factors as the Committee deems relevant. Such replacement or converted Awards will continue to Vest over the period (and at the same rate) as the Awards which the replacement or converted Awards replaced, unless determined otherwise by the Committee;

(B) The Committee may provide a 30-day period prior to the consummation of the Transaction during which all outstanding Awards will tentatively become fully Vested, and upon consummation of such Transaction, all outstanding and unexercised Awards will immediately terminate. If the Committee elects to provide such 30-day period for the exercise of Awards, the Proposal Notice must so state. Participants, by written notice to Corporation, may exercise their Awards and, in so



---

exercising the Awards, may condition such exercise upon, and provide that such exercise will become effective immediately prior to, the consummation of the Transaction, in which event Participants need not make payment for any Common Stock to be purchased upon exercise of an Award until five days after written notice by Corporation to the Participants that the Transaction has been consummated (the "Transaction Notice"). If the Transaction is consummated, each Award, to the extent not previously exercised prior to the consummation of the Transaction, will terminate and cease being exercisable as of the effective date of such consummation. If the Transaction is abandoned, (1) all outstanding Awards not exercised will continue to be Vested and exercisable, to the extent such Awards were Vested and exercisable prior to the date of the Proposal Notice, and (2) to the extent that any Awards not exercised prior to such abandonment have become Vested and exercisable solely by operation of this Section 6.6(f)(ii), such Vesting and exercisability will be deemed annulled, and the Vesting and exercisability provisions otherwise in effect will be reinstated, as of the date of such abandonment; or

(C) The Committee may provide that outstanding Awards that are not fully Vested will become fully Vested subject to Corporation's right to pay each Participant a cash amount (determined by the Committee and based on the amount, if any, being received by Corporation's shareholders in the Transaction) in exchange for cancellation of the applicable Award.

Unless the Committee specifically provides otherwise in the change in control provision for a specific Award Agreement, Awards will become Vested as of a change in control date only if, or to the extent, such acceleration in the Vesting of the Awards does not result in an "excess parachute payment" within the meaning of Section 280G(b) of the Code. The Committee, in its discretion, may include change in control provisions in some Award Agreements and not in others, may include different change in control provisions in different Award Agreements, and may include change in control provisions for some Awards or some Participants and not for others.

(g) Conditioning or Accelerating Benefits. The Committee, in its discretion, may include in any Award Agreement a provision conditioning or accelerating the Vesting of an Award or the receipt of benefits pursuant to an Award, either automatically or in the discretion of the Committee, upon the occurrence of specified events, including without limitation, a change in control of Corporation (subject to the foregoing paragraph (f)), a sale of all or substantially all of the property and assets of Corporation, or an event of the type described in Article 12 of this Plan.

(h) Payment of Purchase Price and Withholding. The Committee, in its discretion, may include in any Award Agreement a provision permitting the Participant to pay the purchase or option price, if any, for the Shares or other property issuable pursuant to the Award, or the Participant's federal, state, or local tax withholding obligations with respect to such issuance in whole or in part by any one or more of the following methods;

---

provided, however, that the availability of any one or more methods of payment may be suspended from time to time if the Committee determines that the use of such payment method would result in adverse financial accounting treatment for Corporation or adverse tax treatment for Corporation or Participants:

- (i) By delivering previously owned Shares (including fully Vested Shares granted under Restricted Share Awards);
- (ii) By surrendering other outstanding Vested Awards under the Plan denominated in Shares or in Share equivalent units;
- (iii) By reducing the number of Shares or other property otherwise Vested and issuable pursuant to the Award;
- (iv) Unless specifically prohibited by any applicable statute or rule, including, without limitation, the provisions of the Sarbanes-Oxley Act of 2002, by delivering to Corporation a promissory note payable on such terms and over such period as the Committee may determine;
- (v) By delivery (in a form approved by the Committee) of an irrevocable direction to a securities broker acceptable to the Committee (subject to the provisions of the Sarbanes-Oxley Act of 2002 and any other applicable statute or rule):
  - (A) To sell Shares subject to the Award and to deliver all or a part of the sales proceeds to Corporation in payment of all or a part of the option or purchase price and taxes or withholding taxes attributable to the issuance; or
  - (B) To pledge Shares subject to the Award to the broker as security for a loan and to deliver all or a part of the loan proceeds to Corporation in payment of all or a part of the option or purchase price and taxes or withholding taxes attributable to the issuance; or
- (vi) In any combination of the foregoing or in any other form approved by the Committee.

Shares withheld or surrendered as described above will be valued based on their Fair Market Value on the date of the transaction. Any Shares withheld or surrendered with respect to a Reporting Person will be subject to such additional conditions and limitations as the Committee may impose to comply with the requirements of the Exchange Act.

(i) Reporting Persons. With respect to all Awards granted to Reporting Persons, the following limitations will apply only if or to the extent required by Rule 16b-3 under the Exchange Act, unless the Award Agreement provides otherwise:

- (i) Awards requiring exercise will not be exercisable until at least six months after the date the Award was granted, except in the case of the death or Disability of the Participant; and

---

(ii) Shares issued pursuant to any other Award may not be sold by the Participant for at least six months after acquisition, except in the case of the death or Disability of the Participant.

Award Agreements for Awards to Reporting Persons must also comply with any future restrictions imposed by such Rule 16b-3.

(j) Service Periods. At the time of granting an Award, the Committee may specify, by resolution or in the Award Agreement, the period or periods of service performed or to be performed by the Participant in connection with the grant of the Award.

## ARTICLE 7 OPTIONS

7.1 Types of Options. Options granted under the Plan may be in the form of Incentive Stock Options or Nonqualified Options. The grant of each Option and the Award Agreement governing each Option will identify the Option as an ISO or an NQO. In the event the Code is amended to provide for tax-favored forms of stock options other than or in addition to Incentive Stock Options, the Committee may grant Options under the Plan meeting the requirements of such forms of options.

7.2 General. All Options will be subject to the terms and conditions set forth in Article 6 and this Article 7 and Award Agreements governing Options may contain such additional terms and conditions, not inconsistent with the express provisions of the Plan, as the Committee deems desirable.

7.3 Option Price. Each Award Agreement for Options will state the option exercise price per Share of Common Stock purchasable under the Option, which may not be less than 100 percent of the Fair Market Value of a Share on the date of grant for all Options.

7.4 Option Term. The Award Agreement for each Option will specify the term of each Option, which may be unlimited or may have a specified period during which the Option may be exercised, as determined by the Committee.

7.5 Time of Exercise. The Award Agreement for each Option will specify, as determined by the Committee:

- (a) The time or times when the Option becomes exercisable and whether the Option will become exercisable in full or in graduated amounts based on:
- (i) continuation of employment over a period specified in the Award Agreement, (ii) satisfaction of performance goals or criteria specified in the Award Agreement, or
  - (iii) a combination of continuation of employment and satisfaction of performance goals or criteria;

---

(b) Such other terms, conditions, and restrictions as to when the Option may be exercised as determined by the Committee; and

(c) The extent, if any, to which the Option will remain exercisable after the Participant ceases to be an employee, Consultant, or director of Corporation or a Subsidiary.

An Award Agreement for an Option may, in the discretion of the Committee, provide whether, and to what extent, the time when an Option becomes exercisable may be accelerated or otherwise modified (i) in the event of the death, Disability, or Retirement of the Participant, or (ii) upon the occurrence of a change in control of Corporation. The Committee may, at any time in its discretion, accelerate the time when all or any portion of an outstanding Option becomes exercisable.

7.6 Special Rules for Incentive Stock Options. In the case of an Option designated as an Incentive Stock Option, the terms of the Option and the Award Agreement will conform with the statutory and regulatory requirements specified pursuant to Section 422 of the Code, as in effect on the date such ISO is granted, including but not limited to the following requirements:

(a) Limited to Employees. ISOs may be granted only to employees of Corporation or a Subsidiary;

(b) Term of ISO. The ISO may not remain exercisable after the expiration of 10 years from its grant date;

(c) Ten Percent Shareholders. In the case of any ISO granted to a Participant who, as of the date of grant, possesses more than 10 percent of the total combined voting power of all classes of stock of Corporation or any parent or Subsidiary of Corporation, the option exercise price may not be less than 110 percent of the Fair Market Value of a Share on the date of grant and the ISO may not remain exercisable after the expiration of five years from its grant date; and

(d) \$100,000 Annual Limitation. In the event that Options intended to be ISOs are granted to a Participant in excess of the \$100,000 annual limitation set forth in Code Section 422(d)(1), the Options will be bifurcated so that the Options will be ISOs to the maximum extent allowable under that limitation and will be NQOs as to any excess over that limitation.

7.7 Restricted Shares. In the discretion of the Committee, the Shares issuable upon exercise of an Option may have restrictions similar to Restricted Share Awards if so provided in the Award Agreement for the Option.

7.8 Limitation on Number of Shares Subject to Options. In no event may Options for more than 200,000 Shares be granted to any individual under the Plan during any calendar year.

---

ARTICLE 8  
**STOCK APPRECIATION RIGHTS**

8.1 General. Stock Appreciation Rights are subject to the terms and conditions set forth in Article 6 and this Article 8 and Award Agreements governing Stock Appreciation Rights may contain such additional terms and conditions, not inconsistent with the express terms of the Plan, as the Committee deems desirable.

8.2 Nature of Stock Appreciation Right. A Stock Appreciation Right is an Award entitling a Participant to receive an amount equal to the excess (or, if the Committee determines at the time of grant, a portion of the excess) of the Fair Market Value of a Share of Common Stock on the date of exercise of the SAR over the base price, as described below, on the date of grant of the SAR, multiplied by the number of Shares with respect to which the SAR is being exercised. The base price will be designated by the Committee in the Award Agreement for the SAR and may be the Fair Market Value of a Share on the grant date of the SAR or such other higher price as the Committee determines. The base price may not be less than the Fair Market Value of a Share on the grant date of the SAR.

8.3 Exercise. A Stock Appreciation Right may be exercised by a Participant in accordance with procedures established by the Committee. The Committee may also provide that a SAR will be automatically exercised on one or more specified dates or upon the satisfaction of one or more specified conditions. In the case of SARs granted to Reporting Persons, exercise of the SARs will be limited by the Committee to the extent required to comply with the applicable requirements of Rule 16b-3 under the Exchange Act.

8.4 Form of Payment. Payment upon exercise of a Stock Appreciation Right may be made in cash, in Shares, or in any combination of cash and Shares.

8.5 Limitation on Number of Stock Appreciation Rights. In no event may more than 200,000 Stock Appreciation Rights be granted to any individual under the Plan during any calendar year.

ARTICLE 9  
**RESTRICTED SHARE AWARDS**

9.1 Restricted Share Awards. A Restricted Share Award is an Award of Shares transferred to a Participant subject to such terms and conditions as the Committee deems appropriate, including, without limitation, restrictions on the sale, assignment, transfer, or other disposition of such Shares and may include a requirement that the Participant forfeit such Shares back to Corporation upon termination of Participant's employment (or service as a Non-Employee Board Director, Non-Employee Subsidiary Director, or Consultant) for specified reasons within a specified period of time or upon other conditions, as set forth in the Award Agreement for such Shares. Each Participant receiving a Restricted Share Award will be issued a stock certificate in respect of such Shares, registered in the name of such Participant, and will execute a stock power in blank with respect to the Shares evidenced by such certificate. The certificate evidencing such Shares and the stock power will be held in custody by Corporation until the Restrictions have lapsed.

---

9.2 General. Restricted Share Awards are subject to the terms and conditions of Article 6 and this Article 9 and Award Agreements governing Restricted Share Awards may contain such additional terms and conditions, not inconsistent with the express provisions of the Plan, as the Committee deems desirable.

9.3 Restriction Period. Award Agreements for Restricted Share Awards will provide that the Shares subject to Restricted Share Awards may not be transferred, and may provide that, in order for a Participant to Vest in such Restricted Share Awards, the Participant must remain in the employment (or remain as a Non-Employee Board Director, Non-Employee Subsidiary Director, or Consultant) of Corporation or its Subsidiaries, subject to relief for reasons specified in the Award Agreement, for a period commencing on the grant date of the Award and ending on such later date or dates as the Committee may designate at the time of the Award (the "Restriction Period"). During the Restriction Period, a Participant may not sell, assign, transfer, pledge, encumber, or otherwise dispose of Shares received under a Restricted Share Award grant. The Committee, in its sole discretion, may provide for the lapse of restrictions in installments during the Restriction Period. Upon expiration of the applicable Restriction Period (or lapse of Restrictions during the Restriction Period where the Restrictions lapse in installments) the Participant will be entitled to settlement of the Restricted Share Award or portion thereof, as the case may be. Although Restricted Share Awards will typically Vest based on continued employment (or service as a Non-Employee Board Director, Non-Employee Subsidiary Director, or Consultant), the Committee, in its discretion, may condition Vesting of Restricted Share Awards on attainment of designated performance goals as well as continued employment (or service as a Non-Employee Board Director, Non-Employee Subsidiary Director, or Consultant). In such case, the Restriction Period for such a Restricted Share Award will include the period prior to satisfaction of the performance goals.

9.4 Forfeiture. If a Participant ceases to be an employee (or Consultant, Non-Employee Board Director, or Non-Employee Subsidiary Director) of Corporation or a Subsidiary during the Restriction Period for any reason other than reasons which may be specified in an Award Agreement (such as death, Disability, or Retirement), the Award Agreement may require that all non-Vested Shares previously granted to the Participant be forfeited and returned to Corporation.

9.5 Settlement of Restricted Share Awards. Upon Vesting of a Restricted Share Award, the legend on such Shares will be removed, the Participant's stock power will be returned and the Shares will no longer be Restricted Shares.

9.6 Rights as a Shareholder. A Participant has, with respect to unforfeited Shares received under a Restricted Share Award grant, all the rights of a shareholder of Corporation, including the right to vote the Shares, and the right to receive any cash dividends. Stock dividends issued with respect to non-Vested Shares granted under a Restricted Share Award will be treated as additional Shares covered by the Restricted Share Award and will be subject to the same Restrictions.

---

ARTICLE 10  
**OTHER STOCK-BASED AND COMBINATION AWARDS**

10.1 Other Stock-Based Awards. The Committee may grant other Awards under the Plan pursuant to which Shares are or may in the future be acquired, or Awards denominated in or measured by Share equivalent units, including Awards valued using measures other than the market value of Shares. Other Stock-Based Awards are not restricted to any specific form or structure and may include, without limitation, Share purchase warrants, other rights to acquire Shares, and securities convertible into or redeemable for Shares. Such Other Stock-Based Awards may be granted either alone, in addition to, or in tandem with, any other type of Award granted under the Plan.

10.2 Combination Awards. The Committee may also grant Awards under the Plan in tandem or combination with other Awards or in exchange of Awards, or in tandem or combination with, or as alternatives to, grants or rights under any other employee plan of Corporation, including the plan of any acquired entity. No action authorized by this Section will reduce the amount of any existing benefits or change the terms and conditions thereof without the Participant's consent.

ARTICLE 11  
**DIVIDEND EQUIVALENTS**

Subject to any restrictions in Section 409A, any Award may, to the extent provided in the Award Agreement, earn dividend equivalents. In respect of any such Award that is outstanding on a dividend record date for Common Stock, the Participant may be credited with an amount equal to the amount of cash or stock dividends that would have been paid on the Shares covered by such Award, had such covered Shares been issued and outstanding on such dividend record date. The Committee will establish such rules and procedures governing the crediting of dividend equivalents, including the timing, form of payment, and payment contingencies of such dividend equivalents, as it deems appropriate or necessary.

ARTICLE 12  
**ADJUSTMENTS UPON CHANGES IN CAPITALIZATION, ETC.**

12.1 Plan Does Not Restrict Corporation. The existence of the Plan and the Awards granted under the Plan will not affect or restrict in any way the right or power of the Board or the shareholders of Corporation to make or authorize any adjustment, recapitalization, reorganization, or other change in Corporation's capital structure or its business, any merger or consolidation of Corporation, any issue of bonds, debentures, preferred or prior preference stocks ahead of or affecting Corporation's capital stock or the rights thereof, the dissolution or liquidation of Corporation or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding.

12.2 Adjustments by the Committee. In the event of any change in capitalization affecting the Common Stock of Corporation, such as a stock dividend, stock split, recapitalization, merger, consolidation, split-up, combination or exchange of shares or other form of reorganization, or any other change affecting the Common Stock, such proportionate

adjustments, if any, as the Committee, in its sole discretion, may deem appropriate to reflect such change, will be made with respect to the aggregate number of Shares for which Awards in respect thereof may be granted under the Plan, the maximum number of Shares which may be sold or awarded to any Participant, the number of Shares covered by each outstanding Award, and the base price or purchase price per Share in respect of outstanding Awards. The Committee may also make such adjustments in the number of Shares covered by, and price or other value of, any outstanding Awards in the event of a spin-off or other distribution (other than normal cash dividends), of Corporation assets to shareholders.

ARTICLE 13  
**AMENDMENT AND TERMINATION**

The Board may amend, suspend, or terminate the Plan or any portion of the Plan at any time, provided that no amendment may be made without shareholder approval if such approval is required by applicable law or the requirements of an applicable stock exchange or registered securities association.

ARTICLE 14  
**MISCELLANEOUS**

14.1 Tax Withholding. Corporation has the right to deduct from any settlement of any Award under the Plan, including the delivery or Vesting of Shares or Awards, any federal, state, or local taxes of any kind required by law to be withheld with respect to such payments or to take such other action as may be necessary in the opinion of Corporation to satisfy all obligations for the payment of such taxes. The recipient of any payment or distribution under the Plan has the obligation to make arrangements satisfactory to Corporation for the satisfaction of any such tax withholding obligations. Corporation will not be required to make any such payment or distribution under the Plan until such obligations are satisfied.

14.2 Unfunded Plan. The Plan will be unfunded and Corporation will not be required to segregate any assets that may at any time be represented by Awards under the Plan. Any liability of Corporation to any person with respect to any Award under the Plan will be based solely upon any contractual obligations that may be effected pursuant to the Plan. No such obligation of Corporation will be deemed to be secured by any pledge of, or other encumbrance on, any property of Corporation.

14.3 Payments to Trust. The Committee is authorized to cause to be established a trust agreement or several trust agreements whereunder the Committee may make payments of amounts due or to become due to Participants in the Plan.

14.4 Annulment of Awards. Any Award Agreement may provide that the grant of an Award payable in cash is revocable until cash is paid in settlement thereof or that grant of an Award payable in Shares is revocable until the Participant becomes entitled to the certificate in settlement thereof. In the event the employment (or service as a Non-Employee Board Director, Non-Employee Subsidiary Director, or Consultant) of a Participant is terminated for cause (as defined below), any Award that is revocable will be annulled as of the date of such termination for cause. For the purpose of this Section 14.4, the term "for cause" has the meaning set forth in



---

the Participant's employment agreement, if any, or otherwise means any discharge (or removal) for material or flagrant violation of the policies and procedures of Corporation or for other performance or conduct which is materially detrimental to the best interests of Corporation, as determined by the Committee.

14.5 Engaging in Competition With Corporation. Any Award Agreement may provide that, if a Participant terminates employment (or service as a Non-Employee Board Director, Non-Employee Subsidiary Director, or Consultant) with Corporation or a Subsidiary for any reason whatsoever, and within a period of time (as specified in the Award Agreement) after the date thereof accepts employment with any competitor of (or otherwise engages in competition with) Corporation, the Committee, in its sole discretion, may require such Participant to return to Corporation the economic value of any Award that is realized or obtained (measured at the date of exercise, Vesting, or payment) by such Participant at any time during the period beginning on the date that is six months prior to the date of such Participant's termination of employment (or service as a Non-Employee Board Director, Non-Employee Subsidiary Director, or Consultant) with Corporation.

14.6 Other Corporation Benefit and Compensation Programs. Payments and other benefits received by a Participant under an Award made pursuant to the Plan are not to be deemed a part of a Participant's regular, recurring compensation for purposes of the termination indemnity or severance pay law of any state or country and will not be included in, or have any effect on, the determination of benefits under any other employee benefit plan or similar arrangement provided by Corporation or a Subsidiary unless expressly so provided by such other plan or arrangements, or except where the Committee expressly determines that an Award or portion of an Award should be included to accurately reflect competitive compensation practices or to recognize that an Award has been made in lieu of a portion of cash compensation. Awards under the Plan may be made in combination with or in tandem with, or as alternatives to, grants, awards, or payments under any other Corporation or Subsidiary plans, arrangements, or programs. The Plan notwithstanding, Corporation or any Subsidiary may adopt such other compensation programs and additional compensation arrangements as it deems necessary to attract, retain, and reward employees and directors for their service with Corporation and its Subsidiaries.

14.7 Securities Law Restrictions. No Shares may be issued under the Plan unless counsel for Corporation is satisfied that such issuance will be in compliance with applicable federal and state securities laws. Certificates for Shares delivered under the Plan may be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange or registered securities association upon which the Common Stock is then listed or quoted, and any applicable federal or state securities laws. The Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

14.8 Governing Law. Except with respect to references to the Code or federal securities laws, the Plan and all actions taken thereunder will be governed by and construed in accordance with the laws of the state of Maryland.

---

ARTICLE 15  
**SHAREHOLDER APPROVAL**

The adoption of the Plan and the grant of Awards under the Plan are expressly subject to the approval of the Plan by Corporation's shareholders holding a majority of Corporation's outstanding Shares.

**Certification of the Chief Executive Officer under Rule 13a-14(a)**

I, William W. Sherertz, certify that:

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

Date: August 10, 2009

/s/ William W. Sherertz

William W. Sherertz  
Chief Executive Officer

**Certification of the Chief Financial Officer under Rule 13a-14(a)**

I, James D. Miller, certify that:

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

Date: August 10, 2009

/s/ James D. Miller

---

James D. Miller  
Chief Financial Officer

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

In connection with the Quarterly Report of Barrett Business Services, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certify, pursuant to 18 U.S.C. § 1350, that:

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

/s/ William W. Sherertz

\_\_\_\_\_  
William W. Sherertz  
Chief Executive Officer  
August 10, 2009

/s/ James D. Miller

\_\_\_\_\_  
James D. Miller  
Chief Financial Officer  
August 10, 2009