

**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, 2021

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 Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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 July 21, 2021, 7,558,205 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, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,469	\$ 68,688
Investments	107,284	101,244
Trade accounts receivable, net	226,582	118,506
Income taxes receivable	3,005	6,485
Prepaid expenses and other	18,437	15,961
Restricted cash and investments	104,640	96,991
Total current assets	<u>462,417</u>	<u>407,875</u>
Property, equipment and software, net	35,515	34,916
Operating lease right-of-use assets	23,208	23,025
Restricted cash and investments	294,364	258,153
Goodwill	47,820	47,820
Other assets	2,794	3,161
	<u>\$ 866,118</u>	<u>\$ 774,950</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 221	\$ 221
Accounts payable	4,606	4,746
Accrued payroll, payroll taxes and related benefits	235,928	149,989
Current operating lease liabilities	7,748	7,539
Other accrued liabilities	65,415	7,275
Workers' compensation claims liabilities	86,047	102,040
Safety incentives liability	6,883	18,827
Total current liabilities	<u>406,848</u>	<u>290,637</u>
Long-term workers' compensation claims liabilities	229,686	255,706
Long-term debt	3,399	3,510
Deferred income taxes	3,328	4,518
Long-term operating lease liabilities	16,525	16,419
Customer deposits and other long-term liabilities	6,910	5,925
Total liabilities	<u>666,696</u>	<u>576,715</u>
Commitments and contingencies (Notes 4 and 6)		
Stockholders' equity:		
Common stock, \$.01 par value; 20,500 shares authorized, 7,523 and 7,566 shares issued and outstanding	75	76
Additional paid-in capital	27,437	24,885
Accumulated other comprehensive income	4,465	7,564
Retained earnings	167,445	165,710
Total stockholders' equity	<u>199,422</u>	<u>198,235</u>
	<u>\$ 866,118</u>	<u>\$ 774,950</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,	
	2021	2020	2021	2020
Revenues:				
Professional employer service fees	\$ 208,496	\$ 180,488	\$ 402,315	\$ 374,080
Staffing services	24,707	20,543	49,333	46,055
Total revenues	<u>233,203</u>	<u>201,031</u>	<u>451,648</u>	<u>420,135</u>
Cost of revenues:				
Direct payroll costs	18,498	15,796	36,948	34,873
Payroll taxes and benefits	111,719	93,671	234,502	213,133
Workers' compensation	45,513	44,921	91,860	99,435
Total cost of revenues	<u>175,730</u>	<u>154,388</u>	<u>363,310</u>	<u>347,441</u>
Gross margin	57,473	46,643	88,338	72,694
Selling, general and administrative expenses	35,662	33,255	72,769	65,370
Depreciation and amortization	1,328	1,171	2,625	2,171
Income from operations	<u>20,483</u>	<u>12,217</u>	<u>12,944</u>	<u>5,153</u>
Other income (expense):				
Investment income, net	1,965	1,800	3,734	4,767
Interest expense	(79)	(306)	(387)	(541)
Other, net	(13)	172	(4)	173
Other income, net	1,873	1,666	3,343	4,399
Income before income taxes	<u>22,356</u>	<u>13,883</u>	<u>16,287</u>	<u>9,552</u>
Provision for income taxes	5,266	2,373	3,751	1,449
Net income	<u>\$ 17,090</u>	<u>\$ 11,510</u>	<u>\$ 12,536</u>	<u>\$ 8,103</u>
Basic income per common share	<u>\$ 2.26</u>	<u>\$ 1.52</u>	<u>\$ 1.66</u>	<u>\$ 1.07</u>
Weighted average number of basic common shares				
outstanding	<u>7,554</u>	<u>7,557</u>	<u>7,565</u>	<u>7,539</u>
Diluted income per common share	<u>\$ 2.24</u>	<u>\$ 1.51</u>	<u>\$ 1.64</u>	<u>\$ 1.06</u>
Weighted average number of diluted common				
shares outstanding	<u>7,645</u>	<u>7,647</u>	<u>7,658</u>	<u>7,678</u>

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

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

	Three Months Ended June 30,	
	2021	2020
Net income	\$ 17,090	\$ 11,510
Unrealized gains on investments, net of tax of \$828 and \$2,630 in 2021 and 2020, respectively	2,151	6,877
Comprehensive income	\$ 19,241	\$ 18,387
	Six Months Ended June 30,	
	2021	2020
Net income	\$ 12,536	\$ 8,103
Unrealized (losses) gains on investments, net of tax of (\$1,179) and \$1,584 in 2021 and 2020, respectively	(3,099)	4,142
Comprehensive income	\$ 9,437	\$ 12,245

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

Barrett Business Services, Inc.
Condensed Consolidated Statements of Stockholders' Equity
Three and Six Months Ended June 30, 2021
(Unaudited)
(In Thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount				
Balance, December 31, 2020	7,566	\$ 76	\$ 24,885	\$ 7,564	\$ 165,710	\$ 198,235
Common stock issued on exercise of options, purchase of ESPP shares and vesting of restricted stock units and performance awards	38	—	815	—	—	815
Common stock repurchased on vesting of restricted stock units and performance awards	(1)	—	(107)	—	—	(107)
Share-based compensation expense	—	—	1,060	—	—	1,060
Company repurchase of common stock	(49)	—	(170)	—	(3,266)	(3,436)
Cash dividends on common stock (\$0.30 per share)	—	—	—	—	(2,278)	(2,278)
Unrealized loss on investments, net of tax	—	—	—	(5,250)	—	(5,250)
Net loss	—	—	—	—	(4,554)	(4,554)
Balance, March 31, 2021	<u>7,554</u>	<u>\$ 76</u>	<u>\$ 26,483</u>	<u>\$ 2,314</u>	<u>\$ 155,612</u>	<u>\$ 184,485</u>
Common stock issued on exercise of options and vesting of restricted stock units	15	—	61	—	—	61
Common stock repurchased on vesting of restricted stock units	(4)	—	(287)	—	—	(287)
Share-based compensation expense	—	—	1,335	—	—	1,335
Company repurchase of common stock	(42)	(1)	(155)	—	(2,986)	(3,142)
Cash dividends on common stock (\$0.30 per share)	—	—	—	—	(2,271)	(2,271)
Unrealized gain on investments, net of tax	—	—	—	2,151	—	2,151
Net income	—	—	—	—	17,090	17,090
Balance, June 30, 2021	<u>7,523</u>	<u>\$ 75</u>	<u>\$ 27,437</u>	<u>\$ 4,465</u>	<u>\$ 167,445</u>	<u>\$ 199,422</u>

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

Barrett Business Services, Inc.
Condensed Consolidated Statements of Stockholders' Equity
Three and Six Months Ended June 30, 2020
(Unaudited)
(In Thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount				
Balance, December 31, 2019	7,514	\$ 75	\$ 20,227	\$ 2,819	\$ 148,678	\$ 171,799
Common stock issued on exercise of options, purchase of ESPP shares and vesting of restricted stock units and performance awards	56	1	903	—	—	904
Common stock repurchased on vesting of restricted stock units and performance awards	(6)	—	(378)	—	—	(378)
Share-based compensation expense	—	—	342	—	—	342
Company repurchase of common stock	(59)	(1)	(169)	—	(2,817)	(2,987)
Cash dividends on common stock (\$0.30 per share)	—	—	—	—	(2,262)	(2,262)
Unrealized loss on investments, net of tax	—	—	—	(2,735)	—	(2,735)
Net loss	—	—	—	—	(3,407)	(3,407)
Balance, March 31, 2020	<u>7,505</u>	<u>\$ 75</u>	<u>\$ 20,925</u>	<u>\$ 84</u>	<u>\$ 140,192</u>	<u>\$ 161,276</u>
Common stock issued on exercise of options and vesting of restricted stock units	96	1	1,809	—	—	1,810
Common stock repurchased on vesting of restricted stock units	(3)	—	(110)	—	—	(110)
Share-based compensation expense	—	—	797	—	—	797
Cash dividends on common stock (\$0.30 per share)	—	—	—	—	(2,272)	(2,272)
Unrealized gain on investments, net of tax	—	—	—	6,877	—	6,877
Net income	—	—	—	—	11,510	11,510
Balance, June 30, 2020	<u>7,598</u>	<u>\$ 76</u>	<u>\$ 23,421</u>	<u>\$ 6,961</u>	<u>\$ 149,430</u>	<u>\$ 179,888</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,	
	2021	2020
Cash flows from operating activities:		
Net income	\$ 12,536	\$ 8,103
Reconciliations of net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,625	2,171
Non-cash lease expense	3,937	3,545
Investment amortization and losses recognized	671	283
Deferred income taxes	—	3,890
Share-based compensation	2,395	1,139
Changes in certain operating assets and liabilities:		
Trade accounts receivable	(108,076)	(24,822)
Income taxes	3,480	(2,171)
Prepaid expenses and other	(2,476)	(2,458)
Accounts payable	(140)	(1,042)
Accrued payroll, payroll taxes and related benefits	87,024	8,035
Other accrued liabilities	58,051	(2,759)
Workers' compensation claims liabilities	(41,634)	(102,572)
Safety incentives liability	(11,944)	(2,183)
Operating lease liabilities	(3,805)	(3,405)
Other assets and liabilities, net	(23)	(143)
Net cash provided by (used in) operating activities	<u>2,621</u>	<u>(114,389)</u>
Cash flows from investing activities:		
Purchase of property, equipment and software	(3,224)	(5,725)
Purchase of investments	(42,011)	(23,722)
Proceeds from sales and maturities of investments	40,054	38,547
Purchase of restricted investments	(253,048)	(29,570)
Proceeds from sales and maturities of restricted investments	46,690	22,453
Net cash (used in) provided by investing activities	<u>(211,539)</u>	<u>1,983</u>
Cash flows from financing activities:		
Payments on long-term debt	(111)	(110)
Repurchase of common stock	(6,578)	(2,987)
Common stock repurchased on vesting of stock awards	(394)	(488)
Dividends paid	(4,549)	(4,534)
Proceeds from exercise of stock options	876	2,714
Net cash used in financing activities	<u>(10,756)</u>	<u>(5,405)</u>
Net decrease in cash, cash equivalents and restricted cash	(219,674)	(117,811)
Cash, cash equivalents and restricted cash, beginning of period	233,837	273,341
Cash, cash equivalents and restricted cash, end of period	<u>\$ 14,163</u>	<u>\$ 155,530</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 2020 Annual Report on Form 10-K at pages 34 – 61. 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 generally 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 safety incentives because these 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 insured 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 extent to which fair value is less than cost and adverse conditions related to the security. In the event of a credit loss, an allowance would be recognized to the extent that the fair value of the security is less than the present value of the expected future cash flows. Realized gains and losses on sales of investments are included in investment income in our 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 extent to which fair value is less than cost and adverse conditions related to the security. In the event of a credit loss, an allowance would be recognized to the extent that the fair value of the security is less than the present value of the expected future cash flows. Realized gains and losses on sales of restricted investments are included in investment income in our 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 income (loss) from operations.

Allowance for doubtful accounts

The Company had an allowance for doubtful accounts of \$ 761,000 and \$757,000 at June 30, 2021 and December 31, 2020, respectively. We make estimates of the collectability of our accounts receivable for services provided to our customers based on future expected credit losses. 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 administrator for workers' compensation claims, coupled with an actuarial estimate of future loss development with respect to reported claims and incurred but not reported claims (together, "IBNR"). Workers' compensation claims liabilities include case reserve estimates for reported losses, plus additional amounts for estimated IBNR claims, MCC and legal costs, unallocated loss adjustment expenses and estimated future recoveries. 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 actuarial analysis and 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.

Safety incentives

We accrue for and present expected safety 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. In July 2020, the Company began limiting its safety incentive offering in certain markets. The Company provided \$6.9 million and \$ 18.8 million at June 30, 2021 and December 31, 2020, respectively, as an estimate of the liability for unpaid safety incentives.

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, 2021 and 2020 did not materially differ from interest expense. Income taxes paid during the six months ended June 30, 2021 totaled \$0.21 million. No income taxes were paid during the six months ended June 30, 2020.

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, 2021	December 31, 2020	June 30, 2020	December 31, 2019
Cash and cash equivalents	\$ 2,469	\$ 68,688	\$ 62,210	\$ 44,570
Restricted cash, included in restricted cash and investments	11,694	165,149	93,320	228,771
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 14,163</u>	<u>\$ 233,837</u>	<u>\$ 155,530</u>	<u>\$ 273,341</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, the issuance of stock associated with outstanding restricted stock units, performance share units and the Company's employee stock purchase plan. Basic and diluted shares outstanding are summarized as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Weighted average number of basic shares outstanding	7,554	7,557	7,565	7,539
Effect of dilutive securities	91	90	93	139
Weighted average number of diluted shares outstanding	<u>7,645</u>	<u>7,647</u>	<u>7,658</u>	<u>7,678</u>

Accounting estimates

The preparation of our condensed consolidated financial statements, in conformity with GAAP, requires management to make estimates and assumptions. These affect the reported amounts of assets and liabilities, the 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, equipment and software, accrued workers' compensation liabilities and safety incentive liabilities. Actual results may or may not differ from such estimates.

Note 2 - Fair Value Measurement

The following table summarizes the Company's investments at June 30, 2021 and December 31, 2020 measured at fair value on a recurring basis (in thousands):

	June 30, 2021			December 31, 2020		
	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	Cost	Gross Unrealized Gains (Losses)	Recorded Basis
Current:						
Cash equivalents:						
Money market funds	\$ 1,149	\$ —	\$ 1,149	\$ 42,007	\$ —	\$ 42,007
Total cash equivalents	<u>1,149</u>	<u>—</u>	<u>1,149</u>	<u>42,007</u>	<u>—</u>	<u>42,007</u>
Investments:						
Corporate bonds	48,243	541	48,784	50,918	884	51,802
Asset backed securities	36,943	(7)	36,936	36,948	(146)	36,802
Mortgage backed securities	11,592	(125)	11,467	4,367	24	4,391
U.S. government agency securities	7,389	593	7,982	7,396	752	8,148
U.S. treasuries	2,101	14	2,115	100	1	101
Total current investments	<u>106,268</u>	<u>1,016</u>	<u>107,284</u>	<u>99,729</u>	<u>1,515</u>	<u>101,244</u>
Restricted cash and investments (1):						
Corporate bonds	183,186	1,628	184,814	88,902	4,091	92,993
Mortgage backed securities	88,288	1,470	89,758	48,795	2,356	51,151
U.S. treasuries	69,225	147	69,372	4,371	19	4,390
U.S. government agency securities	34,908	1,909	36,817	29,737	2,466	32,203
Mutual funds	6,121	—	6,121	5,036	—	5,036
Money market funds	396	—	396	40,063	(4)	40,059
Asset backed securities	203	2	205	256	4	260
Supranational bonds	—	—	—	4,775	3	4,778
Total restricted cash and investments	<u>382,327</u>	<u>5,156</u>	<u>387,483</u>	<u>221,935</u>	<u>8,935</u>	<u>230,870</u>
Total investments	<u>\$ 489,744</u>	<u>\$ 6,172</u>	<u>\$ 495,916</u>	<u>\$ 363,671</u>	<u>\$ 10,450</u>	<u>\$ 374,121</u>

(1) Included in restricted cash and investments within the condensed consolidated balance sheets is restricted cash of \$1.5 million and \$124.3 million as of June 30, 2021 and December 31, 2020, 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, 2021 and December 31, 2020 measured at fair value on a recurring basis by fair value hierarchy level (in thousands):

	June 30, 2021					December 31, 2020				
	Total Recorded Basis	Level 1	Level 2	Level 3	Other (1)	Total Recorded Basis	Level 1	Level 2	Level 3	Other (1)
	Cash equivalents:									
Money market funds	\$ 1,149	\$ —	\$ —	\$ —	\$ 1,149	\$ 42,007	\$ —	\$ —	\$ —	\$ 42,007
Investments:										
Corporate bonds	48,784	—	48,784	—	—	51,802	—	51,802	—	—
Asset backed securities	36,936	—	36,936	—	—	36,802	—	36,802	—	—
Mortgage backed securities	11,467	—	11,467	—	—	4,391	—	4,391	—	—
U.S. government agency securities	7,982	—	7,982	—	—	8,148	—	8,148	—	—
U.S. treasuries	2,115	—	2,115	—	—	101	—	101	—	—
Restricted cash and investments:										
Corporate bonds	184,814	—	184,814	—	—	92,993	—	92,993	—	—
Mortgage backed securities	89,758	—	89,758	—	—	51,151	—	51,151	—	—
U.S. treasuries	69,372	—	69,372	—	—	4,390	—	4,390	—	—
U.S. government agency securities	36,817	—	36,817	—	—	32,203	—	32,203	—	—
Mutual funds	6,121	6,121	—	—	—	5,036	5,036	—	—	—
Money market funds	396	—	—	—	396	40,059	—	—	—	40,059
Asset backed securities	205	—	205	—	—	260	—	260	—	—
Supranational bonds	—	—	—	—	—	4,778	—	4,778	—	—
Total investments	<u>\$ 495,916</u>	<u>\$ 6,121</u>	<u>\$ 488,250</u>	<u>\$ —</u>	<u>\$ 1,545</u>	<u>\$ 374,121</u>	<u>\$ 5,036</u>	<u>\$ 287,019</u>	<u>\$ —</u>	<u>\$ 82,066</u>

(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, 2021 and December 31, 2020. 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, 2021				
	Less than 1 Year	Between 1 to 5 Years	Between 5 to 10 Years	After 10 Years	Total
Corporate bonds	\$ 24,506	\$ 67,063	\$ 142,029	\$ —	\$ 233,598
U.S. treasuries	1,010	424	70,053	—	71,487
U.S. government agency securities	1,002	18,413	25,384	—	44,799
Asset backed securities	—	209	2,201	34,731	37,141
Money market funds	\$ 1,545	\$ —	\$ —	\$ —	\$ 1,545
Total	\$ 28,063	\$ 86,109	\$ 239,667	\$ 34,731	\$ 388,570

(In thousands)	December 31, 2020				
	Less than 1 Year	Between 1 to 5 Years	Between 5 to 10 Years	After 10 Years	Total
Corporate bonds	\$ 49,308	\$ 61,315	\$ 34,172	\$ —	\$ 144,795
Money market funds	82,066	—	—	—	82,066
U.S. government agency securities	1,013	18,668	20,670	—	40,351
Asset backed securities	2	267	—	36,793	37,062
Supranational bonds	4,778	—	—	—	4,778
U.S. treasuries	1,367	1,504	1,620	—	4,491
Total	\$ 138,534	\$ 81,754	\$ 56,462	\$ 36,793	\$ 313,543

The average contractual maturity of mortgage backed securities, which are excluded from the table above, was 23 years and 17 years as of June 30, 2021 and December 31, 2020, respectively.

Note 3 – Workers' Compensation Claims

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Beginning balance				
Workers' compensation claims liabilities	\$ 362,663	\$ 445,310	\$ 357,746	\$ 438,986
Add: claims expense accrual				
Current period	35,743	32,729	69,013	71,221
Prior periods	(5,483)	(1,373)	(6,663)	(2,186)
	30,260	31,356	62,350	69,035
Less: claim payments related to				
Current period	3,927	4,527	4,979	6,077
Prior periods ⁽¹⁾	73,240	135,853	99,005	165,530
	77,167	140,380	103,984	171,607
Change in claims incurred in excess of retention limits	(23)	218	(379)	90
Ending balance				
Workers' compensation claims liabilities	\$ 315,733	\$ 336,504	\$ 315,733	\$ 336,504
Incurred but not reported (IBNR)	\$ 190,818	\$ 206,521	\$ 190,818	\$ 206,521
Ratio of IBNR to workers' compensation claims liabilities	60%	61%	60%	61%

(1) Claim payments related to prior periods includes an amount payable to a third-party insurance carrier of \$7.4 million, which represents consideration for the loss portfolio transfer agreement entered into on June 30, 2021.

Insured program

The Company provides workers' compensation coverage for client employees primarily through arrangements with fully licensed, third-party insurers (the "insured program"). Under this program, carriers issue policies to the Company's clients on behalf of the Company. Approximately 82% of the Company's workers' compensation exposure is covered through the insured program.

The Company entered into a new arrangement for its insured program effective July 1, 2021 whereby third-party insurers assume all risk of loss for claims incurred after June 30, 2021. The agreement continues to June 30, 2022 and includes a renewal commitment through June 30, 2023. The arrangement allows for premium adjustments depending on overall portfolio performance. If claims develop favorably, BBSI can participate in the savings up to \$20.0 million for a twelve-month policy period. If claims develop adversely, additional premium may be charged up to \$7.5 million for a twelve-month policy period.

For claims incurred under the insured program prior to July 1, 2021, the Company retains risk of loss up to the first \$ 3.0 million per occurrence on policies issued after June 30, 2020 and \$5.0 million per occurrence on policies issued before that date.

On June 29, 2020, the Company entered into a loss portfolio transfer agreement ("LPT 1") to remove all outstanding workers' compensation claims obligations for claims incurred under its insured program between February 1, 2014 and December 31, 2017. This transaction reduced the Company's outstanding workers' compensation liabilities and trust account balances by \$115.7 million.

On June 30, 2021, the Company entered into a loss portfolio transfer agreement ("LPT 2") to remove all remaining outstanding workers' compensation claims obligations for client policies issued under its insured program up to June 30, 2018. This transaction reduced the Company's outstanding workers' compensation liabilities by \$53.1 million. The payment terms of the LPT required \$ 5.0 million to be paid prior to June 30, 2021, with the remaining amount due in July 2021. The balance payable is included in other accrued liabilities on the condensed consolidated balance sheets.

The following is a summary of the risk retained by the Company under its insured program after considering the effects of the loss portfolio transfers and current insurance arrangements:

Year	Claims risk retained
2014	No
2015	No
2016	No
2017	No
2018 (1)	No
2019 (1)	Yes
2020	Yes
2021 - Through June 30	Yes
2021 - July 1 and after	No

(1) LPT 2 excluded approximately 10% of claims from 2018 and included an approximately offsetting amount of claims from 2019.

The Company is required to maintain minimum collateral levels for policies issued under the insured program, which is held in trust accounts (the "trust accounts"). The balance in the trust accounts was \$376.6 million and \$290.7 million at June 30, 2021 and December 31, 2020, respectively. The trust account balances are included as a component of the current and long-term restricted cash and investments in the Company's condensed consolidated balance sheets.

Self-insured programs

The Company is a self-insured employer with respect to workers' compensation coverage for all employees, including client employees, 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 also operates a wholly owned, fully licensed insurance company, Ecole, which provides workers' compensation coverage to client employees working in Arizona and Utah. Approximately 18% of the Company's workers' compensation exposure is covered through self-insurance or Ecole (the "self-insured programs").

For all claims incurred under the Company's self-insured programs, the Company retains risk of loss up to the first \$ 3.0 million per occurrence, except in Maryland and Colorado, where the Company's retention per occurrence is \$1.0 million and \$2.0 million, respectively. For claims incurred under the Company's self-insured programs prior to July 1, 2020, the Company retains risk of loss up to the first \$5.0 million per occurrence, except in Maryland and Colorado, where the retention per occurrence is \$1.0 million and \$2.0 million, respectively.

The states of California, Maryland, Oregon, Washington, Colorado and Delaware required the Company to maintain collateral totaling \$ 58.4 million and \$60.1 million at June 30, 2021 and December 31, 2020, 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, 2021, the Company provided surety bonds and standby letters of credit totaling \$58.4 million.

Claims liabilities

The Company provided a total of \$ 315.7 million and \$357.7 million at June 30, 2021 and December 31, 2020, respectively, as an estimated future liability for unsettled workers' compensation claims liabilities. Of this amount, \$2.5 million and \$2.9 million at June 30, 2021 and December 31, 2020, respectively, 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 insurance carriers of \$2.5 million and \$2.9 million at June 30, 2021 and December 31, 2020, respectively, included in other assets in the condensed consolidated balance sheets.

Note 4 - Revolving Credit Facility and Long-Term Debt

The Company maintains an agreement (the "Agreement") with Wells Fargo Bank, N.A. (the "Bank") for a revolving credit line of \$ 33.0 million and a sublimit for standby letters of credit of \$8.0 million. At June 30, 2021, \$6.2 million of the sublimit for standby letters of credit was used. 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, 2021 and December 31, 2020. The credit facility is collateralized by the Company's accounts receivable and other rights to receive payment.

The Agreement also provided a \$63.7 million standby letter of credit (the "Letter of Credit"). In April 2021, the Company and the insurance carrier reached an agreement to replace the Letter of Credit with other collateral assets and cancel the Letter of Credit in its entirety. As part of the transaction, the Bank released the \$38.7 million of collateral held in support of the Letter of Credit, and the Company transferred the \$ 38.7 million along with an additional \$ 25.0 million to the trust accounts to satisfy the collateral requirements of the insured program.

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 must be not less than \$30 million at the end of each fiscal quarter; and
- the ratio of restricted and unrestricted cash and investments to workers' compensation and safety incentive liabilities must be at least 1.0:1.0, measured quarterly.

The Agreement imposes certain additional restrictions unless the Bank provides its prior written consent as follows:

- incurring additional indebtedness is prohibited, other than purchase financing for the acquisition of assets, provided that the aggregate of all purchase financing does not exceed \$1,000,000 at any time;
- the Company may not terminate or cancel any of the AICE policies; and
- if an event of default would occur, including on a pro forma basis, no dividends or distributions would be permitted to be paid and redemptions and repurchases of the Company's stock would be permitted only up to \$15 million in any rolling 12-month period.

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, 2021, the Company was in compliance with all covenants.

The Company maintains a mortgage loan with the Bank with a balance of approximately \$ 3.6 million and \$3.7 million at June 30, 2021 and December 31, 2020, 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. LIBOR likely will no longer be in general use as a reference rate by financial institutions by December 31, 2021.

Note 5 – Income Taxes

Under 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, 2021.

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.

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 July 2020, BBSI received notice that the IRS intends to disallow certain wage-based tax credits claimed for years 2011 to 2014, which would result in an estimated total additional tax due of approximately \$ 2.3 million for the tax years 2012 through 2015, including the impact on carryover tax attributes. The Company disagrees with the IRS determination and believes that it has technical merits to defend its position. Based on management's more-likely-than-not assessment that the position is sustainable, no reserve for the aforementioned IRS notice of disallowance of wage-based tax credits has been recorded in the financial statements. In July 2021, the Company received a notice from the IRS indicating the IRS plans to audit the Company's federal tax returns for the years ended December 31, 2017, 2018, and 2019.

In the major jurisdictions where it operates, the Company is generally no longer subject to income tax examinations by tax authorities for the 2015 and 2016 tax year and tax years before 2011. As of June 30, 2021, the Company had no material unrecognized tax benefits.

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 tax rate could fluctuate from expectations.

Note 6 – Litigation

On November 21, 2012, David Kaanaana ("Kaanaana"), a former staffing employee, filed a class action wage and hour lawsuit against BBSI in the California Superior Court on behalf of himself and certain other employees who worked at County Sanitation District No. 2 of Los Angeles County ("the District"). The trial court ruled in plaintiffs' favor regarding certain alleged meal breach violations but ruled in favor of BBSI with respect to the application of the California prevailing wage law to the District and other claims. These latter rulings were appealed by the plaintiffs to the California Court of Appeal. 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 the prevailing wage claim, ruling that the work in question at the District constitutes "public works" under the applicable law, and also ruling that plaintiffs' are entitled to additional remedies with regard to the meal break violations under California law. On January 9, 2019, BBSI filed a petition of review to the California Supreme Court.

On February 27, 2019, the California Supreme Court granted the petition to review the Court of Appeal's decision with respect to the prevailing wage issue. An amicus brief in support of BBSI's appeal was filed by the District and certain associations of special districts, cities and counties in California. Oral argument took place on January 5, 2021. A decision from the California Supreme Court was issued March 29, 2021 affirming the Court of Appeal decision and concluding that the recycling sorting work performed by the staffing employees in question was a "public work" and therefore would be subject to prevailing wage requirements. No damages were awarded in the appeals process. The case has been remanded to Superior Court for any such determination with respect to both the prevailing wage issue and any additional remedies for the meal break violations.

Although certain costs from the Kaanaana case are estimable and accrued, potential liability from the public work determination is not currently considered estimable and is therefore not accrued. There is not precedent on how this type of ruling would impact historical work performed prior to a relevant prevailing wage rate being established by the California Department of Industrial Relations. There remain many possible outcomes, including that a prevailing wage rate could be set considerably higher than actual wages paid, which totaled approximately \$2.2 million, or that actual wages paid may be determined to be equivalent to prevailing wages. There may also be other procedural outcomes.

BBSI believes it has the right to recover from the District any increased costs that may result from the court's past or future decisions related to prevailing wage requirements, including any fees and penalties that may be incurred.

In addition to the matter above, BBSI is subject to other legal proceedings and claims that arise in the ordinary course of our business. There are significant uncertainties surrounding litigation, including the possible liabilities in the Kaanaana case. For this case and others, management has recorded estimated liabilities of \$3.8 million in other accrued liabilities in the condensed consolidated balance sheets.

Note 7 – 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 include 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 43 states and the District of Columbia through a network of 56 branch locations in California, Oregon, Arizona, Colorado, Idaho, Utah, Washington, Maryland, Nevada, Pennsylvania, Delaware, North Carolina, New Mexico, and Virginia. We also have several smaller recruiting locations in our general market areas, which are under the direction of a branch office.

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 7,500 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 to manage and reduce job injury claims, identify fraudulent claims and structure optimal work programs, including modified duty.

Results of Operations

The spread of COVID-19 and resulting restrictions and labor shortages across the United States are having, and will continue to have, a negative impact on the operating results of the Company. As our clients respond to the effects of efforts to address the consequences of the pandemic, including the measures taken at various levels of government to contain the virus's spread, we expect that our ability to add new customers, as well as to grow revenues from existing customers, will be adversely affected due to economic slowdown, business closures, labor shortages and reductions in hours worked.

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, 2021 and 2020 (\$ in thousands):

	Percentage of Total Net Revenues							
	Three Months Ended June 30,				Six Months Ended June 30,			
	2021		2020		2021		2020	
Revenues:								
Professional employer service fees	\$ 208,496	89.4 %	\$ 180,488	89.8 %	\$ 402,315	89.1 %	\$ 374,080	89.0 %
Staffing services	24,707	10.6	20,543	10.2	49,333	10.9	46,055	11.0
Total revenues	<u>233,203</u>	<u>100.0</u>	<u>201,031</u>	<u>100.0</u>	<u>451,648</u>	<u>100.0</u>	<u>420,135</u>	<u>100.0</u>
Cost of revenues:								
Direct payroll costs	18,498	7.9	15,796	7.9	36,948	8.2	34,873	8.3
Payroll taxes and benefits	111,719	47.9	93,671	46.6	234,502	51.9	213,133	50.7
Workers' compensation	45,513	19.5	44,921	22.3	91,860	20.3	99,435	23.7
Total cost of revenues	<u>175,730</u>	<u>75.3</u>	<u>154,388</u>	<u>76.8</u>	<u>363,310</u>	<u>80.4</u>	<u>347,441</u>	<u>82.7</u>
Gross margin	57,473	24.7	46,643	23.2	88,338	19.6	72,694	17.3
Selling, general and administrative expenses	35,662	15.3	33,255	16.5	72,769	16.1	65,370	15.6
Depreciation and amortization	1,328	0.6	1,171	0.6	2,625	0.6	2,171	0.5
Income from operations	<u>20,483</u>	<u>8.8</u>	<u>12,217</u>	<u>6.1</u>	<u>12,944</u>	<u>2.9</u>	<u>5,153</u>	<u>1.2</u>
Other income, net	1,873	0.8	1,666	0.8	3,343	0.7	4,399	1.0
Income before income taxes	<u>22,356</u>	<u>9.6</u>	<u>13,883</u>	<u>6.9</u>	<u>16,287</u>	<u>3.6</u>	<u>9,552</u>	<u>2.2</u>
Provision for income taxes	5,266	2.3	2,373	1.2	3,751	0.8	1,449	0.3
Net income	<u>\$ 17,090</u>	<u>7.3 %</u>	<u>\$ 11,510</u>	<u>5.7 %</u>	<u>\$ 12,536</u>	<u>2.8 %</u>	<u>\$ 8,103</u>	<u>1.9 %</u>

We report professional employer (“PEO”) services 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 billings 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 billings and wage information for the three and six months ended June 30, 2021 and 2020.

(in thousands)	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2021	2020	2021	2020
	Gross billings	\$ 1,601,339	\$ 1,369,990	\$ 3,072,880
PEO and staffing wages	\$ 1,384,861	\$ 1,177,855	\$ 2,656,253	\$ 2,410,435

Because safety incentives represent consideration payable to PEO customers, safety incentive costs are netted against PEO revenue in our consolidated statements of operations. 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,	
	2021	2020	2021	2020
	Workers’ compensation	\$ 45,513	\$ 44,921	\$ 91,860
Safety incentive costs	1,470	6,802	1,476	13,781
Non-GAAP gross workers’ compensation	\$ 46,983	\$ 51,723	\$ 93,336	\$ 113,216

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,	
	2021	2020	2021	2020
	PEO and staffing wages	86.5%	86.0%	86.4%
Payroll taxes and benefits	7.0%	6.8%	7.6%	7.6%
Non-GAAP gross workers’ compensation	2.9%	3.8%	3.0%	4.0%
Gross margin	3.6%	3.4%	2.9%	2.6%

The presentation of revenue on a net basis and the relative contributions of staffing and PEO services revenue can create volatility in our gross margin as a percentage of revenue. A relative increase in PEO services revenue will result in a higher gross margin as a percentage of revenue. 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.

We refer to employees of our PEO clients as worksite employees (“WSEs”). Management reviews average and ending WSE growth to monitor and evaluate the performance of our operations. Average WSEs are calculated by dividing the number of unique individuals paid in each month by the number of months in the period. Ending WSEs represents the number of unique individuals paid in the last month of the period.

	(Unaudited) Three Months Ended June 30,			
	2021	% Change	2020	% Change
Average WSEs	112,363	9.5%	102,602	-10.1%
Ending WSEs	114,288	8.0%	105,832	-8.3%

	(Unaudited) Six Months Ended June 30,			
	2021	% Change	2020	% Change
Average WSEs	109,311	1.3%	107,914	-5.6%
Ending WSEs	114,288	8.0%	105,832	-8.3%

Three Months Ended June 30, 2021 and 2020

Net income for the second quarter of 2021 amounted to \$17.1 million compared to net income of \$11.5 million for the second quarter of 2020. Diluted income per share for the second quarter of 2021 was \$2.24 compared to diluted income per share of \$1.51 for the second quarter of 2020.

Revenue for the second quarter of 2021 totaled \$233.2 million, an increase of \$32.2 million or 16.0% over the second quarter of 2020, which reflects an increase in the Company’s PEO service fee revenue of \$28.0 million or 15.5% and an increase in staffing services revenue of \$4.2 million or 20.3%.

Our growth in PEO service revenues was primarily attributable to an increase in average billing per WSE as well as an increase in the average number of WSEs. The increase in staffing services revenue was due primarily to the reopening of business after the impacts of COVID-19 during the prior year period.

Gross margin for the second quarter of 2021 totaled \$57.5 million or 24.7% of revenue compared to \$46.6 million or 23.2% of revenue for the second quarter of 2020. The increase in gross margin as a percentage of revenues is a result of the factors discussed within the separate components of gross margin below.

Direct payroll costs for the second quarter of 2021 totaled \$18.5 million or 7.9% of revenue compared to \$15.8 million or 7.9% of revenue for the second quarter of 2020. The direct payroll percentage remained unchanged due to a consistent mix of PEO and staffing clients in our customer base during the second quarter of 2021 as compared to the second quarter of 2020.

Payroll taxes and benefits for the second quarter of 2021 totaled \$111.7 million or 47.9% of revenue compared to \$93.7 million or 46.6% of revenue for the second quarter of 2020. The increase in payroll taxes and benefits as a percentage of revenues is primarily due to the timing of when payroll tax caps were reached in the second quarter of 2021 as compared to the second quarter of 2020.

Workers’ compensation expense for the second quarter of 2021 totaled \$45.5 million or 19.5% of revenue compared to \$44.9 million or 22.3% for the second quarter of 2020. The decrease in workers’ compensation expense as a percentage of revenue is primarily related to a favorable adjustment related to claims incurred in prior periods of \$5.5 million compared to a favorable adjustment of \$1.4 million in the second quarter of 2020.

Selling, general and administrative ("SG&A") expenses for the second quarter of 2021 totaled \$35.7 million or 15.3% of revenue compared to \$33.3 million or 16.5% of revenue for the second quarter of 2020. The increase of \$2.4 million in SG&A expense was primarily attributable to an increase in IT and employee related expenses in the second quarter of 2021.

Other income, net for the second quarter of 2021 was \$1.9 million, compared to other income, net of \$1.7 million for the second quarter of 2020. The increase was primarily attributable to an increase in investment income in the second quarter of 2021.

Our effective income tax rate for the second quarter of 2021 was 23.6%, compared to 17.1% for the second quarter of 2020. 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, 2021 and 2020

Net income for the first six months of 2021 amounted to \$12.5 million compared to net income of \$8.1 million for the first six months of 2020. Diluted income per share for the first six months of 2021 was \$1.64 compared to diluted income per share of \$1.06 for the first six months of 2020.

Revenues for the first six months of 2021 totaled \$451.6 million, an increase of \$31.5 million or 7.5% over the first six months of 2020, which reflects an increase in the Company's PEO service fee revenue of \$28.2 million or 7.5% and an increase in staffing services revenue of \$3.3 million or 7.1%.

The increase in PEO service revenues was primarily attributable to an increase in average billing per WSE as well as an increase in the average number of WSEs. The increase in staffing services revenue was due primarily to the reopening of business after the impacts of COVID-19 during the prior year period.

Gross margin for the first six months of 2021 totaled \$88.3 million or 19.6% of revenue compared to \$72.7 million or 17.3% of revenue for the first six months of 2020. The increase in gross margin as a percentage of revenues is primarily a result of the factors discussed within the separate components of gross margin below.

Direct payroll costs for the first six months of 2021 totaled \$36.9 million or 8.2% of revenue compared to \$34.9 million or 8.3% of revenue for the first six months of 2020. The direct payroll percentage remained relatively unchanged due to a consistent mix of PEO and staffing clients in our customer base during the first six months of 2021 as compared to the first six months of 2020.

Payroll taxes and benefits for the first six months of 2021 totaled \$234.5 million or 51.9% of revenue compared to \$213.1 million or 50.7% of revenue for the first six months of 2020. The increase in payroll taxes and benefits as a percentage of revenues is due primarily to the timing of when payroll tax caps were reached in the first six months of 2021 as compared to the first six months of 2020.

Workers' compensation expense for the first six months of 2021 totaled \$91.9 million or 20.3% of revenue compared to \$99.4 million or 23.7% of revenue for the first six months of 2020. The decrease in workers' compensation expense as a percentage of revenue was primarily due to favorable claims development as well as a favorable adjustment of \$6.7 million related to prior period claims during the first six months of 2021, compared to a favorable adjustment of \$2.2 million in the first six months of 2020.

SG&A expenses for the first six months of 2021 totaled \$72.8 million or 16.1% of revenue compared to \$65.4 million or 15.6% of revenue for the first six months of 2020. The increase of \$7.4 million in SG&A expense was primarily attributable to an increase in IT and employee related expenses in the first six months of 2021.

Other income, net for the first six months of 2021 was \$3.3 million as compared to other income, net of \$4.4 million for the first six months of 2020. The decrease was primarily attributable to a decrease in investment income in the first six months of 2021 because of lower interest rates.

Our effective income tax rate for the first six months of 2021 was 23.0% compared to 15.2% for the first six months of 2020. 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, positive or 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 \$14.2 million, which includes cash, cash equivalents, and restricted cash, decreased \$219.7 million for the six months ended June 30, 2021, compared to a decrease of \$117.8 million for the comparable period of 2020. The decrease in cash at June 30, 2021 as compared to December 31, 2020 was primarily due to increased trade accounts receivable and purchases of investments and restricted investments, partially offset by increased accrued payroll, payroll taxes and related benefits, increased other accrued liabilities and proceeds from sales and maturities of investments and restricted investments.

Net cash provided by operating activities for the six months ended June 30, 2021 was \$2.6 million, compared to net cash used of \$114.4 million for the comparable period of 2020. For the six months ended June 30, 2021, cash provided by operating activities was primarily due to increased trade accounts receivable of \$108.1 million, decreased workers' compensation claims liabilities of \$41.6 million, decreased safety incentive liability of \$11.9 million and net income of \$12.5 million, partially offset by net income of \$12.5 million, increased accrued payroll, payroll taxes and related benefits of \$87.0 million and increase in other accrued liabilities of \$58.1 million.

Net cash used in investing activities for the six months ended June 30, 2021 was \$211.5 million, compared to net cash provided of \$2.0 million for the comparable period of 2020. For the six months ended June 30, 2021, cash used in investing activities consisted primarily of purchases of investments and restricted investments of \$295.1 million and purchases of property, equipment and software of \$3.2 million, partially offset by proceeds from sales and maturities of investments and restricted investments of \$86.7 million.

Net cash used in financing activities for the six months ended June 30, 2021 was \$10.8 million, compared to net cash used of \$5.4 million for the comparable period of 2020. For the six months ended June 30, 2021, cash was primarily used for repurchases of common stock of \$6.6 million and dividend payments of \$4.5 million, partially offset by proceeds from exercises of stock options of \$0.9 million.

The Company is required to maintain minimum collateral levels for policies issued under the insured program, which is held in trust accounts (the "trust accounts"). The balance in the trust accounts was \$376.6 million and \$290.7 million at June 30, 2021 and December 31, 2020, respectively. The trust account balances are included as a component of the current and long-term restricted cash and investments in the Company's condensed consolidated balance sheets.

On June 30, 2021, the Company entered into a loss portfolio transfer agreement to remove all remaining outstanding workers' compensation claims obligations for client policies issued under its insured program up to June 30, 2018. This transaction reduced the Company's outstanding workers' compensation liabilities by \$53.1 million. The payment terms of the LPT required \$5.0 million to be paid prior to June 30, 2021, with the remaining amount due in July 2021. The balance payable is included in other accrued liabilities on the condensed consolidated balance sheets.

The Company maintains an agreement (the "Agreement") with the Bank for a revolving credit line of \$33.0 million and a sublimit for standby letters of credit of \$8.0 million. At June 30, 2021, \$6.2 million of the sublimit for standby letters of credit was used. 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, 2021 and December 31, 2020. The credit facility is collateralized by the Company's accounts receivable and other rights to receive payment.

The Agreement also provided a \$63.7 million standby letter of credit (the "Letter of Credit"). In April 2021, the Company and the insurance carrier reached an agreement to replace the Letter of Credit with other collateral assets and cancel the Letter of Credit in its entirety. As part of the transaction, the Bank released the \$38.7 million of collateral held in support of the Letter of Credit, and the Company transferred the \$38.7 million along with an additional \$25.0 million to the trust accounts to satisfy the collateral requirements of the insured program.

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 must be not less than \$30 million at the end of each fiscal quarter; and
- the ratio of restricted and unrestricted cash and investments to workers' compensation and safety incentive liabilities must be at least 1.0:1.0, measured quarterly.

The Agreement imposes certain additional restrictions unless the Bank provides its prior written consent as follows:

- incurring additional indebtedness is prohibited, other than purchase financing for the acquisition of assets, provided that the aggregate of all purchase financing does not exceed \$1,000,000 at any time;
- the Company may not terminate or cancel any of the AICE policies; and
- if an event of default would occur, including on a pro forma basis, no dividends or distributions would be permitted to be paid and redemptions and repurchases of the Company's stock would be permitted only up to \$15 million in any rolling 12-month period.

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, 2021, the Company was in compliance with all covenants.

The Company maintains a mortgage loan with the Bank with a balance of approximately \$3.6 million and \$3.7 million at June 30, 2021 and December 31, 2020, 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. LIBOR likely will no longer be in general use as a reference rate by financial institutions by December 31, 2021.

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 effects of the COVID-19 pandemic on our business operations, the competitiveness of our service offerings, our ability to attract and retain clients and to achieve revenue growth, 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, expected levels of required surety deposits and letters of credit, 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 insured program, 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, the effects of governmental orders imposing business closures and shelter-in-place and social distancing requirements, 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, changes in 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 and potential changes to 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 insured program. Additional risk factors affecting our business are discussed in Item 1A of Part II of this report and Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the SEC on March 8, 2021. 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, 2021, the Company's investments consisted principally of \$233.6 million in corporate bonds, \$101.2 million in mortgage backed securities, \$71.5 million in U.S. treasuries, \$44.8 million in U.S. government agency securities, \$37.1 million in asset backed securities, \$6.1 million in mutual funds and \$1.5 million in money market funds. The Company's outstanding debt totaled approximately \$3.6 million at June 30, 2021. Based on the Company's overall interest exposure at June 30, 2021, a 50 basis point increase in market interest rates would have a \$10.8 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, 2021.

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, 2021 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 6 - Litigation," to the condensed consolidated financial statements included in Part I of this report, which is incorporated herein by reference.

Item 1A. Risk Factors

Other than the information below, there have been no material changes in the risk factors that were included in our Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the SEC on March 8, 2021.

The Company's business may be negatively affected by outbreaks of disease, such as epidemics or pandemics, including the ongoing COVID-19 pandemic.

In March 2020, the World Health Organization and the United States government declared COVID-19 a pandemic and recommended containment and mitigation measures worldwide. In response to the COVID-19 pandemic, preventative actions such as shelter-in-place orders, restrictions on travel, and temporary closures of businesses deemed to be high-risk or non-essential have affected many areas of the country, including states where BBSI and our clients operate, particularly on the West Coast. These restrictions on business operations have significantly disrupted the U.S. economy, including small-and mid-sized businesses, which comprise our primary client base. As our PEO fees are based on client payroll, workforce reductions or shortages related to the pandemic could have a material adverse effect on our business. Clients who are impacted by government restrictions and economic disruptions may experience liquidity and other financial issues, which may reduce their capacity to pay for our services.

In response to the pandemic, federal and state government agencies have enacted numerous laws and regulatory guidelines designed to help the economy, individuals and employers, including retroactively. Many of these legislative and regulatory changes, including the American Rescue Plan Act enacted on March 11, 2021, directly impact the Company and our clients. Several of these programs use payroll tax credits and other payroll tax-related reductions or deferrals as the mechanism to provide benefits to small businesses and employees. The guidance surrounding these programs is limited and continuously evolving. Failure to appropriately interpret and comply with legal and regulatory changes arising from the COVID-19 pandemic could have a material adverse effect on our business and reputation. Additionally, failure to incorporate changes to laws and regulations resulting from COVID-19 into our PEO business model may decrease our ability to attract and retain clients.

Additionally, many states have revised their workers' compensation standards of coverage to include COVID-19 related illnesses for certain groups of workers. While effects on the Company's workers' compensation exposure in the states in which we operate have been limited to date, these changes in laws and regulations or in the pattern of COVID-19 illnesses could increase our exposure to workers' compensation claims.

As our employees may work from home more frequently and access the Company's systems remotely, the Company may be exposed to heightened security risks, including the risk of cyber-attacks. Additionally, if any of the Company's key management employees are unable to perform their duties for an extended period, including as the result of illness, the Company's business could be adversely affected.

The COVID-19 pandemic has also caused significant volatility and uncertainty in the U.S. economy that may result in another economic downturn, which could in turn lead to increases in workers' compensation and unemployment claims, increased unemployment taxes, increased uncollectable receivables and reductions in the value of the Company's investment portfolio.

Continuation or exacerbation of the consequences of the pandemic is likely to have a material adverse effect on our business, cash flows, results of operations and financial condition, which may also result in our inability to comply with financial covenants under our credit facilities, our inability to obtain necessary additional financing and a decline in stockholder value.

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

The following table summarizes information related to stock repurchases during the quarter ended June 30, 2021.

Month	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plan ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Repurchased Under the Plan ⁽¹⁾
April	—	\$ —	—	\$ 38,508,505
May	11,643	75.25	11,643	37,632,399
June	30,699	73.78	30,699	35,567,300
Total	<u>42,342</u>		<u>42,342</u>	

(1) In August 2019, the Board had authorized the repurchase of up to \$50.0 million of shares of the Company's stock from time to time in open market purchases over a three-year period beginning August 15, 2019. As of June 30, 2021, the Company had repurchased 235,406 shares at an aggregate purchase amount of \$14.6 million.

Item 6.	Exhibits
10.1	<u>Form of Performance Share Award Agreement under 2020 Stock Incentive Plan.</u>
10.2	<u>Form of Indemnification Agreement with each outside director of Barrett Business Services, Inc.</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	Inline XBRL Instance Document- the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2021, has been formatted in Inline XBRL.

*Furnished, not filed.

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 4, 2021

By: /s/ Anthony J. Harris
Anthony J. Harris
Executive Vice President and Chief Financial Officer and Treasurer

AWARD AGREEMENT
Under The
Barrett Business Services, Inc.
2020 Stock Incentive Plan

PERFORMANCE SHARE AWARD
TERMS AND CONDITIONS

1. Defined Terms

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

2. Grant of Performance Shares

Subject to the terms and conditions of this Agreement and the Plan, Corporation grants to Participant an Award (the "Award") in the Target Number of Performance Shares shown above. The actual number of Performance Shares that will be issued to the Participant pursuant to this Agreement will be determined as described in Section 3 below, based on the attainment of Performance Goals specified in Exhibit A. As a grantee of Performance Shares, Participant will have only the rights of a general unsecured creditor of Corporation until delivery of Shares is made under this Agreement.

3. Terms of Performance Shares

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

3.1 **Vesting.** The Performance Shares earned pursuant to the Award will Vest on the Vesting Date, subject to the Participant's continued employment through the Vesting Date. The Vesting Date will be no later than 30 days following the date on which the Corporation's independent auditors issue their opinion on the Corporation's financial statements for the final year of the Performance Period. On the Vesting Date, any Performance Shares subject to the Award that have not Vested will be forfeited.

3.2 **Performance Goals.** The number of Performance Shares, if any, that may be earned based on achievement of the Performance Goals will be as set forth on the first page of this Agreement, as adjusted pursuant to the Flex set forth in Section 3.3 for performance above or below 100% of the respective Performance Goal. The target level of each Performance Goal set forth on Exhibit A relates to the financial results of the Corporation for the Performance Period; provided that such financial results will be adjusted to exclude the impact: (i) on gross billings of a business acquired during the Performance Period; (ii) on net income of costs relating to corporate restructurings or settlement of litigation outside the ordinary course of business; and (iii) on each of the Performance Goals of unanticipated changes in accounting standards, tax treatment or similar laws or regulations affecting financial results.

3.3 **Flex.** The number of Performance Shares to be Vested and issued pursuant to the Award will be determined as set forth below (the "Flex"):

(a) To the extent that achievement of a given Performance Goal is below 100% of the target level set forth on Exhibit A, the number of Performance Shares to be Vested and issued will be reduced ratably by 2.5% for each 1% of shortfall up to a maximum downward adjustment to 80% of the target performance level (the "Threshold Performance Level"). At the Threshold Performance Level, 50% of the applicable portion of the Target Number of Performance Shares will be issued. If achievement of a given Performance Goal is below the Threshold Performance Level set forth on Exhibit A, no Performance Shares will Vest with respect to that Performance Goal.

(b) To the extent that achievement of a given Performance Goal is above 100% of the target level set forth on Exhibit A, the number of Performance Shares to be Vested and issued will be increased ratably by 2.5% for each 1% of overachievement, with a maximum upward adjustment to 140% of the target performance level set forth on Exhibit A. In no event will the total number of Performance Shares issued under the Award exceed 200% of the Target Number of Performance Shares specified above.

3.4 **Employment Requirement.** Except as otherwise provided in this Agreement, in the event that Participant ceases to be an employee of Corporation or a Subsidiary prior to the Vesting Date for any reason, all unvested Performance Shares will be forfeited immediately. For purposes of this Agreement, "employment" includes periods of illness or other leaves of absence authorized by the Committee.

3.5 **Settlement.** Unless previously forfeited pursuant to Section 3.4 or as otherwise provided by this Agreement, the Award will be settled on a settlement date (the "Settlement Date") selected by the Committee as soon as practicable after the Vesting Date, and in no case later than the 15th day of the third month following the later of the end of the calendar year or the end of Corporation's taxable year in which the Vesting Date occurs, by the delivery to the Participant of an unrestricted certificate for the number of Shares that Vested on the Vesting Date.

3.6 **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.

3.7 **Performance Shares Not Transferable.** Neither the Performance Shares, nor this Agreement, nor any interest or right in the Performance Shares 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 Performance Shares have been settled as provided in this Agreement. Neither the Performance Shares nor any interest or right in the Performance Shares 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 Performance Shares may be subject to additional transfer restrictions as provided in this Agreement.

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

4. Tax Withholding and Reimbursement

Participant is responsible for payment of all federal, state and local withholding taxes and Participant's portion of any applicable payroll taxes imposed in connection with the settlement of the Performance Shares and the issuance of Shares (collectively, the "Applicable Taxes"). To satisfy this obligation, Corporation will withhold a number of Performance Shares (thus reducing the number of Shares to be issued to Participant) having a Fair Market Value (as of the Settlement Date) equal to the total amount of Applicable Taxes required to be withheld by law in connection with settlement of the Award; provided, that the Fair Market Value of Shares so withheld will in no event exceed the total amount calculated based on the maximum individual tax rates in the jurisdictions applicable to Participant.

5. Conditions Precedent

Corporation will not be required to issue any Shares upon Vesting of the Performance Shares, or any portion thereof, until Corporation has taken any action required to comply with all applicable laws. 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.

6. 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.

7. 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.

8. 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.

9. 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).

10. 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.

11. 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.

EXHIBIT A

Performance Goals

	Threshold	Target	Maximum
Payout	50%	100%	200%
Number of Shares			

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (“Agreement”) is made and entered into as of the ___ day of _____, 20___, by and between Barrett Business Services, Inc., a Maryland corporation (the “Company”), and _____ (“Indemnitee”).

WHEREAS, Indemnitee is currently serving as a director of the Company and may, therefore, be subjected to claims, suits or proceedings arising as a result of such service; 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 any such claims, suits or proceedings, 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;

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 or 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, arbitration or mediation 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 a 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 any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing, claim, demand, discovery request, or any other actual, threatened or completed proceeding, whether brought by or in the right of the Company or otherwise and whether of a civil (including intentional or unintentional tort claims), criminal, administrative or investigative (formal or informal) nature, including any appeal therefrom. If Indemnitee reasonably believes

that a given situation may lead to or culminate in the institution of a Proceeding such situation shall also be considered a Proceeding.

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 any 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 any such 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) any Proceeding and is successful, on the merits or otherwise, in the defense of such 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. As clarification, notwithstanding whether Indemnitee is successful in any Proceeding, Indemnitee shall be entitled to indemnification of Expenses unless it is established that the standard for indemnification under Section 4, subject to Section 5, of this Agreement has not been met.

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 any 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 within ten days after the receipt by the Company of a statement or statements requesting such advance 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 any 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 or appropriate 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 (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 disclosed 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 Indemnitee 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 any 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 any 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 the charter or Bylaws of the Company or this Agreement 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 which would otherwise be indemnifiable hereunder 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 Section 15(a). 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.

(c) The Indemnitee shall cooperate with the Company or any insurance carrier of the Company with respect to any Proceeding.

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. Reports to Stockholders. To the extent and at such time as required by the MGCL or other laws or regulations applicable to the Company, the Company will report in writing to its stockholders the payment of any amounts for indemnification of, or advance of Expenses to, Indemnitee under this Agreement arising out of a Proceeding.

Section 19. 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 Indemnatee 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 Indemnatee irreparable harm. Accordingly, the parties hereto agree that Indemnatee 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, Indemnatee shall not be precluded from seeking or obtaining any other relief to which Indemnatee may be entitled. Indemnatee 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 Indemnatee by a court, and the Company hereby waives any such requirement of such a bond or undertaking.

Section 20. 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 21. Counterparts. This Agreement may be executed in one or more counterparts (delivery of which may be by facsimile, or via e-mail as a portable document format (.pdf) or other electronic format), each of which will be deemed to be an original. One such counterpart signed by the party against whom enforceability is sought will be sufficient to evidence the existence of this Agreement.

Section 22. 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 23. 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 24. 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 25. 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.

INDEMNITEE:

Address

EXHIBIT A

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 __ day of _____, 20__, 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 [Description of Proceeding] (the "Proceeding").

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

I am subject to the Proceeding 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 of the Company in any of the facts or events giving rise to the Proceeding, 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 Proceeding (the "Advanced Expenses"), I hereby agree that if, in connection with the Proceeding, it is established that: (1) an act or omission by me was material to the matter giving rise to the Proceeding 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 Proceeding as to which the foregoing findings have been established.

IN WITNESS WHEREOF, I have executed this Affirmation and Undertaking on this __th day of _____, 20__.

Signature: _____

Printed Name: _____

CERTIFICATION OF CHIEF EXECUTIVE 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 4, 2021

/s/ Gary E. Kramer

Gary E. Kramer
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Anthony J. Harris, 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 4, 2021

/s/ Anthony J. Harris
Anthony J. Harris
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, 2021 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/ Gary E. Kramer

Gary E. Kramer
Chief Executive Officer

August 4, 2021

/s/ Anthony J. Harris

Anthony J. Harris
Chief Financial Officer

August 4, 2021

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.