

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, 2014

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, 2014 was 7,177,725 shares.

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Part I - Financial Information

Item 1. Financial Statements

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

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 47,869	\$ 93,557
Marketable securities	32,033	19,787
Trade accounts receivable, net	104,008	85,586
Prepaid expenses and other	5,283	3,026
Deferred income taxes	8,944	8,929
Total current assets	198,137	210,885
Marketable securities	10,597	5,909
Property, equipment and software, net	21,786	20,549
Restricted certificates of deposit	20,943	12,789
Restricted marketable securities and workers' compensation deposits	34,696	11,205
Other assets	3,979	4,165
Goodwill	47,820	47,820
	<u>\$337,958</u>	<u>\$ 313,322</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 220	\$ 220
Accounts payable	2,435	3,252
Accrued payroll, payroll taxes and related benefits	105,710	92,516
Income taxes payable	2,322	1,236
Other accrued liabilities	1,081	313
Workers' compensation claims liabilities	39,069	35,841
Safety incentives liability	12,718	13,086
Total current liabilities	163,555	146,464
Long-term workers' compensation claims liabilities	83,437	76,603
Long-term debt	4,943	5,053
Deferred income taxes	10,392	10,787
Customer deposits and other long-term liabilities	1,967	1,862
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.01 par value; 20,500 shares authorized, 7,162 and 7,165 shares issued and outstanding	72	72
Additional paid-in capital	5,798	5,781
Accumulated other comprehensive loss	(50)	(26)
Retained earnings	67,844	66,726
	<u>73,664</u>	<u>72,553</u>
	<u>\$337,958</u>	<u>\$ 313,322</u>

The accompanying notes are an integral part of these financial statements

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

	Three Months Ended	
	June 30,	
	2014	2013
Revenues:		
Professional employer service fees	\$112,503	\$ 93,494
Staffing services	38,566	35,304
Total revenues	<u>151,069</u>	<u>128,798</u>
Cost of revenues:		
Direct payroll costs	29,311	26,611
Payroll taxes and benefits	61,130	53,483
Workers' compensation	30,776	24,978
Total cost of revenues	<u>121,217</u>	<u>105,072</u>
Gross margin	29,852	23,726
Selling, general and administrative expenses	17,958	14,494
Depreciation and amortization	613	506
Income from operations	<u>11,281</u>	<u>8,726</u>
Other income (expense):		
Investment income	157	173
Interest expense	(44)	(64)
Other	(7)	1
Other income	<u>106</u>	<u>110</u>
Income before income taxes	11,387	8,836
Provision for income taxes	4,104	2,950
Net income	<u>\$ 7,283</u>	<u>\$ 5,886</u>
Basic earnings per common share	<u>\$ 1.02</u>	<u>\$.83</u>
Weighted average number of basic common shares outstanding	<u>7,173</u>	<u>7,082</u>
Diluted earnings per common share	<u>\$.98</u>	<u>\$.80</u>
Weighted average number of diluted common shares outstanding	<u>7,421</u>	<u>7,374</u>
Cash dividends per common share	<u>\$.18</u>	<u>\$.13</u>

The accompanying notes are an integral part of these financial statements

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

	Six Months Ended	
	June 30,	
	2014	2013
Revenues:		
Professional employer service fees	\$214,192	\$175,312
Staffing services	72,017	65,037
Total revenues	<u>286,209</u>	<u>240,349</u>
Cost of revenues:		
Direct payroll costs	54,728	48,907
Payroll taxes and benefits	133,947	112,606
Workers' compensation	58,376	46,799
Total cost of revenues	<u>247,051</u>	<u>208,312</u>
Gross margin	39,158	32,037
Selling, general and administrative expenses	32,327	26,305
Depreciation and amortization	1,197	966
Income from operations	<u>5,634</u>	<u>4,766</u>
Other income (expense):		
Investment income	301	345
Interest expense	(88)	(143)
Other	(17)	(5)
Other income	<u>196</u>	<u>197</u>
Income before income taxes	5,830	4,963
Provision for income taxes	2,130	1,626
Net income	<u>\$ 3,700</u>	<u>\$ 3,337</u>
Basic earnings per common share	<u>\$.52</u>	<u>\$.47</u>
Weighted average number of basic common shares outstanding	<u>7,171</u>	<u>7,052</u>
Diluted earnings per common share	<u>\$.50</u>	<u>\$.45</u>
Weighted average number of diluted common shares outstanding	<u>7,444</u>	<u>7,344</u>
Cash dividends per common share	<u>\$.36</u>	<u>\$.26</u>

The accompanying notes are an integral part of these financial statements

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

	Three Months Ended June 30,	
	2014	2013
Net income	\$7,283	\$5,886
Unrealized losses on marketable securities, net of tax of \$(8) and \$(28) in 2014 and 2013, respectively	(13)	(43)
Comprehensive income	<u>\$7,270</u>	<u>\$5,843</u>

	Six Months Ended June 30,	
	2014	2013
Net income	\$3,700	\$3,337
Unrealized losses on marketable securities, net of tax of \$(15) and \$(31) in 2014 and 2013, respectively	(24)	(47)
Comprehensive income	<u>\$3,676</u>	<u>\$3,290</u>

The accompanying notes are an integral part of these financial statements

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BARRETT BUSINESS SERVICES, INC.
Consolidated Statements of Stockholders' Equity
Six Months Ended June 30, 2014 and 2013
(Unaudited)
(In thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount				
Balance, December 31, 2012	7,017	\$ 70	\$ 913	\$ 23	\$52,890	\$53,896
Common stock issued on exercise of options	90	1	1,199	0	0	1,200
Share based compensation expense, net of tax	0	0	367	0	0	367
Excess tax benefits from share-based compensation	0	0	1,187	0	0	1,187
Cash dividends on common stock	0	0	0	0	(1,834)	(1,834)
Unrealized holding losses on marketable securities, net of tax	0	0	0	(47)	—	(47)
Net income	0	0	0	0	3,337	3,337
Balance, June 30, 2013	<u>7,107</u>	<u>\$ 71</u>	<u>\$ 3,666</u>	<u>\$ (24)</u>	<u>\$54,393</u>	<u>\$58,106</u>
Balance, December 31, 2013	7,165	\$ 72	\$ 5,781	\$ (26)	\$66,726	\$72,553
Common stock issued on exercise of options	17	0	213	0	0	213
Share based compensation expense, net of tax	0	0	671	0	0	671
Excess tax benefits from share-based compensation	0	0	124	0	0	124
Company repurchase of common stock	(20)	0	(991)	0	0	(991)
Cash dividends on common stock	0	0	0	0	(2,582)	(2,582)
Unrealized holding losses on marketable securities, net of tax	0	0	0	(24)	0	(24)
Net income	0	0	0	0	3,700	3,700
Balance, June 30, 2014	<u>7,162</u>	<u>\$ 72</u>	<u>\$ 5,798</u>	<u>\$ (50)</u>	<u>\$67,844</u>	<u>\$73,664</u>

The accompanying notes are an integral part of these financial statements

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

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 3,700	\$ 3,337
Reconciliations of net income to net cash provided by operating activities:		
Depreciation and amortization	1,197	966
Losses (gains) recognized on marketable securities	1	(1)
Gain recognized on sale and leaseback	0	(61)
Deferred income taxes	(425)	(58)
Share-based compensation	671	367
Excess tax benefit from share-based compensation	(124)	(1,187)
Changes in certain assets and liabilities:		
Trade accounts receivable, net	(18,422)	(16,931)
Income taxes receivable	0	(5,358)
Prepaid expenses and other	(2,257)	1,869
Accounts payable	(817)	815
Accrued payroll, payroll taxes and related benefits	13,194	17,267
Other accrued liabilities	768	330
Income taxes payable	1,210	915
Workers' compensation claims liabilities	10,062	13,979
Safety incentives liability	(368)	1,097
Customer deposits, long-term liabilities and other assets, net	291	84
Net cash provided by operating activities	<u>8,681</u>	<u>17,430</u>
Cash flows from investing activities:		
Purchase of property and equipment	(2,434)	(2,410)
Proceeds from sales and maturities of marketable securities	7,045	57,773
Purchase of marketable securities	(23,989)	(40,881)
Purchase of restricted certificates of deposit	(8,154)	(63,944)
Proceeds from maturities of restricted marketable securities	4,017	4,815
Purchase of restricted marketable securities	(27,508)	(5,594)
Net cash used in investing activities	<u>(51,023)</u>	<u>(50,241)</u>
Cash flows from financing activities:		
Proceeds from credit-line borrowings	3,731	132,664
Payments on credit-line borrowings	(3,731)	(137,196)
Payments on long-term debt	(110)	(110)
Repurchase of common stock	(991)	0
Dividends paid	(2,582)	(1,834)
Proceeds from exercise of stock options	213	1,200
Excess tax benefits from share-based compensation	124	1,187
Net cash used in financing activities	<u>(3,346)</u>	<u>(4,089)</u>
Net decrease in cash and cash equivalents	<u>(45,688)</u>	<u>(36,900)</u>
Cash and cash equivalents, beginning of period	<u>93,557</u>	<u>45,747</u>
Cash and cash equivalents, end of period	<u>\$ 47,869</u>	<u>\$ 8,847</u>

The accompanying notes are an integral part of these financial statements

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

Note 1 - Basis of Presentation of Interim Period Statements

The accompanying consolidated financial statements are unaudited and have been prepared by Barrett Business Services, Inc. (“Barrett”, “BBSI”, the “Company”, “our” or “we”), pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures typically included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. The preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from such estimates and assumptions. The consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company’s 2013 Annual Report on Form 10-K at pages F1 – F29. The results of operations for an interim period are not necessarily indicative of the results of operations for a full year.

Revenue recognition

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

Marketable securities

As of June 30, 2014, the Company’s marketable securities consisted of tax-exempt municipal securities, U.S. Treasuries, variable rate demand notes (VRDN) and corporate bonds. The Company classifies municipal securities, U.S. Treasuries, VRDN and corporate bonds as available for sale; they are reported at fair value with unrealized gains and losses, net of taxes, shown as a component of accumulated other comprehensive income (loss) in stockholders’ equity. In the event a loss is determined to be other-than-temporary, the loss will be recognized in the statement of operations.

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

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

Allowance for doubtful accounts

The Company had an allowance for doubtful accounts of \$313,000 and \$242,000 at June 30, 2014 and December 31, 2013, respectively. The Company must make estimates of the collectability 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 co-employed through our client service agreements) working in California, Oregon, Maryland, Delaware and Colorado, except as described below. In the state of Washington, state law allows only the Company's staffing services and internal management employees to be covered under the Company's self-insured workers' compensation program. Additionally, the Company operates a wholly-owned fully licensed insurance company, Ecole Insurance Company ("Ecole"), in Arizona to provide workers' compensation coverage to our employees in Arizona.

To manage our financial exposure, in the event of catastrophic injuries or fatalities, the Company maintains excess workers' compensation insurance through our wholly owned captive insurance company, Associated Insurance Company for Excess ("AICE"), with a per occurrence retention of \$5.0 million, except in Maryland and Colorado, where our per occurrence retention is \$1.0 million and \$2.0 million, respectively. AICE maintains excess workers' compensation insurance coverage with ACE Group ("ACE"), between \$5.0 million and \$15.0 million per occurrence, except in Maryland, where coverage with ACE is between \$1.0 million and \$25.0 million per occurrence, and in Colorado, where the coverage with ACE is between \$2.0 million and statutory limits per occurrence. The Company continues to evaluate the financial capacity of its insurers to assess the recoverability of the related insurer receivables.

The Company has provided a total of \$122.5 million and \$112.4 million at June 30, 2014 and December 31, 2013, respectively, as an estimated future liability for unsettled workers' compensation claims liabilities. The estimated liability for unsettled workers' compensation claims represents management's best estimate, which includes an evaluation of information provided by the Company's internal claims adjusters and our third-party administrators for workers' compensation claims coupled with management's evaluations of historical claims development and other trends. Included in the claims liabilities are case reserve estimates for reported losses, plus additional amounts based on projections for incurred but not reported claims and anticipated increases in case reserve estimates. Also included in these estimates are amounts for unallocated loss adjustment expenses, including legal costs. These estimates are continually reviewed and adjustments to liabilities are reflected in current operating results as they become known.

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

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

Workers' compensation claims (Continued)

In February, 2014, the Company entered into a workers' compensation insurance arrangement with ACE to provide coverage to BBSI employees in California beginning in the first quarter of 2014. The agreement will be effective through January 2015 with the potential for annual renewals thereafter.

The arrangement, typically known as a fronted program, provides BBSI a licensed, admitted insurance carrier in California to issue policies on behalf of BBSI without the intention of transferring any of the worker's compensation risk for the first \$5.0 million per claim. The risk of loss up to the first \$5.0 million per claim is retained by BBSI through an indemnity agreement. While this portion of the risk of loss remains with BBSI, ACE assumes credit risk should BBSI be unable to satisfy its indemnification obligations to ACE. ACE also bears the economic burden for all costs in excess of \$5.0 million per claim. The arrangement with ACE addresses the requirements of legislation enacted in California in 2012 (Senate Bill 863) under which the Company cannot continue its self-insurance program in California beyond January 1, 2015.

During the first quarter of 2014, the Company made an initial deposit of \$20.0 million into a trust account established between the Company and ACE related to the new ACE fronted insurance program. The Company began making monthly payments in April 2014 into the trust account comprised of premium costs to be set aside for the payment of future claims. The balance in the trust account as of June 30, 2014 totaled \$21.9 million. The \$21.9 million is included in the \$34.7 million of restricted marketable securities and workers' compensation deposits in the accompanying consolidated balance sheet.

Safety incentives liability

Safety incentives represent cash incentives paid to certain client companies under client service agreements for maintaining safe-work practices in order to minimize workplace injuries, thereby meeting agreed-upon loss objectives. The Company has provided \$12.7 million at June 30, 2014 and \$13.1 million at December 31, 2013 as an estimate of the liability for unpaid safety incentives. The incentive is based on a percentage of annual payroll and is paid annually to customers who meet predetermined workers' compensation claims cost objectives. Safety incentive payments are made only after closure of all workers' compensation claims incurred during the customer's contract period. The liability is estimated and accrued each month based upon the incentive earned less the then-current amount of the customer's estimated workers' compensation claims reserves as established by the Company's internal and third-party claims administrators, and the expected payout as determined by historical incentive payment trends. Safety incentive expense is netted against professional employer services revenue in our consolidated statements of operations.

Statements of cash flows

Interest paid during the six months ended June 30, 2014 and 2013 did not materially differ from interest expense. Income taxes paid by the Company during the six months ended June 30, 2014 and 2013 totaled \$1.3 million and \$5.9 million, respectively.

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

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

Reclassifications

Certain prior year amounts have been reclassified to conform with the 2014 presentation. Such reclassifications had no impact on the Company's financial condition, operating results, cash flows, working capital or stockholders' equity.

Accounting estimates

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

Note 2 - Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 *Revenue from Contracts with Customers*, which will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method or determined the effect of the standard on its ongoing financial reporting.

Note 3 - Revolving Credit Facility

The Company maintains a credit agreement (the "Agreement") with its principal bank, Wells Fargo Bank, National Association (the "Bank"). The Agreement, which expires October 1, 2017, provides for a revolving credit facility with a current borrowing capacity of up to \$16.5 million. The Company had no outstanding borrowings on its revolving credit facility at June 30, 2014 or at December 31, 2013. The Agreement also provides for the continuance of existing standby letters of credit in connection with various surety deposit requirements for workers' compensation purposes, as to which the amount outstanding totaled approximately \$27.6 million at June 30, 2014.

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

Note 3 - Revolving Credit Facility (Continued)

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

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

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

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

The Agreement also contains customary events of default. If an event of default under the Agreement occurs and is continuing, the Bank may declare any outstanding obligations under the Agreement to be immediately due and payable. The Company was in compliance with all applicable financial covenants at June 30, 2014.

Note 4 - Basic and Diluted Earnings Per Share

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Weighted average number of basic common shares				
Outstanding	7,173	7,082	7,171	7,052
Effect of dilutive securities	248	292	273	292
Weighted average number of diluted common shares outstanding	<u>7,421</u>	<u>7,374</u>	<u>7,444</u>	<u>7,344</u>

Note 5 - Workers' Compensation

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Beginning balance				
Workers' compensation claims liabilities	\$120,135	\$77,212	\$112,444	\$70,564
Add: claims expense accrual:				
Current period	17,548	14,752	33,899	27,429
Prior periods	1,303	4,234	5,104	7,686
Total expense accrual	<u>18,851</u>	<u>18,986</u>	<u>39,003</u>	<u>35,115</u>
Less: claim payments related to:				
Current period	2,739	2,448	3,138	2,874
Prior periods	13,741	9,207	25,803	18,262
Total paid	<u>16,480</u>	<u>11,655</u>	<u>28,941</u>	<u>21,136</u>
Ending balance				
Workers' compensation claims liabilities	<u>\$122,506</u>	<u>\$84,543</u>	<u>\$122,506</u>	<u>\$84,543</u>
Incurred but not reported (IBNR)	<u>\$ 29,871</u>	<u>\$56,434</u>	<u>\$ 29,871</u>	<u>\$56,434</u>

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

Note 6 - Fair Value Measurement

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

	June 30, 2014			December 31, 2013			Fair Value Category
	Cost	Gross Unrealized Losses	Recorded Basis	Cost	Gross Unrealized Losses	Recorded Basis	
Current:							
Available-for-sale:							
VRDN	22,000	0	22,000	10,000	0	10,000	2
Corporate bonds	10,045	(12)	10,033	9,800	(13)	9,787	2
	<u>\$32,045</u>	<u>\$ (12)</u>	<u>\$32,033</u>	<u>\$19,800</u>	<u>\$ (13)</u>	<u>\$19,787</u>	
Long term:							
Available-for-sale:							
Municipal bonds	\$ 4,404	\$ (29)	\$ 4,375	\$ 4,074	\$ (17)	\$ 4,057	2
Corporate bonds	6,285	(63)	6,222	1,879	(27)	1,852	2
	<u>\$10,689</u>	<u>\$ (92)</u>	<u>\$10,597</u>	<u>\$ 5,953</u>	<u>\$ (44)</u>	<u>\$ 5,909</u>	

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

	June 30, 2014			December 31, 2013			Fair Value Category
	Cost	Gross Unrealized Gains	Recorded Basis	Cost	Gross Unrealized Gains	Recorded Basis	
Available-for-sale:							
Money market funds held in trust	\$21,886	\$ 0	\$21,886	\$ 0	\$ 0	\$ 0	1
Municipal bonds	4,928	16	4,944	4,742	10	4,752	2
Corporate bonds	2,922	8	2,930	2,849	5	2,854	2
U.S. treasuries	4,267	0	4,267	2,787	0	2,787	1
	<u>\$34,003</u>	<u>\$ 24</u>	<u>\$34,027</u>	<u>\$10,378</u>	<u>\$ 15</u>	<u>\$10,393</u>	

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

Note 6 - Fair Value Measurement (Continued)

The Company's long-term restricted certificates of deposit are summarized as follows (in thousands):

	June 30, 2014			December 31, 2013			Fair Value Category
	Cost	Gross Unrealized Gains	Recorded Basis	Cost	Gross Unrealized Gains	Recorded Basis	
Restricted certificates of deposit	\$20,943	\$ 0	\$20,943	\$12,789	\$ 0	\$12,789	2

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

Overview

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

Business Strategy

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

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

Business Organization

We operate a decentralized delivery model using locally based teams, typically located within 50 miles of our client companies. We recruit senior level managers to oversee, develop and expand our business at the branch-office level. Additionally, we recruit professionals with expertise in human resources, risk management and workplace safety and various types of administration, including payroll, to field our client delivery teams. This structure fosters autonomous decision-making, allowing local teams of professionals to deliver plans that most closely align with the needs of each business owner client. It also assists us by incubating talent to support increased growth and capacity. We have clients with employees located in 22 states and the District of Columbia, through a network of 52 branch locations in California, Oregon, Washington, Idaho, Arizona, Nevada, Utah, Colorado, Maryland, Delaware and North Carolina. We also have several smaller recruiting locations in our general market areas, which are under the direction of a branch office.

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

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

Our Services

BBSI's core purpose is to advocate for business owners, particularly in the small-and mid-sized business segment. Our evolution from an entrepreneurially run company to a professionally managed organization has helped to form our view that all businesses experience inflection points at key stages of growth. The insights gained through our own growth, along with the trends we see in working with more than 3,000 companies each day, define our approach to guiding business owners through the challenges associated with being an employer.

BBSI's business teams align with each business owner client through a structured three-tiered progression. In doing so, business teams focus on the objectives of each business owner and deliver planning, guidance and resources in support of those objectives.

Tier 1: Tactical Alignment

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

Tier 2: Dynamic Relationship

The second stage of the relationship focuses on the development of the client's organization. There is a focus on process improvement, development of best practices, supervisor development and leadership training.

Tier 3: Strategic Counsel

With a focus on advocating for the business owner, activities in the third stage of the relationship are more strategic and forward-looking with a goal of cultivating an environment in which all efforts are directed by the mission and objectives of the business owner.

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

Results of Operations

The following table sets forth percentages of total revenues represented by selected items in the Company's Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2013.

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	Percentage of Total Revenue		Percentage of Total Revenue	
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Revenues:				
Professional employer service fees	74.5%	72.6%	74.8%	72.9%
Staffing services	25.5	27.4	25.2	27.1
Total revenues	100.0	100.0	100.0	100.0
Cost of revenues:				
Direct payroll costs	19.4	20.7	19.1	20.3
Payroll taxes and benefits	40.4	41.5	46.8	46.9
Workers' compensation	20.4	19.4	20.4	19.5
Total cost of revenues	80.2	81.6	86.3	86.7
Gross margin	19.8	18.4	13.7	13.3
Selling, general and administrative expenses	12.0	11.2	11.4	10.9
Depreciation and amortization	0.4	0.4	0.4	0.4
Income from operations	7.4	6.8	1.9	2.0
Other income	0.1	0.1	0.1	0.1
Income before income taxes	7.5	6.9	2.0	2.1
Provision for income taxes	2.7	2.3	0.7	0.7
Net income	4.8%	4.6%	1.3%	1.4%

We report professional employer services revenues on a net basis because we are not the primary obligor for the services provided by our co-employed clients to their customers pursuant to our client service agreements. The presentation of revenues on a net basis and the relative contributions of staffing and professional employer services revenues can create volatility in our gross margin percentage. The general impact of fluctuations in our revenue mix is described below.

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

Results of Operations (Continued)

- A relative increase in professional employer services revenue will generally increase our gross margin percentage. Improvement in gross margin percentage occurs because incremental client services revenue dollars are reported as revenue net of all related direct costs.
- A relative increase in staffing revenues will typically decrease our 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 co-employment relationships, an increase in staffing revenues and related costs presented at gross dilutes the impact of the net professional employer services revenue on gross margin percentage.

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 professional employer services on a basis comparable to our staffing services.

(in thousands)	Unaudited Three Months Ended June 30,		Unaudited Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Professional employer services	\$759,838	\$639,663	\$1,453,764	\$1,201,146
Staffing services	38,566	35,304	72,017	65,037
Total revenues	798,404	674,967	1,525,781	1,266,183
Cost of revenues:				
Direct payroll costs	672,078	568,799	1,285,398	1,067,538
Payroll taxes and benefits	61,130	53,483	133,947	112,606
Workers' compensation	35,344	28,959	67,278	54,002
Total cost of revenues	768,552	651,241	1,486,623	1,234,146
Gross margin	\$ 29,852	\$ 23,726	\$ 39,158	\$ 32,037

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

Results of Operations (Continued)

A reconciliation of non-GAAP gross professional employer services revenues to net professional employer services revenues is as follows:

(in thousands)	Unaudited Three Months Ended June 30,					
	Gross Revenue Reporting Method		Reclassification		Net Revenue Reporting Method	
	2014	2013	2014	2013	2014	2013
Revenues:						
Professional employer services	\$ 759,838	\$ 639,663	\$(647,335)	\$(546,169)	\$ 112,503	\$ 93,494
Staffing services	38,566	35,304	0	0	38,566	35,304
Total revenues	<u>\$ 798,404</u>	<u>\$ 674,967</u>	<u>\$(647,335)</u>	<u>\$(546,169)</u>	<u>\$ 151,069</u>	<u>\$ 128,798</u>
Cost of revenues	<u>\$ 768,552</u>	<u>\$ 651,241</u>	<u>\$(647,335)</u>	<u>\$(546,169)</u>	<u>\$ 121,217</u>	<u>\$ 105,072</u>

(in thousands)	Unaudited Six Months Ended June 30,					
	Gross Revenue Reporting Method		Reclassification		Net Revenue Reporting Method	
	2014	2013	2014	2013	2014	2013
Revenues:						
Professional employer services	\$1,453,764	\$1,201,146	\$(1,239,572)	\$(1,025,834)	\$214,192	\$175,312
Staffing services	72,017	65,037	0	0	72,017	65,037
Total revenues	<u>\$1,525,781</u>	<u>\$1,266,183</u>	<u>\$(1,239,572)</u>	<u>\$(1,025,834)</u>	<u>\$286,209</u>	<u>\$240,349</u>
Cost of revenues	<u>\$1,486,623</u>	<u>\$1,234,146</u>	<u>\$(1,239,572)</u>	<u>\$(1,025,834)</u>	<u>\$247,051</u>	<u>\$208,312</u>

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

Three months ended June 30, 2014 and 2013

Net income for the second quarter of 2014 amounted to \$7.3 million, as compared to a net income of \$5.9 million for the second quarter of 2013. Diluted income per share for the second quarter of 2014 was \$0.98 compared to diluted income per share of \$0.80 for the comparable 2013 period.

Revenues for the second quarter of 2014 totaled \$151.1 million, an increase of approximately \$22.3 million or 17.3% over the second quarter of 2013, which reflects an increase in the Company’s professional employer service fee revenue of \$19.0 million or 20.3%, coupled with an increase in staffing services revenue of \$3.3 million or 9.2%.

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

Results of Operations (Continued)

Three months ended June 30, 2014 and 2013 (Continued)

Approximately 76% and 73%, respectively, of our revenue during the three months ended June 30, 2014 and 2013 was attributable to our California operations.

Our growth in professional employer service revenues continues to be primarily attributable to new customers, resulting from continued strength in our referral channels as business from new customers during the second quarter of 2014 nearly doubled our lost business from former customers. Professional employer service revenues from continuing customers reflected a 9.2% increase compared to the second quarter of 2013, primarily resulting from increases in employee headcount and hours worked. The increase in staffing revenues was due primarily to an increase in revenue from the addition of new business, partially offset by lost business from former customers.

Gross margin for the second quarter of 2014 totaled approximately \$29.9 million or an increase of 25.8% over the second quarter of 2013, primarily due to the 17.3% increase in revenues and a decline in direct payroll cost and payroll taxes and benefits, as a percentage of revenues, partially offset by higher workers' compensation expense, as a percentage of revenues.

The decrease in direct payroll costs, as a percentage of revenues, from 20.7% for the second quarter of 2013 to 19.4% for the second quarter of 2014 was primarily due to the increase in our mix of professional employer services in the Company's customer base compared to the second quarter of 2013 and the effect of each customer's unique mark-up percent.

Payroll taxes and benefits, as a percentage of revenues, for the second quarter of 2014 was 40.4% compared to 41.5% for the second quarter of 2013. The percentage rate decrease was primarily due to optimizing the use of prior wages applied against the state statutory unemployment taxable wage basis as new PEO customers are brought on board and to a slight rise in the overall average wage rates which allowed the tax ceilings to be reached sooner in the year 2014 as compared to 2013.

Workers' compensation expense, in terms of dollars and as a percentage of revenues, increased from \$25.0 million or 19.4% in the second quarter of 2013 to \$30.8 million or 20.4% in the second quarter of 2014. The percentage rate increase was primarily due to an increase in the provision for claim costs related to current year claims. Our total provision for current year claims of \$17.5 million was based on the loss rate as a percentage of payroll calculated by our independent actuary at December 31, 2013. We also accrued \$1.3 million in additional expense during the quarter related to prior year claims.

In September 2012, California Senate Bill 863 ("SB 863") was signed into law. Under SB 863, the California Director of Self-Insurance was ordered not to issue certificates of consent to self-insure after January 1, 2013 to any employer engaged in the activities of a professional employer organization, a leasing employer, a temporary services employer or any employer the Director determines to be in the business of providing employees to other employers.

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

Results of Operations (Continued)

Three months ended June 30, 2014 and 2013 (Continued)

Additionally, the Director is required to revoke any previously issued certificate of consent to self-insure in favor of any employer engaged in these types of activities not later than January 1, 2015. To address this issue, BBSI entered into an arrangement typically known as a “fronted” program with ACE Group (“ACE”) in February 2014. Under this arrangement, the risk of loss up to the first \$5.0 million per claim will be retained by BBSI through an indemnity agreement, although ACE will be responsible for any claims BBSI is unable to satisfy. In addition, ACE continues to be BBSI’s carrier for costs in excess of \$5.0 million per claim. During the first quarter of 2014, we began the transition to the ACE program so that by December 31, 2014, all of our employees working in California will be covered by this new arrangement. We expect to incur increased costs during this transition that will likely continue following implementation of the fronted insurance program.

As described in more detail in our Annual Report on Form 10-K for the year ended December 31, 2013, we maintain reserves (recorded as accrued liabilities on our balance sheet) to cover our estimated liabilities for our self-insured workers’ compensation claims. The adequacy of reserves can be affected by both internal and external events, including adverse development on existing claims, changes in medical, administrative and legal costs, and legislative or systemic changes. We have undertaken a number of steps during the past two years to improve our workers’ compensation claims administration and reserving practices. These steps include hiring additional claim administrators in response to our business growth, and working to close litigated claims more quickly. In order to further refine our reserving practices, the Company has engaged an additional actuarial firm to assist management in gaining an enhanced understanding of actuarial valuation in light of the Company’s specific workers’ compensation claims experience.

Selling, general and administrative (“SG&A”) expenses for the second quarter of 2014 totaled approximately \$18.0 million, an increase of \$3.5 million or 23.9% over the second quarter of 2013. The increase was primarily attributable to increases in management payroll, increased information technology (“IT”) expenses and other variable expense components within SG&A to support our business growth. The increased IT expenses relate to projects designed to enhance access and delivery of information to the field as well as improve efficiencies over time.

The income tax rate for the 2014 second quarter was 36.0% compared to the 2013 second quarter rate of 33.4%. We expect the effective income tax rate for the balance of 2014 to remain at a similar rate to the 2014 second quarter income tax rate.

Six months ended June 30, 2014 and 2013

Net income for the six months ended June 30, 2014 amounted to \$3.7 million, as compared to a net income of \$3.3 million for the first six months of 2013. Diluted income per share for the first six months of 2014 was \$0.50 compared to diluted income per share of \$0.45 for the comparable 2013 period.

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

Results of Operations (Continued)

Six months ended June 30, 2014 and 2013 (Continued)

Revenues for the six months ended June 30, 2014 totaled \$286.2 million, an increase of approximately \$45.9 million or 19.1% over the comparable period in 2013, which reflects an increase in the Company's professional employer service fee revenue of \$38.9 million or 22.2%, coupled with an increase in staffing services revenue of \$7.0 million or 10.7%. Approximately 77% and 74% respectively, of our revenue during the six months ended June 30, 2014 and 2013 was attributable to our California operations.

Our growth in professional employer service revenues continues to be primarily attributable to new customers, resulting from continued strength in our referral channels as business from new customers during the first six months of 2014 nearly doubled our lost business from former customers. Professional employer service revenues from continuing customers reflected a 9.1% increase compared to the first six months of 2013, primarily resulting from increases in employee headcount and hours worked. The increase in staffing revenues was due primarily to an increase in revenue from the addition of new business, partially offset by lost business from former customers.

Gross margin for the six months ended June 30, 2014 totaled approximately \$39.2 million or an increase of 22.2% over the comparable period of 2013, primarily due to the 19.1% increase in revenues and a decline in direct payroll costs, as a percentage of revenues, partially offset by higher workers' compensation expense, as a percentage of revenues.

The decrease in direct payroll costs, as a percentage of revenues, from 20.3% for the first six months of 2013 to 19.1% for the first six months of 2014 was primarily due to the increase in our mix of professional employer services in the Company's customer base compared to the same period of 2013 and the effect of each customer's unique mark-up percent.

Payroll taxes and benefits, as a percentage of revenues, for the first six months of 2014 was 46.8% compared to 46.9% for the comparable period of 2013.

Workers' compensation expense, in terms of dollars and as a percentage of revenues, increased from \$46.8 million or 19.5% in the first six months of 2013 to \$58.4 million or 20.4% in the first six months of 2014. The percentage rate increase was primarily due to an increase in the provision for claim costs related to current year claims. Our total provision for current year claims of \$33.9 million was based on the loss rate as a percentage of payroll calculated by our independent actuary at December 31, 2013. We also accrued \$5.1 million in additional expense during the first six months of 2014 related to prior year claims.

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

Results of Operations (Continued)

Six months ended June 30, 2014 and 2013 (Continued)

Selling, general and administrative ("SG&A") expenses for the first six months of 2014 totaled approximately \$32.3 million, an increase of \$6.0 million or 22.9% over the first six months of 2013. The increase was primarily attributable to increases in management payroll, IT expenses and other variable expense components within SG&A to support our business growth.

The income tax rate for the first six months of 2014 was 36.5% compared to the income tax rate for the first six months of 2013 of 32.8%.

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 for the Company's services, competition, 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 co-employed clients in the agriculture, food processing and construction-related industries. As a result, the Company may have greater revenues and net income in the third quarter of its fiscal year. Revenue levels in the fourth quarter may be affected by many customers' practice of operating on holiday-shortened schedules. Payroll taxes and benefits fluctuate with the level of direct payroll costs, but tend to represent a smaller percentage of revenues and direct payroll later in the Company's fiscal year as federal and state statutory wage limits for unemployment and Social Security taxes are exceeded on a per employee basis. Workers' compensation expense varies with both the frequency and severity of workplace injury claims reported during a quarter and the estimated future costs of such claims. Adverse loss development of prior period claims during a subsequent quarter may also contribute to volatility in the Company's estimated workers' compensation expense.

Liquidity and Capital Resources

The Company's cash position for the six months ended June 30, 2014 decreased \$45.7 million from December 31, 2013, which compares to a decrease of \$36.9 million for the comparable period in 2013. The decrease in cash at June 30, 2014 as compared to December 31, 2013, was primarily due to the purchase of restricted marketable securities and restricted certificates of deposit of \$35.7 million, the purchase of marketable securities of \$24.0 million, and an increase in trade accounts receivable of \$18.4 million, partially offset by net income of \$3.7 million, a \$13.2 million increase in accrued payroll and payroll taxes, and a \$10.1 million increase in workers' compensation claims liabilities.

Net cash provided by operating activities for the six months ended June 30, 2014 amounted to \$8.7 million compared to \$17.4 million for the comparable 2013 period. For the six months ended June 30, 2014, cash flow was principally provided by a net income of \$3.7 million, increases in accrued payroll, payroll taxes and benefits of \$13.2 million and a \$10.1 million increase in workers' compensation claims liabilities, partially offset by an increase in trade accounts receivable of \$18.4 million.

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

Liquidity and Capital Resources (Continued)

Net cash used in investing activities for the six months ended June 30, 2014 was \$51.0 million as compared to \$50.2 million of net cash used by investing activities for the comparable 2013 period. For the 2014 period, cash from investing activities was used primarily to purchase restricted marketable securities and restricted certificates of deposit of \$35.7 million and to purchase marketable securities of \$24.0 million, partially offset by the sale and maturities of marketable securities of \$7.0 million and from the maturities of restricted marketable securities of \$4.0 million.

Net cash used in financing activities for the six months ended June 30, 2014 was \$3.3 million as compared to \$4.1 million used in financing activities for the comparable 2013 period. For the 2014 period, the primary use of cash for financing activities was the payment of regular quarterly cash dividends totaling \$2.6 million to holders of the Company's common stock and the repurchase of common stock totaling \$1.0 million.

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

As disclosed in Note 3 to the Consolidated Financial Statements in this report, the Company maintains a credit agreement (the "Agreement") with its principal bank, Wells Fargo Bank, National Association (the "Bank"). The Agreement, which expires October 1, 2017, provides for a revolving credit facility with a current borrowing capacity of up to \$16.5 million. The Company had no outstanding borrowings on the revolving credit facility as of June 30, 2014 or at December 31, 2013. The Agreement also provides for the continuance of existing standby letters of credit in connection with various surety deposit requirements for workers' compensation purposes, as to which the amount outstanding totaled approximately \$27.6 million as of June 30, 2014.

The states of California, Oregon, Maryland, Washington, Delaware and Colorado require us to maintain specified investment balances or other financial instruments, totaling \$115.1 million at June 30, 2014, to cover potential workers' compensation claims losses relating to the Company's status as a self-insured employer. In partial satisfaction of these requirements, at June 30, 2014, we have provided surety bonds and standby letters of credit totaling \$111.5 million. The State of California requires the Company to maintain a surety deposit of \$104.7 million (which is included in the total of \$111.5 million of surety bonds and standby letters of credit), which the Company satisfied through the posting of third party issued surety bonds, backed by a \$20.9 million letter of credit. In conjunction with this letter of credit, the Company posted \$20.9 million of certificates of deposit with Wells Fargo as collateral. The \$20.9 million letter of credit is included in the total \$27.6 million of standby letters of credit with Wells Fargo.

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

Liquidity and Capital Resources (Continued)

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

The credit facility is collateralized by the Company's accounts receivable and other rights to receive payment, general intangibles, inventory and equipment. Under the Agreement, the maximum principal amount available is reduced by \$2.5 million every six months commencing April 1, 2013. The maximum principal amount available at June 30, 2014 was \$16.5 million.

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

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

The Agreement also contains customary events of default. If an event of default under the Agreement occurs and is continuing, the Bank may declare any outstanding obligations under the Agreement to be immediately due and payable. The Company was in compliance with all applicable financial covenants at June 30, 2014.

Management expects that the funds anticipated to be generated from operations and availability under its revolving credit facility will be sufficient in the aggregate to fund the Company's working capital needs for the next twelve months.

Inflation

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

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

Forward-Looking Information

Statements in this report which are not historical in nature, including discussion of economic conditions in the Company's market areas and effect on revenue levels, the potential for and effect of acquisitions, the effect of changes in the Company's mix of services on gross margin, the adequacy of the Company's workers' compensation reserves and the effect of changes in estimate of its claims liabilities, the adequacy of the Company's allowance for doubtful accounts, the effect of the Company's formation and operation of two wholly owned, fully licensed captive insurance subsidiaries and becoming self-insured for certain business risks, the operation and cost of the Company's fronted insurance program with ACE in California, the financial viability of the Company's excess insurance carriers, the effectiveness of the Company's management information systems, payment of future dividends, and the availability of working capital to meet the Company's funding requirements, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors with respect to the Company include the ability to retain current clients and attract new clients, difficulties associated with integrating acquired businesses and clients into the Company's operations, economic trends in the Company's service areas, material deviations from expected future workers' compensation claims experience, the effect of changes in the workers' compensation regulatory environment in one or more of the Company's primary markets, collectability 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 effect of conditions in the global capital markets on the Company's investment portfolio, and the availability of capital or letters of credit necessary to meet state-mandated surety deposit requirements for maintaining the Company's status as a qualified self-insured employer for workers' compensation coverage or its fronted insurance program, 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.

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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 and its outstanding borrowings on its line of credit and long-term debt. As of June 30, 2014, the Company's investment portfolio consisted principally of approximately \$22.0 million in VRDN, \$21.9 million in money market funds held in trust, \$20.9 million in restricted certificates of deposit, \$19.2 million in corporate bonds, \$9.3 million in municipal bonds and \$4.3 million in U.S. treasuries. The Company's outstanding long-term debt totaled approximately \$5.2 million at June 30, 2014. Based on the Company's overall interest exposure at June 30, 2014, 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, its outstanding borrowings or its results of operations because of the predominantly short maturities of the securities within the investment portfolio and the relative size of the outstanding borrowings.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of June 30, 2014, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on the evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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Part II – Other Information

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our 2013 Annual Report on Form 10-K.

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

The following table summarizes information related to stock repurchases during the quarter ended June 30, 2014.

<u>Month</u>	<u>Total Number of Shares Repurchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Repurchased as Part of Publicly Announced Plan (1)</u>	<u>Maximum Number of Shares that May Yet Be Repurchased Under the Plan (1)</u>
April	0	\$ 0	0	1,208,213
May	0	0	0	1,208,213
June	19,900	49.82	1,811,687	1,188,313
Total	<u>19,900</u>		<u>1,811,687</u>	

- (1) 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.

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.

BARRETT BUSINESS SERVICES, INC.
(Registrant)

Date: August 8, 2014

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

EXHIBIT INDEX

Exhibit

4.1	Second Amendment to Restated Credit Agreement dated as of December 18, 2013, between the Registrant and Wells Fargo Bank, National Association (“Wells Fargo”).
4.2	Third Amendment to Restated Credit Agreement dated as of May 16, 2014, between the Registrant and Wells Fargo.
4.3	First Amendment to Security Agreement Specific Rights to Payment dated as of December 18, 2013, between the Registrant and Wells Fargo.
4.4	Second Amendment to Security Agreement Specific Rights to Payment dated as of May 16, 2014, between the Registrant and Wells Fargo.
31.1	Certification of the Chief Executive Officer under Rule 13a-14(a).
31.2	Certification of the Chief Financial Officer under Rule 13a-14(a).
32	Certification pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SECOND AMENDMENT TO RESTATED CREDIT AGREEMENT

THIS SECOND AMENDMENT TO RESTATED CREDIT AGREEMENT (this "Amendment") is entered into as of December 18, 2013, by and between BARRETT BUSINESS SERVICES, INC., a Maryland corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Restated Credit Agreement between Borrower and Bank dated as of November 1, 2012, as amended from time to time ("Credit Agreement").

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

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

1. Section 1.3 of the Credit Agreement (captioned "STANDBY LETTERS OF CREDIT") is hereby deleted in its entirety, and the following substituted therefor:

"SECTION 1.3. STANDBY LETTERS OF CREDIT.

(a) Standby Letters of Credit.

(i) Existing Standby Letters of Credit. Bank has issued or caused an affiliate to issue the following standby letters of credit (each an "Existing Standby Letter of Credit" and, collectively, the "Existing Standby Letters of Credit") for the account of Borrower, each of which was issued pursuant to the terms of that certain Standby Letter of Credit Agreement (Credit Agreement/Loan Agreement Version) between Bank and Borrower dated September 18, 2012 (as may be amended from time to time, the "Standby Letter of Credit Agreement"), and is outstanding as of the date hereof: (A) Standby Letter of Credit No. NZS401574 up to the aggregate amount of One Million Six Hundred Fifty Thousand Dollars (\$1,650,000.00) dated June 21, 2001, as amended from time to time; (B) Standby Letter of Credit No. NZS504587 in the amount of Five Million Dollars (\$5,000,000.00) dated December 8, 2003, as amended from time to time; and (C) Standby Letter of Credit No. NZS568994 in the amount of Ten Thousand Dollars (\$10,000.00) dated April 11, 2006.

(ii) New Standby Letters of Credit. Subject to the terms of this Agreement, Bank hereby agrees to issue

or cause an affiliate to issue the following standby letters of credit (each a "New Standby Letter of Credit" and, collectively, the "New Standby Letters of Credit"), [each dated as of December 18, 2013], and each of which shall be issued pursuant to the terms of the Standby Letter of Credit Agreement: (A) a Standby Letter of Credit up to the aggregate amount of Five Million Dollars (\$5,000,000.00), for the benefit of Argonaut Insurance Co.; (B) a Standby Letter of Credit in the amount of Five Million Dollars (\$5,000,000.00), for the benefit of Atlantic Specialty Insurance Company; and (C) a Standby Letter of Credit in the amount of Two Million Seven Hundred Eighty-Eight Thousand Seven Hundred Sixty-Six and 40/100 Dollars (\$2,788,766.40) for the benefit of Westchester Fire Insurance Company, each to be for the account of Borrower and for the benefit of Borrower to secure a portion of Borrower's obligations to issuers of surety bonds issued to the State of California Self Insurance Plans. The form and substance of the New Standby Letters of Credit shall be subject to approval by Bank, in its sole discretion.

(iii) Additional Terms. Each Standby Letter of Credit shall be and remain subject to the additional terms of the Standby Letter of Credit Agreement, applications and any related documents required by Bank in connection with the issuance (and any renewal) thereof. Notwithstanding the provision of any Standby Letter of Credit regarding automatic extension of its expiration date, Bank may, at its sole option, give notice to the beneficiary thereof in accordance with the terms of such Standby Letter of Credit that Bank has elected not to renew such Standby Letter of Credit beyond its current expiration date (or any other subsequent expiration date that may be agreed to by Bank at Bank's sole discretion). If Borrower does not at any time want any Standby Letter of Credit to be renewed, Borrower will so notify Bank at least fifteen (15) calendar days before Bank is to notify the beneficiary thereof of such nonrenewal pursuant to the terms of such Standby Letter of Credit. Subject to the terms and conditions of this Agreement and the Standby Letter of Credit Agreement, Bank hereby confirms that the Standby Letters of Credit remain in full force and effect. As used herein, "Standby Letter of Credit" means, individually, the New Standby Letters of Credit and the Existing Standby Letters of Credit, and "Standby Letters of Credit" means, collectively, the New Standby Letters of Credit and the Existing Standby Letters of Credit.

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

2. Section 1.6 of the Credit Agreement (captioned "COLLATERAL") is hereby deleted in its entirety, and the following substituted therefor:

"SECTION 1.6. COLLATERAL.

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

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

As security for all indebtedness and other obligations of Borrower to Bank under the New Standby Letters of Credit, Borrower shall cause Associated Insurance Company for Excess, an Arizona corporation ("AICE"), to grant to Bank security interests of first priority in deposit account number 5259896099 (the "AICE Deposit Account").

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

3. The obligation of Bank to amend the terms and conditions of the Credit Agreement as provided herein is subject to the fulfillment to Bank's satisfaction of all of the following conditions by no later than December 20, 2013:

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

- (i) This Amendment;
- (ii) Third Party Security Agreement: Specific Rights to Payment (AICE); and
- (iii) Such other documents as Bank may require under or in connection with any other section of this Amendment.

(b) Deposit Account Funds. Borrower shall have caused AICE to deposit into the AICE Deposit Account, in immediately available funds, cash in an amount equal to Twelve Million Seven Hundred Eighty-Eight Thousand Seven Hundred Sixty-Six and 40/100 Dollars (\$12,788,766.40) as a time deposit for a period not less than three (3) months following the effective date of the New Standby Letters of Credit.

(c) Confirmation of Regulatory Authority. Bank shall have received confirmation, in form and substance satisfactory to Bank in its sole discretion, that the transactions contemplated in this Amendment (including AICE's pledge of collateral) either (i) do not require approval from the Department of Insurance of the State of Arizona, or (ii) if such approval is required, such approval has been obtained.

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

4. Borrower covenants and agrees that for so long as any one or more of the New Standby Letters of Credit remains outstanding: (a) Borrower shall maintain in full force and effect, and pay all premiums with respect to, all policies of insurance with AICE outstanding as of the date hereof with respect to the satisfaction of Borrower's worker's compensation obligations under the laws of the State of California (the "AICE Policies"); (b) Borrower shall not terminate or cancel any of the AICE Policies without Bank's prior written consent; and (c) in the event any of the AICE Policies are terminated or cancelled for any reason, Borrower shall promptly cause all premiums refunded therefrom to be deposited into the Borrower Deposit Account.

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

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

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

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

BARRETT BUSINESS SERVICES, INC.

WELLS FARGO BANK, NATIONAL ASSOCIATION

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

By: _____
Name: Julie R. Wilson
Title: Vice President

THIRD AMENDMENT TO RESTATED CREDIT AGREEMENT

THIS THIRD AMENDMENT TO RESTATED CREDIT AGREEMENT (this "Amendment") is entered into as of May 16, 2014, by and between BARRETT BUSINESS SERVICES, INC., a Maryland corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Restated Credit Agreement between Borrower and Bank dated as of November 1, 2012, as amended from time to time ("Credit Agreement").

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

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

1. Section 1.3 of the Credit Agreement (captioned "STANDBY LETTERS OF CREDIT") is hereby deleted in its entirety, and the following substituted therefor:

"SECTION 1.3. STANDBY LETTERS OF CREDIT.

(a) Standby Letters of Credit.

(i) Existing Standby Letters of Credit Bank has issued or caused an affiliate to issue the following standby letters of credit (each a "Standby Letter of Credit" and,

collectively, the "Standby Letters of Credit") for the account of Borrower, each of which was issued pursuant to the terms of that certain Standby Letter of Credit Agreement (Credit Agreement/Loan Agreement Version) between Bank and Borrower dated September 18, 2012 (as may be amended from time to time, the "Standby Letter of Credit Agreement"), and is outstanding as of the date hereof: (A) Standby Letter of Credit No. NZS401574 up to the aggregate amount of One Million Six Hundred Fifty Thousand Dollars (\$1,650,000.00) dated June 21, 2001, as amended from time to time; (B) Standby Letter of Credit No. NZS504587 in the amount of Five Million Dollars (\$5,000,000.00) dated December 8, 2003, as amended from time to time; (C) Standby Letter of Credit No. NZS568994 in the amount of Ten Thousand Dollars (\$10,000.00) dated April 11, 2006, as amended from time to time; (D) Standby Letter of Credit No. IS0133605U up to the aggregate amount of Five Million Dollars (\$5,000,000.00), for the benefit of Argonaut Insurance Co. dated December 19, 2013, as amended from time to time; (E) Standby Letter of Credit No. IS0133585U in the amount of Five Million Dollars (\$5,000,000.00), for the benefit of Atlantic Specialty Insurance Company dated December 19, 2013, as amended from time to time; and (F) Standby Letter of Credit No. IS0133565U in the amount of Two Million Seven Hundred Eighty-Eight Thousand Seven Hundred Sixty-Six and 40/100 Dollars (\$2,788,766.40) for the benefit of Westchester Fire Insurance Company dated December 19, 2013 (the "Existing Westchester SLOC"), as amended from time to time. For purposes of this Agreement, "Insurance Standby Letters of Credit" means the Standby Letters of Credit described in clauses (D), (E) and (F) in the preceding sentence.

(ii) Amended Standby Letter of Credit. Subject to the terms of this Agreement, Bank hereby agrees to amend or cause an affiliate to amend the Existing Westchester SLOC, for the benefit of Borrower to secure a portion of Borrower's obligations to issuers of surety bonds issued to the State of California Self Insurance Plans, to increase the principal amount therefor from Two Million Seven Hundred Eighty-Eight Thousand Seven Hundred Sixty-Six and 40/100 Dollars (\$2,788,766.40) to Ten Million Nine Hundred Forty-Three

Thousand Four Hundred Sixty-Six and 20/100 Dollars (\$10,943,466.20) (the "Amended Westchester SLOC"). The form and substance of the Amended Westchester SLOC shall be subject to approval by Bank, in its sole discretion.

(iii) Additional Terms. Each Standby Letter of Credit (including the Amended Westchester SLOC) shall be and remains subject to the additional terms of the Standby Letter of Credit Agreement, applications and any related documents required by Bank in connection with the issuance (and any renewal) thereof. Notwithstanding the provision of any Standby Letter of Credit regarding automatic extension of its expiration date, Bank may, at its sole option, give notice to the beneficiary thereof in accordance with the terms of such Standby Letter of Credit that Bank has elected not to renew such Standby Letter of Credit beyond its current expiration date (or any other subsequent expiration date that may be agreed to by Bank at Bank's sole discretion). If Borrower does not at any time want any Standby Letter of Credit to be renewed, Borrower will so notify Bank at least fifteen (15) calendar days before Bank is to notify the beneficiary thereof of such nonrenewal pursuant to the terms of such Standby Letter of Credit. Subject to the terms and conditions of this Agreement and the Standby Letter of Credit Agreement, Bank hereby confirms that the Standby Letters of Credit remain in full force and effect.

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

2. Section 1.6 of the Credit Agreement (captioned "COLLATERAL") is hereby deleted in its entirety, and the following substituted therefor:

"SECTION 1.6. COLLATERAL.

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

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

As security for all indebtedness and other obligations of Borrower to Bank under the Insurance Standby Letters of Credit (including the Amended Westchester SLOC), Borrower shall cause Associated Insurance Company for Excess, an Arizona corporation ("AICE"), to grant to Bank security interests of first priority in (i) deposit account number 5259896099 ("AICE Deposit Account No. 1"), and (ii) deposit account number 6943748548 ("AICE Deposit Account No. 2").

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

3. The obligation of Bank to amend the terms and conditions of the Credit Agreement as provided herein is subject to the fulfillment to Bank's satisfaction of all of the following conditions by no later than May 30, 2014:

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

- (i) This Amendment;
- (ii) Amended and Restated Third Party Security Agreement: Specific Rights to Payment; and
- (iii) Such other documents as Bank may require under or in connection with any other section of this Amendment.

(b) Deposit Account Funds. Borrower shall have caused AICE to deposit into AICE Deposit Account No. 2, in immediately available funds, cash in an amount equal to Eight Million One Hundred Fifty-Four Thousand Six Hundred Ninety-Nine and 80/100 Dollars (\$8,154,699.80) as a time deposit for a period not less than three (3) months following the effective date of the Amended Westchester SLOC.

(c) Confirmation of Regulatory Authority. Bank shall have received confirmation, in form and substance satisfactory to Bank in its sole discretion, that the transactions contemplated in this Amendment (including AICE's pledge of additional collateral securing the Amended Westchester SLOC) either (i) do not require approval from the Department of Insurance of the State of Arizona, or (ii) if such approval is required, such approval has been obtained.

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

4. Borrower covenants and agrees that for so long as any one or more of the Insurance Standby Letters of Credit remains outstanding: (a) Borrower shall maintain in full force and effect, and pay all premiums with respect to, all policies of insurance with AICE outstanding as of the date hereof with respect to the satisfaction of Borrower's worker's compensation obligations under the laws of the State of California (the "AICE Policies"); (b) Borrower shall not terminate or cancel any of the AICE Policies without Bank's prior written consent; (c) in the event any of the AICE Policies are terminated or cancelled for any reason, Borrower shall promptly cause all premiums refunded therefrom to be

deposited into a deposit account with Bank, in which Borrower shall (i) grant to Bank a security interest of first priority and Bank shall have perfected its security interest therein, and (ii) maintain in such deposit account funds in an amount sufficient to satisfy all obligations of Borrower to Bank with respect to the Insurance Standby Letters of Credit; and (d) Borrower shall promptly file, or shall cause AICE to promptly file, upon consummation of the transactions contemplated in this Amendment, a change in business plan for the purpose of granting to Bank a security interest of first priority in AICE Deposit Account No. 2 with the Department of Insurance of the State of Arizona.

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

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

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

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

BARRETT BUSINESS SERVICES, INC.

WELLS FARGO BANK, NATIONAL ASSOCIATION

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

By: _____
Name: Julie R. Wilson
Title: Vice President

THIRD PARTY SECURITY AGREEMENT:
SPECIFIC RIGHTS TO PAYMENT

THIS THIRD PARTY SECURITY AGREEMENT: SPECIFIC RIGHTS TO PAYMENT ("Agreement") is entered into as of December 18, 2013, by and between ASSOCIATED INSURANCE COMPANY FOR EXCESS, an Arizona corporation ("Owner"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

Recitals

- A. Barrett Business Services, Inc., a Maryland corporation ("Borrower"), is currently indebted to Bank pursuant to the terms and conditions of that certain Restated Credit Agreement dated November 1, 2012, as amended from time to time (the "Credit Agreement").
- B. Borrower is a self-insured employer under the laws of the State of California and, as such, is obligated under California law to provide security to the Self Insurance Plans of the State of California (the "Self Insurance Plans") for Borrower's obligations with respect to payment of workers' compensation claims of Borrower's employees under California law (the "WC Payment Obligations").
- C. Owner is a wholly-owned subsidiary of Borrower and a captive insurance company duly licensed by the Department of Insurance of the State of Arizona.
- D. In exchange for premium payments, Borrower has obtained from Owner one or more policies of insurance under which Owner has agreed to satisfy the WC Payment Obligations on the terms and conditions set forth therein, as may be amended from time to time (the "Insurance Policies").
- E. By letter dated May 9, 2013 (the "Notification Letter") from the State of California Department of Industrial Relations, Office of Self Insurance Plans (the "Office of Self Insurance Plans"), the Office of Self Insurance Plans is requiring that Borrower provide a security deposit in the amount of Sixty-Three Million Nine Hundred Forty-Three Thousand Eight Hundred Thirty-Two and 00/100 Dollars (\$63,943,832.00) to secure its WC Payment Obligations (the "Security Deposit").
- F. In the event Borrower fails to provide the Security Deposit, Borrower will no longer qualify as a self-insured employer and, as a result thereof, Owner will, among other things, experience a material adverse decline in revenue, business, operations and prospects.
- G. Under the Insurance Policies, Owner has legal obligations to Borrower to satisfy the WC Payment Obligations, which constitute antecedent obligations of Owner to Borrower within the meaning of the Uniform Fraudulent Transfers Act.
- H. Any drawings on the Security Deposit by the Self Insurance Plans will result in a dollar for dollar reduction in obligations that would otherwise be payable by Owner to or for the benefit of Borrower for the purpose of satisfying the WC Payment Obligations.
- I. By letter dated May 16, 2013 from Beecher Carlson (the "Request Letter"), as managers of Owner, Owner requested that the Department of Insurance of the State of Arizona approve a change its business plan for the purpose of granting to Bank a security interest of first priority in the certain assets held, or to be held, in a deposit account maintained by Bank (the "Business Plan Change").

J. By letter dated May 24, 2013 (the "Approval Letter"), the Department of Insurance of the State of Arizona ("Arizona Department") approved the Business Plan Change, which approval remains in full force and effect and has not been modified, rescinded or withdrawn.

K. Subject to the terms and conditions of this Agreement and the other Loan Documents to which Borrower and Owner are a party, and in reliance upon the facts set forth in the foregoing recitals, effective as of June 14, 2013, Bank issued to the Office of Self Insurance Plans a letter of credit in the amount of the Security Deposit for the benefit of Borrower and Owner (the "Prior Letter of Credit").

L. Effective October 30, 2013, Borrower caused the following three surety bonds (each a "Surety Bond" and, collectively, the "Surety Bonds") to be issued for the account of Borrower to secure Borrower's obligations for the benefit of Borrower and Owner to the Office of Self Insurance Plans in an aggregate amount equal to the Security Deposit: (i) Surety Bond No. SUR0025266 in the penal sum of Twenty-Five Million and No/100 Dollars (\$25,000,000.00), issued by Argonaut Insurance Company, as surety ("Argonaut"), (ii) Surety Bond No. 800001601 in the penal sum of Twenty-Five Million and No/100 Dollars (\$25,000,000.00), issued by Atlantic Specialty Insurance Company, as surety ("Atlantic"), and (iii) Surety Bond No. K0861765A in the penal sum of Thirteen Million Nine Hundred Forty-Three Thousand Eight Hundred Thirty-Two and No/100 Dollars (\$13,943,832.00), issued by Westchester Fire Insurance Company, as surety ("Westchester").

M. By letter dated November 5, 2013, the Office of Self Insurance Plans acknowledged receipt of the Surety Bonds as a substitute Security Deposit and released the Prior Letter of Credit (the "Release Transactions"), after which the Prior Letter of Credit was terminated and is no longer outstanding.

N. Subject to the terms and conditions of this Agreement and the other Loan Documents to which Borrower and Owner are a party, and in reliance on the facts set forth in the foregoing recitals, the Bank is willing to issue to the issuers of the Surety Bonds, as collateral to secure in part the Surety Bonds, three new letters of credit as follows (each a "New Letter of Credit" and, collectively, the "New Letters of Credit"): (i) to Argonaut, a standby letter of credit in the amount of Five Million and No/100 Dollars (\$5,000,000.00), (ii) to Atlantic, a standby letter of credit in the amount of Five Million and No/100 Dollars (\$5,000,000.00), and (iii) to Westchester, a standby letter of credit in the amount of Two Million Seven Hundred Eighty-Eight Thousand Seven Hundred Sixty-Six and 40/100 Dollars (\$2,788,766.40).

O. Legal counsel for Owner has obtained assurances from the principal captives examiner at the Arizona Department that, upon written notification from Owner of a further Business Plan Change regarding the Release Transactions, the issuance of the New Letters of Credit and the grant of security interests and other transactions contemplated by this Agreement, the Arizona Department will [approve the further Business Plan Change.

P. Owner materially benefits, both directly and indirectly, from Bank's issuance of the New Letters of Credit.

Q. As of the date hereof, Owner is solvent and, following the consummation of the transactions contemplated herein, will continue to be solvent.

NOW, THEREFORE, in consideration of the foregoing recitals and for other good and valuable consideration, the receipt and sufficiency of which the parties hereby acknowledge, the parties agree as follows:

1. GRANT OF SECURITY INTEREST. As security for the payment of all Indebtedness of Borrower to Bank arising under or in connection with the New Letters of Credit in the aggregate amount of Twelve Million Seven Hundred Eighty-Eight Thousand Seven Hundred Sixty-Six and 40/100 Dollars (\$12,788,766.40) and all extensions, renewals or modifications thereof, and restatements or substitutions therefor issued pursuant to the terms of that certain Standby Letter of Credit Agreement (Credit Agreement/Loan Agreement Version) between Borrower and Bank, dated as of September 18, 2012, as may be amended from time to time (the "Letter of Credit Agreement"), Owner hereby grants and transfers to Bank a security interest in the following accounts, deposit accounts, chattel paper (whether electronic or tangible), instruments, promissory notes, documents, general intangibles, payment intangibles, software, letter of credit rights, health-care insurance receivables and other rights to payment (collectively called "Collateral"):

Deposit account number 5259896099 at Bank (whether held in Borrower's name or as a Bank collateral account for the benefit of Borrower, any sub-account thereunder or consolidated therewith, and all renewals, replacements or substitutions therefore, including any account resulting from a renumbering or other administrative re-identification thereof, the "Account") and all amounts from time to time on deposit in the Account and all interest thereon;

and all renewals thereof, including all securities, guaranties, warranties, indemnity agreements, insurance policies, supporting obligations and other agreements pertaining to the same or the property described therein, together with whatever is receivable or received when any of the Collateral or proceeds thereof are sold, collected, exchanged or otherwise disposed of, whether such disposition is voluntary or involuntary, including without limitation, all rights to payment, including returned premiums, with respect to any insurance relating to any of the foregoing, and all rights to payment with respect to any claim or cause of action affecting or relating to any of the foregoing (hereinafter called "Proceeds"). The word "Indebtedness" is used herein in its most comprehensive sense and includes any and all advances, debts, obligations and liabilities of Borrower, heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, including under any swap, derivative, foreign exchange, hedge, deposit, treasury management or other similar transaction or arrangement, and whether Borrower may be liable individually or jointly with others, or whether recovery upon such Indebtedness may be or hereafter becomes unenforceable.

2. CONTINUING AGREEMENT; REVOCATION; OBLIGATION UNDER OTHER AGREEMENTS. This is a continuing agreement and all rights, powers and remedies hereunder shall apply to all past, present and future Indebtedness of Borrower to Bank, including that arising under successive transactions which shall either continue the Indebtedness, increase or decrease it, or from time to time create new Indebtedness after all or any prior Indebtedness has been satisfied, and notwithstanding the death, incapacity, dissolution, liquidation or bankruptcy of Borrower or Owner or any other event or proceeding affecting Borrower or Owner. This Agreement shall not apply to any new Indebtedness created after actual receipt by Bank of

written notice of its revocation as to such new Indebtedness; provided however, that loans or advances made by Bank to Borrower after revocation under commitments existing prior to receipt by Bank of such revocation, and extensions, renewals or modifications, of any kind, of Indebtedness incurred by Borrower or committed by Bank prior to receipt by Bank of such revocation, shall not be considered new Indebtedness. Any such notice must be sent to Bank by registered U.S. mail, postage prepaid, addressed to its office at Commercial and Forest Products RCBO, MAC P6101-250, 1300 SW Fifth Avenue, Portland, Oregon 97201, or at such other address as Bank shall from time to time designate. The obligations of Owner hereunder shall be in addition to any obligations of Owner under any other grants or pledges of security for any liabilities or obligations of Borrower or any other person heretofore or hereafter given to Bank unless said other grants or pledges of security are expressly modified or revoked in writing; and this Agreement shall not, unless expressly herein provided, affect or invalidate any such other grants or pledges of security.

3. CONTROL OF THE ACCOUNT. As of and after the date of this Agreement, Owner may not make debits to or withdrawals from the Account and Owner shall have no access to the Account or to funds at any time on deposit in the Account. Bank shall have the exclusive access to the Account and to funds at any time on deposit in the Account; provided, however, that so long as no Event of Default has occurred, Bank shall pay interest on the funds on deposit in the Account quarterly in arrears at the interest rate applicable to time deposits as determined by Bank from time in its sole discretion.

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

5. REPRESENTATIONS AND WARRANTIES.

(a) Owner represents and warrants to Bank that: (i) Owner's legal name is exactly as set forth on the first page of this Agreement; (ii) all of Owner's organizational documents,

together with all such other documents, instruments and agreement delivered to Bank (including but not limited to the Notification Letter, the Request Letter and the Approval Letter) are complete and accurate in every respect; (iii) Owner is the owner and has possession or control of the Collateral and Proceeds; (iv) Owner has the exclusive right to grant a security interest in the Collateral and Proceeds; (v) all Collateral and Proceeds are genuine, free from liens, adverse claims, setoffs, default, prepayment, defenses and conditions precedent of any kind or character, except the lien created hereby or as otherwise agreed to by Bank, or as heretofore disclosed by Owner to Bank, in writing; (vi) all statements contained herein and, where applicable, in the Collateral are true and complete in all material respects; (vii) no financing statement covering any of the Collateral or Proceeds, and naming any secured party other than Bank, is on file in any public office; (viii) all persons appearing to be obligated on the Collateral and Proceeds have authority and capacity to contract and are bound as they appear to be; (ix) all rights to payment and Proceeds comply with all applicable laws concerning form, content and manner of preparation and execution, including where applicable Federal Reserve Regulation Z and any State consumer credit laws; (x) Owner is a corporation, duly organized and validly existing and in good standing under the laws of Arizona, and is qualified or licensed to do business (and is in good standing as a foreign corporation, if applicable) in all jurisdictions in which such qualification or licensing is required or in which the failure to so qualify or to be so licensed could have a material adverse effect on Owner; (xi) this Agreement and each contract, instrument and other document required hereby or at any time hereafter delivered to Bank in connection herewith have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Owner, enforceable in accordance with their respective terms; (xii) the execution, delivery and performance by Owner hereof and of each agreement, instrument and other documents required hereby or at any time hereafter delivered to Bank do not violate any provision of any law or regulation, or contravene any provision of the Articles of Incorporate or By-Laws of Owner, or result in any breach of or default under any contract, obligation, indenture or other instrument to which Owner is a party or by which Owner may be bound; (xiii) Owner possesses, and will hereafter possess, all permits, consents, approvals, franchises and licenses required necessary to enable it to conduct the business in which it is now engaged in compliance with all applicable law; (xiv) no consent, approval or authorization of, or declaration of filing with, any governmental authority (including but not limited to, the Department of Insurance of the State of Arizona) is required to be obtained or made by Owner or Borrower on or prior to the date hereof in connection with the due execution, delivery or performance by Owner of its obligations hereunder, except for the authorizations, approvals, consents, declarations and other filings (A) which have been duly obtained or made on or before the date hereof, which have not been modified, rescinded or withdrawn as of the date hereof, and (B) that, by their nature, are required to be made or filed following the consummation of the transactions contemplated herein; and (xv) as of the date hereof, Owner is solvent and, following the consummation of the transactions contemplated herein, will continue to be solvent.

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

(c) Owner further represents and warrants to Bank that (i) each of the Insurance Policies is duly issued and as of the date hereof remains in full force and effect, (ii) all premiums with respect to each of the Insurance Policies due to date have been paid in full, and (iii) no event has occurred or fact or circumstance exists that, with the giving of notice or the passage of time or both, would constitute a basis on which Owner could terminate or cancel any of the Insurance Policies.

6. COVENANTS OF OWNER.

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

(b) Owner agrees with regard to the Collateral and Proceeds, unless Bank agrees otherwise in writing: (i) that Bank is authorized to file financing statements in the name of Owner to perfect Bank's security interest in Collateral and Proceeds; (ii) to insure, where applicable, rights to payment with Bank named as loss payee, in form, substance and amounts, under agreements, against risks and liabilities, and with insurance companies satisfactory to Bank; (iii) not to permit any lien on the Collateral or Proceeds, except in favor of Bank; (iv) not to sell, hypothecate or dispose of, nor permit the transfer by operation of law of, any of the Collateral or Proceeds or any interest therein; (v) to keep, in accordance with generally accepted accounting principles, complete and accurate records regarding all Collateral and Proceeds, and to permit Bank to inspect the same and make copies thereof at any reasonable time; (vi) if requested by Bank, to receive and use reasonable diligence to collect rights to payment and Proceeds, in trust and as the property of Bank, and to immediately endorse as appropriate and deliver such rights to payment and Proceeds to Bank daily in the exact form in which they are received together with a collection report in form satisfactory to Bank; (vii) not to commingle rights to payment, Proceeds or collections thereunder with other property; (viii) to give only normal allowances and credits and to advise Bank thereof immediately in writing if they affect any rights to payment or Proceeds in any material respect; (ix) on demand, to deliver to Bank returned property resulting from, or payment equal to, such allowances or credits on any rights to payment or Proceeds or to execute such documents and do such other things as Bank may reasonably request for the purpose of perfecting, preserving and enforcing its security interest in such returned property; (x) from time to time, when requested by Bank, to prepare and deliver a schedule of all Collateral and Proceeds subject to this Agreement and to assign in writing and deliver to Bank all accounts, contracts, instruments, documents and other evidences thereof; (xi) in the event Bank elects to receive payments of rights to payment or Proceeds hereunder, to pay all expenses incurred by Bank in connection therewith, including expenses of accounting, correspondence, collection efforts, reporting to account or contract debtors, filing, recording, record keeping and expenses incidental thereto; and (xii) to provide any service and do any other acts which may be necessary to maintain, preserve and protect all Collateral and, as appropriate and applicable, to deal with the Collateral in accordance with the

standards and practices adhered to generally by companies in Borrower's line(s) of business, and to keep all Collateral and Proceeds free and clear of all defenses, rights of offset and counterclaims.

(c) Owner agrees that the principal balance of time deposit funds in the Account shall at all times be equal to or greater than Twelve Million Seven Hundred Eighty-Eight Thousand Seven Hundred Sixty-Six and 40/100 Dollars (\$12,788,766.40) (the "Minimum Collateral Value"). In the event that the time deposit funds in the Account, for any reason and at any time is less than the Minimum Collateral Value, Owner shall promptly increase the principal amount of the time deposit pledged hereunder in an amount sufficient to achieve the Minimum Collateral Value.

(d) Owner agrees to provide to Bank written notice of any cancellation or termination of the Insurance Policies at least thirty (30) days prior to the effective date of any such cancellation or termination.

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

8. OWNER'S WAIVERS.

(a) Owner waives any right to require Bank to: (i) proceed against Borrower or any other person; (ii) marshal assets or proceed against or exhaust any security held from Borrower or any other person; (iii) give notice of the terms, time and place of any public or private sale or other disposition of personal property security held from Borrower or any other person; (iv) take any other action or pursue any other remedy in Bank's power; or (v) make any presentment or demand for performance, or give any notice of nonperformance, protest, notice of protest or notice of dishonor hereunder or in connection with any obligations or evidences of indebtedness held by Bank as security for or which constitute in whole or in part the Indebtedness secured hereunder, or in connection with the creation of new or additional Indebtedness.

(b) Owner waives any defense to its obligations hereunder based upon or arising by reason of: (i) any disability or other defense of Borrower or any other person; (ii) the cessation or limitation from any cause whatsoever, other than payment in full, of the Indebtedness of Borrower or any other person; (iii) any lack of authority of any officer, director, partner, agent or any other person acting or purporting to act on behalf of Borrower, or any defect in the formation of Borrower; (iv) the application by Borrower of the proceeds of any Indebtedness for purposes other than the purposes represented by Borrower to, or intended or understood by, Bank or Owner; (v) any act or omission by Bank which directly or indirectly results in or aids the discharge of Borrower or any portion of the Indebtedness by operation of law or otherwise, or which in any way impairs or suspends any rights or remedies of Bank against Borrower; (vi) any impairment of the value of any interest in security for the Indebtedness or any portion thereof, including without limitation, the failure to obtain or maintain perfection or recordation of any interest in any such security, the release of any such security without substitution, and/or the failure to preserve the value of, or to comply with applicable law in disposing of, any such security; (vii) any modification of the Indebtedness, in any form whatsoever, including any modification made after revocation hereof to any Indebtedness incurred prior to such revocation, and including without limitation the renewal, extension, acceleration or other change in time for payment of, or other change in the terms of, the Indebtedness or any portion thereof, including increase or decrease of the rate of interest thereon; or (viii) any requirement that Bank give any notice of acceptance of this Agreement. Until all Indebtedness shall have been paid in full, Owner shall have no right of subrogation, and Owner waives any right to enforce any remedy which Bank now has or may hereafter have against Borrower or any other person and waives any benefit of, or any right to participate in, any security now or hereafter held by Bank. Owner further waives all rights and defenses Owner may have arising out of (A) any election of remedies by Bank, even though that election of remedies, such as a non-judicial foreclosure with respect to any security for any portion of the Indebtedness, destroys Owner's rights of subrogation or Owner's rights to proceed against Borrower for reimbursement, or (B) any loss of rights Owner may suffer by reason of any rights, powers or remedies of Borrower in connection with any anti-deficiency laws or any other laws limiting, qualifying or discharging Borrower's Indebtedness, whether by operation of law or otherwise, including any rights Owner may have to a fair market value hearing to determine the size of a deficiency following any foreclosure sale or other disposition of any real property security for any portion of the Indebtedness.

9. AUTHORIZATIONS TO BANK. Owner authorizes Bank either before or after revocation hereof, without notice to or demand on Owner, and without affecting Owner's liability hereunder, from time to time to: (a) alter, compromise, renew, extend, accelerate or otherwise change the time for payment of, or otherwise change the terms of, the Indebtedness or any portion thereof, including increase or decrease of the rate of interest thereon; (b) take and hold security, other than the Collateral and Proceeds, for the payment of the Indebtedness or any

portion thereof, and exchange, enforce, waive, subordinate or release the Collateral and Proceeds, or any part thereof, or any such other security; (c) apply the Collateral and Proceeds or such other security and direct the order or manner of sale thereof, including without limitation, a non-judicial sale permitted by the terms of the controlling security agreement, mortgage or deed of trust, as Bank in its discretion may determine; (d) release or substitute any one or more of the endorsers or guarantors of the Indebtedness, or any portion thereof, or any other party thereto; and (e) apply payments received by Bank from Borrower to any Indebtedness of Borrower to Bank, in such order as Bank shall determine in its sole discretion, whether or not such Indebtedness is covered by this Agreement, and Owner hereby waives any provision of law regarding application of payments which specifies otherwise. Bank may without notice assign this Agreement in whole or in part.

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

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

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

differences in the costs and credit risks of such dispositions. While an Event of Default exists: (a) Owner will deliver to Bank from time to time, as requested by Bank, current lists of all Collateral and Proceeds; (b) Owner will not dispose of any Collateral or Proceeds except on terms approved by Bank; (c) Bank may, at any time and at Bank's sole option, liquidate any time deposits pledged to Bank hereunder and apply the Proceeds thereof to payment of the Indebtedness, whether or not said time deposits have matured and notwithstanding the fact that such liquidation may give rise to penalties for early withdrawal of funds; and (d) at Bank's request, Owner will assemble and deliver all Collateral and Proceeds, and books and records pertaining thereto, to Bank at a reasonably convenient place designated by Bank. Owner further agrees that Bank shall have no obligation to process or prepare any Collateral for sale or other disposition.

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

14. NOTICES. All notices, requests and demands required under this Agreement must be in writing, addressed to Bank at the address specified in Section 2 hereof and to Owner at the address of its chief executive office specified below or to such other address as any party may designate by written notice to each other party, and shall be deemed to have been given or made as follows: (a) if personally delivered, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

15. COSTS, EXPENSES AND ATTORNEYS' FEES. Owner shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in connection with (a) the perfection and preservation of the Collateral or Bank's interest therein, and (b) the realization, enforcement and exercise of any right, power, privilege or remedy conferred by this Agreement, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Owner or in any way affecting any of the Collateral or Bank's ability to exercise any of its rights or remedies with respect thereto. All of the foregoing shall be paid by Owner with interest from the date of demand until paid in full at a rate per annum equal to the greater of ten percent (10%) or Bank's Prime Rate in effect from time to time.

16. SUCCESSORS; ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and

assigns of the parties; provided however, that Owner may not assign or transfer any of its interests or rights hereunder without Bank's prior written consent. Owner acknowledges that Bank has the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, any Indebtedness of Borrower to Bank and any obligations with respect thereto, including this Agreement. In connection therewith, Bank may disclose all documents and information which Bank now has or hereafter acquires relating to Owner and/or this Agreement, whether furnished by Borrowers, Owner or otherwise. Owner further agrees that Bank may disclose such documents and information to Borrower.

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

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

19. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Oregon.

20. ARBITRATION.

(a) Arbitration. The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in tort, contract or otherwise in any way arising out of or relating to in any way (i) the loan and related loan and security documents which are the subject of this Agreement and its negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination.

(b) Governing Rules. Any arbitration proceeding will (i) proceed in a location in Oregon selected by the American Arbitration Association ("AAA"); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA's commercial dispute resolution procedures, unless the claim or counterclaim is at least \$1,000,000.00 exclusive of claimed interest, arbitration fees and costs in which case the arbitration shall be conducted in accordance with the AAA's optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to herein, as applicable, as the "Rules"). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

(c) No Waiver of Provisional Remedies, Self-Help and Foreclosure. The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin,

injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

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

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

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

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

(h) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding

may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the documents between the parties or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the documents or any relationship between the parties.

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

Owner warrants that its chief executive office (or principal residence, if applicable) is located at the following address: 2999 N 44th Street, Suite 500, Arizona 85018, c/o Low & Cohen PLLC.

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

IN WITNESS WHEREOF, this Agreement has been duly executed as of December 18, 2013.

ASSOCIATED INSURANCE COMPANY
FOR EXCESS

By: /s/ James D. Miller

Title: Vice President

AMENDED AND RESTATED
THIRD PARTY SECURITY AGREEMENT:
SPECIFIC RIGHTS TO PAYMENT

THIS AMENDED AND RESTATED THIRD PARTY SECURITY AGREEMENT: SPECIFIC RIGHTS TO PAYMENT (“Agreement”) is entered into as of May 16, 2014, by and between ASSOCIATED INSURANCE COMPANY FOR EXCESS, an Arizona corporation (“Owner”), and WELLS FARGO BANK, NATIONAL ASSOCIATION (“Bank”). This Agreement amends and restates that certain Third Party Security Agreement: Specific Rights to Payment between Owner and Bank dated December 18, 2013.

Recitals

- A. Barrett Business Services, Inc., a Maryland corporation (“Borrower”), is currently indebted to Bank pursuant to the terms and conditions of that certain Restated Credit Agreement dated November 1, 2012, as amended from time to time (the “Credit Agreement”).
- B. Borrower is a self-insured employer under the laws of the State of California and, as such, is obligated under California law to provide security to the Self Insurance Plans of the State of California (the “Self Insurance Plans”) for Borrower’s obligations with respect to payment of workers’ compensation claims of Borrower’s employees under California law (the “WC Payment Obligations”).
- C. Owner is a wholly-owned subsidiary of Borrower and a captive insurance company duly licensed by the Department of Insurance of the State of Arizona.
- D. In exchange for premium payments, Borrower has obtained from Owner one or more policies of insurance under which Owner has agreed to satisfy the WC Payment Obligations on the terms and conditions set forth therein, as may be amended from time to time (the “Insurance Policies”).
- E. Under the Insurance Policies, Owner has legal obligations to Borrower to satisfy the WC Payment Obligations, which constitute antecedent obligations of Owner to Borrower within the meaning of the Uniform Fraudulent Transfers Act.
- F. By letter dated May 9, 2013 (the “2013 Notification Letter”) from the State of California Department of Industrial Relations, Office of Self Insurance Plans (the “Office of Self Insurance Plans”), the Office of Self Insurance Plans required that Borrower provide a security deposit in the amount of Sixty-Three Million Nine Hundred Forty-Three Thousand Eight Hundred Thirty-Two and No/100 Dollars (\$63,943,832.00) to secure its WC Payment Obligations (the “2013 Security Deposit”).
- G. In the event Borrower failed to provide the 2013 Security Deposit, Borrower would have no longer qualified as a self-insured employer and, as a result thereof, Owner would have, among other things, experienced a material adverse decline in revenue, business, operations and prospects.
- H. Any drawings on the 2013 Security Deposit by the Self Insurance Plans would have resulted in a dollar for dollar reduction in obligations that would have otherwise been payable by Owner to or for the benefit of Borrower for the purpose of satisfying the WC Payment Obligations.

I. By letter dated May 16, 2013 from Beecher Carlson (the "2013 Request Letter"), as managers of Owner, Owner requested that the Department of Insurance of the State of Arizona (the "Arizona Department") approve a change in its business plan for the purpose of granting to Bank a security interest of first priority in the certain assets held, or to be held, in a deposit account maintained by Bank (the "2013 Business Plan Change").

J. By letter dated May 24, 2013 (the "2013 Approval Letter"), the Arizona Department approved the 2013 Business Plan Change, which approval remains in full force and effect and has not been modified, rescinded or withdrawn.

K. Subject to the terms and conditions of this Agreement and the other Loan Documents to which Borrower and Owner are a party, and in reliance upon the facts set forth in the foregoing recitals, effective as of June 14, 2013, Bank issued to the Office of Self Insurance Plans a letter of credit in the amount of the 2013 Security Deposit for the benefit of Borrower and Owner (the "Prior Letter of Credit").

L. Effective October 30, 2013, Borrower caused the following three surety bonds (each a "Surety Bond" and, collectively, the "Surety Bonds") to be issued for the account of Borrower to secure Borrower's obligations for the benefit of Borrower and Owner to the Office of Self Insurance Plans in an aggregate amount equal to the 2013 Security Deposit: (i) Surety Bond No. SUR0025266 in the penal sum of Twenty-Five Million and No/100 Dollars (\$25,000,000.00), issued by Argonaut Insurance Company ("Argonaut"), as surety (the "Argonaut Surety Bond"), (ii) Surety Bond No. 800001601 in the penal sum of Twenty-Five Million and No/100 Dollars (\$25,000,000.00), issued by Atlantic Specialty Insurance Company ("Atlantic"), as surety (the "Atlantic Surety Bond"), and (iii) Surety Bond No. K0861765A in the penal sum of Thirteen Million Nine Hundred Forty-Three Thousand Eight Hundred Thirty-Two and No/100 Dollars (\$13,943,832.00), issued by Westchester Fire Insurance Company ("Westchester"), as surety (the "Westchester Surety Bond").

M. By letter dated November 5, 2013, the Office of Self Insurance Plans acknowledged receipt of the Surety Bonds as a substitute to the 2013 Security Deposit and released the Prior Letter of Credit (the "Release Transactions"), after which the Prior Letter of Credit was terminated and is no longer outstanding.

N. Effective December 18, 2013, as collateral to secure in part the Surety Bonds, the Bank issued to the issuers of the Surety Bonds, three new letters of credit as follows (each a "New Letter of Credit" and, collectively, the "New Letters of Credit"): (i) to Argonaut, a standby letter of credit in the amount of Five Million and No/100 Dollars (\$5,000,000.00), (ii) to Atlantic, a standby letter of credit in the amount of Five Million and No/100 Dollars (\$5,000,000.00), and (iii) to Westchester, a standby letter of credit in the amount of Two Million Seven Hundred Eighty-Eight Thousand Seven Hundred Sixty-Six and 40/100 Dollars (\$2,788,766.40) (the "Westchester Standby Letter of Credit").

O. Upon written notification from Owner of a further 2013 Business Plan Change regarding the Release Transactions, the issuance of the New Letters of Credit and the grant of security interests and other transactions contemplated by this Agreement, the Arizona Department approved the further 2013 Business Plan Change.

P. Owner materially benefited both directly and indirectly from Bank's issuance of the New Letters of Credit.

Q. By letter dated April 18, 2014 (the "2014 Notification Letter") from the Office of Self Insurance Plans, the Office of Self Insurance Plans is requiring that Borrower increase the amount of its 2013 Security Deposit from Sixty-Three Million Nine Hundred Forty-Three Thousand Eight Hundred Thirty-Two and No/100 Dollars (\$63,943,832.00) to One Hundred Four Million Seven Hundred Seventeen Thousand Three Hundred Thirty-One and No/100 Dollars (\$104,717,331.00) to secure its WC Payment Obligations (the "2014 Security Deposit").

R. In the event Borrower fails to provide the 2014 Security Deposit, Borrower will no longer qualify as a self-insured employer and, as a result thereof, Owner will, among other things, experience a material adverse decline in revenue, business, operations and prospects.

S. Any drawings on the 2014 Security Deposit by the Self Insurance Plans will result in a dollar for dollar reduction in obligations that would otherwise be payable by Owner to or for the benefit of Borrower for the purpose of satisfying the WC Payment Obligations.

T. Effective May 13, 2014, Borrower caused the Westchester Surety Bond to be increased from Thirteen Million Nine Hundred Forty-Three Thousand Eight Hundred Thirty-Two and No/100 Dollars (\$13,943,832.00) to Fifty-Four Million Seven Hundred Seventeen Thousand Three Hundred Thirty-One and No/100 Dollars (\$54,717,331.00) (the "Amended Westchester Surety Bond") to secure, together with the Argonaut Surety Bond and the Atlantic Surety Bond, Borrower's obligations for the benefit of Borrower and Owner to the Office of Self Insurance Plans in an aggregate amount equal to the 2014 Security Deposit.

U. Effective as of the date of this Agreement, and subject to the terms and conditions of this Agreement and the Credit Agreement, as collateral to secure in part the Amended Westchester Surety Bond, the Bank is willing to amend the Westchester Standby Letter of Credit to increase the principal amount therefor from Two Million Seven Hundred Eighty-Eight Thousand Seven Hundred Sixty-Six and 40/100 Dollars (\$2,788,766.40) to Ten Million Nine Hundred Forty-Three Thousand Four Hundred Sixty-Six and 20/100 Dollars (\$10,943,466.20) (the "Amended Westchester Standby Letter of Credit").

V. Legal counsel for Owner has obtained assurances from the principal captives examiner at the Arizona Department that, upon written notification from Owner of the proposed business plan change regarding the Amended Westchester Standby Letter of Credit as collateral to secure in part the Amended Westchester Surety Bond, the Arizona Department will approve the proposed business plan change.

W. Owner materially benefits both directly and indirectly from Bank's issuance of the Amended Westchester Standby Letter of Credit.

X. As of the date hereof, Owner is solvent and, following the consummation of the transactions contemplated herein, will continue to be solvent.

Y. To effect the transactions relating to the 2014 Notification Letter, including Owner's grant of additional collateral to Bank to secure Borrower's obligations with respect to the Amended Westchester Standby Letter of Credit, Bank and Owner have agreed to amend and restate the terms and conditions set forth in that certain Third Party Security Agreement: Specific Rights to Payment between Owner and Bank dated December 18, 2013.

NOW, THEREFORE, in consideration of the foregoing recitals and for other good and valuable consideration, the receipt and sufficiency of which the parties hereby acknowledge, the parties agree as follows:

1. GRANT OF SECURITY INTEREST. As security for the payment of all Indebtedness of Borrower to Bank arising under or in connection with the New Letters of Credit and the Amended Westchester Standby Letter of Credit, together in the amount of Twenty Million Nine Hundred Forty-Three Thousand Four Hundred Sixty-Six and 20/100 Dollars (\$20,943,466.20) and all extensions, renewals or modifications thereof, and restatements or substitutions therefor issued pursuant to the terms of that certain Standby Letter of Credit Agreement (Credit Agreement/Loan Agreement Version) between Borrower and Bank, dated as of September 18, 2012, as may be amended from time to time (the "Letter of Credit Agreement"), Owner hereby grants and transfers, and reconfirms its prior grant and transfer, to Bank a security interest in the following accounts, deposit accounts, chattel paper (whether electronic or tangible), instruments, promissory notes, documents, general intangibles, payment intangibles, software, letter of credit rights, health-care insurance receivables and other rights to payment (collectively called "Collateral"):

Deposit account number 5259896099 at Bank (whether held in Borrower's name or as a Bank collateral account for the benefit of Borrower, any sub-account thereunder or consolidated therewith, and all renewals, replacements or substitutions therefore, including any account resulting from a renumbering or other administrative re-identification thereof, "Account No. 1") and all amounts from time to time on deposit in Account No. 1 and all interest thereon; and

Deposit account number 6943748548 at Bank (whether held in Borrower's name or as a Bank collateral account for the benefit of Borrower, any sub-account thereunder or consolidated therewith, and all renewals, replacements or substitutions therefore, including any account resulting from a renumbering or other administrative re-identification thereof, "Account No. 2" and, together with Account No. 1, the "Accounts") and all amounts from time to time on deposit in Account No. 2 and all interest thereon;

and all renewals thereof, including all securities, guaranties, warranties, indemnity agreements, insurance policies, supporting obligations and other agreements pertaining to the same or the property described therein, together with whatever is receivable or received when any of the Collateral or proceeds thereof are sold, collected, exchanged or otherwise disposed of, whether such disposition is voluntary or involuntary, including without limitation, all rights to payment, including returned premiums, with respect to any insurance relating to any of the foregoing, and all rights to payment with respect to any claim or cause of action affecting or relating to any of the foregoing (hereinafter called "Proceeds"). The word "Indebtedness" is used herein in its most comprehensive sense and includes any and all advances, debts, obligations and liabilities of Borrower, heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, including under any swap, derivative, foreign exchange, hedge, deposit, treasury management or other similar transaction or arrangement, and whether Borrower may be liable individually or jointly with others, or whether recovery upon such Indebtedness may be or hereafter becomes unenforceable.

2. CONTINUING AGREEMENT; REVOCATION; OBLIGATION UNDER OTHER AGREEMENTS. This is a continuing agreement and all rights, powers and remedies hereunder shall apply to all past, present and future Indebtedness of Borrower to Bank, including that

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

3. CONTROL OF THE ACCOUNTS. As of and after the date of this Agreement, Owner may not make debits to or withdrawals from the Accounts and Owner shall have no access to the Accounts or to funds at any time on either deposit in the Accounts. Bank shall have the exclusive access to the Accounts and to funds at any time on deposit in the Accounts; provided, however, that so long as no Event of Default has occurred, Bank shall pay interest on the funds on deposit in the Accounts quarterly in arrears at the interest rate applicable to time deposits as determined by Bank from time in its sole discretion.

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

5. REPRESENTATIONS AND WARRANTIES.

(a) Owner represents and warrants to Bank that: (i) Owner's legal name is exactly as set forth on the first page of this Agreement; (ii) all of Owner's organizational documents, together with all such other documents, instruments and agreement delivered to Bank (including but not limited to the Notification Letter, the Request Letter and the Approval Letter) are complete and accurate in every respect; (iii) Owner is the owner and has possession or control of the Collateral and Proceeds; (iv) Owner has the exclusive right to grant a security interest in the Collateral and Proceeds; (v) all Collateral and Proceeds are genuine, free from liens, adverse claims, setoffs, default, prepayment, defenses and conditions precedent of any kind or character, except the lien created hereby or as otherwise agreed to by Bank, or as heretofore disclosed by Owner to Bank, in writing; (vi) all statements contained herein and, where applicable, in the Collateral are true and complete in all material respects; (vii) no financing statement covering any of the Collateral or Proceeds, and naming any secured party other than Bank, is on file in any public office; (viii) all persons appearing to be obligated on the Collateral and Proceeds have authority and capacity to contract and are bound as they appear to be; (ix) all rights to payment and Proceeds comply with all applicable laws concerning form, content and manner of preparation and execution, including where applicable Federal Reserve Regulation Z and any State consumer credit laws; (x) Owner is a corporation, duly organized and validly existing and in good standing under the laws of Arizona, and is qualified or licensed to do business (and is in good standing as a foreign corporation, if applicable) in all jurisdictions in which such qualification or licensing is required or in which the failure to so qualify or to be so licensed could have a material adverse effect on Owner; (xi) this Agreement and each contract, instrument and other document required hereby or at any time hereafter delivered to Bank in connection herewith have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Owner, enforceable in accordance with their respective terms; (xii) the execution, delivery and performance by Owner hereof and of each agreement, instrument and other documents required hereby or at any time hereafter delivered to Bank do not violate any provision of any law or regulation, or contravene any provision of the Articles of Incorporate or By-Laws of Owner, or result in any breach of or default under any contract, obligation, indenture or other instrument to which Owner is a party or by which Owner may be bound; (xiii) Owner possesses, and will hereafter possess, all permits, consents, approvals, franchises and licenses required necessary to enable it to conduct the business in which it is now engaged in compliance with all applicable law; (xiv) no consent, approval or authorization of, or declaration of filing with, any governmental authority (including but not limited to, the Department of Insurance of the State of Arizona) is required to be obtained or made by Owner or Borrower on or prior to the date hereof in connection with the due execution, delivery or performance by Owner of its obligations hereunder, except for the authorizations, approvals, consents, declarations and other filings (A) which have been duly obtained or made on or before the date hereof, which have not been modified, rescinded or withdrawn as of the date hereof, and (B) that, by their nature, are required to be made or filed following the consummation of the transactions contemplated herein; and (xv) as of the date hereof, Owner is solvent and, following the consummation of the transactions contemplated herein, will continue to be solvent.

(b) Owner further represents and warrants to Bank that: (i) the Collateral pledged hereunder is so pledged at Borrower's request; (ii) Bank has made no representation to Owner as to the creditworthiness of Borrower; and (iii) Owner has established adequate means of obtaining from Borrower on a continuing basis financial and other information pertaining to Borrower's financial condition. Owner agrees to keep adequately informed from such means of

any facts, events or circumstances which might in any way affect Owner's risks hereunder, and Owner further agrees that Bank shall have no obligation to disclose to Owner any information or material about Borrower which is acquired by Bank in any manner.

(c) Owner further represents and warrants to Bank that (i) each of the Insurance Policies is duly issued and as of the date hereof remains in full force and effect, (ii) all premiums with respect to each of the Insurance Policies due to date have been paid in full, and (iii) no event has occurred or fact or circumstance exists that, with the giving of notice or the passage of time or both, would constitute a basis on which Owner could terminate or cancel any of the Insurance Policies.

6. COVENANTS OF OWNER.

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

(b) Owner agrees with regard to the Collateral and Proceeds, unless Bank agrees otherwise in writing: (i) that Bank is authorized to file financing statements in the name of Owner to perfect Bank's security interest in Collateral and Proceeds; (ii) to insure, where applicable, rights to payment with Bank named as loss payee, in form, substance and amounts, under agreements, against risks and liabilities, and with insurance companies satisfactory to Bank; (iii) not to permit any lien on the Collateral or Proceeds, except in favor of Bank; (iv) not to sell, hypothecate or dispose of, nor permit the transfer by operation of law of, any of the Collateral or Proceeds or any interest therein; (v) to keep, in accordance with generally accepted accounting principles, complete and accurate records regarding all Collateral and Proceeds, and to permit Bank to inspect the same and make copies thereof at any reasonable time; (vi) if requested by Bank, to receive and use reasonable diligence to collect rights to payment and Proceeds, in trust and as the property of Bank, and to immediately endorse as appropriate and deliver such rights to payment and Proceeds to Bank daily in the exact form in which they are received together with a collection report in form satisfactory to Bank; (vii) not to commingle rights to payment, Proceeds or collections thereunder with other property; (viii) to give only normal allowances and credits and to advise Bank thereof immediately in writing if they affect any rights to payment or Proceeds in any material respect; (ix) on demand, to deliver to Bank returned property resulting from, or payment equal to, such allowances or credits on any rights to payment or Proceeds or to execute such documents and do such other things as Bank may reasonably request for the purpose of perfecting, preserving and enforcing its security interest in such returned property; (x) from time to time, when requested by Bank, to prepare and deliver a schedule of all Collateral and Proceeds subject to this Agreement and to assign in writing and deliver to Bank all accounts, contracts, instruments, documents and other evidences thereof; (xi) in the event Bank elects to receive payments of rights to payment or Proceeds hereunder, to pay all expenses incurred by Bank in connection therewith, including

expenses of accounting, correspondence, collection efforts, reporting to account or contract debtors, filing, recording, record keeping and expenses incidental thereto; and (xii) to provide any service and do any other acts which may be necessary to maintain, preserve and protect all Collateral and, as appropriate and applicable, to deal with the Collateral in accordance with the standards and practices adhered to generally by companies in Borrower's line(s) of business, and to keep all Collateral and Proceeds free and clear of all defenses, rights of offset and counterclaims.

(c) Owner agrees that the principal balance of time deposit funds in the Accounts shall at all times be equal to or greater than Twenty Million Nine Hundred Forty-Three Thousand Four Hundred Sixty-Six and 20/100 Dollars (\$20,943,466.20) (the "Minimum Collateral Value"). In the event that the time deposit funds in the Accounts, for any reason and at any time is less than the Minimum Collateral Value, Owner shall promptly increase the principal amount of the time deposit pledged hereunder in an amount sufficient to achieve the Minimum Collateral Value.

(d) Owner agrees to provide to Bank written notice of any cancellation or termination of the Insurance Policies at least thirty (30) days prior to the effective date of any such cancellation or termination.

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

8. OWNER'S WAIVERS.

(a) Owner waives any right to require Bank to: (i) proceed against Borrower or any other person; (ii) marshal assets or proceed against or exhaust any security held from Borrower or any other person; (iii) give notice of the terms, time and place of any public or private sale or other disposition of personal property security held from Borrower or any other person; (iv) take any other action or pursue any other remedy in Bank's power; or (v) make any presentment or demand for performance, or give any notice of nonperformance, protest, notice of protest or notice of dishonor hereunder or in connection with any obligations or evidences of indebtedness held by Bank as security for or which constitute in whole or in part the Indebtedness secured hereunder, or in connection with the creation of new or additional Indebtedness.

(b) Owner waives any defense to its obligations hereunder based upon or arising by reason of: (i) any disability or other defense of Borrower or any other person; (ii) the cessation or limitation from any cause whatsoever, other than payment in full, of the Indebtedness of Borrower or any other person; (iii) any lack of authority of any officer, director, partner, agent or any other person acting or purporting to act on behalf of Borrower, or any defect in the formation of Borrower; (iv) the application by Borrower of the proceeds of any Indebtedness for purposes other than the purposes represented by Borrower to, or intended or understood by, Bank or Owner; (v) any act or omission by Bank which directly or indirectly results in or aids the discharge of Borrower or any portion of the Indebtedness by operation of law or otherwise, or which in any way impairs or suspends any rights or remedies of Bank against Borrower; (vi) any impairment of the value of any interest in security for the Indebtedness or any portion thereof, including without limitation, the failure to obtain or maintain perfection or recordation of any interest in any such security, the release of any such security without substitution, and/or the failure to preserve the value of, or to comply with applicable law in disposing of, any such security; (vii) any modification of the Indebtedness, in any form whatsoever, including any modification made after revocation hereof to any Indebtedness incurred prior to such revocation, and including without limitation the renewal, extension, acceleration or other change in time for payment of, or other change in the terms of, the Indebtedness or any portion thereof, including increase or decrease of the rate of interest thereon; or (viii) any requirement that Bank give any notice of acceptance of this Agreement. Until all Indebtedness shall have been paid in full, Owner shall have no right of subrogation, and Owner waives any right to enforce any remedy which Bank now has or may hereafter have against Borrower or any other person and waives any benefit of, or any right to participate in, any security now or hereafter held by Bank. Owner further waives all rights and defenses Owner may have arising out of (A) any election of remedies by Bank, even though that election of remedies, such as a non-judicial foreclosure with respect to any security for any portion of the Indebtedness, destroys Owner's rights of subrogation or Owner's rights to proceed against Borrower for reimbursement, or (B) any loss of rights Owner may suffer by reason of any rights, powers or remedies of Borrower in connection with any anti-deficiency laws or any other laws limiting, qualifying or discharging Borrower's Indebtedness, whether by operation of law or otherwise, including any rights Owner may have to a fair market value hearing to determine the size of a deficiency following any foreclosure sale or other disposition of any real property security for any portion of the Indebtedness.

9. AUTHORIZATIONS TO BANK. Owner authorizes Bank either before or after revocation hereof, without notice to or demand on Owner, and without affecting Owner's liability hereunder, from time to time to: (a) alter, compromise, renew, extend, accelerate or otherwise change the time for payment of, or otherwise change the terms of, the Indebtedness or any portion thereof, including increase or decrease of the rate of interest thereon; (b) take and hold

security, other than the Collateral and Proceeds, for the payment of the Indebtedness or any portion thereof, and exchange, enforce, waive, subordinate or release the Collateral and Proceeds, or any part thereof, or any such other security; (c) apply the Collateral and Proceeds or such other security and direct the order or manner of sale thereof, including without limitation, a non-judicial sale permitted by the terms of the controlling security agreement, mortgage or deed of trust, as Bank in its discretion may determine; (d) release or substitute any one or more of the endorsers or guarantors of the Indebtedness, or any portion thereof, or any other party thereto; and (e) apply payments received by Bank from Borrower to any Indebtedness of Borrower to Bank, in such order as Bank shall determine in its sole discretion, whether or not such Indebtedness is covered by this Agreement, and Owner hereby waives any provision of law regarding application of payments which specifies otherwise. Bank may without notice assign this Agreement in whole or in part.

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

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

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

prices generally realized in the different kinds of dispositions are ordinarily offset by the differences in the costs and credit risks of such dispositions. While an Event of Default exists: (a) Owner will deliver to Bank from time to time, as requested by Bank, current lists of all Collateral and Proceeds; (b) Owner will not dispose of any Collateral or Proceeds except on terms approved by Bank; (c) Bank may, at any time and at Bank's sole option, liquidate any time deposits pledged to Bank hereunder and apply the Proceeds thereof to payment of the Indebtedness, whether or not said time deposits have matured and notwithstanding the fact that such liquidation may give rise to penalties for early withdrawal of funds; and (d) at Bank's request, Owner will assemble and deliver all Collateral and Proceeds, and books and records pertaining thereto, to Bank at a reasonably convenient place designated by Bank. Owner further agrees that Bank shall have no obligation to process or prepare any Collateral for sale or other disposition.

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

14. NOTICES. All notices, requests and demands required under this Agreement must be in writing, addressed to Bank at the address specified in Section 2 hereof and to Owner at the address of its chief executive office specified below or to such other address as any party may designate by written notice to each other party, and shall be deemed to have been given or made as follows: (a) if personally delivered, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

15. COSTS, EXPENSES AND ATTORNEYS' FEES. Owner shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in connection with (a) the perfection and preservation of the Collateral or Bank's interest therein, and (b) the realization, enforcement and exercise of any right, power, privilege or remedy conferred by this Agreement, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Owner or in any way affecting any of the Collateral or Bank's ability to exercise any of its rights or remedies with respect thereto. All of the foregoing shall be paid by Owner with interest from the date of demand until paid in full at a rate per annum equal to the greater of ten percent (10%) or Bank's Prime Rate in effect from time to time.

16. **SUCCESSORS; ASSIGNMENT.** This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that Owner may not assign or transfer any of its interests or rights hereunder without Bank's prior written consent. Owner acknowledges that Bank has the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, any Indebtedness of Borrower to Bank and any obligations with respect thereto, including this Agreement. In connection therewith, Bank may disclose all documents and information which Bank now has or hereafter acquires relating to Owner and/or this Agreement, whether furnished by Borrowers, Owner or otherwise. Owner further agrees that Bank may disclose such documents and information to Borrower.

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

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

19. **GOVERNING LAW.** This Agreement shall be governed by and construed in accordance with the laws of the State of Oregon.

20. **ARBITRATION.**

(a) **Arbitration.** The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in tort, contract or otherwise in any way arising out of or relating to in any way (i) the loan and related loan and security documents which are the subject of this Agreement and its negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination.

(b) **Governing Rules.** Any arbitration proceeding will (i) proceed in a location in Oregon selected by the American Arbitration Association ("AAA"); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA's commercial dispute resolution procedures, unless the claim or counterclaim is at least \$1,000,000.00 exclusive of claimed interest, arbitration fees and costs in which case the arbitration shall be conducted in accordance with the AAA's optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to herein, as applicable, as the "Rules"). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

(c) **No Waiver of Provisional Remedies, Self-Help and Foreclosure** The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property

collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

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

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

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

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

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

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

Owner warrants that its chief executive office (or principal residence, if applicable) is located at the following address: 2999 N 44th Street, Suite 500, Arizona 85018, c/o Low & Cohen PLLC.

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

IN WITNESS WHEREOF, this Agreement has been duly executed as of the date first written above.

ASSOCIATED INSURANCE COMPANY
FOR EXCESS

/s/ James D. Miller

By: James D. Miller

Title: Vice President

I, Michael L. Elich, certify that:

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

Date: August 8, 2014

/s/ Michael L. Elich

Michael L. Elich
Chief Executive Officer

I, James D. Miller, certify that:

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

Date: August 8, 2014

/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, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certify, pursuant to 18 U.S.C. § 1350, that:

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

/s/ Michael L. Elich

Michael L. Elich
Chief Executive Officer
August 8, 2014

/s/ James D. Miller

James D. Miller
Chief Financial Officer
August 8, 2014

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