

**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, 2019

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

For the Transition Period From _____ to _____

Commission File Number 0-21886

BARRETT BUSINESS SERVICES, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
Incorporation or organization)

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

52-0812977
(IRS Employer
Identification No.)

98662
(Zip Code)

(360) 828-0700

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, Par Value \$0.01 Per Share	BBSI	The NASDAQ Stock Market LLC

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

As of August 1, 2019, 7,469,780 shares of the registrant's common stock (\$0.01 par value) were outstanding.

BARRETT BUSINESS SERVICES, INC.

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PART I – FINANCIAL INFORMATION

Item 1. Unaudited Interim Condensed Consolidated Financial Statements

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

	June 30, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23,693	\$ 35,371
Trade accounts receivable, net	163,228	151,597
Prepaid expenses and other	15,720	13,880
Investments	77,271	416
Restricted cash and investments	108,275	120,409
Total current assets	388,187	321,673
Investments	—	1,687
Property, equipment and software, net	27,999	24,812
Operating lease right-of-use assets	25,005	—
Restricted cash and investments	335,966	348,165
Goodwill	47,820	47,820
Other assets	3,329	3,474
Deferred income taxes	5,897	8,458
	<u>\$ 834,203</u>	<u>\$ 756,089</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 221	\$ 221
Accounts payable	4,824	4,336
Accrued payroll, payroll taxes and related benefits	181,966	158,683
Income taxes payable	2,670	4,403
Current operating lease liabilities	6,381	—
Other accrued liabilities	15,908	20,566
Workers' compensation claims liabilities	108,289	109,319
Safety incentives liability	27,316	29,210
Total current liabilities	347,575	326,738
Long-term workers' compensation claims liabilities	322,447	304,078
Long-term debt	3,840	3,951
Long-term operating lease liabilities	19,101	—
Customer deposits and other long-term liabilities	3,773	2,285
Total liabilities	696,736	637,052
Commitments and contingencies (Notes 4, 5 and 7)		
Stockholders' equity:		
Common stock, \$.01 par value; 20,500 shares authorized, 7,414 and 7,395 shares issued and outstanding	74	74
Additional paid-in capital	19,265	15,437
Accumulated other comprehensive income (loss)	1,632	(5,068)
Retained earnings	116,496	108,594
Total stockholders' equity	137,467	119,037
	<u>\$ 834,203</u>	<u>\$ 756,089</u>

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Revenues:				
Professional employer service fees	\$ 203,157	\$ 197,277	\$ 393,684	\$ 386,239
Staffing services	27,825	34,326	55,513	69,340
Total revenues	<u>230,982</u>	<u>231,603</u>	<u>449,197</u>	<u>455,579</u>
Cost of revenues:				
Direct payroll costs	20,992	26,020	41,834	52,423
Payroll taxes and benefits	101,697	98,249	216,494	222,437
Workers' compensation	53,174	58,854	107,403	115,976
Total cost of revenues	<u>175,863</u>	<u>183,123</u>	<u>365,731</u>	<u>390,836</u>
Gross margin	55,119	48,480	83,466	64,743
Selling, general and administrative expenses	39,005	35,614	72,165	65,043
Depreciation and amortization	970	1,274	1,939	2,278
Income (loss) from operations	<u>15,144</u>	<u>11,592</u>	<u>9,362</u>	<u>(2,578)</u>
Other income (expense):				
Investment income, net	3,332	2,201	6,404	4,220
Interest expense	(481)	(68)	(958)	(110)
Other, net	—	(12)	12	4
Other income, net	2,851	2,121	5,458	4,114
Income before income taxes	17,995	13,713	14,820	1,536
Provision for (benefit from) income taxes	4,088	2,473	3,213	(581)
Net income	<u>\$ 13,907</u>	<u>\$ 11,240</u>	<u>\$ 11,607</u>	<u>\$ 2,117</u>
Basic income per common share	<u>\$ 1.88</u>	<u>\$ 1.54</u>	<u>\$ 1.57</u>	<u>\$ 0.29</u>
Weighted average number of basic common shares outstanding	<u>7,410</u>	<u>7,310</u>	<u>7,408</u>	<u>7,307</u>
Diluted income per common share	<u>\$ 1.81</u>	<u>\$ 1.46</u>	<u>\$ 1.51</u>	<u>\$ 0.28</u>
Weighted average number of diluted common shares outstanding	<u>7,692</u>	<u>7,675</u>	<u>7,674</u>	<u>7,658</u>

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

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

	Three Months Ended June 30,	
	2019	2018
Net income	\$ 13,907	\$ 11,240
Unrealized gains (losses) on investments, net of tax of \$1,164 and (\$373) in 2019 and 2018, respectively	3,043	(975)
Comprehensive income	\$ 16,950	\$ 10,265

	Six Months Ended June 30,	
	2019	2018
Net income	\$ 11,607	\$ 2,117
Unrealized gains (losses) on investments, net of tax of \$2,561 and (\$1,928) in 2019 and 2018, respectively	6,700	(4,939)
Comprehensive income (loss)	\$ 18,307	\$ (2,822)

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

Barrett Business Services, Inc.
Condensed Consolidated Statements of Stockholders' Equity
Six Months Ended June 30, 2019 and 2018
(Unaudited)
(In Thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
	Shares	Amount				
Balance, December 31, 2017	7,301	\$ 73	\$ 12,311	\$ (1,430)	\$ 77,880	\$ 88,834
Common stock issued on exercise of options and vesting of restricted stock units	7	—	53	—	—	53
Common stock repurchased on vesting of restricted stock units	(1)	—	(76)	—	—	(76)
Share-based compensation expense	—	—	1,542	—	—	1,542
Cash dividends on common stock (\$0.25 per share)	—	—	—	—	(1,826)	(1,826)
Unrealized loss on investments, net of tax	—	—	—	(3,964)	—	(3,964)
Net loss	—	—	—	—	(9,123)	(9,123)
Balance, March 31, 2018	<u>7,307</u>	<u>\$ 73</u>	<u>\$ 13,830</u>	<u>\$ (5,394)</u>	<u>\$ 66,931</u>	<u>\$ 75,440</u>
Common stock issued on exercise of options and vesting of restricted stock units	5	—	48	—	—	48
Common stock repurchased on vesting of restricted stock units	(1)	—	(92)	—	—	(92)
Share-based compensation expense	—	—	1,041	—	—	1,041
Cash dividends on common stock (\$0.25 per share)	—	—	—	—	(1,827)	(1,827)
Unrealized loss on investments, net of tax	—	—	—	(975)	—	(975)
Net income	—	—	—	—	11,240	11,240
Balance, June 30, 2018	<u>7,311</u>	<u>\$ 73</u>	<u>\$ 14,827</u>	<u>\$ (6,369)</u>	<u>\$ 76,344</u>	<u>\$ 84,875</u>
Balance, December 31, 2018	7,395	\$ 74	\$ 15,437	\$ (5,068)	\$ 108,594	\$ 119,037
Common stock issued on exercise of options and vesting of restricted stock units and performance awards	17	—	122	—	—	122
Common stock repurchased on vesting of restricted stock units and performance awards	(2)	—	(178)	—	—	(178)
Share-based compensation expense	—	—	1,387	—	—	1,387
Cash dividends on common stock (\$0.25 per share)	—	—	—	—	(1,852)	(1,852)
Unrealized gain on investments, net of tax	—	—	—	3,657	—	3,657
Net loss	—	—	—	—	(2,300)	(2,300)
Balance, March 31, 2019	<u>7,410</u>	<u>\$ 74</u>	<u>\$ 16,768</u>	<u>\$ (1,411)</u>	<u>\$ 104,442</u>	<u>\$ 119,873</u>
Common stock issued on exercise of options and vesting of restricted stock units	4	—	56	—	—	56
Common stock repurchased on vesting of restricted stock units	—	—	—	—	—	—
Share-based compensation expense	—	—	2,441	—	—	2,441
Cash dividends on common stock (\$0.25 per share)	—	—	—	—	(1,853)	(1,853)
Unrealized gain on investments, net of tax	—	—	—	3,043	—	3,043
Net income	—	—	—	—	13,907	13,907
Balance, June 30, 2019	<u>7,414</u>	<u>\$ 74</u>	<u>\$ 19,265</u>	<u>\$ 1,632</u>	<u>\$ 116,496</u>	<u>\$ 137,467</u>

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

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

	Six Months Ended June 30,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 11,607	\$ 2,117
Reconciliations of net income to net cash provided by operating activities:		
Depreciation and amortization	1,939	2,278
Non-cash lease expense	3,509	—
Losses recognized on investments	26	38
Share-based compensation	3,828	2,583
Changes in certain operating assets and liabilities:		
Trade accounts receivable	(11,631)	(15,896)
Income taxes receivable	—	(643)
Prepaid expenses and other	(1,840)	(4,100)
Accounts payable	488	(1,215)
Accrued payroll, payroll taxes and related benefits	24,740	4,533
Other accrued liabilities	(4,658)	(80)
Income taxes payable	(1,733)	—
Workers' compensation claims liabilities	17,470	27,341
Safety incentives liability	(1,894)	(468)
Operating lease liabilities	(3,032)	—
Other assets and liabilities, net	46	(27)
Net cash provided by operating activities	<u>38,865</u>	<u>16,461</u>
Cash flows from investing activities:		
Purchase of property and equipment	(5,127)	(3,517)
Purchase of investments	(117)	(1,401)
Proceeds from sales and maturities of investments	15,262	1,369
Purchase of restricted investments	(3,245)	(103,388)
Proceeds from sales and maturities of restricted investments	34,765	32,749
Net cash provided by (used in) investing activities	<u>41,538</u>	<u>(74,188)</u>
Cash flows from financing activities:		
Proceeds from credit-line borrowings	18,843	8,500
Payments on credit-line borrowings	(18,843)	(8,500)
Payments on long-term debt	(111)	(110)
Common stock repurchased on vesting of restricted stock units	(178)	(168)
Dividends paid	(3,705)	(3,653)
Proceeds from exercise of stock options	178	101
Net cash used in financing activities	<u>(3,816)</u>	<u>(3,830)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	76,587	(61,557)
Cash, cash equivalents and restricted cash, beginning of period	140,702	120,205
Cash, cash equivalents and restricted cash, end of period	<u>\$ 217,289</u>	<u>\$ 58,648</u>

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

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

Note 1 - Basis of Presentation of Interim Period Statements

The accompanying condensed consolidated financial statements are unaudited and have been prepared by Barrett Business Services, Inc. ("BBSI", the "Company", "our" or "we"), pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures typically included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. The accompanying condensed financial statements are prepared on a consolidated basis. All intercompany account balances and transactions have been eliminated in consolidation. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results may differ from such estimates and assumptions. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's 2018 Annual Report on Form 10-K at pages F1 – F27. The results of operations for an interim period are not necessarily indicative of the results of operations for a full year.

Revenue recognition

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

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

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

Cost of revenues

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

Cash and cash equivalents

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

Investments

The Company classifies investments as available-for-sale. The Company's investments are reported at fair value with unrealized gains and losses, net of taxes, shown as a component of accumulated other comprehensive income (loss) in stockholders' equity. Investments are recorded as current on the condensed consolidated balance sheets as the invested funds are available for current operations. Management considers available evidence in evaluating potential impairment of investments, including the duration and extent to which fair value is less than cost. Realized gains and losses on sales of investments are included in investment income in our condensed consolidated statements of operations. In the event a loss is determined to be other-than-temporary, the loss will be recognized in the condensed consolidated statements of operations.

Restricted cash and investments

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

Restricted cash and investments also includes investments held as part of the Company's deferred compensation plan. These investments are classified as trading securities and are recorded at fair value with unrealized gains and losses reported as a component of other income (expense), net.

Allowance for doubtful accounts

The Company had an allowance for doubtful accounts of \$586,000 and \$533,000 at June 30, 2019 and December 31, 2018, respectively. We make estimates of the collectability of our accounts receivable for services provided to our customers. Management analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customers' payment trends when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of our customers deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required.

Workers' compensation claims liabilities

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

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

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

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

Customer incentives

We accrue for and present expected customer incentives as a reduction of revenue. Safety incentives represent cash incentives paid to certain PEO client companies for maintaining safe-work practices and minimizing workplace injuries. The incentive is based on a percentage of annual payroll and is paid annually to customers who meet predetermined workers' compensation claims cost objectives. Safety incentive payments are made only after closure of all workers' compensation claims incurred during the customer's contract period. The safety incentive liability is estimated and accrued each month based upon contract year-to-date payroll and the then current amount of the customer's estimated workers' compensation claims reserves as established by us and our third party administrator. The Company provided \$27.3 million and \$29.2 million at June 30, 2019 and December 31, 2018, respectively, as an estimate of the liability for unpaid safety incentives. Also, a one-time customer incentive of \$9.8 million was declared in December 2018, and is included in other accrued liabilities on the consolidated balance sheets. At June 30, 2019 the remaining balance of this incentive was \$7.2 million.

Customer deposits

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

Comprehensive income (loss)

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

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

Statements of cash flows

Interest paid during the six months ended June 30, 2019 did not materially differ from interest expense. Interest paid during the six months ended June 30, 2018 totaled \$1.8 million, primarily related to prepaid fees for the Company's letter of credit. Income taxes paid during the six months ended June 30, 2019 totaled \$5.0 million. Income taxes paid during the six months ended June 30, 2018 totaled \$0.1 million.

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

	June 30, 2019	December 31, 2018	June 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 23,693	\$ 35,371	\$ 33,786	\$ 59,835
Restricted cash, included in restricted cash and investments	193,596	105,331	24,862	60,370
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 217,289</u>	<u>\$ 140,702</u>	<u>\$ 58,648</u>	<u>\$ 120,205</u>

Basic and diluted earnings per share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Weighted average number of basic shares outstanding	7,410	7,310	7,408	7,307
Effect of dilutive securities	282	365	266	351
Weighted average number of diluted shares outstanding	<u>7,692</u>	<u>7,675</u>	<u>7,674</u>	<u>7,658</u>

Accounting estimates

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

Recent accounting pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, "Leases." The core principle is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. Under the new guidance, a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The amendments in this update were adopted using the optional transition method, effective January 1, 2019. The lease commitments appear on our consolidated balance sheets as operating lease right-of-use assets and current and long-term operating lease liabilities. Such amounts are based on the present value of such commitments using our incremental borrowing rate. We have utilized the transition package of practical expedients permitted within the new standard, which allows us to carry forward the historical lease classification. See "Note 5 – Leases" for additional information.

Note 2 - Fair Value Measurement

The following table summarizes the Company's investments at June 30, 2019 and December 31, 2018 measured at fair value on a recurring basis (in thousands):

	June 30, 2019			December 31, 2018		
	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	Cost	Gross Unrealized Gains (Losses)	Recorded Basis
Current:						
Cash equivalents:						
Money market funds	\$ 224	\$ —	\$ 224	\$ 30	\$ —	\$ 30
Total cash equivalents	<u>224</u>	<u>—</u>	<u>224</u>	<u>30</u>	<u>—</u>	<u>30</u>
Investments:						
Corporate bonds	48,822	(126)	48,696	20	—	20
U.S. treasuries	19,002	(50)	18,952	347	—	347
U.S. government agency securities	8,913	248	9,161	50	(1)	49
Mortgage backed securities	447	(4)	443	—	—	—
Asset backed securities	19	—	19	—	—	—
Total current investments	<u>77,203</u>	<u>68</u>	<u>77,271</u>	<u>417</u>	<u>(1)</u>	<u>416</u>
Long term:						
Investments:						
U.S. treasuries	—	—	—	794	(3)	791
Mortgage backed securities	—	—	—	484	(13)	471
Corporate bonds	—	—	—	422	(7)	415
Asset backed securities	—	—	—	10	—	10
Total long term investments	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,710</u>	<u>(23)</u>	<u>1,687</u>
Restricted cash and investments (1):						
Corporate bonds	128,012	1,265	129,277	185,116	(3,739)	181,377
Mortgage backed securities	71,839	192	72,031	89,426	(2,026)	87,400
U.S. government agency securities	29,801	675	30,476	45,548	(908)	44,640
U.S. treasuries	18,794	21	18,815	44,304	(283)	44,021
Money market funds	16,614	—	16,614	419	—	419
Supranational bonds	4,767	34	4,801	4,765	(24)	4,741
Mutual funds	2,550	—	2,550	1,093	—	1,093
Asset backed securities	126	1	127	75	(1)	74
Municipal bonds	50	—	50	50	—	50
Total restricted cash and investments	<u>272,553</u>	<u>2,188</u>	<u>274,741</u>	<u>370,796</u>	<u>(6,981)</u>	<u>363,815</u>
Total investments	<u>\$ 349,980</u>	<u>\$ 2,256</u>	<u>\$ 352,236</u>	<u>\$ 372,953</u>	<u>\$ (7,005)</u>	<u>\$ 365,948</u>

(1) Included in restricted cash and investments within the condensed consolidated balance sheet is restricted cash of \$169.5 million and \$104.5 million as of June 30, 2019 and December 31, 2018, respectively, which is excluded from the table above. Restricted cash and investments are classified as current and noncurrent on the balance sheet based on the nature of the restriction.

The following table summarizes the Company's investments at June 30, 2019 and December 31, 2018 measured at fair value on a recurring basis by fair value hierarchy level (in thousands):

	June 30, 2019				December 31, 2018			
	Total Recorded				Total Recorded			
	Basis	Level 1	Level 2	Other (1)	Basis	Level 1	Level 2	Other (1)
Cash equivalents:								
Money market funds	\$ 224	\$ —	\$ —	\$ 224	\$ 30	\$ —	\$ —	\$ 30
Investments:								
Corporate bonds	48,696	—	48,696	—	435	—	435	—
U.S. treasuries	18,952	—	18,952	—	1,138	—	1,138	—
U.S. government agency securities	9,161	—	9,161	—	49	—	49	—
Mortgage backed securities	443	—	443	—	471	—	471	—
Asset backed securities	19	—	19	—	10	—	10	—
Restricted cash and investments:								
Corporate bonds	129,277	—	129,277	—	181,377	—	181,377	—
Mortgage backed securities	72,031	—	72,031	—	87,400	—	87,400	—
U.S. government agency securities	30,476	—	30,476	—	44,640	—	44,640	—
U.S. treasuries	18,815	—	18,815	—	44,021	—	44,021	—
Money market funds	16,614	—	—	16,614	419	—	—	419
Supranational bonds	4,801	—	4,801	—	4,741	—	4,741	—
Mutual funds	2,550	2,550	—	—	1,093	1,093	—	—
Asset backed securities	127	—	127	—	74	—	74	—
Municipal bonds	50	—	50	—	50	—	50	—
Total investments	\$ 352,236	\$ 2,550	\$ 332,848	\$ 16,838	\$ 365,948	\$ 1,093	\$ 364,406	\$ 449

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

The following table summarizes the contractual maturities of the Company's available for sale securities at June 30, 2019. Actual maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

(In thousands)	June 30, 2019				
	Less than 1 Year	Between 1 to 5 Years	Between 5 to 10 Years	After 10 Years	Total
Corporate bonds	\$ 9,162	\$ 143,773	\$ 24,886	\$ 152	\$ 177,973
U.S. government agency securities	4,002	7,921	27,714	—	\$ 39,637
U.S. treasuries	21,155	16,612	—	—	\$ 37,767
Money market funds	16,838	—	—	—	\$ 16,838
Supranational bonds	—	4,801	—	—	\$ 4,801
Asset backed securities	—	146	—	—	\$ 146
Municipal bonds	50	—	—	—	\$ 50
Total	<u>\$ 51,207</u>	<u>\$ 173,253</u>	<u>\$ 52,600</u>	<u>\$ 152</u>	<u>\$ 277,212</u>

The average contractual maturity of mortgage backed securities was 17 years as of June 30, 2019.

Note 3 – Workers' Compensation Claims

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Beginning balance				
Workers' compensation claims liabilities	\$ 422,872	\$ 378,874	\$ 413,397	\$ 363,517
Add: claims expense accrual				
Current period	41,145	39,967	81,530	79,019
Prior periods	(2,952)	—	(4,652)	(6)
	<u>38,193</u>	<u>39,967</u>	<u>76,878</u>	<u>79,013</u>
Less: claim payments related to				
Current period	4,145	5,148	5,604	6,281
Prior periods	26,088	22,856	53,804	45,391
	<u>30,233</u>	<u>28,004</u>	<u>59,408</u>	<u>51,672</u>
Add: Change in claims incurred in excess of retention limits	(96)	(23)	(131)	(44)
Ending balance				
Workers' compensation claims liabilities	\$ 430,736	\$ 390,814	\$ 430,736	\$ 390,814
Incurred but not reported (IBNR)	\$ 273,114	\$ 231,702	\$ 273,114	\$ 231,702
Ratio of IBNR to workers' compensation claims liabilities	63%	59%	63%	59%

The Company is a self-insured employer with respect to workers' compensation coverage for all of its employees (including employees co-employed through our client service agreements) working in Colorado, Maryland and Oregon. In the state of Washington, state law allows only the Company's staffing services and internal management employees to be covered under the Company's self-insured workers' compensation program.

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

The Company's wholly owned, fully licensed captive insurance company incorporated in Arizona, AICE, provides reinsurance coverage up to \$5.0 million per occurrence, except in Maryland and Colorado, where our retention per occurrence is \$1.0 million and \$2.0 million, respectively. The Company maintains excess workers' compensation insurance coverage with Chubb between \$5.0 million and statutory limits per occurrence, except in Maryland, where coverage with Chubb is between \$1.0 million and statutory limits per occurrence, and in Colorado, where the coverage with Chubb is between \$2.0 million and statutory limits per occurrence.

The Company also operates a wholly owned, fully licensed insurance company, Ecole, which provides workers' compensation coverage to the Company's employees working in Arizona and Utah. The Company maintains additional reinsurance coverage for Ecole with Chubb, for losses above \$5.0 million per occurrence.

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

As part of its fronted workers' compensation insurance program with Chubb, the Company makes monthly payments into trust accounts (the "Chubb trust accounts") to be used for the payment of future claims. The balance in the Chubb trust accounts was \$407.7 million and \$451.0 million at June 30, 2019 and December 31, 2018, respectively. The Chubb trust accounts' balances are included as a component of the current and long-term restricted cash and investments on the Company's condensed consolidated balance sheets.

The states of California, Maryland, Oregon, Washington, Colorado and Delaware required us to maintain specified investment balances or other financial instruments totaling \$73.2 million and \$85.2 million at June 30, 2019 and December 31, 2018, respectively, to cover potential workers' compensation claims losses related to the Company's current and former status as a self-insured employer. At June 30, 2019, the Company provided surety bonds and standby letters of credit totaling \$73.2 million, including a California requirement of \$55.6 million.

The Company provided a total of \$430.7 million and \$413.4 million at June 30, 2019 and December 31, 2018, respectively, as an estimated future liability for unsettled workers' compensation claims liabilities. Of this amount, \$3.2 million at June 30, 2019 and December 31, 2018, represent case reserves incurred in excess of the Company's retention. The accrual for costs incurred in excess of retention limits is offset by a receivable from excess insurance carriers of \$3.2 million at June 30, 2019 and December 31, 2018, included in other assets on the condensed consolidated balance sheets.

Note 4 - Revolving Credit Facility and Long-Term Debt

On August 6, 2019, the Company entered into an amended credit agreement (the "Agreement") with the Bank, which supersedes the previous agreement. The Agreement increased the revolving credit line from \$28.0 million to \$33.0 million and increased the sublimit for standby letters of credit from \$7.5 million to \$8.0 million. At June 30, 2019, \$5.9 million of the sublimit for standby letters of credit was used. The Agreement expires on July 1, 2022. There were no changes to the previous credit agreement in place during the second quarter of 2019.

Advances under the revolving credit line bear interest, as selected by the Company, of (a) the daily floating rate of one month LIBOR plus 1.75% or (b) the fixed rate of LIBOR plus 1.75%. The Agreement also provides for an unused commitment fee of 0.375% per year on the average daily unused amount of the revolving credit line, as well as a fee of 1.75% of the face amount of each letter of credit reserved under the line of credit. The Company had no outstanding borrowings on its revolving credit line at June 30, 2019 and December 31, 2018. The credit facility is collateralized by the Company's accounts receivable and other rights to receive payment.

The Agreement also provides for a \$63.7 million standby letter of credit (the "Chubb Letter of Credit"). The Chubb Letter of Credit has an expiration date of July 1, 2020, subject to automatic renewal in specified circumstances.

In connection with the Chubb Letter of Credit, the Bank has been granted a security interest of first priority in certain blocked securities accounts (collectively, the "Collateral Accounts"). The Company has agreed to deposit in the Collateral Accounts 50% of the Company's consolidated net income (after tax and less cash dividends) for each quarter plus, to the extent necessary, an additional amount by May 15 each year so that the deposits in the Collateral Accounts for the prior year total at least \$16 million.

The initial fee paid under the Chubb Letter of Credit in June 2018 was equal to 2.5% of the face amount thereof. Upon annual renewal, the fees payable to the Bank quarterly in advance include (a) a fee at the annual rate of 2.5%, calculated based on the difference between the face amount of the Chubb Letter of Credit and 95% of the aggregate value of the Collateral Accounts as of the end of the previous quarter, (b) a fee at the annual rate of 1.0% calculated based on the balance of the face amount, and (c) other fees upon the payment or negotiation of each drawing under the Chubb Letter of Credit.

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

- EBITDA [net income before taxes plus interest expense (net of capitalized interest expense), depreciation expense, and amortization expense] on a rolling four-quarter basis of not less than \$30 million at the end of each fiscal quarter; and
- ratio of restricted and unrestricted cash and investments to workers' compensation and safety incentive liabilities of at least 1.0:1.0, measured quarterly.

The Agreement includes certain additional restrictions as follows:

- incurring additional indebtedness is prohibited without the prior approval of the Bank, other than purchase financing (including capital leases) for the acquisition of assets, provided that the aggregate of all purchase financing does not exceed \$1,000,000 at any time; and
- the Company may not terminate or cancel any of the AICE policies without the Bank's prior written consent.

The Agreement also contains customary events of default and specified cross-defaults under the Company's workers' compensation insurance arrangements. If an event of default under the Agreement occurs and is continuing, the Bank may declare any outstanding obligations under the Agreement to be immediately due and payable. At June 30, 2019, the Company was in compliance with all covenants.

The Company maintains a mortgage loan with the Bank with a balance of approximately \$4.1 million and \$4.2 million at June 30, 2019 and December 31, 2018, respectively, secured by the Company's corporate office building in Vancouver, Washington. This loan requires payment of monthly installments of \$18,375, bearing interest at the one month LIBOR plus 2.0%, with the unpaid principal balance due July 1, 2022.

Note 5 – Leases

Effective January 1, 2019, the Company adopted Accounting Standards Codification Topic 842 "Leases" using the optional transition method. Under this method of adoption, the prior period comparative information in the consolidated financial statements has not been revised and continues to be reported under the previously applicable lease accounting guidance. Additionally, we elected the package of practical expedients permitted under the transition guidance, which included the carry-forward of historical lease classification.

The Company primarily leases office buildings under operating leases which are included in Operating lease right-of-use ("ROU") assets, Current operating lease liabilities, and Long-term operating lease liabilities on the condensed consolidated balance sheets. The Company's leases have remaining terms of 1 to 7 years and often include one or more options to renew. The Company evaluates renewal options at lease inception and on an ongoing basis, and includes renewal options that it is reasonably certain to exercise in its expected lease terms when classifying leases and measuring liabilities. Leases with initial terms of 12 months or less are considered short-term lease costs and are not recorded as ROU assets on the condensed consolidated balance sheets. The Company has elected the practical expedient not to separate non-lease components from lease components for all classes of assets. Our lease agreements contain \$3.7 million of residual value guarantees, and generally do not contain material variable lease payments or restrictive covenants.

Information related to the Company's total lease costs were as follows (in thousands):

	Three Months Ended June 30,	Six Months Ended June 30,
Operating lease cost	\$ 1,646	\$ 3,602
Variable lease cost	143	250
Short-term lease cost	185	244
Total lease cost	<u>\$ 1,974</u>	<u>\$ 4,096</u>

Information related to the Company's ROU assets and related lease liabilities were as follows (in thousands):

	Three Months Ended June 30,	Six Months Ended June 30,
Cash paid for operating lease liabilities	\$ 1,914	\$ 3,644
Right-of-use assets obtained in exchange for new operating lease obligations(1)	1,819	28,514

(1) Six-months ended balance includes \$25.8 million for operating leases existing on January 1, 2019 and \$2.7 million for operating leases that commenced in the first six months of 2019.

	As of June 30, 2019
Weighted-average remaining lease term	4.2 years
Weighted-average discount rate	4.4 %

The table below reconciles the undiscounted future minimum lease payments (displayed by year and in the aggregate) under noncancellable operating leases with terms of more than one year to the total operating lease liabilities recognized on the condensed consolidated balance sheets as of June 30, 2019 (in thousands):

July 1, 2019 through December 31, 2019	\$	3,767
2020		7,076
2021		6,450
2022		4,976
2023		3,672
Thereafter		2,087
Total undiscounted future minimum lease payments		<u>28,028</u>
Less: Difference between undiscounted lease payments and discounted operating lease liabilities		2,546
Total operating lease liabilities	\$	<u>25,482</u>
Current operating lease liabilities	\$	6,381
Long-term operating lease liabilities		19,101
Total operating lease liabilities	\$	<u>25,482</u>

As previously disclosed in our 2018 Annual Report on Form 10-K, under the previous lease accounting standard, future minimum lease payments for operating leases having initial or remaining noncancellable lease terms in excess of one year would have been as follows (in thousands):

Year Ending December 31,		
2019	\$	7,135
2020		6,198
2021		5,673
2022		4,125
2023		2,642
Thereafter		1,474
	\$	<u>27,247</u>

Note 6 – Income Taxes

The Company's realization of a portion of net deferred tax assets is based in part on our estimates of the timing of reversals of certain temporary differences and on the generation of taxable income before such reversals.

Under Accounting Standards Codification ("ASC") 740, "Income Taxes," management evaluates the realizability of the deferred tax assets on a quarterly basis under a "more-likely than not" standard. As part of this evaluation, management reviews all evidence both positive and negative to determine if a valuation allowance is needed. One component of this analysis is to determine whether the Company was in a cumulative loss position for the most recent 12 quarters. The Company was in a cumulative income position for the 12 quarters ended June 30, 2019.

The Company is subject to income taxes in U.S. federal and multiple state and local tax jurisdictions. The Internal Revenue Service is examining the Company's federal tax returns for the years ended December 31, 2011, 2012, 2013 and 2014. In the major jurisdictions where it operates, the Company is generally no longer subject to income tax examinations by tax authorities for years before 2011.

A portion of the consolidated income the Company generates is not subject to state income tax. Depending on the percentage of this income as compared to total consolidated income, the Company's state effective rate could fluctuate from expectations.

Note 7 – Litigation

On November 21, 2012, David Kaanaana ("Kaanaana"), a former staffing employee, filed a California wage and hour violations lawsuit against BBSI. On May 19, 2016, the court entered a ruling in favor of BBSI, which was subsequently appealed by the plaintiffs. On November 30, 2018, the California Court of Appeal for the Second Appellate District returned its decision in *Kaanaana v. Barrett Business Services, Inc.*, overruling the trial court's decision to dismiss plaintiffs' claims and holding that prevailing wage requirements applicable to "public works" apply to certain types of districts. On January 9, 2019, BBSI filed a petition of review to the California Supreme Court. An amicus letter in support of the petition was filed by the Sanitation Districts of Los Angeles County, joined in by numerous other "special districts" in California. On February 27, 2019, the California Supreme Court granted the petition to review the appellate court's decision.

BBSI is subject to other legal proceedings and claims that arise in the ordinary course of our business. Given the uncertainties surrounding litigation, management is unable to estimate a potential range of loss arising from these actions.

Note 8 – Subsequent Events

We have evaluated events and transactions occurring after the balance sheet date through our filing date and noted no events that are subject to recognition or disclosure.

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

General

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

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

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

Business Organization. We operate a decentralized delivery model using operationally-focused business teams, typically located within 50 miles of our client companies. These teams are led by senior level business generalists and comprise senior level professionals with expertise in human resources, organizational development, risk mitigation and workplace safety and various types of administration, including payroll. These teams are responsible for growth of their operations, and for providing strategic leadership, guidance and expert consultation to our client companies. The decentralized structure fosters autonomous decision-making in which business teams deliver plans that closely align with the objectives of each business owner client. This structure also provides a means of incubating talent to support increased growth and capacity. We support clients with employees located in 23 states and the District of Columbia through a network of 63 branch locations in California, Oregon, Utah, Washington, Colorado, Idaho, Arizona, Maryland, Nevada, North Carolina, Delaware, Pennsylvania and Virginia. We also have several smaller recruiting locations in our general market areas, which are under the direction of a branch office.

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

Services Overview. BBSI's core purpose is to advocate for business owners, particularly in the small and mid-sized business segment. Our evolution from an entrepreneurially run company to a professionally managed organization has helped to form our view that all businesses experience inflection points at key stages of growth. The insights gained through our own growth, along with the trends we see in working with more than 6,400 companies each day, define our approach to guiding business owners through the challenges associated with being an employer. BBSI's business teams align with each business owner client through a structured three-tiered progression. In doing so, business teams focus on the objectives of each business owner and deliver planning, guidance and resources in support of those objectives.

Tier 1: Tactical Alignment

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

Tier 2: Dynamic Relationship

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

Tier 3: Strategic Counsel

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

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

Results of Operations

The following table sets forth the percentages of total revenues represented by selected items in the Company's condensed consolidated statements of operations for the three and six months ended June 30, 2019 and 2018 (\$ in thousands):

	Percentage of Total Net Revenues							
	Three Months Ended				Six Months Ended			
	June 30,		June 30,		June 30,		June 30,	
	2019	2018	2019	2018	2019	2018	2019	2018
Revenues:								
Professional employer service fees	\$ 203,157	88.0 %	\$ 197,277	85.2 %	\$ 393,684	87.6 %	\$ 386,239	84.8 %
Staffing services	27,825	12.0	34,326	14.8	55,513	12.4	69,340	15.2
Total revenues	<u>230,982</u>	<u>100.0</u>	<u>231,603</u>	<u>100.0</u>	<u>449,197</u>	<u>100.0</u>	<u>455,579</u>	<u>100.0</u>
Cost of revenues:								
Direct payroll costs	20,992	9.1	26,020	11.2	41,834	9.3	52,423	11.5
Payroll taxes and benefits	101,697	44.0	98,249	42.4	216,494	48.2	222,437	48.8
Workers' compensation	53,174	23.0	58,854	25.4	107,403	23.9	115,976	25.5
Total cost of revenues	<u>175,863</u>	<u>76.1</u>	<u>183,123</u>	<u>79.0</u>	<u>365,731</u>	<u>81.4</u>	<u>390,836</u>	<u>85.8</u>
Gross margin	55,119	23.9	48,480	21.0	83,466	18.6	64,743	14.2
Selling, general and administrative expenses	39,005	16.9	35,614	15.4	72,165	16.1	65,043	14.3
Depreciation and amortization	970	0.4	1,274	0.6	1,939	0.4	2,278	0.5
Income (loss) from operations	15,144	6.6	11,592	5.0	9,362	2.0	(2,578)	(0.6)
Other income, net	2,851	1.2	2,121	1.0	5,458	1.2	4,114	0.9
Income before income taxes	17,995	7.8	13,713	6.0	14,820	3.3	1,536	0.3
Provision for (benefit from) income taxes	4,088	1.8	2,473	1.1	3,213	0.7	(581)	(0.1)
Net income	<u>\$ 13,907</u>	<u>6.0 %</u>	<u>\$ 11,240</u>	<u>4.9 %</u>	<u>\$ 11,607</u>	<u>2.5 %</u>	<u>\$ 2,117</u>	<u>0.4 %</u>

We report PEO revenues net of direct payroll costs because we are not the primary obligor for wage payments to our clients' employees. However, management believes that gross billing amounts and wages are useful in understanding the volume of our business activity and serve as an important performance metric in managing our operations, including the preparation of internal operating forecasts and establishing executive compensation performance goals. We therefore present for purposes of analysis gross billing and wage information for the three and six months ended June 30, 2019 and 2018.

(in thousands)	(Unaudited)		(Unaudited)	
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Gross billings	\$ 1,463,962	\$ 1,379,483	\$ 2,824,206	\$ 2,699,327
PEO and staffing wages	\$ 1,246,576	\$ 1,165,860	\$ 2,402,947	\$ 2,280,567

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

(in thousands)	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2019	2018	2019	2018
Workers' compensation	\$ 53,174	\$ 58,854	\$ 107,403	\$ 115,976
Safety incentive costs	7,833	8,039	14,536	15,604
Non-GAAP gross workers' compensation	<u>\$ 61,007</u>	<u>\$ 66,893</u>	<u>\$ 121,939</u>	<u>\$ 131,580</u>

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

	(Unaudited) Percentage of Gross Billings Three Months Ended June 30,		(Unaudited) Percentage of Gross Billings Six Months Ended June 30,	
	2019	2018	2019	2018
PEO and staffing wages	85.2%	84.5%	85.1%	84.5%
Payroll taxes and benefits	6.9%	7.1%	7.7%	8.2%
Non-GAAP gross workers' compensation	4.2%	4.8%	4.3%	4.9%

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

Three Months Ended June 30, 2019 and 2018

Net income for the second quarter of 2019 amounted to \$13.9 million compared to net income of \$11.2 million for the second quarter of 2018. Diluted income per share for the second quarter of 2019 was \$1.81 compared to diluted income per share of \$1.46 for the second quarter of 2018.

Revenues for the second quarter of 2019 totaled \$231.0 million, a decrease of \$0.6 million or 0.3% over the second quarter of 2018, which reflects an increase in the Company's professional employer service fee revenue of \$5.9 million or 3.0% and a decrease in staffing services revenue of \$6.5 million or 19.0%.

Our growth in professional employer service revenues was attributable to both new and existing customers. Due to continued strength in our referral channels, business from new customers during the second quarter of 2019 exceeded business lost from former customers. Gross billings for PEO services to continuing customers increased 4.0% compared to the second quarter of 2018. This growth was primarily the result of increases in employee headcount and wage inflation. PEO revenue is presented net of safety incentives of \$7.8 million and \$8.0 million in the second quarter of 2019 and 2018, respectively. The decrease in staffing services revenue was due primarily to tight labor market conditions during the 2019 period.

Gross margin for the second quarter of 2019 totaled \$55.1 million or 23.9% of revenue compared to \$48.5 million or 21.0% of revenue for the second quarter of 2018. The increase in gross margin as a percentage of revenues is primarily due to decreases in payroll taxes and workers' compensation expense as a percentage of revenues.

Direct payroll costs for the second quarter of 2019 totaled \$21.0 million or 9.1% of revenue compared to \$26.0 million or 11.2% of revenue for the second quarter of 2018. The decrease in direct payroll costs percentage was primarily due to the increase in professional employer services and the decrease of staffing services within the mix of our customer base compared to the second quarter of 2018.

Payroll taxes and benefits for the second quarter of 2019 totaled \$101.7 million or 44.0% of revenue compared to \$98.2 million or 42.4% of revenue for the second quarter of 2018. The increase in payroll taxes and benefits as a percentage of revenues is primarily due to the relative increase in PEO services within the mix of our customer base compared to the second quarter of 2018.

Workers' compensation expense for the second quarter of 2019 totaled \$53.2 million or 23.0% of revenue compared to \$58.9 million or 25.4% of revenue for the second quarter of 2018. The decrease in workers' compensation expense as a percentage of revenue was primarily due to lower frictional costs and a favorable adjustment of \$3.0 million related to prior period claims during the quarter.

Selling, general and administrative ("SG&A") expenses for the second quarter of 2019 totaled \$39.0 million or 16.9% of revenue compared to \$35.6 million or 15.4% of revenue for the second quarter of 2018. The increase was primarily attributable to an increase in employee-related expenses.

Other income, net for the second quarter of 2019 was \$2.9 million as compared to other income, net of \$2.1 million for the second quarter of 2018. The change was primarily attributable to an increase in investment income in the second quarter of 2019.

Our effective income tax rate for the second quarter of 2019 was 22.7%, compared to 18.0% for the second quarter of 2018. Our income tax rate typically differs from the federal statutory tax rate of 21% primarily due to state taxes and federal and state tax credits.

Six Months Ended June 30, 2019 and 2018

Net income for the first six months of 2019 amounted to \$11.6 million compared to net income of \$2.1 million for the first six months of 2018. Diluted income per share for the first six months of 2019 was \$1.51 compared to diluted income per share of \$0.28 for the first six months of 2018.

Revenues for the first six months of 2019 totaled \$449.2 million, a decrease of \$6.4 million or 1.4% over the first six months of 2018, which reflects an increase in the Company's professional employer service fee revenue of \$7.4 million or 1.9% and a decrease in staffing services revenue of \$13.8 million or 20.0%.

Our growth in professional employer service revenues was attributable to both new and existing customers. Due to continued strength in our referral channels, business from new customers during the first six months of 2019 exceeded business lost from former customers. Gross billings for PEO services to continuing customers increased 3.4% compared to the first six months of 2018. This growth was primarily the result of increases in employee headcount and wage inflation. PEO revenue is presented net of safety incentives of \$14.5 million and \$15.6 million in the first six months of 2019 and 2018, respectively. The decrease in staffing services revenue was due primarily to tight labor market conditions during the 2019 period.

Gross margin for the first six months of 2019 totaled \$83.5 million or 18.6% of revenue compared to \$64.7 million or 14.2% of revenue for the first six months of 2018. The increase in gross margin as a percentage of revenues is primarily due to decreases in payroll taxes and workers' compensation expense as a percentage of revenues.

Direct payroll costs for the first six months of 2019 totaled \$41.8 million or 9.3% of revenue compared to \$52.4 million or 11.5% of revenue for the first six months of 2018. The decrease in direct payroll percentage was primarily due to the increase in professional employer services and the decrease of staffing services within the mix of our customer base compared to the first six months of 2018.

Payroll taxes and benefits for the first six months of 2019 totaled \$216.5 million or 48.2% of revenue compared to \$222.4 million or 48.8% of revenue for the first six months of 2018. The decrease in payroll taxes and benefits as a percentage of revenues is primarily due to lower effective payroll tax rates, partially offset by the relative increase in PEO services within the mix of our customer base compared to the first six months of 2018.

Workers' compensation expense for the first six months of 2019 totaled \$107.4 million or 23.9% of revenue compared to \$ 116.0 million or 25.5% of revenue for the first six months of 2018. The decrease in workers' compensation expense as a percentage of revenue was primarily due to lower frictional costs and a favorable adjustment of \$4.7 million related to prior period claims during the first six months of 2019.

SG&A expenses for the first six months of 2019 totaled \$72.2 million or 16.1% of revenue compared to \$65.0 million or 14.3% of revenue for the first six months of 2018. The increase was primarily attributable to an increase in employee-related expenses.

Other income, net for the first six months of 2019 was \$5.5 million as compared to other income, net of \$4.1 million for the first six months of 2018. The change was primarily attributable to an increase in investment income in the first six months of 2019.

Our effective income tax rate for the first six months of 2019 was 21.7% compared to -37.8% for the first six months of 2018. Our income tax rate typically differs from the federal statutory tax rate of 21% primarily due to state taxes and federal and state tax credits.

Fluctuations in Quarterly Operating Results

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

Liquidity and Capital Resources

The Company's cash balance of \$217.3 million, which includes cash, cash equivalents, and restricted cash, increased \$76.6 million for the six months ended June 30, 2019, compared to a decrease of \$61.6 million for the comparable period of 2018. The increase in cash at June 30, 2019 as compared to December 31, 2018 was primarily due to increased accrued payroll, payroll taxes and related benefits, increased workers' compensation claims liabilities, and proceeds from the sales and maturities of investments and restricted investments.

Net cash provided by operating activities for the six months ended June 30, 2019 was \$38.9 million, compared to net cash provided of \$16.5 million for the comparable period of 2018. For the six months ended June 30, 2019, cash flow from operating activities was primarily due to net income of \$11.6 million, increased accrued payroll, payroll taxes and related benefits of \$24.7 million and increased workers' compensation claims liabilities of \$17.5 million, partially offset by increased trade accounts receivable of \$11.6 million and decreased other accrued liabilities of \$4.7 million.

Net cash provided by investing activities for the six months ended June 30, 2019 was \$41.5 million, compared to net cash used of \$74.2 million for the comparable period of 2018. For the six months ended June 30, 2019, cash provided by investing activities consisted primarily of proceeds from sales and maturities of investments and restricted investments of \$50.0 million, partially offset by purchases of property and equipment of \$5.1 million and purchases of restricted investments of \$3.2 million.

Net cash used in financing activities for the six months ended June 30, 2019 was \$3.8 million, compared to net cash used of \$3.8 million for the comparable period of 2018. For the six months ended June 30, 2019, cash was primarily used for dividend payments of \$3.7 million.

The states of California, Maryland, Oregon, Washington, Colorado and Delaware required us to maintain specified financial instruments totaling \$73.2 million at June 30, 2019 to cover potential workers' compensation claims losses related to the Company's current and former status as a self-insured employer. At June 30, 2019, the Company provided surety bonds and standby letters of credit totaling \$73.2 million, including a California requirement of \$55.6 million. Management expects the surety bonds and letters of credit to decrease over time as a result of a declining self-insured liability in California.

As part of its fronted workers' compensation insurance program with Chubb, the Company makes monthly payments into trust accounts (the "Chubb trust accounts") to be used for the payment of future claims. The balance in the Chubb trust accounts was \$407.7 million and \$451.0 million at June 30, 2019 and December 31, 2018, respectively. Included within the Chubb trust account at June 30, 2019, is \$168.5 million of restricted cash. The restricted cash accrues interest at the 3-month Treasury bill yield rate plus 0.25%. The Chubb trust accounts balances are included as a component of the current and long-term restricted cash and investments on the Company's condensed consolidated balance sheets.

On August 6, 2019, the Company entered into an amended credit agreement (the "Agreement") with the Bank, which supersedes the previous agreement. The Agreement increased the revolving credit line from \$28.0 million to \$33.0 million and increased the sublimit for standby letters of credit from \$7.5 million to \$8.0 million. At June 30, 2019, \$5.9 million of the sublimit for standby letters of credit was used. The Agreement expires on July 1, 2022. There were no changes to the previous credit agreement in place during the second quarter of 2019.

Advances under the revolving credit line bear interest, as selected by the Company, of (a) the daily floating rate of one month LIBOR plus 1.75% or (b) the fixed rate of LIBOR plus 1.75%. The Agreement also provides for an unused commitment fee of 0.375% per year on the average daily unused amount of the revolving credit line, as well as a fee of 1.75% of the face amount of each letter of credit reserved under the line of credit. The Company had no outstanding borrowings on its revolving credit line at June 30, 2019 and December 31, 2018. The credit facility is collateralized by the Company's accounts receivable and other rights to receive payment.

The Agreement also provides for a \$63.7 million standby letter of credit (the "Chubb Letter of Credit"). The Chubb Letter of Credit has an expiration date of July 1, 2020, subject to automatic renewal in specified circumstances.

In connection with the Chubb Letter of Credit, the Bank has been granted a security interest of first priority in certain blocked securities accounts (collectively, the "Collateral Accounts"). The Company has agreed to deposit in the Collateral Accounts 50% of the Company's consolidated net income (after tax and less cash dividends) for each quarter plus, to the extent necessary, an additional amount by May 15 each year so that the deposits in the Collateral Accounts for the prior year total at least \$16 million. In the first quarter of 2019 the Company deposited \$16.0 million into the Collateral Accounts to satisfy the requirement for 2018.

The initial fee paid under the Chubb Letter of Credit in June 2018 was equal to 2.5% of the face amount thereof. Upon annual renewal, the fees payable to the Bank quarterly in advance include (a) a fee at the annual rate of 2.5%, calculated based on the difference between the face amount of the Chubb Letter of Credit and 95% of the aggregate value of the Collateral Accounts as of the end of the previous quarter, (b) a fee at the annual rate of 1.0% calculated based on the balance of the face amount, and (c) other fees upon the payment or negotiation of each drawing under the Chubb Letter of Credit.

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

- EBITDA [net income before taxes plus interest expense (net of capitalized interest expense), depreciation expense, and amortization expense] on a rolling four-quarter basis of not less than \$30 million at the end of each fiscal quarter; and
- ratio of restricted and unrestricted cash and investments to workers' compensation and safety incentive liabilities of at least 1.0:1.0, measured quarterly.

The Agreement includes certain additional restrictions as follows:

- incurring additional indebtedness is prohibited without the prior approval of the Bank, other than purchase financing (including capital leases) for the acquisition of assets, provided that the aggregate of all purchase financing does not exceed \$1,000,000 at any time; and
- the Company may not terminate or cancel any of the AICE policies without the Bank's prior written consent.

The Agreement also contains customary events of default and specified cross-defaults under the Company's workers' compensation insurance arrangements. If an event of default under the Agreement occurs and is continuing, the Bank may declare any outstanding obligations under the Agreement to be immediately due and payable. At June 30, 2019, the Company was in compliance with all covenants.

The Company maintains a mortgage loan with the Bank with a balance of approximately \$4.1 million and \$4.2 million at June 30, 2019 and December 31, 2018, respectively, secured by the Company's corporate office building in Vancouver, Washington. This loan requires payment of monthly installments of \$18,375, bearing interest at the one month LIBOR plus 2.0%, with the unpaid principal balance due July 1, 2022.

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

Inflation

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

Forward-Looking Information

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

All of our forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors with respect to the Company include our ability to retain current clients and attract new clients, difficulties associated with integrating clients into our operations, economic trends in our service areas, the potential for material deviations from expected future workers' compensation claims experience, the workers' compensation regulatory environment in our primary markets, security breaches or failures in the Company's information technology systems, collectability of accounts receivable, changes in effective payroll tax rates and federal and state income tax rates, the carrying values of deferred income tax assets and goodwill (which may be affected by our future operating results), the impact of the Patient Protection and Affordable Care Act, escalating medical costs, and other health care legislative initiatives on our business, the effect of conditions in the global capital markets on our investment portfolio, and the availability of capital, borrowing capacity on our revolving credit facility, or letters of credit necessary to meet state-mandated surety deposit requirements for maintaining our status as a qualified self-insured employer for workers' compensation coverage or our fronted insurance program. Additional risk factors affecting our business are discussed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2018, which was filed with the SEC on March 5, 2019. We disclaim any obligation to publicly announce any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk for changes in interest rates primarily relates to its investment portfolio and its outstanding borrowings on its line of credit and long-term debt. As of June 30, 2019, the Company's investments consisted principally of \$178 million in corporate bonds, \$72 million in mortgage backed securities, \$40 million in U.S. government agency securities, \$38 million in U.S. treasuries, \$17 million in money market funds, \$5 million in supranational bonds, and \$3 million in mutual funds. The Company's outstanding debt totaled approximately \$4.1 million at June 30, 2019. Based on the Company's overall interest exposure at June 30, 2019, a 50 basis point increase in market interest rates would have a \$4.6 million effect on the fair value of the Company's investment portfolio. A 50 basis point increase would have an immaterial effect on the Company's outstanding borrowings because of the relative size of the outstanding borrowings.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Based on their evaluation, the Company's CEO and CFO have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective as of June 30, 2019.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Inherent Limitations

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

PART II-OTHER INFORMATION

Item 1. Legal Proceedings

See the information disclosed in "Note 7 - Litigation," to the condensed consolidated financial statements included in Part I of this report, which is incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes in the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2018, which was filed with the SEC on March 5, 2019.

Item 5. Other Information

On August 6, 2019, the Company and the Bank entered into a Second Amended and Restated Credit Agreement that provides for an increase in the revolving credit line from \$28.0 million to \$33.0 million, the removal of certain financial covenants and negative covenants, and an extended term from July 1, 2020, to July 1, 2022, among other changes. For additional information regarding the Company's borrowing relationship with the Bank, see Note 4 to our unaudited interim condensed consolidated financial statements in Part I, Item 1 of this report. The amended loan documents are filed with this report as Exhibits 4.1 and 4.2.

Item 6.	Exhibits
4.1	<u>Second Amended and Restated Credit Agreement between the Registrant and Wells Fargo Bank, National Association, dated as of August 6, 2019.</u>
4.2	<u>Third Amended and Restated Revolving Line of Credit Note dated August 6, 2019 of the Registrant.</u>
10.1	<u>Form of Non-Employee Director Restricted Stock Units Award Agreement for awards granted in 2019 and thereafter under the Registrant's 2015 Stock Incentive Plan.</u>
10.2	<u>Transition and Separation Agreement between the Registrant and Gregory R. Vaughn dated as of June 3, 2019.</u>
10.3	<u>Summary of Compensatory Arrangements for Non-Employee Directors of the Registrant effective July 1, 2019.</u>
10.4	<u>Indemnification Agreement between the Registrant and Michael L. Elich dated as of July 15, 2019.</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a).</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a).</u>
32	<u>Certification pursuant to 18 U.S.C. Section 1350.</u>
101	INS XBRL Instance Document
101	SCH XBRL Taxonomy Extension Schema Document
101	CAL XBRL Taxonomy Extension Calculation Linkbase Document
101	DEF XBRL Taxonomy Extension Definition Linkbase Document
101	LAB XBRL Taxonomy Extension Label Linkbase Document
101	PRE XBRL Taxonomy Extension Presentation Linkbase Document

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

SIGNATURES

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

BARRETT BUSINESS SERVICES, INC.
Registrant

Date: August 7, 2019

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

SECOND AMENDED AND RESTATED CREDIT AGREEMENT

THIS SECOND AMENDED AND RESTATED CREDIT AGREEMENT (this "Agreement") dated August 5, 2019, by and between BARRETT BUSINESS SERVICES, INC., a Maryland corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank"). This Agreement amends, restates and supersedes in its entirety that certain Amended and Restated Credit Agreement dated June 30, 2017, by and between Borrower and Bank, as such may have been amended from time to time prior to the date hereof (the "Prior Credit Agreement").

RECITALS

Borrower has requested that Bank extend or continue credit to Borrower as described below, and Bank has agreed to provide such credit to Borrower on the terms and conditions contained herein.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Bank and Borrower hereby agree as follows:

ARTICLE I
CREDIT TERMS

SECTION 1.1. LINE OF CREDIT.

(a) Line of Credit. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to and including July 1, 2022, not to exceed at any time the aggregate principal amount of Thirty Three Million Dollars (\$33,000,000) (the "Line of Credit"), the proceeds of which shall be used for general corporate purposes. Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a promissory note dated the date hereof, as modified from time to time (the "Line of Credit Note"), all terms of which are incorporated herein by this reference.

(b) Letter of Credit Subfeature. As a subfeature under the Line of Credit, Bank agrees from time to time during the term thereof to issue or cause an affiliate to issue standby letters of credit for the account of Borrower (each, a "Line of Credit Letter of Credit" and collectively, the "Line of Credit Letters of Credit"); provided however, that the aggregate undrawn amount of all outstanding Line of Credit Letters of Credit (including without limitation the Existing Line of Credit Letters of Credit, as that term is defined in Section 1.1(b)(iii) below) shall not at any time exceed Eight Million and 00/100 Dollars (\$8,000,000.00). The form and substance of each Line of Credit Letter of Credit shall be subject to approval by Bank, in its sole discretion.

(i) Each Line of Credit Letter of Credit shall be issued for a term not to exceed three hundred sixty five (365) days, as designated by Borrower; provided however, that no Line of Credit Letter of Credit shall be issued with, nor shall Bank be required to renew or (if applicable) allow automatic renewal of any Line of Credit Letter of Credit so that it will have, an expiration date that is subsequent to the maturity date of the Line of Credit (with any such Line of Credit Letter of Credit with an expiration date that is subsequent to the maturity date of the Line of Credit to be referred to as an "Extended Date Letter of Credit") unless Borrower, immediately upon demand by Bank at any time, provides Bank with cash collateral (which may

be in addition to or, if agreed by Bank, may be a replacement for, such other collateral that may have been granted by Borrower to Bank, pursuant to this Agreement or otherwise), consisting of a deposit account maintained by Borrower with Bank in an amount that is not less than one hundred five percent (105%) of the undrawn amount of each such Extended Date Letter of Credit, as evidenced by and subject to the security agreements and other documents as Bank shall reasonably require, all in form and substance satisfactory to Bank; and provided further, that in no event shall any Extended Date Letter of Credit have a then-current expiration date more than three hundred sixty-five (365) days beyond the maturity date of the Line of Credit.

(ii) The undrawn amount of all Line of Credit Letters of Credit (including the Existing Line of Credit Letters of Credit) shall be reserved under the Line of Credit and shall not be available for borrowings thereunder. Each Line of Credit Letter of Credit shall be subject to the additional terms and conditions of the Letter of Credit Agreement (as that term is defined in Section 1.1(b)(iii) below), applications and any related documents required by Bank in connection with the issuance thereof. Each drawing paid under a Line of Credit Letter of Credit shall be deemed an advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions of this Agreement applicable to such advances; provided however, that if advances under the Line of Credit are not available, for any reason, at the time any drawing is paid, then Borrower shall immediately pay to Bank the full amount drawn, together with interest thereon from the date such drawing is paid to the date such amount is fully repaid by Borrower, at the rate of interest applicable to advances under the Line of Credit. In such event, Borrower agrees that Bank, in its sole discretion, may debit any account maintained by Borrower with Bank for the amount of any such drawing.

(iii) Bank has issued or caused an affiliate to issue the following standby letters of credit (each an "Existing Line of Credit Letter of Credit" and collectively, the "Existing Line of Credit Letters of Credit"), each of which is subject 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 amended (the "Letter of Credit Agreement"), together with applications and any related documents required by Bank in connection with the issuance (and any renewal) thereof, and is outstanding as of the date hereof: (A) Standby Letter of Credit No. NZS504587 in the amount of Four Million Two Hundred Fourteen Thousand Dollars (\$4,214,000.00) dated December 8, 2003, as amended from time to time, and (B) Standby Letter of Credit No. NZS401574 in the amount of One Million Six Hundred Fifty Thousand Dollars (\$1,650,000.00) dated June 20, 2001, as amended from time to time.

(c) Borrowing and Repayment. Borrower may from time to time during the term of the Line of Credit borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions contained herein or in the Line of Credit Note; provided however, that the total outstanding borrowings under the Line of Credit shall not at any time exceed the maximum principal amount available thereunder, as set forth herein.

SECTION 1.2. TERM LOAN 1.

(a) Term Loan 1 Renewal. Bank has made a loan to Borrower in the original principal amount of Five Million Five Hundred Twelve Thousand Five Hundred Dollars (\$5,512,500.00) ("Term Loan 1"), on which the outstanding principal balance as of the date hereof is \$4,042,500.00. Borrower's obligation to repay the Term Loan 1 is evidenced by a promissory note dated June 30, 2017, as modified from time to time (the "Term Note 1"), all terms of which are incorporated herein by this reference.

(b) Repayment. Principal and interest on the Term Loan 1 shall be repaid in accordance with the provisions of the Term Note 1.

(c) Prepayment. Borrower may prepay principal on the Term Loan 1 solely in accordance with the provisions of the Term Note 1.

SECTION 1.3. CHUBB LETTER OF CREDIT.

(a) Standby Letter of Credit. In addition to the Existing Line of Credit Letters of Credit, subject to the terms and conditions of this Agreement, Bank hereby agrees to issue or cause an affiliate to issue a standby letter of credit for the account of Borrower and for the benefit of ACE American Insurance Company ("ACE Insurance") to finance the conversion of Borrower's workers' compensation insurance coverage methodology to one based on high deductible policies (the "Chubb Letter of Credit") in the maximum principal amount of Sixty Three Million Seven Hundred Thousand Dollars (\$63,700,000.00). The form and substance of the Chubb Letter of Credit shall be subject to approval by Bank, in its sole discretion. The Chubb Letter of Credit shall have an expiration date of July 1, 2020, or such other date agreed to by Bank in its sole discretion, with an automatic renewal clause as detailed in the Chubb Letter of Credit, and is subject to the additional terms of the Letter of Credit Agreement, application and any related documents required by Bank in connection with the issuance thereof.

(b) Collateral Accounts. Borrower has established, and granted a security interest of first priority to Bank in, a blocked securities account numbered 3903114319 with DST Asset Manager Solutions, Inc., as intermediary on behalf of Wells Fargo Funds Trust, as issuer (the "BBSI Collateral Account"). Borrower shall deposit or cause to be deposited into the BBSI Collateral Account, on a quarterly basis, commencing with the quarter ending June 30, 2019, and no later than 14 days following the deadline for each of Borrower's submission of its 10-Q and 10-K filings to the SEC (as defined below), fifty percent (50%) of Borrower's consolidated net income after tax /less dividends, in each case, on a cumulative year-to-date basis, provided that, without regard to such net income threshold, in no event shall less than the aggregate sum of Sixteen Million Dollars (\$16,000,000.00) be deposited into the BBSI Collateral Account by each May 15, with respect to the prior fiscal year.

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

SECTION 1.4. INTEREST/FEES.

(a) Interest. The outstanding principal balance of each credit subject hereto shall bear interest at the rate of interest set forth in each promissory note or other instrument or document executed in connection therewith. The promissory notes or other instruments or documents executed in connection with the credits subject to this Agreement may calculate interest at a rate equal to the sum of an index rate of interest plus a margin rate of interest. In the event any index rate of interest would be less than zero percent (0.0%), then the index rate of interest shall be deemed to be zero percent (0.0%) and the applicable promissory note or other instrument or document shall bear interest at a rate equal to the margin rate of interest.

(b) Computation and Payment. Interest shall be computed on the basis set forth in each promissory note or other instrument or document required hereby. Interest shall be payable at the times and place set forth in each promissory note or other instrument or document required hereby.

(c) Unused Commitment Fee. Borrower shall pay to Bank a fee equal to three hundred seventy five thousandths of one percent (0.375%) per annum (computed on the basis of a 360-day year, actual days elapsed) on the daily unused amount of the Line of Credit, which fee shall be calculated on a quarterly basis by Bank and shall be due and payable by Borrower in arrears on the first day of each quarter, commencing on October 1, 2019.

(d) Line of Credit Letter of Credit Fees Borrower shall pay to Bank (i) fees upon the issuance of each Line of Credit Letter of Credit equal to one and three-quarters percent (1.75%) per annum (computed on the basis of a 360-day year, actual days elapsed) of the face amount thereof, and (ii) fees upon the payment or negotiation of each drawing under any Line of Credit Letter of Credit and fees upon the occurrence of any other activity with respect to any Line of Credit Letter of Credit (including without limitation, the transfer, amendment or cancellation of any Line of Credit Letter of Credit) determined in accordance with Bank's standard fees and charges then in effect for such activity.

(e) Chubb Letter of Credit Fees Borrower shall pay to Bank (i) fees upon the issuance of the Chubb Letter of Credit equal to two and one-half of one percent (2.50%) per annum (computed on the basis of a 360-day year, actual days elapsed) of the face amount thereof, (ii) fees upon the annual renewal of the Chubb Letter of Credit, payable quarterly in advance, equal to (A) two and one-half of one percent (2.50%) per annum (computed on the basis of a 360-day year, actual days elapsed) of the difference of (I) the face amount thereof and (II) ninety five percent (95%) of the value in the BBSI Collateral Account determined as of the second to last most recently ended month, plus (B) one percent (1.00%) per annum (computed on the basis of a 360-day year, actual days elapsed) of the balance of the face amount of the renewed Chubb Letter of Credit, and (iii) fees upon the payment or negotiation of each drawing under the Chubb Letter of Credit and fees upon the occurrence of any other activity with respect to the Chubb Letter of Credit (including without limitation, the transfer, amendment or cancellation of the Chubb Letter of Credit) determined in accordance with Bank's standard fees and charges then in effect for such activity.

SECTION 1.5. COLLECTION OF PAYMENTS. Except to the extent expressly specified otherwise in any Loan Document other than this Agreement, Borrower authorizes Bank to collect all amounts due to Bank from Borrower under this Agreement or any other Loan Document (whether for principal, interest or fees, or as reimbursement of drafts paid or other payments made by Bank under any credit subject to this Agreement) by debiting any deposit account maintained by Borrower with Bank for the full amount thereof. Should there be insufficient funds in Borrower's deposit accounts with Bank to pay all such sums when due, the full amount of such deficiency shall be immediately due and payable by Borrower.

SECTION 1.6. COLLATERAL.

As security for all indebtedness and other obligations of Borrower to Bank, other than indebtedness that is excluded from such secured obligations by the terms of the security agreement(s) required hereunder, Borrower shall grant, and hereby confirms its prior grant, to Bank security interests of first priority in (i) all Borrower's accounts receivable and other rights to payment, accounts (including without limitation the BBSI Collateral Account), general intangibles, inventory and equipment, (ii) all financial assets credited to the BBSI Collateral Account; (iii) all security entitlements with respect to the financial assets credited to the BBSI Collateral Account; (iv) any and all other investment property or assets maintained or recorded in the BBSI Collateral Account; and (v) all replacements or substitutions for, and proceeds of the

sale or the disposition of, any of the foregoing, including , without limitation, cash proceeds. As used herein, the terms "security entitlement," "financial asset" and "investment property" shall have the respective meanings set forth in the Oregon Uniform Commercial Code.

As security for all indebtedness and other obligations of Borrower to Bank under Term Loan 1, Borrower shall grant, and hereby confirms its prior 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.

As security for all indebtedness and other obligations of Borrower to Bank under the Chubb Letter of Credit, Borrower shall cause ASSOCIATED INSURANCE COMPANY FOR EXCESS, an Arizona corporation ("AICE") to grant to Bank security interests of first priority in all AICE's accounts receivable and other rights to payment, accounts, general intangibles, inventory and equipment, and all replacements or substitutions for, and proceeds of the sale or the disposition of, any of the foregoing, including without limitation, cash proceeds.

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 and reimburse 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, collateral exams, audits, inspections, and title insurance.

ARTICLE II REPRESENTATIONS AND WARRANTIES

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

SECTION 2.1. LEGAL STATUS. Borrower and each Affiliate (as that term is defined in Section 4.3(b) below) is: (a) a corporation, duly organized and existing and in good standing under the laws of the state of its incorporation, 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 Borrower or such Affiliate; and (b) not the target of any trade or economic sanctions promulgated by the United Nations or the governments of the United States, the United Kingdom, the European Union, or any other jurisdiction in which Borrower or such Affiliate is located or operates (collectively, "Sanctions").

SECTION 2.2. AUTHORIZATION AND VALIDITY. This Agreement and each promissory note, contract, instrument and other document required hereby or at any time hereafter delivered to Bank in connection herewith (collectively, the "Loan Documents") have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Borrower or the party which executes the same, enforceable in accordance with their respective terms.

SECTION 2.3. NO VIOLATION. The execution, delivery and performance by Borrower of each of the Loan Documents do not violate any provision of any law or regulation, or contravene any provision of the organizational and governing documents of Borrower or any Affiliate, or result in any breach of or default under any contract, obligation, indenture or other instrument to which Borrower or any Affiliate is a party or by which Borrower or any Affiliate may be bound.

SECTION 2.4. LITIGATION. There are no pending, or to the best of Borrower's knowledge threatened, actions, claims, investigations, suits or proceedings by or before any governmental authority, arbitrator, court or administrative agency which could have a material adverse effect on the financial condition or operation of Borrower or any Affiliate other than those disclosed by Borrower to Bank in writing prior to the date hereof.

SECTION 2.5. CORRECTNESS OF FINANCIAL STATEMENT AND OTHER INFORMATION. The annual financial statement of Borrower dated December 31, 2018, and all interim financial statements delivered to Bank since said date, true copies of which have been delivered by Borrower to Bank prior to the date hereof, (a) are complete and correct and present fairly the financial condition of Borrower, (b) disclose all liabilities of Borrower that are required to be reflected or reserved against under generally accepted accounting principles, whether liquidated or unliquidated, fixed or contingent, and (c) have been prepared in accordance with generally accepted accounting principles consistently applied. Since the dates of such financial statements there has been no material adverse change in the financial condition of Borrower or any Affiliate, nor has Borrower or any Affiliate mortgaged, pledged, granted a security interest in or otherwise encumbered any of its assets or properties except in favor of Bank or as otherwise permitted by Bank in writing. As of the date hereof, Borrower is solvent and, following the consummation of the transactions contemplated herein, will continue to be solvent. All information provided from time to time by Borrower or any Third Party Obligor to Bank for the purpose of enabling Bank to fulfill its regulatory and compliance requirements, standards and processes was complete and correct at the time such information was provided and, except as specifically identified to Bank in a subsequent writing, remains complete and correct today.

SECTION 2.6. INCOME TAX RETURNS. Borrower has no knowledge of any pending assessments or adjustments of its income tax payable with respect to any year.

SECTION 2.7. NO SUBORDINATION. There is no agreement, indenture, contract or instrument to which Borrower is a party or by which Borrower may be bound that requires the subordination in right of payment of any of Borrower's obligations subject to this Agreement to any other obligation of Borrower.

SECTION 2.8. PERMITS, FRANCHISES. Borrower and each Affiliate possesses, and will hereafter possess, all permits, consents, approvals, franchises and licenses required and rights to all trademarks, trade names, patents, and fictitious names, if any, necessary to enable it to conduct the business in which it is now engaged in compliance with applicable law.

SECTION 2.9. ERISA. Borrower is in compliance in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended or recodified from time to time ("ERISA"); Borrower has not violated any provision of any defined employee pension benefit plan (as defined in ERISA) maintained or contributed to by Borrower (each, a "Plan"); no Reportable Event as defined in ERISA has occurred and is continuing with respect to any Plan initiated by Borrower; Borrower has met its minimum funding requirements under ERISA with respect to each Plan; and each Plan will be able to fulfill its benefit obligations

as they come due in accordance with the Plan documents and under generally accepted accounting principles.

SECTION 2.10. OTHER OBLIGATIONS. Neither Borrower nor any Affiliate is in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation.

SECTION 2.11. ENVIRONMENTAL MATTERS. Except as disclosed by Borrower to Bank in writing prior to the date hereof, Borrower is in compliance in all material respects with all applicable federal or state environmental, hazardous waste, health and safety statutes, and any rules or regulations adopted pursuant thereto, which govern or affect any of Borrower's operations and/or properties, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Federal Resource Conservation and Recovery Act of 1976, and the Federal Toxic Substances Control Act, as any of the same may be amended, modified or supplemented from time to time. None of the operations of Borrower is the subject of any federal or state investigation evaluating whether any remedial action involving a material expenditure is needed to respond to a release of any toxic or hazardous waste or substance into the environment. Borrower has no material contingent liability in connection with any release of any toxic or hazardous waste or substance into the environment.

SECTION 2.12. REAL PROPERTY COLLATERAL. Except as disclosed by Borrower to Bank in writing prior to the date hereof, with respect to any real property collateral required hereby:

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

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

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

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

ARTICLE III CONDITIONS

SECTION 3.1. CONDITIONS TO THE EFFECTIVENESS OF THIS AGREEMENT. The effective date of this Agreement shall be (a) the date that each of the following conditions set forth in this Section 3.1 have been satisfied or waived, as determined by Bank, or (b) such alternative date to which Bank and Borrower may mutually agree, in each case as evidenced by

Bank's system of record. Notwithstanding the occurrence of the effective date of this Agreement, Bank shall not be obligated to extend credit under this Agreement or any other Loan Document until all conditions to each extension of credit set forth in Section 3.2 have been fulfilled to Bank's satisfaction.

(a) Approval of Bank Counsel. All legal matters incidental to the effectiveness of this Agreement shall be satisfactory to Bank's counsel.

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

- (i) This Agreement and each promissory note or other instrument or document required hereby.
- (ii) Third Amended and Restated Line of Credit.
- (iii) Third Party Pledgor's Consent and Reaffirmation.
- (iv) Such other documents as Bank may require under any other Section of this Agreement.

(c) Satisfaction of Regulatory and Compliance Requirements. In addition to any requirements set forth above, and notwithstanding Borrower's execution or delivery of this Agreement or any other Loan Document, all regulatory and compliance requirements, standards and processes shall be completed to the satisfaction of Bank.

(d) Interest and Principal. Interest and principal under the notes contemplated herein have been paid current.

SECTION 3.2. CONDITIONS OF EACH EXTENSION OF CREDIT. The obligation of Bank to make each extension of credit requested by Borrower hereunder shall be subject to the fulfillment to Bank's satisfaction of each of the following conditions:

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

(b) Documentation. Bank shall have received all additional documents which may be required in connection with such extension of credit.

(c) Letter of Credit Documentation. Prior to the issuance of any Letter of Credit, Bank shall have received any and all letter of credit documentation required by Bank, in each case completed and duly executed by Borrower.

(d) Payment of Fees. Bank shall have received payment in full of any fee required by any of the Loan Documents to be paid at the time such credit extension is made.

(e) Financial Condition. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower, any Affiliate, or any Third Party Obligor hereunder, if any, nor any material decline, as determined by Bank, in the

market value of any collateral required hereunder or a substantial or material portion of the assets of Borrower, any Affiliate, or any such Third Party Obligor, if any.

ARTICLE IV
AFFIRMATIVE COVENANTS

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

SECTION 4.1. PUNCTUAL PAYMENTS. Punctually pay all principal, interest, fees or other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein, and immediately upon demand by Bank, the amount by which the outstanding principal balance of any credit subject hereto at any time exceeds any limitation on borrowings applicable thereto.

SECTION 4.2. ACCOUNTING RECORDS. Maintain adequate books and records of Borrower and each Affiliate in accordance with generally accepted accounting principles consistently applied, and permit any representative of Bank, at any reasonable time, to inspect, audit and examine such books and records, to make copies of the same, and to inspect the properties of Borrower and each Affiliate. If at any time any change in generally accepted accounting principles would affect the computation of any covenant (including the computation of any financial covenant) and/or pricing grid set forth in this Agreement or any other Loan Document, Borrower and Bank shall negotiate in good faith to amend such covenant and/or pricing grid to preserve the original intent in light of such change; provided, that, until so amended, (i) such covenant and/or pricing grid shall continue to be computed in accordance with the application of generally accepted accounting principles prior to such change and (ii) Borrower shall provide to Bank a written reconciliation in form and substance reasonably satisfactory to Bank, between calculations of such covenant and/or pricing grid made before and after giving effect to such change in generally accepted accounting principles.

SECTION 4.3. FINANCIAL STATEMENTS AND OTHER INFORMATION. Provide to Bank all of the following, in form and detail satisfactory to Bank:

(a) not later than 120 days after and as of the end of each fiscal year, an audited consolidated financial statement of Borrower, prepared by a certified public accountant acceptable to Bank, to include balance sheet, income statement, and statement of cash flows and sources, which shall be accompanied by the unqualified opinion of such accountant addressed to Bank, together with a copy of any management letters issued in connection therewith;

(b) not later than 180 days after and as of the end of each fiscal year, an audited financial statement for each of AICE and Ecole Insurance Company, an Arizona corporation wholly owned by Borrower ("Ecole") (AICE and Ecole, each an "Affiliate" and collectively, the "Affiliates"), prepared by a certified public accountant acceptable to Bank, to include balance sheet, income statement and statement of cash flows and sources, which shall be accompanied by the unqualified opinion of such accountant addressed to Bank and in format consistent with previously provided statements;

(c) promptly upon their becoming available, copies of (i) all financial statements, reports, notices and proxy statements made publicly available by Borrower to its security holders; (ii) all regular and periodic reports and all registration statements and prospectuses, if any, filed by Borrower with any securities exchange or with the U.S. Securities and Exchange Commission ("SEC") or any governmental or private regulatory authority, including, but not limited to (A) not later than 95 calendar days after the end of each fiscal year, Borrower's 10-K filing with the SEC (including all exhibits and certifications) for the fiscal year just ended, and (B) not later than 50 calendar days after the end of each fiscal quarter, Borrower's 10-Q filing with the SEC (including all exhibits and certifications) for the fiscal quarter just ended; (iii) all press releases and other statements made available by Borrower to the public concerning material changes or developments in the business of Borrower; and (iv) any material communication from AICE to the Arizona Department of Insurance or received by AICE from the Arizona Department of Insurance;

(d) contemporaneously with each annual and quarterly financial statement of Borrower required hereby, a certificate of the president or chief financial officer of Borrower certifying that such financial statements are accurate and complete, that Borrower is in compliance with all financial covenants in this Agreement (as evidenced by detailed calculations attached to such certificate), and that there exists no Event of Default nor any condition, act or event which with the giving of notice or the passage of time or both would constitute an Event of Default;

(e) annually, but in all events not later than October 15 of each year, a true and correct copy of a Uniform Certificate of Authority Application-Certificate of Compliance issued by the State of Arizona Director of Insurance for each of the Affiliates indicating that, as of a date no earlier than thirty (30) days prior to the date each such certificate is delivered to Bank, each of the Affiliates is duly organized under the laws of the State of Arizona and authorized to transact the relevant insurance business of each of the Affiliates in the State of Arizona;

(f) annually, but in all events not later than August 1 of each year, true and correct copies of all annual reports and related annual actuarial report(s) and actuarial opinion of AICE as filed with the Arizona Department of Insurance;

(g) not later than 30 days after and as of the end of each fiscal quarter, true and correct copies of all third party actuarial reviews and reports of the workers' compensation obligations of Borrower and the Affiliates, including such actuarial reviews and reports of Borrower and the Affiliates provided to any Office of Self-Insurance Plans, from an actuarial firm satisfactory to Bank in its discretion;

(h) not later than 10 days after and as of the end of each month, an investment statement in form and substance reasonably satisfactory to Bank of AICE's Non-Reinsurance Trust Account (the "Non-Reinsurance Trust Account") required by that certain Non-Reinsurance Trust Agreement dated as of or about June 22, 2018, by and among AICE, ACE Insurance, and Wilmington Trust, N.A., as amended (the "Non-Reinsurance Trust Agreement"), which reflects, among other things, compliance with the Chubb Collateral and Payment Agreement (as defined below);

(i) not later than 10 days after and as of the end of each month, a statement issued by the custodian or other authorized holder of the accounts reflecting the holdings and value of the assets of the BBSI Collateral Account;

(j) not later than each July 1, the Notice of Election (as defined in the Chubb Collateral and Payment Agreement) including the ACE American Insurance Company Installment Schedule for the ensuing policy year;

(k) not later than each July 1, the addendum to the Chubb Collateral and Payment Agreement for the upcoming fiscal year (July 1 to June 30), which shall include the required funding for the Non-Reinsurance Trust Account;

(l) from time to time such other financial and business information as Bank may reasonably request, including without limitation, copies of rent rolls and other information with respect to any real property collateral required hereby; and

(m) from time to time such other information as Bank may request for the purpose of enabling Bank to fulfill its regulatory and compliance requirements, standards and processes.

SECTION 4.4. COMPLIANCE. Preserve and maintain all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business; comply with the provisions of all documents pursuant to which Borrower or any Affiliates is organized and/or which govern Borrower's or any Affiliate's continued existence; comply with the requirements of all laws, rules, regulations and orders of any jurisdiction in which the Borrower or any Affiliate is located or doing business, or otherwise is applicable to Borrower or any Affiliate, including, without limitation, (a) all Sanctions, (b) all laws and regulations that relate to money laundering, any predicate crime to money laundering, or any financial record keeping and reporting requirements related thereto, (c) the U.S. Foreign Corrupt Practices Act of 1977, as amended, (d) the U.K. Bribery Act of 2010, as amended, and (e) any other applicable anti-bribery or anti-corruption laws and regulations.

SECTION 4.5. INSURANCE. (a) Maintain and keep in force, for each business in which Borrower and each Affiliate is engaged, insurance of the types and in amounts customarily carried in similar lines of business, including but not limited to fire, extended coverage, commercial general liability, flood, and, if required by governmental regulation or Bank, hurricane, windstorm, seismic property damage, workers' compensation, marine cargo insurance, and specific hazards affecting any real property, including terrorism, with all such insurance carried in amounts satisfactory to Bank and where required by Bank, with replacement cost, mortgagee loss payable and lender loss payable endorsements in favor of Bank, and (b) deliver to Bank prior to the date hereof, and from time to time at Bank's request, schedules setting forth all insurance then in effect, together with a lender's loss payee endorsement for all such insurance naming Bank as a lender loss payee. Such insurance may be obtained from an insurer or through an insurance agent of Borrower's choice, provided that any insurer chosen by Borrower is acceptable to Bank on such reasonable grounds as may be permitted under applicable law.

SECTION 4.6. FACILITIES. Keep all properties useful or necessary to Borrower's business in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that such properties shall be fully and efficiently preserved and maintained.

SECTION 4.7. TAXES AND OTHER LIABILITIES. Pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation federal and state income taxes and state and local property taxes and assessments, except (a) such as Borrower may in good faith contest or as to which a bona fide

dispute may arise, and (b) for which Borrower has made provision, to Bank's satisfaction, for eventual payment thereof in the event Borrower is obligated to make such payment.

SECTION 4.8. LITIGATION. Promptly give notice in writing to Bank of any litigation pending or threatened against Borrower or any Affiliate with a claim in excess of \$1,000,000.

SECTION 4.9. FINANCIAL CONDITION. Maintain Borrower's consolidated financial condition as follows using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein):

(a) EBITDA not less than \$30,000,000 as of the fiscal quarter ending June 30, 2019, and each fiscal quarter end thereafter, in each case determined on a rolling 4-quarter basis, with "EBITDA" defined as net profit before taxes plus interest expense (net of capitalized interest expense), depreciation expense and amortization expense.

(b) Liquid Assets to Worker's Compensation Claims & Safety Incentive Liabilities not less than 1.0 to 1.0 as of each fiscal quarter end, with (i) "Liquid Assets" defined as the sum of (A) restricted and unrestricted cash and cash equivalents, plus (B) restricted and unrestricted marketable securities acceptable to Bank in its sole discretion, and (ii) "Worker's Compensation Claims & Safety Incentive Liabilities" defined as the aggregate of Borrower's obligations with respect to (A) workers' compensation claims liabilities, and (B) safety incentive liabilities, in each case as the assets described in clauses (i)(A) and (B) and as the liabilities described in clauses (ii)(A) and (B) are required to be reflected in Borrower's annual audited consolidated financial statements and quarterly unaudited consolidated financial statements, consistent with past practices.

SECTION 4.10. NOTICE TO BANK. Promptly (but in no event more than five (5) days after the occurrence of each such event or matter) give written notice to Bank in reasonable detail of: (a) the occurrence of any Event of Default, or any condition, event or act which with the giving of notice or the passage of time or both would constitute an Event of Default; (b) any change in the name or the organizational structure of Borrower, including, by illustration, merger, conversion or division; (c) the occurrence and nature of any Reportable Event or Prohibited Transaction, each as defined in ERISA, or any funding deficiency with respect to any Plan; or (d) any termination or cancellation of any insurance policy which Borrower is required to maintain, or any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting Borrower's property in excess of an aggregate of \$1,000,000.

SECTION 4.11. MAINTENANCE OF AICE POLICIES. For so long as the Chubb Letter of Credit remains outstanding: (a) maintain in full force and effect, and pay all premiums and other amounts due with respect to, all policies of insurance with AICE outstanding as of June 20, 2018, regarding the satisfaction of Borrower's worker's compensation obligations (the "AICE Policies"); and (b) in the event any of the AICE Policies are terminated or cancelled for any reason, promptly cause all premiums, deductibles or other amounts refunded therefrom and all premiums, deductibles or other amounts that would have been paid to AICE for the AICE Policies (had such policies continued in force) to be deposited into the BBSI Collateral Account.

SECTION 4.12. MAINTENANCE OF ACE INSURANCE POLICIES. For so long as the Chubb Letter of Credit remains outstanding: (a) maintain in full force and effect, and pay all premiums and other amounts due with respect to, all policies of insurance with ACE Insurance for policy years 2018 and thereafter with respect to the satisfaction of Borrower's worker's

compensation obligations (the "Chubb Policies"); and (b) in the event any of the Chubb Policies are terminated or cancelled for any reason, promptly deposit funds into the BBSI Collateral Account to fully collateralize the Chubb Letter of Credit.

SECTION 4.13. DEPOSIT ACCOUNTS. Maintain Borrower's principal deposit account and other traditional banking relationships with Bank for the duration of this Agreement.

SECTION 4.14. COLLATERAL AUDITS. Permit Bank to audit all Borrower's collateral required hereunder, with such audits to be performed from time to time at Bank's option by collateral examiners acceptable to Bank and in scope and content satisfactory to Bank, and with all Bank's costs and expenses of each audit to be reimbursed in full by Borrower. Bank shall not be required to share the results of the audit(s) with Borrower or any third party.

SECTION 4.15. CHUBB COLLATERAL AND PAYMENT AGREEMENT. Include a provision, in form and substance satisfactory to Bank in its discretion, in the collateral and payment agreement between Borrower and ACE Insurance (the "Chubb Collateral and Payment Agreement") that acknowledges the Chubb Letter of Credit is for policy years starting July 1, 2018, or later.

SECTION 4.16. CHUBB PAYMENTS. Make the payments on the dates and in the amounts required by the (a) Chubb Collateral and Payment Agreement and any Addendum thereto (including the amounts shown on the Payment Schedule as Incremental Cash Due Incl. Surcharge) and (b) any Notice of Election.

ARTICLE V NEGATIVE COVENANTS

Borrower further covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower will not without Bank's prior written consent:

SECTION 5.1. USE OF FUNDS. Use any of the proceeds of any credit extended hereunder except for the purposes stated in Article I hereof, or directly or indirectly use any such proceeds for the purpose of (a) providing financing to, or otherwise funding, any targets of Sanctions; or (b) providing financing for, or otherwise funding, any transaction which would be prohibited by Sanctions or would otherwise cause Bank or any of Bank's affiliates to be in breach of any Sanctions.

SECTION 5.2. OTHER INDEBTEDNESS. Create, incur, assume or permit to exist any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except (a) the liabilities of Borrower to Bank, (b) purchase money indebtedness (including capitalized leases) for the acquisition of assets, provided that the aggregate of all purchase money indebtedness does not exceed \$1,000,000 at any time, and (c) any other liabilities of Borrower or any of the Affiliates existing as of, and disclosed to the Bank prior to, the date hereof; provided, however, that if Borrower or any of the Affiliates incurs indebtedness or becomes liable to any third party to the extent permitted hereunder, neither Borrower nor any of the Affiliates shall enter into any agreement with such other party that prohibits Borrower or any of the Affiliates, as the case may be, from incurring indebtedness with Bank or any affiliate of Bank or that prohibits Borrower or

any of the Affiliates from granting a lien to Bank or any affiliate of Bank on any real or personal property owned by Borrower or any of the Affiliates, as the case may be.

SECTION 5.3. MERGER, CONSOLIDATION, TRANSFER OF ASSETS. (a) Merge into or consolidate with any other entity; (b) make any substantial change in the nature of Borrower's or any Affiliate's business as conducted as of the date hereof; (c) acquire all or substantially all of the assets of any other entity, except for a Permitted Acquisition (as defined below); (d) sell, lease, transfer or otherwise dispose of all or a substantial or material portion of Borrower's or any Affiliate's assets except in the ordinary course of its business, nor (e) accomplish any of the above by virtue of a division or similar transaction. "Permitted Acquisition" means any acquisition by Borrower of all or substantially all of the operating assets of any person or entity so long as all of the following conditions are satisfied: (i) the acquisition is consummated in compliance with applicable law, (ii) there exists no Event of Default, nor any act, condition or event which with the giving of notice or the passage of time or both would constitute an Event of Default, and no such Event of Default or potential Event of Default results after giving effect to the acquisition, (iii) the aggregate consideration (valuing any non-cash consideration at its fair market value, and including without limitation the amount of all liabilities assumed or acquired) does not exceed \$10,000,000 for each such acquisition and does not exceed \$10,000,000 in the aggregate in any fiscal year, and (iv) Borrower provides Bank with notice of the acquisition at least thirty (30) days prior thereto.

SECTION 5.4. GUARANTIES. Guarantee or become liable in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for, nor pledge or hypothecate any assets of Borrower as security for, any liabilities or obligations of any other person or entity, except any of the foregoing in favor of Bank.

SECTION 5.5. LOANS, ADVANCES, INVESTMENTS. Make any loans or advances to or investments in, or permit any Affiliate to make any loans or advances to or investments in, any person or entity, including any of the foregoing accomplished by a division or similar transaction, except any of the foregoing existing as of, and disclosed to Bank prior to, the date hereof and except, in the case of AICE, investments of insurance reserves in the ordinary course of business and consistent with past practices.

SECTION 5.6. PLEDGE OF ASSETS. Mortgage, pledge, grant or permit to exist a security interest in, or lien upon, all or any portion of Borrower's assets now owned or hereafter acquired, except (a) any of the foregoing in favor of Bank (b) secured interests or liens existing as of, and disclosed to Bank in writing prior to, the date hereof; and (c) liens to secure purchase money indebtedness permitted under Section 5.2 hereof.

SECTION 5.7. NO CANCELLATION OF AICE POLICIES. Terminate or cancel any of the AICE Policies without Bank's prior written consent.

SECTION 5.8. DIVIDENDS, DISTRIBUTIONS. (a) If an Event of Default has occurred or would occur on a pro forma basis, declare or pay any dividend or distribution either in cash or any other property on Borrower's stock, membership interest, partnership interest or other ownership interest now or hereafter outstanding. (b) If an Event of Default has occurred or would occur on a pro forma basis, redeem, retire, repurchase or otherwise acquire any class or type of ownership interest now or hereafter outstanding except any of the foregoing in this subsection (b) in amounts not to exceed an aggregate of \$15,000,000 in any rolling 12-month period.

SECTION 5.9. FUNDS FOR NON-REINSURANCE TRUST ACCOUNT. Deposit or cause or permit to be deposited into the Non-Reinsurance Trust Account amounts other than those owed to ACE Insurance pursuant to Section 4.16.

SECTION 5.10. CHUBB COLLATERAL AND PAYMENT AGREEMENT AMENDMENT. Amend the Chubb Collateral and Payment Agreement except for any Addendum or Notice of Election for policy years after 2018.

ARTICLE VI
EVENTS OF DEFAULT

SECTION 6.1. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

(a) Borrower shall fail to pay when due any principal, interest, fees or other amounts payable under any of the Loan Documents.

(b) Any financial statement or certificate furnished to Bank in connection with, or any representation or warranty made by Borrower or any other party under this Agreement or any other Loan Document shall prove to be incorrect, false or misleading in any material respect when furnished or made.

(c) Any default in the performance of or compliance with (1) any collateral value requirement set forth herein or any other Loan Document; or (2) any obligation, agreement or other provision contained herein or in any other Loan Document (other than those specifically described as an "Event of Default"), and with respect to such default under this subdivision (2) that by its nature can be cured, such default shall continue for a period of twenty (20) days from (i) its occurrence, or (ii) solely with respect to Borrower's information reporting obligations under Section 4.3(f) or Section 4.3(g), Bank's giving of notice to Borrower of the occurrence thereof; provided that an Event of Default as defined in the Letter of Credit Agreement shall be an immediate Event of Default hereunder, without an opportunity to cure.

(d) Any default in the payment or performance of any obligation, or any defined event of default, under the terms of any contract, instrument or document (other than any of the Loan Documents) pursuant to which Borrower, any Affiliate, any guarantor hereunder or any general partner or joint venturer in Borrower if a partnership or joint venture (with each such guarantor, general partner and/or joint venturer referred to herein as a "Third Party Obligor") has incurred any debt or other liability to any person or entity, including Bank.

(e) Borrower, any Affiliate, or any Third Party Obligor shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall generally fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors; Borrower, any Affiliate, or any Third Party Obligor shall file a voluntary petition in bankruptcy, or seeking reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time ("Bankruptcy Code"), or under any state or federal law granting relief to debtors, whether now or hereafter in effect; or Borrower, any Affiliate, or any Third Party Obligor shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or Borrower, any Affiliate, or any Third Party Obligor shall be adjudicated a bankrupt, or an order

for relief shall be entered against Borrower, any Affiliate, or any Third Party Obligor by any court of competent jurisdiction under the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors.

(f) The filing of a notice of judgment lien against Borrower, any Affiliate, or any Third Party Obligor; or the recording of any abstract or transcript of judgment against Borrower, any Affiliate, or any Third Party Obligor in any county or recording district in which Borrower, such Affiliate, or such Third Party Obligor has an interest in real property; or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Borrower, any Affiliate, or any Third Party Obligor; or the entry of a judgment against Borrower, any Affiliate, or any Third Party Obligor; or any involuntary petition or proceeding pursuant to the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Borrower, any Affiliate, or any Third Party Obligor.

(g) There shall exist or occur any event or condition that Bank in good faith believes impairs, or is substantially likely to impair, the prospect of payment or performance by Borrower, any Affiliate, any Third Party Obligor, or the general partner of either if such entity is a partnership, of its obligations under any of the Loan Documents.

(h) The death or incapacity of Borrower, any Affiliate, or any Third Party Obligor if an individual. The withdrawal, resignation or expulsion of any one or more of the general partners in Borrower, any Affiliate, or any Third Party Obligor if a partnership. The dissolution, division, or liquidation of Borrower or any Third Party Obligor if a corporation, partnership, joint venture or other type of entity; or Borrower, such Affiliate, or any such Third Party Obligor, or any of its directors, stockholders or members, shall take action seeking to effect the dissolution, division, or liquidation of Borrower, such Affiliate, or such Third Party Obligor.

(i) The withdrawal, resignation or expulsion of any one or more of the general partners in Borrower or any Affiliate or any change in control of Borrower, any Affiliate, or any entity or combination of entities that directly or indirectly control Borrower or any Affiliate, with "control" defined as ownership of an aggregate of twenty-five percent (25%) or more of the common stock, members' equity or other ownership interest (other than a limited partnership interest).

(j) The sale, transfer, hypothecation, assignment or encumbrance, whether voluntary, involuntary or by operation of law, without Bank's prior written consent, of all or any part of or interest in any real property collateral required hereby.

(k) If ACE Insurance changes its loss reserve methodology or assumptions other than at the commencement of any policy year and such change would have a material adverse effect on Borrower or AICE.

(l) Any default in the performance of or compliance with any obligation, agreement or other provision contained in the Non-Reinsurance Trust Agreement (even if such agreement is not yet effective), a Notice of Election, a Chubb Policy or in any other agreement with ACE Insurance, and with respect to any such default that by its nature can be cured, such default shall continue for a period of twenty (20) days from its occurrence.

SECTION 6.2. REMEDIES. Upon the occurrence of any Event of Default: (a) all principal, unpaid interest outstanding and other indebtedness of Borrower under each of the Loan Documents, any term thereof to the contrary notwithstanding, shall at Bank's option and

without notice (except as expressly provided in any mortgage or deed of trust pursuant to which Borrower has provided Bank a lien on any real property collateral) become immediately due and payable without presentment, demand, protest or any notices of any kind, including without limitation, notice of nonperformance, notice of protest, notice of dishonor, notice of intention to accelerate or notice of acceleration all of which are hereby expressly waived by Borrower; (b) the obligation, if any, of Bank to extend any further credit under any of the Loan Documents shall immediately cease and terminate; and (c) Bank shall have all rights, powers and remedies available under each of the Loan Documents, or accorded by law, including without limitation the right to resort to any or all security for any credit subject hereto and to exercise any or all of the rights of a beneficiary or secured party pursuant to applicable law. All rights, powers and remedies of Bank may be exercised at any time by Bank and from time to time after the occurrence of an Event of Default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

ARTICLE VII
MISCELLANEOUS

SECTION 7.1. NO WAIVER. No delay, failure or discontinuance of Bank in exercising any right, power or remedy under any of the Loan Documents shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Bank of any breach of or default under any of the Loan Documents must be in writing and shall be effective only to the extent set forth in such writing.

SECTION 7.2. NOTICES. All notices, requests and demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing delivered to each party at the following address:

BORROWER: BARRETT BUSINESS SERVICES, INC.
 8100 NE Parkway Drive, Suite 200
 Vancouver, Washington 98662
 Attn.: Gary Kramer, Jr., Chief Financial Officer

BANK: WELLS FARGO BANK, NATIONAL ASSOCIATION
 Portland RCBO
 MAC P6101-250
 1300 SW Fifth Avenue
 Portland, Oregon 97201
 Attn: Julie R. Wilson, Senior Vice President

or to such other address as any party may designate by written notice to all other parties. Each such notice, request and demand shall be deemed given or made as follows: (a) if sent by hand delivery, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

SECTION 7.3. COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including, to the extent permitted by applicable law, reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel to the extent

permissible), expended or incurred by Bank in connection with (a) the negotiation and preparation of this Agreement and the other Loan Documents, Bank's continued administration hereof and thereof, and the preparation of any amendments and waivers hereto and thereto, (b) the enforcement of Bank's rights and/or the collection of any amounts which become due to Bank under any of the Loan Documents, whether or not suit is brought, and (c) the prosecution or defense of any action in any way related to any of the Loan Documents, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Borrower or any other person or entity. Notwithstanding anything in this Agreement to the contrary, reasonable attorneys' fees shall not exceed the amount permitted by law.

SECTION 7.4. 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 Borrower may not assign or transfer its interests or rights hereunder without Bank's prior written consent. Bank reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Bank's rights and benefits under each of the Loan Documents. In connection therewith, Bank may disclose all documents and information which Bank now has or may hereafter acquire relating to any credit subject hereto, Borrower or its business, any guarantor hereunder or the business of such guarantor, if any, or any collateral required hereunder.

SECTION 7.5. ENTIRE AGREEMENT; AMENDMENT. To the full extent permitted by law, this Agreement and the other Loan Documents constitute the entire agreement between Borrower and Bank with respect to each credit subject hereto and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof. This Agreement may be amended or modified only in writing signed by each party hereto.

SECTION 7.6. NO THIRD PARTY BENEFICIARIES. This Agreement is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other person or entity shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any other of the Loan Documents to which it is not a party.

SECTION 7.7. TIME. Time is of the essence of each and every provision of this Agreement and each other of the Loan Documents.

SECTION 7.8. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

SECTION 7.9. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same Agreement.

SECTION 7.10. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of Oregon (such State, Commonwealth or District is

referred to herein as the "State"), but giving effect to federal laws applicable to national banks, without reference to the conflicts of law or choice of law principles thereof.

SECTION 7.11. BUSINESS PURPOSE. Borrower represents and warrants that each credit subject hereto is made for (a) a business, commercial, investment, agricultural or other similar purpose, (b) the purpose of acquiring or carrying on a business, professional or commercial activity, or (c) the purpose of acquiring any real or personal property as an investment and not primarily for a personal, family or household use.

SECTION 7.12. RIGHT OF SETOFF; DEPOSIT ACCOUNTS. Upon and after the occurrence of an Event of Default, (a) Borrower hereby authorizes Bank, at any time and from time to time, without notice, which is hereby expressly waived by Borrower, and whether or not Bank shall have declared any credit subject hereto to be due and payable in accordance with the terms hereof, to set off against, and to appropriate and apply to the payment of, Borrower's obligations and liabilities under the Loan Documents (whether matured or unmatured, fixed or contingent, liquidated or unliquidated), any and all amounts owing by Bank to Borrower (whether payable in U.S. dollars or any other currency, whether matured or unmatured, and in the case of deposits, whether general or special (except trust and escrow accounts), time or demand and however evidenced), and (b) pending any such action, to the extent necessary, to hold such amounts as collateral to secure such obligations and liabilities and to return as unpaid for insufficient funds any and all checks and other items drawn against any deposits so held as Bank, in its sole discretion, may elect. Bank may exercise this remedy regardless of the adequacy of any collateral for the obligations of Borrower to Bank and whether or not the Bank is otherwise fully secured. Borrower hereby grants to Bank a security interest in all deposits and accounts maintained with Bank to secure the payment of all obligations and liabilities of Borrower to Bank under the Loan Documents.

SECTION 7.13. 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 (i) any credit subject hereto, or any of the Loan Documents, and their negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination; or (ii) requests for additional credit. In the event of a court ordered arbitration, the party requesting arbitration shall be responsible for timely filing the demand for arbitration and paying the appropriate filing fee within 30 days of the abatement order or the time specified by the court. Failure to timely file the demand for arbitration as ordered by the court will result in that party's right to demand arbitration being automatically terminated.

(b) Governing Rules. Any arbitration proceeding will (i) proceed in a location in the State 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 or a neutral retired judge of the state or federal judiciary of the State, 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 the State and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the corresponding rules of civil practice and procedure applicable in the State 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

any Loan Document, 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 Loan Documents or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the Loan Documents or any relationship between the parties.

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

SECTION 7.14 AMENDMENT AND RESTATEMENT. THIS AGREEMENT AMENDS, EXTENDS AND RESTATES IN ITS ENTIRETY THE PRIOR CREDIT AGREEMENT. THE EXECUTION OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS EXECUTED IN CONNECTION HERewith DOES NOT EXTINGUISH THE INDEBTEDNESS OUTSTANDING IN CONNECTION THEREWITH NOR DOES IT CONSTITUTE A NOVATION WITH RESPECT TO THE INDEBTEDNESS OUTSTANDING IN CONNECTION WITH THE PRIOR CREDIT AGREEMENT. NOTHING CONTAINED HEREIN SHALL TERMINATE ANY SECURITY INTERESTS, GUARANTIES, SUBORDINATIONS OR OTHER DOCUMENTS IN FAVOR OF BANK EXECUTED IN CONNECTION WITH THE PRIOR CREDIT AGREEMENT OR THE INDEBTEDNESS DESCRIBED THEREIN, ALL OF WHICH SHALL REMAIN IN FULL FORCE AND EFFECT UNLESS EXPRESSLY AMENDED HEREBY.

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

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, have caused this Agreement to be effective as of the effective date set forth above.

BARRETT BUSINESS SERVICES, INC.

WELLS FARGO BANK,
NATIONAL ASSOCIATION

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

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

THIRD PARTY PLEDGOR'S CONSENT AND REAFFIRMATION

The undersigned third party pledgor of assets to secure certain indebtedness of BARRETT BUSINESS SERVICES, INC. to WELLS FARGO BANK, NATIONAL ASSOCIATION hereby: (i) consents to the foregoing Second Amended and Restated Credit Agreement; (ii) reaffirms its grant of a security interest in certain of its assets as specified more particularly in that certain Third Party Security Agreement: Business Assets dated as of June 20, 2018, as amended; and (iii) reaffirms its obligations under such Third Party Security Agreement.

PLEDGOR:

ASSOCIATED INSURANCE COMPANY FOR EXCESS,
an Arizona corporation

By: /s/ Gary Kramer

Name: Gary Kramer, Jr.

Title: President

THIRD AMENDED AND RESTATED REVOLVING LINE OF CREDIT NOTE

\$33,000,000 Portland, Oregon

August 5, 2019

This Note amends, restates and supersedes in its entirety that certain Second Amended and Restated Revolving Line of Credit Note in the principal amount of Twenty Eight Million Dollars (\$28,000,000), executed by Borrower in favor of Bank and dated July 1, 2018, as such may have been amended or modified from time to time prior to the date hereof (the "Prior Note").

FOR VALUE RECEIVED, the undersigned BARRETT BUSINESS SERVICES, INC. ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at MAC P6101-250, 1300 SW Fifth Avenue, 25th Floor, Portland, Oregon 97201, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of Thirty Three Million Dollars (\$33,000,000), or so much thereof as may be advanced and be outstanding pursuant to the terms of the Credit Agreement, as defined herein, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

DEFINITIONS:

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

(a) "Daily One Month LIBOR" means, for any day, the rate of interest equal to LIBOR then in effect for delivery for a one (1) month period.

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

(c) "LIBOR Period" means a period commencing on a New York Business Day and continuing for one (1) or three (3) months, as designated by Borrower, during which all or a portion of the outstanding principal balance of this Note bears interest determined in relation to

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

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

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

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

INTEREST:

(a) Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) either (i) at a fluctuating rate per annum determined by Bank to be one and three quarters of one percent (1.75%) above Daily One Month LIBOR in effect from time to time, or (ii) at a fixed rate per annum determined by Bank to be one and three quarters of one percent (1.75%) above LIBOR in effect on the first day of the applicable LIBOR Period. Bank is hereby authorized to note the date, principal amount and interest rate applicable thereto and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted.

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

To select an interest rate option hereunder determined in relation to LIBOR for a LIBOR Period, Borrower shall give Bank notice thereof that is received by Bank prior to 11:00 a.m. in the jurisdiction described in "Governing Law" herein on a State Business Day at least two State Business Days prior to the first day of the LIBOR Period, or at a later time during such State Business Day if Bank, at its sole discretion, accepts Borrower's notice and quotes a fixed rate to Borrower. Such notice shall specify: (A) the interest rate option selected by Borrower, (B) the principal amount subject thereto, and (C) for each LIBOR selection, the length of the applicable

LIBOR Period. If Bank has not received such notice in accordance with the foregoing before an advance is made hereunder or before the end of any LIBOR Period, Borrower shall be deemed to have made a Daily One Month LIBOR interest selection for such advance or the principal amount to which such LIBOR Period applied. Any such notice may be given by telephone (or such other electronic method as Bank may permit) so long as it is given in accordance with the foregoing and, with respect to each LIBOR selection, if requested by Bank, Borrower provides to Bank written confirmation thereof not later than three State Business Days after such notice is given. Borrower shall reimburse Bank immediately upon demand for any loss or expense (including any loss or expense incurred by reason of the liquidation or redeployment of funds obtained to fund or maintain a LIBOR borrowing) incurred by Bank as a result of the failure of Borrower to accept or complete a LIBOR borrowing hereunder after making a request therefor. Any reasonable determination of such amounts by Bank shall be conclusive and binding upon Borrower. Should more than one person or entity sign this Note as a Borrower, any notice required above may be given by any one Borrower acting alone, which notice shall be binding on all other Borrowers.

(c) Taxes and Regulatory Costs. Borrower shall pay to Bank immediately upon demand, in addition to any other amounts due or to become due hereunder, any and all (i) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority and related in any manner to LIBOR, and (ii) costs, expenses and liabilities arising from or in connection with reserve percentages prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), assessment rates imposed by the Federal Deposit Insurance Corporation, or similar requirements or costs imposed by any domestic or foreign governmental authority or resulting from compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority and related in any manner to LIBOR. In determining which of the foregoing are attributable to any LIBOR option available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

(d) Default Interest. Bank shall have the option in its sole and absolute discretion to have the outstanding principal balance of this Note bear interest at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to four percent (4%) above the rate of interest from time to time applicable to this Note (i) from and after the maturity date of this Note; (ii) from and after the date prior to the maturity date of this Note when all principal owing hereunder becomes due and payable by acceleration or otherwise; and/or (iii) upon the occurrence and during the continuance of any Event of Default.

BORROWING AND REPAYMENT:

(a) Borrowing and Repayment of Principal. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of any document executed in connection with or governing this Note; provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for Borrower, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on July 1, 2022.

(b) Payment of Interest. Interest accrued on this Note shall be payable on the first day of each month, commencing September 1, 2019, and on the maturity date set forth above.

(c) Advances. Advances hereunder, to the total amount of the principal sum stated above, may be made by the holder at the oral or written request of (i) Michael L. Elich or Gary Kramer, Jr., any one acting alone (subject to any of Bank's applicable authentication policies or procedures, which may require that a particular individual—including another specific individual listed above—provide verification of the identity of the requestor), who are authorized to request advances and direct the disposition of any advances until written notice of the revocation of such authority is received by the holder at the office designated above, or (ii) any person, with respect to advances deposited to the credit of any deposit account of Borrower, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account. The holder shall have no obligation to determine whether any person requesting an advance is or has been authorized by Borrower.

(d) Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof. All payments credited to principal shall be applied first, to the outstanding principal balance of this Note which bears interest determined in relation to Daily One Month LIBOR, if any, and second, to the outstanding principal balance of this Note which bears interest determined in relation to LIBOR, with such payments applied to the oldest LIBOR Period first.

PREPAYMENT:

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

(b) LIBOR. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to LIBOR at any time and in the minimum amount of One Hundred Thousand Dollars (\$100,000); provided however, that if the outstanding principal balance of such portion of this Note is less than said amount, the minimum prepayment amount shall be the entire outstanding principal balance thereof. In consideration of Bank providing this prepayment option to Borrower, or if any such portion of this Note shall become due and payable at any time prior to the last day of the LIBOR Period applicable thereto by acceleration or otherwise, Borrower shall pay to Bank immediately upon demand a fee which is the sum of the discounted monthly differences for each month from the month of prepayment through the month in which such LIBOR Period matures, calculated as follows for each such month:

(i) Determine the amount of interest which would have accrued each month on the amount prepaid at the interest rate applicable to such amount had it remained outstanding until the last day of the LIBOR Period applicable thereto.

(ii) Subtract from the amount determined in (i) above the amount of interest which would have accrued for the same month on the amount prepaid for the remaining term of such LIBOR Period at LIBOR in effect on the date of prepayment for new loans made for such term and in a principal amount equal to the amount prepaid.

(iii) If the result obtained in (ii) for any month is greater than zero, discount that difference by LIBOR used in (ii) above.

Borrower acknowledges that prepayment of such amount may result in Bank incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or liabilities. Borrower, therefore, agrees to pay the above-described prepayment fee and agrees that said amount represents a reasonable estimate of the prepayment costs, expenses and/or liabilities of Bank. If Borrower fails to pay any prepayment fee when due, the amount of such prepayment fee shall thereafter bear interest until paid at a rate per annum four percent (4.00%) above the Daily One Month LIBOR rate in effect from time to time (computed on the basis of a 360-day year, actual days elapsed).

(c) Application of Prepayments. If principal under this Note is payable in more than one installment, then any prepayments of principal shall be applied to the most remote principal installment or installments then unpaid.

EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of that certain Second Amended and Restated Credit Agreement between Borrower and Bank dated as of August 5, 2019, as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

MISCELLANEOUS:

(a) Remedies. Upon the sale, transfer, hypothecation, assignment or other encumbrance, whether voluntary, involuntary or by operation of law, of all or any interest in any real property securing this Note, if any, or upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note whether or not suit is brought, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Borrower or any other person or entity.

(b) Collateral Exclusion. No lien or security interest created by or arising under any deed of trust, mortgage, security deed, or similar real estate collateral agreement ("Lien Document") shall secure the Note Obligations unless such Lien Document specifically describes the promissory note(s), instrument(s) or agreement(s) evidencing Note Obligations as a part of the indebtedness secured thereby. This exclusion shall apply notwithstanding (i) the fact that such Lien Document may appear to secure the Note Obligations by virtue of a cross-

collateralization provision or other provisions expanding the scope of the secured obligations, and (ii) whether such Lien Document was entered into prior to, concurrently with, or after the date hereof. As used herein, "Note Obligations" means any obligations under this Note, as amended, extended, renewed, refinanced, supplemented or otherwise modified from time to time, or under any other evidence of indebtedness that has been modified, renewed or extended in whole or in part by this Note, as amended, extended, renewed, refinanced, supplemented or otherwise modified from time to time.

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

(d) Governing Law. This Note shall be governed by and construed in accordance with the laws of Oregon, but giving effect to federal laws applicable to national banks, without reference to the conflicts of law or choice of law principles thereof.

(e) Effective Date. The effective date of this Note shall be the date that Bank has accepted this Note and all conditions to the effectiveness of the Credit Agreement have been fulfilled to Bank's satisfaction. Notwithstanding the occurrence of the effective date of this Note, Bank shall not be obligated to extend credit under this Note until all conditions to each extension of credit set forth in the Credit Agreement have been fulfilled to Bank's satisfaction.

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

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

IN WITNESS WHEREOF, the undersigned has executed this Note to be effective as of the effective date set forth herein.

BARRETT BUSINESS SERVICES, INC.

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

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

NON-EMPLOYEE DIRECTOR RESTRICTED STOCK UNITS

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

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

Participant: _____

Grant Date: _____

Number of RSUs: _____

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

Restriction Period: The Restriction Period commences on the Grant Date and ends on [the one-year anniversary of the Grant Date].

Vesting Schedule: 100% on the last day of the Restriction Period.

Each RSU represents a hypothetical Share of Common Stock. As a holder of RSUs, Participant will have only the rights of a general unsecured creditor of Corporation until delivery of Shares is made as specified in this Agreement.

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

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

BARRETT BUSINESS SERVICES, INC.

Participant

By _____
Name _____
Its _____

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

NON-EMPLOYEE DIRECTOR RESTRICTED STOCK UNITS
TERMS AND CONDITIONS

1. Defined Terms

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

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

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

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

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

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

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

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

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

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

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

2. Terms of RSUs

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

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

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

2.3 **Continuation as Director.** Except as otherwise provided in this Agreement, in the event that Participant ceases to be a member of the Board during any Restriction Period for any reason, all unvested RSUs will be forfeited immediately.

2.4 **Acceleration of Vesting.** Notwithstanding Section 2.3 or the schedule referred to in Section 2.2, the RSUs will become fully Vested upon the occurrence of either:

- (a) Participant's death or withdrawal from the Board by reason of Disability; or
- (b) A Change in Control Date.

2.5 **Settlement.**

(a) **Generally.** Unless previously forfeited pursuant to Section 2.3 or otherwise provided by this Agreement, each designated percentage of RSUs will be settled on the last day of the applicable Restriction Period or, if not a business day, on the first business day thereafter (the "Settlement Date"), by the delivery to Participant of an unrestricted certificate for a number of Shares of Common Stock equal to the number of RSUs that became Vested on that Settlement Date. Shares issued upon settlement of RSUs may be subject to additional transfer restrictions as provided in this Agreement.

(b) **On Change in Control Date.** RSUs that Vest on a Change in Control Date will be settled in cash in lieu of Shares, with the settlement value of each RSU calculated as the Fair Market Value of a Share on the Change in Control Date.

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

2.7 **RSUs Not Transferable.** Neither the RSUs, nor this Agreement, nor any interest or right in the RSUs or this Agreement, may be sold, pledged, assigned, or transferred in any manner other than by will or the laws of descent and distribution, unless and until the RSUs have been settled as provided in this Agreement. Neither the RSUs nor any interest or right in the RSUs will be liable for the debts, obligations, contracts or engagements of Participant or his or her successors in interest or will be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition will be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence. Shares issued upon settlement of RSUs may be subject to additional transfer restrictions as provided in this Agreement.

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

3. Tax Reimbursement

In the event any withholding or similar tax liability is imposed on Corporation in connection with or with respect to any Vesting of the RSUs, Participant agrees to pay to Corporation an amount sufficient to provide for such tax liability.

4. Conditions Precedent

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

5. Successorship

Subject to restrictions on transferability set forth in the Plan, this Agreement will be binding upon and benefit the parties, their successors and assigns.

6. Notices

Any notices under this Agreement must be in writing and will be effective when actually delivered personally or, if mailed, when deposited as registered or certified mail directed to the address of Corporation's records or to such other address as a party may certify by notice to the other party.

7. Arbitration

Any dispute or claim that arises out of or that relates to this Agreement or to the interpretation, breach, or enforcement of this Agreement, must be resolved by mandatory arbitration administered by and in accordance with the then effective arbitration rules of Arbitration Service of

Portland, Inc. The place of arbitration will be Multnomah County, Oregon. The award rendered by the arbitrator will be final and binding, and judgment may be entered on the award in any court having jurisdiction.

8. Attorney Fees

In the event of any suit or action or arbitration proceeding to enforce or interpret any provision of this Agreement (or which is based on this Agreement), the prevailing party will be entitled to recover, in addition to other costs, reasonable attorney fees in connection with such suit, action, or arbitration, and in any appeal. The determination of who is the prevailing party and the amount of reasonable attorney fees to be paid to the prevailing party will be decided by the arbitrator or arbitrators (with respect to attorney fees incurred prior to and during the arbitration proceedings) and by the court or courts, including any appellate courts, in which the matter is tried, heard, or decided, including the court which hears any exceptions made to an arbitration award submitted to it for confirmation as a judgment (with respect to attorney fees incurred in such confirmation proceedings).

9. Clawback/Recovery

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

10. Code Section 409A

This Agreement and the Award are intended to be exempt from the requirements of Code Section 409A by reason of all payments being "short-term deferrals" within the meaning of Treas. Reg. § 1.409A-1(b)(4). All provisions of this Agreement shall be interpreted in a manner consistent with preserving this exemption. In no event will Corporation be liable for any tax, interest, or penalties that may be imposed on Participant by Code Section 409A or any damages for failing to comply with Code Section 409A.

TRANSITION AND SEPARATION AGREEMENT

The parties to this Transition and Separation Agreement (this "Agreement") are Gregory R. Vaughn ("Employee") and Barrett Business Services, Inc. (the "Company"). This Agreement is effective as of June 30, 2019 (the "Effective Date").

RECITALS

- A. Employee wishes to transition out of his current employment with the Company as Chief Operating Officer by continuing employment in a new and limited role, which is to commence on the Effective Date and shall terminate on December 31, 2020 (the "Termination Date").
- B. The Company and Employee wish to provide for the smooth transition of Employee's duties and responsibilities and for the transfer of Employee's institutional knowledge to the Company.

AGREEMENT

The Company and Employee agree as follows:

1. SERVICES

1.1 Employee shall report to the President/Chief Executive Officer of the Company and shall provide the services to the Company as more fully described on the attached Exhibit A (all such services, the "Services").

1.2 Employee shall perform the Services for approximately 20 hours per month, or as otherwise agreed by the parties to this Agreement.

2. TERM AND TERMINATION

2.1 The term of this Agreement commences on the Effective Date and shall terminate on the Termination Date (the "Term"), subject to earlier termination as provided herein.

2.2 This Agreement may be terminated at any time by Employee or by the mutual written agreement of both parties.

2.3 The Company may unilaterally terminate this Agreement immediately for "cause" by providing written notice to Employee. For the purposes of this Agreement, "cause" includes any breach of Employee's obligations under this Agreement, any commission of a felony or of a crime involving theft, fraud or dishonesty committed by Employee in the course of performing services for the Company, any intentional act of dishonesty or fraud by Employee in the course of performing services for the Company, or the employment of Employee by, or the provision by employee of any services to, any competitor of the Company.

2.4 Upon any termination of this Agreement, Employee's employment with the Company shall terminate and Employee shall promptly deliver to the Company all documents and materials created or used in connection with the Services.

3. **COMPENSATION AND EQUITY AWARDS**

3.1 In exchange for performing the Services, Employee shall be entitled to a salary of \$2,000 per month, prorated for any partial months. Employee shall have no right to be paid any bonus for his services performed during the 2019 calendar year (whether accrued or not) or any subsequent year during the Term.

3.2 All restricted stock units ("RSUs") that have been awarded to Employee prior to the Effective Date and that are not vested as of the Effective Date will be accelerated by the Company and considered fully vested as of the Effective Date.

3.3 As of the Effective Date, Employee shall have no right to receive any new or additional equity awards (including without limitation RSUs or Performance Share Awards), and, notwithstanding the second sentence of Section 5 of this Agreement, any Performance Share Awards that are unvested as of the Effective Date will be forfeited in their entirety as of that date.

3.4 As of the Effective Date, Employee shall no longer be entitled to participate in the Company's Nonqualified Deferred Compensation Plan ("NQDC Plan"), and any related matching RSUs scheduled to be granted after the Effective Date will not be granted.

4. **BENEFITS**

4.1 Employee shall be entitled to health benefits during the Term to the extent Employee is otherwise eligible under the Company's applicable health plan. Consistent with any Company plan that provides health benefits to its employees, Company will deduct the Employee-responsible portion of any health benefit premium through payroll deductions.

4.2 To the extent Employee can be excluded under the terms of the relevant plan or agreement, Employee will not be entitled to vacation benefits, profit sharing arrangements, severance arrangements, or participation in a 401K plan during the Term.

4.3 Employee will not be entitled to any rights or benefits under any life insurance policy in the Company's name, and the Change in Control Agreement and the Death Benefit Agreement by and between the Company and Employee will each be terminated, as of the Effective Date.

5. **SEPARATION FROM SERVICE**

The parties to this Agreement acknowledge that Employee's transition to the limited role of performing the Services for the Company on the Effective Date will be a "Separation from Service" as that term is defined under Section 2.30 of the NQDC Plan. Notwithstanding the foregoing, Employee will continue to be treated as an employee of the Company with respect to any stock options outstanding under the Company's stock incentive plans until this Agreement is terminated.

6. **CONFIDENTIALITY**

Employee acknowledges and reaffirms Employee's continuing obligations under any confidentiality agreement and code of conduct that Employee entered into in connection with Employee's employment with the Company, and Employee will continue to strictly comply with the terms of any confidentiality agreement throughout the Term.

7. **MISCELLANEOUS**

7.1 Entire Agreement. Except as otherwise provided herein (including without limitation Section 6), this Agreement constitutes the entire agreement of the parties concerning the subject matter of this Agreement, and expressly supersedes any employment agreement between Employee and the Company.

7.2 Consideration. The parties acknowledge that the only consideration for this Agreement is the consideration expressly described herein, that each party fully understands the meaning and intent of this Agreement, and that this Agreement has been executed voluntarily.

7.3 Attorneys' Fees. If any litigation, suit, or proceeding is instituted to enforce, interpret, or rescind this Agreement, or otherwise in connection with the subject matter of this Agreement, the prevailing party shall be entitled to recover, in addition to any other relief awarded, its attorneys' fees and costs at trial, any appeal, collection of the award, or the enforcement of any order.

7.4 Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Washington without giving effect to any choice or conflict of law provision or rule (whether of the State of Washington or any other jurisdiction).

IN WITNESS WHEREOF, the parties executed this Agreement as of June 3, 2019.

EMPLOYEE

COMPANY

Barrett Business Services, Inc.

/s/ Gregory Vaughn

Gregory R. Vaughn

By: /s/ Gary Kramer

Name: Gary Kramer

Title: Chief Financial Officer

EXHIBIT A
DESCRIPTION OF SERVICES

Employee shall provide the following services for the Company:

Serve in the capacity of Subject Matter Expert (SME) as appropriate in support of the Pelican initiative and existing operations.

Be available to the CEO to provide any one-off research, modeling, forecasting, etc. in support of initiatives that might not be appropriate for other employees to be involved in.

Employee shall provide such other additional advisory services as the parties to this Agreement may agree from time to time.

BARRETT BUSINESS SERVICES, INC.
SUMMARY OF COMPENSATION ARRANGEMENTS
FOR NON-EMPLOYEE DIRECTORS

As of July 1, 2019, compensation arrangements for non-employee directors of Barrett Business Services, Inc. (the "Company"), continue to include an annual retainer of \$60,000 (\$100,000 for the Chairman of the Board) payable in cash in monthly installments. Committee chairs receive an annual cash retainer, payable in monthly installments, as follows: chair of Audit and Compliance Committee, \$15,000; chair of Compensation Committee, \$10,000; chair of Risk Management Committee, \$10,000; and chair of Corporate Governance and Nominating Committee, \$7,500. Committee members receive an annual cash retainer, payable in monthly installments, as follows: Audit and Compliance Committee, \$7,500; Compensation Committee, \$5,000; Risk Management Committee, \$5,000; and Corporate Governance and Nominating Committee, \$3,750.

In addition, each non-employee director as of July 1, 2019, received an award of restricted stock units ("RSUs") under the Company's 2015 Stock Incentive Plan. The RSU awards had a grant date fair value of approximately \$62,500 (based on the closing sale price of BBSI common stock on July 1, 2019, of \$80.69). The 2019 RSU awards will vest in full on July 1, 2020.

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (“Agreement”) is made and entered into as of the 15th day of July, 2019, by and between Barrett Business Services, Inc., a Maryland corporation (the “Company”), and Michael Elich (“Indemnitee”). **This Agreement applies only to Michael Elich in *Salinas v. Carley, et al.*, Circuit Court for Baltimore City, Maryland, Case No. 24-C-19-002748 OT** (the “Derivative Litigation”).

WHEREAS, at the request of the Company, Indemnitee currently serves as a director and/or officer of the Company and is subjected to claims in the Derivative Litigation; and

WHEREAS, as an inducement to Indemnitee to serve or continue to serve in such capacity, the Company has agreed to indemnify Indemnitee and to advance expenses and costs incurred by Indemnitee in connection with the Derivative Litigation, to the maximum extent permitted by law; and

WHEREAS, the parties by this Agreement desire to set forth their agreement regarding indemnification and advance of expenses in the Derivative Litigation and to supersede any prior agreement to which the Company and Indemnitee are parties regarding the same;

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

Section 1. Definitions. For purposes of this Agreement:

(a) “Change in Control” means a change in control of the Company occurring after the Effective Date of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), whether or not the Company is then subject to such reporting requirement; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred if, after the Effective Date, (i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 15% or more of the combined voting power of all of the Company’s then-outstanding securities entitled to vote generally in the election of directors without the prior approval of at least two-thirds of the members of the Board of Directors in office immediately prior to such person’s attaining such percentage interest; or (ii) at any time, a majority of the members of the Board of Directors are not individuals (A) who were directors as of the Effective Date or (B) whose election by the Board of Directors or nomination for election by the Company’s stockholders was approved by the affirmative vote of at least a majority of the directors then in office who were directors as of the Effective Date or whose election for nomination for election was previously so approved.

(b) “Corporate Status” means the status of a person as a present or former director, officer, employee or agent of the Company or as a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any other foreign or domestic corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise of which such person is or was serving in such capacity at the request of the Company. As a clarification and without limiting the circumstances in which Indemnitee may be serving at the request of the Company, service by Indemnitee shall be deemed to be at the request of the Company: (i) if Indemnitee serves or served as a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any corporation, partnership, limited liability company, joint venture, trust or other enterprise (1) of which a majority of the voting power or equity interest is owned directly or indirectly by the Company or (2) the management of which is controlled directly or indirectly by the Company and (ii) if, as a result of Indemnitee’s service to the Company or any of its affiliated entities, Indemnitee is subject to duties by, or required to perform services for, an employee benefit plan or its participants or beneficiaries, including as deemed fiduciary thereof.

(c) “Disinterested Director” means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification and/or advance of Expenses is sought by Indemnitee.

(d) “Effective Date” means the date set forth in the first paragraph of this Agreement.

(e) “Expenses” means any and all reasonable and out-of-pocket attorneys’ fees and costs, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, federal, state, local or foreign taxes imposed on Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement, ERISA excise taxes and penalties and any other disbursements or expenses incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in or otherwise participating in the Proceeding. Expenses shall also include Expenses incurred in connection with any appeal resulting from any Proceeding, including, without limitation, the premium, security for and other costs relating to any cost bond, supersedeas bond or other appeal bond or its equivalent.

(f) “Independent Counsel” means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither is, nor in the past five years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning Indemnitee under this Agreement or of other indemnitees under similar indemnification agreements), or (ii) any other party to or participant or witness in the Proceeding giving rise to a claim for indemnification or advance of Expenses hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee’s rights under this Agreement.

(g) “Proceeding” means the Derivative Litigation.

Section 2. Services by Indemnitee. Indemnitee will serve in the capacity set forth in the first WHEREAS clause above. However, this Agreement shall not impose any independent obligation on Indemnitee or the Company to continue Indemnitee’s service to the Company. This Agreement shall not be deemed an employment contract between the Company (or any other entity) and Indemnitee.

Section 3. General. The Company shall indemnify, and advance Expenses to, Indemnitee (a) as provided in this Agreement and (b) otherwise to the maximum extent permitted by Maryland law in effect on the Effective Date and as amended from time to time; provided, however, that no change in Maryland law shall have the effect of reducing the benefits available to Indemnitee hereunder based on Maryland law as in effect on the Effective Date. The rights of Indemnitee provided in this Section 3 shall include, without limitation, the rights set forth in the other sections of this Agreement, including any additional indemnification permitted by Section 2-418(g) of the Maryland General Corporation Law (the “MGCL”).

Section 4. Standard for Indemnification. If, by reason of Indemnitee’s Corporate Status, Indemnitee is, or is threatened to be, made a party to a Proceeding, the Company shall indemnify Indemnitee against all judgments, penalties, fines and amounts paid in settlement and all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee’s behalf in connection with a Proceeding unless it is established that (a) the act or omission of Indemnitee was material to the matter giving rise to the Proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty, (b) Indemnitee actually received an improper personal benefit in money, property or services or (c) in the case of any criminal Proceeding, Indemnitee had reasonable cause to believe that Indemnitee’s conduct was unlawful.

Section 5. Certain Limits on Indemnification. Notwithstanding any other provision of this Agreement (other than Section 6), Indemnitee shall not be entitled to:

(a) indemnification hereunder if the Proceeding was one by or in the right of the Company and Indemnitee is adjudged, in a final adjudication of the Proceeding not subject to further appeal, to be liable to the Company;

(b) indemnification hereunder if Indemnitee is adjudged, in a final adjudication of the Proceeding not subject to further appeal, to be liable on the basis that personal benefit was improperly received in any Proceeding charging improper personal benefit to Indemnitee, whether or not involving action in the Indemnitee’s Corporate Status; or

(c) indemnification or advance of Expenses hereunder if the Proceeding was brought by Indemnitee, unless: (i) the Proceeding was brought to enforce indemnification under this Agreement, and then only to the extent in accordance with and as authorized by Section 12 of this Agreement, or (ii) the Company’s charter or Bylaws, a resolution of the stockholders entitled to vote generally in the election of directors or of the Board of Directors, or an agreement approved by the Board of Directors to which the Company is a party, expressly provide otherwise.

Section 6. Court-Ordered Indemnification. Notwithstanding any other provision of this Agreement, a court of appropriate jurisdiction, upon application of Indemnitee and such notice as the court shall require, may order indemnification of Indemnitee by the Company in the following circumstances:

(a) if such court determines that Indemnitee is entitled to reimbursement under Section 2-418(d)(1) of the MGCL, the court shall order indemnification, in which case Indemnitee shall be entitled to recover the Expenses of securing such reimbursement; or

(b) if such court determines that Indemnitee is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not Indemnitee (i) has met the standards of conduct set forth in Section 2-418(b) of the MGCL or (ii) has been adjudged liable for receipt of an improper personal benefit under Section 2-418(c) of the MGCL, the court may order such indemnification as the court shall deem proper without regard to any limitation on such court-ordered indemnification contemplated by Section 2-418(d)(2)(ii) of the MGCL.

Section 7. Indemnification for Expenses of an Indemnitee Who is Wholly or Partially Successful. Notwithstanding any other provision of this Agreement, and without limiting any such provision, to the extent that Indemnitee was or is, by reason of Indemnitee's Corporate Status, made a party to (or otherwise becomes a participant in) a Proceeding and is successful, on the merits or otherwise, in the defense of the Proceeding, the Company shall indemnify Indemnitee for all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee under this Section 7 for all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with each such claim, issue or matter, allocated on a reasonable and proportionate basis. For purposes of this Section 7 and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

Section 8. Advance of Expenses for Indemnitee. If, by reason of Indemnitee's Corporate Status, Indemnitee is, or is threatened to be, made a party to a Proceeding, the Company shall, without requiring a preliminary determination of Indemnitee's ultimate entitlement to indemnification hereunder, advance all Expenses incurred by or on behalf of Indemnitee in connection with such Proceeding. The Company shall make such advance or advances within ten days after the receipt by the Company of a statement or statements requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding and may be in the form of, in the reasonable discretion of Indemnitee (but without duplication) (a) payment of such Expenses directly to third parties on behalf of Indemnitee, (b) advance of funds to Indemnitee in an amount sufficient to pay such Expenses, or (c) reimbursement to Indemnitee for Indemnitee's payment of such Expenses. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee and shall include or be preceded or accompanied by a written affirmation by Indemnitee and a written undertaking by or on behalf of Indemnitee, in substantially the form attached hereto as Exhibit A or in such form as may be required under

applicable law as in effect at the time of the execution thereof. To the extent that Expenses advanced to Indemnitee do not relate to a specific claim, issue or matter in the Proceeding, such Expenses shall be allocated on a reasonable and proportionate basis. The undertaking required by this Section 8 shall be an unlimited general obligation by or on behalf of Indemnitee and shall be accepted without reference to Indemnitee's financial ability to repay such advanced Expenses and without any requirement to post security therefor.

Section 9. Indemnification and Advance of Expenses as a Witness or Other Participant. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is or may be, by reason of Indemnitee's Corporate Status, made a witness or otherwise asked to participate in a Proceeding, whether instituted by the Company or any other party, and to which Indemnitee is not a party, Indemnitee shall be advanced and indemnified against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith within ten days after the receipt by the Company of a statement or statements requesting any such advance or indemnification from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee. In connection with any such advance of Expenses, the Company may require Indemnitee to provide an undertaking and affirmation substantially in the form attached hereto as Exhibit A.

Section 10. Procedure for Determination of Entitlement to Indemnification.

(a) To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification. Indemnitee may submit one or more such requests from time to time and at such time(s) as Indemnitee deems appropriate in Indemnitee's sole discretion. The officer of the Company receiving any such request from Indemnitee shall, promptly upon receipt of such a request for indemnification, advise the Board of Directors in writing that Indemnitee has requested indemnification.

(b) Upon written request by Indemnitee for indemnification pursuant to Section 10(a) above, a determination, if required by applicable law, with respect to Indemnitee's entitlement thereto shall promptly be made in the specific case: (i) if a Change in Control has occurred, by Independent Counsel, in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnitee, which Independent Counsel shall be selected by the Indemnitee and approved by the Board of Directors in accordance with Section 2-418(e)(2)(ii) of the MGCL, which approval shall not be unreasonably withheld or delayed; or (ii) if a Change in Control has not occurred, (A) by a majority vote of the Disinterested Directors or by the majority vote of a group of Disinterested Directors designated by the Disinterested Directors to make the determination, (B) if Independent Counsel has been selected by the Board of Directors in accordance with Section 2-418(e)(2)(ii) of the MGCL and approved by the Indemnitee, which approval shall not be unreasonably withheld or delayed, by Independent Counsel, in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnitee, or (C) if so directed by the Board of Directors, by the stockholders of the Company; provided, however, that shares held by directors or officers who are parties to the Proceeding shall not be voted. If it is so

determined that Indemnitee is entitled to indemnification, the Company shall make payment to Indemnitee within ten days after such determination. Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary or appropriate to such determination in the discretion of the Board of Directors or Independent Counsel if retained pursuant to clause (ii)(B) of this Section 10(b). Any Expenses incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company shall indemnify and hold Indemnitee harmless therefrom.

(c) The Company shall pay the reasonable fees and expenses of Independent Counsel, if one is appointed.

Section 11. Presumptions and Effect of Certain Proceedings.

(a) In making any determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 10(a) of this Agreement, and the Company shall have the burden of overcoming that presumption in connection with the making of any determination contrary to that presumption.

(b) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, upon a plea of *nolo contendere* or its equivalent, or entry of an order of probation prior to judgment, does not create a presumption that Indemnitee did not meet the requisite standard of conduct described herein for indemnification.

(c) The knowledge and/or actions, or failure to act, of any other director, officer, employee or agent of the Company or any other director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any other foreign or domestic corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise shall not be imputed to Indemnitee for purposes of determining any other right to indemnification under this Agreement.

Section 12. Remedies of Indemnitee.

(a) If (i) a determination is made pursuant to Section 10(b) of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advance of Expenses is not timely made pursuant to Sections 8 or 9 of this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 10(b) of this Agreement within 60 days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Sections 7 or 9 of this Agreement within ten days after receipt by the Company of a written request therefor, or (v) payment of indemnification pursuant

to any other section of this Agreement or the charter or Bylaws of the Company is not made within ten days after a determination has been made that Indemnitee is entitled to indemnification, Indemnitee shall be entitled to an adjudication in an appropriate court located in the State of Maryland, or in any other court of competent jurisdiction, or to arbitration, conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association, of Indemnitee's entitlement to indemnification or advance of Expenses. Indemnitee shall commence a proceeding seeking an adjudication or an award in arbitration within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 12(a); provided, however, that the foregoing clause shall not apply to a proceeding brought by Indemnitee to enforce Indemnitee's rights under Section 7 of this Agreement. Except as set forth herein, the provisions of Maryland law (without regard to its conflicts of laws rules) shall apply to any such arbitration. The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

(b) In any judicial proceeding or arbitration commenced pursuant to this Section 12, Indemnitee shall be presumed to be entitled to indemnification or advance of Expenses, as the case may be, under this Agreement and the Company shall have the burden of proving that Indemnitee is not entitled to indemnification or advance of Expenses, as the case may be. If Indemnitee commences a judicial proceeding or arbitration pursuant to this Section 12, Indemnitee shall not be required to reimburse the Company for any advances pursuant to Section 8 of this Agreement until a final determination is made with respect to Indemnitee's entitlement to indemnification (as to which all rights of appeal have been exhausted or lapsed). The Company shall, to the fullest extent not prohibited by law, be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 12 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all of the provisions of this Agreement.

(c) If a determination shall have been made pursuant to Section 10(b) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 12, absent a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification that was not introduced into evidence in connection with the determination.

(d) In the event that Indemnitee is successful in seeking, pursuant to this Section 12, a judicial adjudication of or an award in arbitration to enforce Indemnitee's rights under, or to recover damages for breach of, this Agreement, Indemnitee shall be entitled to recover from the Company, and shall be indemnified by the Company for, any and all Expenses actually and reasonably incurred by him in such judicial adjudication or arbitration. If it shall be determined in such judicial adjudication or arbitration that Indemnitee is entitled to receive part but not all of the indemnification or advance of Expenses sought, the Expenses incurred by Indemnitee in connection with such judicial adjudication or arbitration shall be appropriately prorated.

(e) Interest shall be paid by the Company to Indemnitee at the maximum rate allowed to be charged for judgments under the Courts and Judicial Proceedings Article of the Annotated Code of Maryland for amounts which the Company pays or is obligated to pay for the period (i) commencing with either the tenth day after the date on which the Company was requested to advance Expenses in accordance with Sections 8 or 9 of this Agreement or the 60th day after the date on which the Company was requested to make the determination of entitlement to indemnification under Section 10(b) of this Agreement, as applicable, and (ii) ending on the date such payment is made to Indemnitee by the Company.

Section 13. Defense of the Underlying Proceeding.

(a) Indemnitee shall notify the Company promptly in writing upon being served with any summons, citation, subpoena, complaint, indictment, request or other document relating to a Proceeding which may result in the right to indemnification or the advance of Expenses hereunder and shall include with such notice a description of the nature of the Proceeding and a summary of the facts underlying the Proceeding. The failure to give any such notice shall not disqualify Indemnitee from the right, or otherwise affect in any manner any right of Indemnitee, to indemnification or the advance of Expenses under this Agreement unless the Company's ability to defend in such Proceeding or to obtain proceeds under any insurance policy is materially and adversely prejudiced thereby, and then only to the extent the Company is thereby actually so prejudiced.

(b) Subject to the provisions of the last sentence of this Section 13(b) and of Section 13(c) below, the Company shall have the right to defend Indemnitee in a Proceeding which may give rise to indemnification hereunder; provided, however, that the Company shall notify Indemnitee of any such decision to defend within 15 calendar days following receipt of notice of any such Proceeding under Section 13(a) above. The Company shall not, without the prior written consent of Indemnitee, which shall not be unreasonably withheld or delayed, consent to the entry of any judgment against Indemnitee or enter into any settlement or compromise which (i) includes an admission of fault of Indemnitee, (ii) does not include, as an unconditional term thereof, the full release of Indemnitee from all liability in respect of such Proceeding, which release shall be in form and substance reasonably satisfactory to Indemnitee, or (iii) would impose any Expense, judgment, fine, penalty or limitation on Indemnitee. This Section 13(b) shall not apply to a Proceeding brought by Indemnitee under Section 12 of this Agreement.

(c) Notwithstanding the provisions of Section 13(b) above, if in a Proceeding to which Indemnitee is a party by reason of Indemnitee's Corporate Status, (i) Indemnitee reasonably concludes, based upon an opinion of counsel approved by the Company, which approval shall not be unreasonably withheld or delayed, that Indemnitee may have separate defenses or counterclaims to assert with respect to any issue which may not be consistent with other defendants in such Proceeding, (ii) Indemnitee reasonably concludes, based upon an opinion of counsel approved by the Company, which approval shall not be unreasonably withheld or delayed, that an actual or apparent conflict of interest or potential conflict of interest exists between Indemnitee and the Company, or (iii) if the Company fails to assume the defense of such Proceeding in a timely manner, Indemnitee shall be entitled to be represented by separate

legal counsel of Indemnitee's choice, subject to the prior approval of the Company, which approval shall not be unreasonably withheld or delayed, at the expense of the Company. In addition, if the Company fails to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes any action to declare this Agreement void or unenforceable, or institutes any Proceeding to deny or to recover from Indemnitee the benefits intended to be provided to Indemnitee hereunder, Indemnitee shall have the right to retain counsel of Indemnitee's choice, subject to the prior approval of the Company, which approval shall not be unreasonably withheld or delayed, at the expense of the Company (subject to Section 12(d) of this Agreement), to represent Indemnitee in connection with any such matter.

Section 14. Non-Exclusivity; Survival of Rights; Subrogation.

(a) The rights of indemnification and advance of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the charter or Bylaws of the Company, any agreement or a resolution of the stockholders entitled to vote generally in the election of directors or of the Board of Directors, or otherwise. Unless consented to in writing by Indemnitee, no amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in Indemnitee's Corporate Status prior to such amendment, alteration or repeal, regardless of whether a claim with respect to such action or inaction is raised prior or subsequent to such amendment, alteration or repeal. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right or remedy shall be cumulative and in addition to every other right or remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion of any right or remedy hereunder, or otherwise, shall not prohibit the concurrent assertion or employment of any other right or remedy.

(b) In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

Section 15. Insurance.

(a) The Company will use its reasonable best efforts to acquire directors and officers liability insurance, on terms and conditions deemed appropriate by the Board of Directors, with the advice of counsel, covering Indemnitee or any claim made against Indemnitee by reason of Indemnitee's Corporate Status and covering the Company for any indemnification or advance of Expenses made by the Company to Indemnitee for any claims made against Indemnitee by reason of Indemnitee's Corporate Status. In the event of a Change in Control, the Company shall maintain in force any and all directors and officers liability insurance policies that were maintained by the Company immediately prior to the Change in Control for a period of six years with the insurance carrier or carriers and through the insurance broker in place at the time of the Change in Control; provided, however, (i) if the carriers will not offer the same policy and an expiring policy needs to be replaced, a policy substantially comparable in scope

and amount shall be obtained and (ii) if any replacement insurance carrier is necessary to obtain a policy substantially comparable in scope and amount, such insurance carrier shall have an AM Best rating that is the same or better than the AM Best rating of the existing insurance carrier; provided, further, however, in no event shall the Company be required to expend in the aggregate in excess of 250% of the annual premium or premiums paid by the Company for directors and officers liability insurance in effect on the date of the Change in Control. In the event that 250% of the annual premium paid by the Company for such existing directors and officers liability insurance is insufficient for such coverage, the Company shall spend up to that amount to purchase such lesser coverage as may be obtained with such amount.

(b) Without in any way limiting any other obligation under this Agreement, the Company shall indemnify Indemnitee for any payment by Indemnitee arising out of the amount of any deductible or retention and the amount of any excess of the aggregate of all judgments, penalties, fines, settlements and Expenses incurred by Indemnitee in connection with a Proceeding over the coverage of any insurance referred to in the previous sentence. The purchase, establishment and maintenance of any such insurance shall not in any way limit or affect the rights or obligations of the Company or Indemnitee under this Agreement except as expressly provided herein, and the execution and delivery of this Agreement by the Company and the Indemnitee shall not in any way limit or affect the rights or obligations of the Company under any such insurance policies. If, at the time the Company receives notice from any source of a Proceeding to which Indemnitee is a party or a participant (as a witness or otherwise), the Company has director and officer liability insurance in effect, the Company shall give prompt notice of such Proceeding to the insurers in accordance with the procedures set forth in the respective policies.

Section 16. Coordination of Payments. The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable or payable or reimbursable as Expenses hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

Section 17. Contribution. If the indemnification provided in this Agreement is unavailable in whole or in part and may not be paid to Indemnitee for any reason, other than for failure to satisfy the standard of conduct set forth in Section 4 or due to the provisions of Section 5, then, in respect to any Proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such Proceeding), to the fullest extent permissible under applicable law, the Company, in lieu of indemnifying and holding harmless Indemnitee, shall pay, in the first instance, the entire amount incurred by Indemnitee, whether for Expenses, judgments, penalties, and/or amounts paid or to be paid in settlement, in connection with any Proceeding without requiring Indemnitee to contribute to such payment, and the Company hereby waives and relinquishes any right of contribution it may have at any time against Indemnitee.

Section 18. Duration of Agreement; Binding Effect.

(a) This Agreement shall continue until and terminate on the later of (i) the date that Indemnitee shall have ceased to serve as a director, officer, employee or agent of the Company or as a director, trustee, officer, partner, manager, managing member, fiduciary,

employee or agent of any other foreign or domestic corporation, real estate investment trust, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise that such person is or was serving in such capacity at the request of the Company and (ii) the date that Indemnitee is no longer subject to any actual or possible Proceeding (including any rights of appeal thereto and any proceeding commenced by Indemnitee pursuant to Section 12 of this Agreement).

(b) The indemnification and advance of Expenses provided by, or granted pursuant to, this Agreement shall be binding upon and be enforceable by the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), shall continue as to an Indemnitee who has ceased to be a director, officer, employee or agent of the Company or a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any other foreign or domestic corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise that such person is or was serving in such capacity at the request of the Company, and shall inure to the benefit of Indemnitee and Indemnitee's spouse, assigns, heirs, devisees, executors and administrators and other legal representatives.

(c) The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all or a substantial part, of the business and/or assets of the Company, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

(d) The Company and Indemnitee agree that a monetary remedy for breach of this Agreement, at some later date, may be inadequate, impracticable and difficult of proof, and further agree that such breach may cause Indemnitee irreparable harm. Accordingly, the parties hereto agree that Indemnitee may enforce this Agreement by seeking injunctive relief and/or specific performance hereof, without any necessity of showing actual damage or irreparable harm and that by seeking injunctive relief and/or specific performance, Indemnitee shall not be precluded from seeking or obtaining any other relief to which Indemnitee may be entitled. Indemnitee shall further be entitled to such specific performance and injunctive relief, including temporary restraining orders, preliminary injunctions and permanent injunctions, without the necessity of posting bonds or other undertakings in connection therewith. The Company acknowledges that, in the absence of a waiver, a bond or undertaking may be required of Indemnitee by a court, and the Company hereby waives any such requirement of such a bond or undertaking.

Section 19. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any Section, paragraph or sentence of this Agreement containing any such provision held to be invalid, illegal or unenforceable that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent

permitted by law; (b) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (c) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section, paragraph or sentence of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

Section 20. Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. One such counterpart signed by the party against whom enforceability is sought shall be sufficient to evidence the existence of this Agreement.

Section 21. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

Section 22. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor, unless otherwise expressly stated, shall such waiver constitute a continuing waiver.

Section 23. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, on the day of such delivery, or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

- (a) If to Indemnitee, to the address set forth on the signature page hereto.
- (b) If to the Company, to:

Barrett Business Services, Inc.
8100 NE Parkway Drive, Suite 200
Vancouver, WA 98662
Attn: Secretary

or to such other address as may have been furnished in writing to Indemnitee by the Company or to the Company by Indemnitee, as the case may be.

Section 24. Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Maryland, without regard to its conflicts of laws rules.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

COMPANY:

BARRETT BUSINESS SERVICES, INC.

/s/ Anthony Meeker _____

Anthony Meeker
Chairman of the Board

INDEMNITEE

/s/ Michael Elich _____

Michael L. Elich

Address

EXHIBIT A-1

AFFIRMATION AND UNDERTAKING TO REPAY EXPENSES ADVANCED

To: The Board of Directors of Barrett Business Services, Inc.
Re: Affirmation and Undertaking

Ladies and Gentlemen:

This Affirmation and Undertaking is being provided pursuant to that certain Indemnification Agreement dated the 15th day of July, 2019, by and between Barrett Business Services, Inc., a Maryland corporation (the “Company”), and the undersigned Indemnitee (the “Indemnification Agreement”), pursuant to which I am entitled to advance of Expenses in connection with *Salinas v. Carley, et al., Circuit Court for Baltimore City, Maryland, Case No. 24-C-19-002748 OT* (the “Derivative Litigation”).

Terms used herein and not otherwise defined shall have the meanings specified in the Indemnification Agreement.

I am subject to the Derivative Litigation by reason of my Corporate Status or by reason of alleged actions or omissions by me in such capacity. I hereby affirm my good faith belief that at all times, insofar as I was involved as a director and/or officer of the Company in any of the facts or events giving rise to the Derivative Litigation, I (1) did not act with bad faith or active or deliberate dishonesty, (2) did not receive any improper personal benefit in money, property or services, and (3) in the case of any criminal proceeding, had no reasonable cause to believe that any act or omission by me was unlawful.

In consideration of the advance by the Company for Expenses incurred by me in connection with the Derivative Litigation (the “Advanced Expenses”), I hereby agree that if, in connection with the Derivative Litigation, it is established that: (1) an act or omission by me was material to the matter giving rise to the Derivative Litigation and (a) was committed in bad faith or (b) was the result of active and deliberate dishonesty; (2) I actually received an improper personal benefit in money, property or services; or (3) in the case of any criminal proceeding, I had reasonable cause to believe that the act or omission was unlawful, then I will promptly reimburse the portion of the Advanced Expenses relating to the claims, issues or matters in the Derivative Litigation as to which the foregoing findings have been established.

IN WITNESS WHEREOF, I have executed this Affirmation and Undertaking on this 15th day of July, 2019.

Signature: /s/ Mike Elich

Printed Name: Mike Elich

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Michael L. Elich, certify that:

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

Date: August 7, 2019

/s/ Michael L. Elich
Michael L. Elich
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Gary E. Kramer, certify that:

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

Date: August 7, 2019

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

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

In connection with the Quarterly Report of Barrett Business Services, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2019 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 7, 2019

/s/ Gary E. Kramer

Gary E. Kramer
Chief Financial Officer

August 7, 2019

A signed original of this written statement required by Section 906 has been provided to Barrett Business Services, Inc. and will be retained by Barrett Business Services, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.