

**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, 2020

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 22, 2020, 7,635,723 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, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 62,210	\$ 44,570
Investments	67,473	82,590
Trade accounts receivable, net	188,383	163,561
Income taxes receivable	3,506	1,335
Prepaid expenses and other	17,377	14,919
Restricted cash and investments	82,567	116,873
Total current assets	<u>421,516</u>	<u>423,848</u>
Property, equipment and software, net	35,278	31,724
Operating lease right-of-use assets	24,985	23,805
Restricted cash and investments	239,032	327,326
Goodwill	47,820	47,820
Other assets	3,707	3,618
Deferred income taxes	—	2,788
	<u>\$ 772,338</u>	<u>\$ 860,929</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 221	\$ 221
Accounts payable	4,951	5,993
Accrued payroll, payroll taxes and related benefits	181,406	174,168
Current operating lease liabilities	7,244	6,671
Other accrued liabilities	6,553	8,846
Workers' compensation claims liabilities	89,868	118,273
Safety incentives liability	25,767	27,950
Total current liabilities	<u>316,010</u>	<u>342,122</u>
Long-term workers' compensation claims liabilities	246,636	320,713
Long-term debt	3,620	3,730
Deferred income taxes	2,685	—
Long-term operating lease liabilities	18,630	17,883
Customer deposits and other long-term liabilities	4,869	4,682
Total liabilities	<u>592,450</u>	<u>689,130</u>
Commitments and contingencies (Notes 4 and 6)		
Stockholders' equity:		
Common stock, \$.01 par value; 20,500 shares authorized, 7,598 and 7,514 shares issued and outstanding	76	75
Additional paid-in capital	23,421	20,227
Accumulated other comprehensive income	6,961	2,819
Retained earnings	149,430	148,678
Total stockholders' equity	<u>179,888</u>	<u>171,799</u>
	<u>\$ 772,338</u>	<u>\$ 860,929</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,	
	2020	2019	2020	2019
Revenues:				
Professional employer service fees	\$ 180,488	\$ 203,157	\$ 374,080	\$ 393,684
Staffing services	20,543	27,825	46,055	55,513
Total revenues	<u>201,031</u>	<u>230,982</u>	<u>420,135</u>	<u>449,197</u>
Cost of revenues:				
Direct payroll costs	15,796	20,992	34,873	41,834
Payroll taxes and benefits	93,671	101,697	213,133	216,494
Workers' compensation	44,921	53,174	99,435	107,403
Total cost of revenues	<u>154,388</u>	<u>175,863</u>	<u>347,441</u>	<u>365,731</u>
Gross margin	46,643	55,119	72,694	83,466
Selling, general and administrative expenses	33,255	39,005	65,370	72,165
Depreciation and amortization	1,171	970	2,171	1,939
Income from operations	<u>12,217</u>	<u>15,144</u>	<u>5,153</u>	<u>9,362</u>
Other income (expense):				
Investment income, net	1,800	3,332	4,767	6,404
Interest expense	(306)	(481)	(541)	(958)
Other, net	172	—	173	12
Other income, net	<u>1,666</u>	<u>2,851</u>	<u>4,399</u>	<u>5,458</u>
Income before income taxes	13,883	17,995	9,552	14,820
Provision for income taxes	2,373	4,088	1,449	3,213
Net income	<u>\$ 11,510</u>	<u>\$ 13,907</u>	<u>\$ 8,103</u>	<u>\$ 11,607</u>
Basic income per common share	<u>\$ 1.52</u>	<u>\$ 1.88</u>	<u>\$ 1.07</u>	<u>\$ 1.57</u>
Weighted average number of basic common shares outstanding	<u>7,557</u>	<u>7,410</u>	<u>7,539</u>	<u>7,408</u>
Diluted income per common share	<u>\$ 1.51</u>	<u>\$ 1.81</u>	<u>\$ 1.06</u>	<u>\$ 1.51</u>
Weighted average number of diluted common shares outstanding	<u>7,647</u>	<u>7,692</u>	<u>7,678</u>	<u>7,674</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,	
	2020	2019
Net income	\$ 11,510	\$ 13,907
Unrealized gains on investments, net of tax of \$2,630 and \$1,164 in 2020 and 2019, respectively	6,877	3,043
Comprehensive income	\$ 18,387	\$ 16,950

	Six Months Ended June 30,	
	2020	2019
Net income	\$ 8,103	\$ 11,607
Unrealized gains on investments, net of tax of \$1,584 and \$2,561 in 2020 and 2019, respectively	4,142	6,700
Comprehensive income	\$ 12,245	\$ 18,307

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 Stockholders' Equity
Three and Six Months Ended June 30, 2019
(Unaudited)
(In Thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount				
Balance, December 31, 2018	7,395	\$ 74	\$ 15,437	\$ (5,068)	\$ 108,594	\$ 119,037
Common stock issued on exercise of options and vesting of restricted stock units and performance awards	17	—	122	—	—	122
Common stock repurchased on vesting of restricted stock units and performance awards	(2)	—	(178)	—	—	(178)
Share-based compensation expense	—	—	1,387	—	—	1,387
Cash dividends on common stock (\$0.25 per share)	—	—	—	—	(1,852)	(1,852)
Unrealized gain on investments, net of tax	—	—	—	3,657	—	3,657
Net loss	—	—	—	—	(2,300)	(2,300)
Balance, March 31, 2019	<u>7,410</u>	<u>\$ 74</u>	<u>\$ 16,768</u>	<u>\$ (1,411)</u>	<u>\$ 104,442</u>	<u>\$ 119,873</u>
Common stock issued on exercise of options and vesting of restricted stock units	4	—	56	—	—	56
Share-based compensation expense	—	—	2,441	—	—	2,441
Cash dividends on common stock (\$0.25 per share)	—	—	—	—	(1,853)	(1,853)
Unrealized gain on investments, net of tax	—	—	—	3,043	—	3,043
Net income	—	—	—	—	13,907	13,907
Balance, June 30, 2019	<u>7,414</u>	<u>\$ 74</u>	<u>\$ 19,265</u>	<u>\$ 1,632</u>	<u>\$ 116,496</u>	<u>\$ 137,467</u>

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

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

	Six Months Ended June 30,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 8,103	\$ 11,607
Reconciliations of net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,171	1,939
Non-cash lease expense	3,545	3,509
Investment (accretion) amortization and (gains) losses recognized	283	26
Deferred Income taxes	3,890	—
Share-based compensation	1,139	3,828
Changes in certain operating assets and liabilities:		
Trade accounts receivable	(24,822)	(11,631)
Income taxes	(2,171)	(1,733)
Prepaid expenses and other	(2,458)	(1,840)
Accounts payable	(1,042)	488
Accrued payroll, payroll taxes and related benefits	8,035	24,740
Other accrued liabilities	(2,759)	(4,658)
Workers' compensation claims liabilities	(102,572)	17,470
Safety incentives liability	(2,183)	(1,894)
Operating lease liabilities	(3,405)	(3,032)
Other assets and liabilities, net	(143)	46
Net cash (used in) provided by operating activities	<u>(114,389)</u>	<u>38,865</u>
Cash flows from investing activities:		
Purchase of property, equipment and software	(5,725)	(5,127)
Purchase of investments	(23,722)	(117)
Proceeds from sales and maturities of investments	38,547	15,262
Purchase of restricted investments	(29,570)	(3,245)
Proceeds from sales and maturities of restricted investments	22,453	34,765
Net cash provided by investing activities	<u>1,983</u>	<u>41,538</u>
Cash flows from financing activities:		
Proceeds from credit-line borrowings	—	18,843
Payments on credit-line borrowings	—	(18,843)
Payments on long-term debt	(110)	(111)
Repurchase of common stock	(2,987)	—
Common stock repurchased on vesting of stock awards	(488)	(178)
Dividends paid	(4,534)	(3,705)
Proceeds from exercise of stock options	2,714	178
Net cash used in financing activities	<u>(5,405)</u>	<u>(3,816)</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	<u>(117,811)</u>	<u>76,587</u>
Cash, cash equivalents and restricted cash, beginning of period	273,341	140,702
Cash, cash equivalents and restricted cash, end of period	<u>\$ 155,530</u>	<u>\$ 217,289</u>

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

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 2019 Annual Report on Form 10-K at pages 32 – 58. The results of operations for an interim period are not necessarily indicative of the results of operations for a full year.

Revenue recognition

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

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

We report PEO revenues net of direct payroll costs because we are not the primary obligor for these payments to our clients' employees. Direct payroll costs include salaries, wages, health insurance, and employee out-of-pocket expenses incurred incidental to employment. We also present revenue net of 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 fronted insurance program, as well as costs associated with operating our two wholly owned insurance companies, Associated Insurance Company for Excess ("AICE") and Ecole Insurance Company ("Ecole").

Cash and cash equivalents

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

Investments

The Company classifies investments as available-for-sale. The Company's investments are reported at fair value with unrealized gains and losses, net of taxes, shown as a component of accumulated other comprehensive income (loss) in stockholders' equity. Investments are recorded as current on the condensed consolidated balance sheets as the invested funds are available for current operations. Management considers available evidence in evaluating potential impairment of investments, including the 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 \$ 821,000 and \$888,000 at June 30, 2020 and December 31, 2019, 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 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. The Company provided \$25.8 million and \$28.0 million at June 30, 2020 and December 31, 2019, 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 three and six months ended June 30, 2020 and 2019 did not materially differ from interest expense. No income taxes were paid during the three and six months ended June 30, 2020 and 2019.

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, 2020	December 31, 2019	June 30, 2019	December 31, 2018
Cash and cash equivalents	\$ 62,210	\$ 44,570	\$ 23,693	\$ 35,371
Restricted cash, included in restricted cash and investments	93,320	228,771	193,596	105,331
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 155,530</u>	<u>\$ 273,341</u>	<u>\$ 217,289</u>	<u>\$ 140,702</u>

Basic and diluted earnings per share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Weighted average number of basic shares outstanding	7,557	7,410	7,539	7,408
Effect of dilutive securities	90	282	139	266
Weighted average number of diluted shares outstanding	<u>7,647</u>	<u>7,692</u>	<u>7,678</u>	<u>7,674</u>

Accounting estimates

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

Recent accounting pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, "Financial Instruments – Credit Losses." The ASU requires the use of an impairment model that is based on expected credit losses rather than incurred losses. The ASU also made changes to the impairment model for available-for-sale securities and requires the use of an allowance approach rather than writing down the security's cost. The amendments in this update were adopted January 1, 2020 and did not have a material impact on the Company's financial statements.

Note 2 - Fair Value Measurement

The following table summarizes the Company's investments at June 30, 2020 and December 31, 2019 measured at fair value on a recurring basis (in thousands):

	June 30, 2020			December 31, 2019		
	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	Cost	Gross Unrealized Gains (Losses)	Recorded Basis
Current:						
Cash equivalents:						
Money market funds	\$ 58,299	\$ —	\$ 58,299	\$ 35,526	\$ —	\$ 35,526
Total cash equivalents	58,299	—	58,299	35,526	—	35,526
Investments:						
Asset backed securities	36,961	(1,001)	35,960	14,017	(13)	14,004
Corporate bonds	20,167	499	20,666	53,493	156	53,649
U.S. government agency securities	7,402	702	8,104	7,408	282	7,690
U.S. treasuries	2,400	5	2,405	4,500	9	4,509
Mortgage backed securities	327	11	338	2,737	1	2,738
Total investments	67,257	216	67,473	82,155	435	82,590
Restricted cash and investments (1):						
Corporate bonds	95,827	4,506	100,333	98,481	1,931	100,412
Mortgage backed securities	56,551	2,356	58,907	62,930	837	63,767
Money market funds	32,864	10	32,874	29,046	—	29,046
Commercial paper	31,844	26	31,870	—	—	—
U.S. government agency securities	25,718	2,394	28,112	27,885	642	28,527
U.S. treasuries	6,320	46	6,366	16,906	21	16,927
Supranational bonds	4,772	56	4,828	4,770	30	4,800
Mutual funds	4,262	—	4,262	3,466	—	3,466
Municipal bonds	2,473	7	2,480	—	—	—
Asset backed securities	280	5	285	303	—	303
Total restricted cash and investments	260,911	9,406	270,317	243,787	3,461	247,248
Total investments	\$ 386,467	\$ 9,622	\$ 396,089	\$ 361,468	\$ 3,896	\$ 365,364

(1) Included in restricted cash and investments within the condensed consolidated balance sheet is restricted cash of \$1.3 million and \$197.0 million as of June 30, 2020 and December 31, 2019, 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, 2020 and December 31, 2019 measured at fair value on a recurring basis by fair value hierarchy level (in thousands):

	June 30, 2020					December 31, 2019				
	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	\$ 58,299	\$ —	\$ —	\$ —	\$ 58,299	\$ 35,526	\$ —	\$ —	\$ —	\$ 35,526
Investments:										
Asset backed securities	35,960	—	35,960	—	—	14,004	—	14,004	—	—
Corporate bonds	20,666	—	20,666	—	—	53,649	—	53,649	—	—
U.S. government agency securities	8,104	—	8,104	—	—	7,690	—	7,690	—	—
U.S. treasuries	2,405	—	2,405	—	—	4,509	—	4,509	—	—
Mortgage backed securities	338	—	338	—	—	2,738	—	2,738	—	—
Restricted cash and investments:										
Corporate bonds	100,333	—	100,333	—	—	100,412	—	100,412	—	—
Mortgage backed securities	58,907	—	58,907	—	—	63,767	—	63,767	—	—
Money market funds	32,874	—	—	—	32,874	29,046	—	—	—	29,046
Commercial paper	31,870	—	31,870	—	—	—	—	—	—	—
U.S. government agency securities	28,112	—	28,112	—	—	28,527	—	28,527	—	—
U.S. treasuries	6,366	—	6,366	—	—	16,927	—	16,927	—	—
Supranational bonds	4,828	—	4,828	—	—	4,800	—	4,800	—	—
Mutual funds	4,262	4,262	—	—	—	3,466	3,466	—	—	—
Municipal bonds	2,480	—	2,480	—	—	—	—	—	—	—
Asset backed securities	285	—	285	—	—	303	—	303	—	—
Total investments	<u>\$ 396,089</u>	<u>\$ 4,262</u>	<u>\$ 300,654</u>	<u>\$ —</u>	<u>\$ 91,173</u>	<u>\$ 365,364</u>	<u>\$ 3,466</u>	<u>\$ 297,326</u>	<u>\$ —</u>	<u>\$ 64,572</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, 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, 2020					Total
	Less than 1 Year	Between 1 to 5 Years	Between 5 to 10 Years		After 10 Years	
			Years	Years		
Corporate bonds	\$ 29,891	\$ 63,851	\$ 27,257	\$ —	\$ —	\$ 120,999
Money market funds	91,173	—	—	—	—	91,173
Asset backed securities	—	298	—	35,947	—	36,245
U.S. government agency securities	—	12,195	24,021	—	—	36,216
Commercial paper	31,870	—	—	—	—	31,870
U.S. treasuries	7,747	1,024	—	—	—	8,771
Supranational bonds	4,828	—	—	—	—	4,828
Municipal bonds	—	2,480	—	—	—	2,480
Total	\$ 165,509	\$ 79,848	\$ 51,278	\$ 35,947	\$ —	\$ 332,582

The average contractual maturity of mortgage backed securities was 17 years as of June 30, 2020 which is excluded from the table above.

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,	
	2020	2019	2020	2019
Beginning balance				
Workers' compensation claims liabilities	\$ 445,310	\$ 422,872	\$ 438,986	\$ 413,397
Add: claims expense accrual				
Current period	32,729	41,145	71,221	81,530
Prior periods	(1,373)	(2,952)	(2,186)	(4,652)
	<u>31,356</u>	<u>38,193</u>	<u>69,035</u>	<u>76,878</u>
Less: claim payments related to				
Current period	4,527	4,145	6,077	5,604
Prior periods	135,853	26,088	165,530	53,804
	<u>140,380</u>	<u>30,233</u>	<u>171,607</u>	<u>59,408</u>
Change in claims incurred in excess of retention limits	218	(96)	90	(131)
Ending balance				
Workers' compensation claims liabilities	\$ 336,504	\$ 430,736	\$ 336,504	\$ 430,736
Incurred but not reported (IBNR)	\$ 206,521	\$ 273,114	\$ 206,521	\$ 273,114
Ratio of IBNR to workers' compensation claims liabilities	61 %	63 %	61 %	63 %

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

For all other clients, the Company obtains policies from Chubb Limited ("Chubb") through an arrangement known as a fronted program, which provides a licensed, admitted insurance carrier to issue policies on behalf of the Company. Chubb assumes credit risk should the Company be unable to satisfy its indemnification obligations.

Through various insurance arrangements, the Company retains risk of loss up to the first \$ 5.0 million per occurrence, except in Maryland and Colorado, where our retention per occurrence is \$1.0 million and \$2.0 million, respectively. Effective July 1, 2020 the Company's retention decreases from \$ 5.0 million per occurrence to \$3.0 million, except in Maryland and Colorado, where our retention per occurrence remains at \$ 1.0 million and \$2.0 million, respectively.

The fronted program with Chubb requires that collateral be advanced at the inception of the policy term. To partially satisfy these collateral requirements, the Company provided a letter of credit of \$63.7 million from its principal bank, Wells Fargo Bank, National Association (the "Bank").

In addition, the Company makes monthly collateral payments into trust accounts (the "Chubb trust accounts") for the fronted program. The balance in the Chubb trust accounts was \$264.6 million and \$393.5 million at June 30, 2020 and December 31, 2019, respectively. The Chubb trust accounts' balances are included as a component of the current and long-term restricted cash and investments on the Company's condensed consolidated balance sheets.

The states of California, Maryland, Oregon, Washington, Colorado and Delaware required us to maintain collateral totaling \$ 59.7 million and \$76.1 million at June 30, 2020 and December 31, 2019, 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, 2020, the Company provided surety bonds and standby letters of credit totaling \$59.7 million, including a California requirement of \$39.2 million.

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

As of June 30, 2020, the Company recorded a receivable from Chubb of \$ 2.2 million related to claim payments made on Chubb's behalf for claim obligations transferred to Chubb as part of the loss portfolio transfer agreement. The amount is included in prepaid expenses and other in the condensed consolidated balance sheets.

The Company provided a total of \$ 336.5 million and \$439.0 million at June 30, 2020 and December 31, 2019, respectively, as an estimated future liability for unsettled workers' compensation claims liabilities. Of this amount, \$3.4 million and \$3.3 million at June 30, 2020 and December 31, 2019, 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 excess insurance carriers of \$3.4 million and \$3.3 million at June 30, 2020 and December 31, 2019, respectively, included in other assets on the condensed consolidated balance sheets.

Note 4 - Revolving Credit Facility and Long-Term Debt

On May 15, 2020, the Company entered into an amended credit agreement (the "Agreement") with the Bank, which superseded the previous agreement. The Agreement increased the revolving credit line from \$33.0 million to \$50.0 million; the sublimit for standby letters of credit remains at \$ 8.0 million. At June 30, 2020, \$5.8 million of the sublimit for standby letters of credit was used. The Agreement expires on July 1, 2022.

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 0.50% 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, 2020 and December 31, 2019. The credit facility is collateralized by the Company's accounts receivable and other rights to receive payment.

The Agreement also provides for a \$63.7 million standby letter of credit (the "Chubb Letter of Credit"). The Chubb Letter of Credit has an expiration date of July 1, 2021, subject to automatic renewal in specified circumstances. The Bank has been granted a security interest of first priority in certain blocked securities accounts (collectively, the "Collateral Accounts"). The Company has agreed to deposit in the Collateral Accounts 50% of the Company's consolidated net income (after tax and less cash dividends) for each quarter plus, to the extent necessary, an additional amount by May 15 each year so that the deposits in the Collateral Accounts for the prior year total at least \$16 million. Through the second quarter of 2020, the Company deposited \$32.5 million into the Collateral Accounts.

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

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

- total funded debt plus the unused principal amount of the revolving credit line, divided by EBITDA [net income before taxes plus interest expense (net of capitalized interest expense), depreciation expense, and amortization expense], on a rolling four-quarter basis is not greater than 2.75:1.0; and
- ratio of restricted and unrestricted cash and investments to workers' compensation claim liabilities is at least 1.15:1.0, measured quarterly.

The Agreement includes certain additional restrictions as follows:

- incurring additional indebtedness is prohibited without the prior approval of the Bank, other than purchase financing 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 without the Bank's prior written consent; and
- the Company is not permitted to declare or pay any dividend or distribution, or to redeem, retire or purchase any shares of the Company's capital stock without the Bank's prior approval, other than (i) quarterly cash dividends to holders of common stock in an amount not to exceed a total of \$0.30 per share during a fiscal quarter, and (ii) acquisitions of shares of common stock at fair market value in connection with satisfaction of employee tax withholding obligations incurred with regard to employee equity compensation arrangements, in an amount totaling up to \$3.5 million.

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, 2020, the Company was in compliance with all covenants.

The Company maintains a mortgage loan with the Bank with a balance of approximately \$3.8 million and \$4.0 million at June 30, 2020 and December 31, 2019, 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, 2020.

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 a draft Revenue Agent Report in relation to the ongoing IRS audit for tax years 2011 to 2014. The report indicates that the IRS intends to disallow certain wage-based tax credits claimed, which would result in an estimated additional tax due of approximately \$2.3 million for the tax years 2012 through 2014. The Company firmly disagrees with the asserted grounds for this determination and plans to pursue all available administrative and judicial remedies necessary to vigorously defend its position. Based on management's analysis of this matter, no reserve has been recorded in the financial statements.

In the major jurisdictions where it operates, the Company is generally no longer subject to income tax examinations by tax authorities for the 2015 tax year and tax years before 2011. As of June 30, 2020, 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 California wage and hour violations lawsuit against BBSI. On May 19, 2016, the court entered a ruling in favor of BBSI, which was subsequently appealed by the plaintiffs. On November 30, 2018, the California Court of Appeal for the Second Appellate District returned its decision in *Kaanaana v. Barrett Business Services, Inc.*, overruling the trial court's decision to dismiss plaintiffs' claims and holding that prevailing wage requirements applicable to "public works" apply to certain types of districts. On January 9, 2019, BBSI filed a petition of review to the California Supreme Court. An amicus letter in support of the petition was filed by the Sanitation Districts of Los Angeles County, joined in by numerous other "special districts" in California. On February 27, 2019, the California Supreme Court granted the petition to review the appellate court's decision.

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

Note 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 comprise senior level professionals with expertise in human resources, organizational development, risk mitigation and workplace safety and various types of administration, including payroll. These teams are responsible for growth of their operations, and for providing strategic leadership, guidance and expert consultation to our client companies. The decentralized structure fosters autonomous decision-making in which business teams deliver plans that closely align with the objectives of each business owner client. This structure also provides a means of incubating talent to support increased growth and capacity. We support clients with employees located in 31 states and the District of Columbia through a network of 57 branch locations in California, Oregon, Utah, Washington, Colorado, Idaho, Arizona, Maryland, North Carolina, Nevada, Pennsylvania, Delaware and Virginia. We also have several smaller recruiting locations in our general market areas, which are under the direction of a branch office.

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

Services Overview. BBSI's core purpose is to advocate for business owners, particularly in the small and mid-sized business segment. Our evolution from an entrepreneurially run company to a professionally managed organization has helped to form our view that all businesses experience inflection points at key stages of growth. The insights gained through our own growth, along with the trends we see in working with more than 7,200 companies each day, define our approach to guiding business owners through the challenges associated with being an employer. BBSI's business teams align with each business owner client through a structured three-tiered progression. In doing so, business teams focus on the objectives of each business owner and deliver planning, guidance and resources in support of those objectives.

Tier 1: Tactical Alignment

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

Tier 2: Dynamic Relationship

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

Tier 3: Strategic Counsel

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

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

Results of Operations

The spread of COVID-19 and resulting shelter-in-place orders 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, furloughs, hiring freezes 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, 2020 and 2019 (\$ in thousands):

	Percentage of Total Net Revenues								
	Three Months Ended June 30,				Six Months Ended June 30,				
	2020		2019		2020		2019		
Revenues:									
Professional employer service fees	\$ 180,488	89.8 %	\$ 203,157	88.0 %	\$ 374,080	89.0 %	\$ 393,684	87.6 %	
Staffing services	20,543	10.2	27,825	12.0	46,055	11.0	55,513	12.4	
Total revenues	<u>201,031</u>	<u>100.0</u>	<u>230,982</u>	<u>100.0</u>	<u>420,135</u>	<u>100.0</u>	<u>449,197</u>	<u>100.0</u>	
Cost of revenues:									
Direct payroll costs	15,796	7.9	20,992	9.1	34,873	8.3	41,834	9.3	
Payroll taxes and benefits	93,671	46.6	101,697	44.0	213,133	50.7	216,494	48.2	
Workers' compensation	44,921	22.3	53,174	23.0	99,435	23.7	107,403	23.9	
Total cost of revenues	<u>154,388</u>	<u>76.8</u>	<u>175,863</u>	<u>76.1</u>	<u>347,441</u>	<u>82.7</u>	<u>365,731</u>	<u>81.4</u>	
Gross margin	46,643	23.2	55,119	23.9	72,694	17.3	83,466	18.6	
Selling, general and administrative expenses	33,255	16.5	39,005	16.9	65,370	15.6	72,165	16.1	
Depreciation and amortization	1,171	0.6	970	0.4	2,171	0.5	1,939	0.4	
Income from operations	12,217	6.1	15,144	6.6	5,153	1.2	9,362	2.0	
Other income, net	1,666	0.8	2,851	1.2	4,399	1.0	5,458	1.2	
Income before income taxes	13,883	6.9	17,995	7.8	9,552	2.2	14,820	3.3	
Provision for income taxes	2,373	1.2	4,088	1.8	1,449	0.3	3,213	0.7	
Net income	<u>\$ 11,510</u>	<u>5.7 %</u>	<u>\$ 13,907</u>	<u>6.0 %</u>	<u>\$ 8,103</u>	<u>1.9 %</u>	<u>\$ 11,607</u>	<u>2.5 %</u>	

We report PEO revenues net of direct payroll costs because we are not the primary obligor for wage payments to our clients' employees. However, management believes that gross billing amounts and wages are useful in understanding the volume of our business activity and serve as an important performance metric in managing our operations, including the preparation of internal operating forecasts and establishing executive compensation performance goals. We therefore present for purposes of analysis gross billing and wage information for the three and six months ended June 30, 2020 and 2019.

(in thousands)	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2020	2019	2020	2019
	Gross billings	\$ 1,369,990	\$ 1,463,962	\$ 2,809,110
PEO and staffing wages	\$ 1,177,855	\$ 1,246,576	\$ 2,410,435	\$ 2,402,947

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

(in thousands)	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2020	2019	2020	2019
	Workers' compensation	\$ 44,921	\$ 53,174	\$ 99,435
Safety incentive costs	6,802	7,833	13,781	14,536
Non-GAAP gross workers' compensation	\$ 51,723	\$ 61,007	\$ 113,216	\$ 121,939

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,	
	2020	2019	2020	2019
	PEO and staffing wages	86.0%	85.2%	85.8%
Payroll taxes and benefits	6.8%	6.9%	7.6%	7.7%
Non-GAAP gross workers' compensation	3.8%	4.2%	4.0%	4.3%

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

Three Months Ended June 30, 2020 and 2019

Net income for the second quarter of 2020 amounted to \$11.5 million compared to net income of \$13.9 million for the second quarter of 2019. Diluted income per share for the second quarter of 2020 was \$1.51 compared to diluted income per share of \$1.81 for the second quarter of 2019.

Revenues for the second quarter of 2020 totaled \$201.0 million, a decrease of \$30.0 million or 13.0% over the second quarter of 2019, which reflects a decrease in the Company's PEO service fee revenue of \$22.7 million or 11.2% and a decrease in staffing services revenue of \$7.3 million or 26.2%.

The reduction in PEO service revenues was primarily attributable to the effects of COVID-19 on our clients and our business. Gross billings for PEO services to continuing customers decreased 4.5% compared to the second quarter of 2019. This decrease was primarily the result of COVID-19 impacts during the quarter, which we expect to continue into future quarters. PEO revenue is presented net of safety incentives of \$6.8 million and \$7.8 million in the second quarter of 2020 and 2019, respectively. The decrease in staffing services revenue was due primarily to the impacts of COVID-19 during the 2020 period.

Gross margin for the second quarter of 2020 totaled \$46.6 million or 23.2% of revenue compared to \$55.1 million or 23.9% of revenue for the second quarter of 2019. The decrease 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 2020 totaled \$15.8 million or 7.9% of revenue compared to \$21.0 million or 9.1% of revenue for the second quarter of 2019. The decrease in the direct payroll costs percentage was primarily due to the increase in PEO services and the decrease of staffing services within the mix of our customer base compared to the second quarter of 2019.

Payroll taxes and benefits for the second quarter of 2020 totaled \$93.7 million or 46.6% of revenue compared to \$101.7 million or 44.0% of revenue for the second quarter of 2019. The increase in payroll taxes and benefits as a percentage of revenues is primarily due to the relative increase in PEO services within the mix of our customer base compared to the second quarter of 2019, offset by a decrease in payroll taxes as a percent of wages.

Workers' compensation expense for the second quarter of 2020 totaled \$44.9 million or 22.3% of revenue compared to \$53.2 million or 23.0% for the second quarter of 2019. The decrease in workers' compensation expense as a percentage of revenue is primarily related to favorable claims development offset by a favorable adjustment of \$1.4 million related to claims incurred in prior periods, compared to a favorable adjustment of \$3.0 million in the second quarter of 2019.

Selling, general and administrative ("SG&A") expenses for the second quarter of 2020 totaled \$33.3 million or 16.5% of revenue compared to \$39.0 million or 16.9% of revenue for the second quarter of 2019. The decrease was primarily attributable to a decrease in employee-related expenses, which included a reduction in our workforce, reduced employee profit sharing of \$2.0 million and a \$1.0 million reduction in incentive compensation. Employee-related expenses will likely continue to be lower relative to prior year quarters due to measures taken in response to COVID-19.

Other income, net for the second quarter of 2020 was \$1.7 million as compared to other income, net of \$2.9 million for the second quarter of 2019. The decrease was primarily attributable to a decrease in investment income in the second quarter of 2020, as a result of lower interest rates.

Our effective income tax rate for the second quarter of 2020 was 17.1%, compared to 22.7% for the second quarter of 2019. 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, 2020 and 2019

Net income for the first six months of 2020 amounted to \$8.1 million compared to net income of \$11.6 million for the first six months of 2019. Diluted income per share for the first six months of 2020 was \$1.06 compared to diluted income per share of \$1.51 for the first six months of 2019.

Revenues for the first six months of 2020 totaled \$420.1 million, a decrease of \$29.1 million or 6.5% over the first six months of 2019, which reflects a decrease in the Company's PEO service fee revenue of \$19.6 million or 5.0% and a decrease in staffing services revenue of \$9.5 million or 17.0%.

The reduction in PEO service revenues was primarily attributable to the effects of COVID-19 on our clients and our business. Gross billings for PEO services to continuing customers increased 0.5% compared to the first six months of 2019. This growth was primarily the result of wage inflation and increases in employee headcount, offset by the impacts of COVID-19. PEO revenue is presented net of safety incentives of \$13.8 million and \$14.5 million in the first six months of 2020 and 2019, respectively. The decrease in staffing services revenue was due primarily to the impact of COVID-19.

Gross margin for the first six months of 2020 totaled \$72.7 million or 17.3% of revenue compared to \$83.5 million or 18.6% of revenue for the first six months of 2019. The decrease 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 2020 totaled \$34.9 million or 8.3% of revenue compared to \$41.8 million or 9.3% of revenue for the first six months of 2019. The decrease in direct payroll percentage was primarily due to the increase in PEO services and the decrease of staffing services within the mix of our customer base compared to the first six months of 2019.

Payroll taxes and benefits for the first six months of 2020 totaled \$213.1 million or 50.7% of revenue compared to \$216.5 million or 48.2% of revenue for the first six months of 2019. The increase in payroll taxes and benefits as a percentage of revenues is primarily due to the relative increase in PEO services within the mix of our customer base compared to the first six months of 2019, offset by the decrease in payroll taxes as a percent of wages.

Workers' compensation expense for the first six months of 2020 totaled \$99.4 million or 23.7% of revenue compared to \$107.4 million or 23.9% of revenue for the first six months of 2019. The decrease in workers' compensation expense as a percentage of revenue was primarily due to favorable claims development and lower frictional costs, offset by a favorable adjustment of \$2.2 million related to prior period claims during the first six months of 2020, compared to a favorable adjustment of \$4.7 million in the first six months of 2019.

SG&A expenses for the first six months of 2020 totaled \$65.4 million or 15.6% of revenue compared to \$72.2 million or 16.1% of revenue for the first six months of 2019. The decrease was primarily attributable to a decrease in employee-related expenses, which included a reduction in our workforce, reduced employee profit sharing of \$3.5 million and a \$2.9 million reduction in incentive compensation. Employee-related expenses will likely continue to be lower relative to prior year quarters due to measures taken in response to COVID-19.

Other income, net for the first six months of 2020 was \$4.4 million as compared to other income, net of \$5.5 million for the first six months of 2019. The decrease was primarily attributable to a decrease in investment income in the first six months of 2020, as a result of lower interest rates.

Our effective income tax rate for the first six months of 2020 was 15.2% compared to 21.7% for the first six months of 2019. 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 \$155.5 million, which includes cash, cash equivalents, and restricted cash, decreased \$117.8 million for the six months ended June 30, 2020, compared to an increase of \$76.6 million for the comparable period of 2019. The decrease in cash at June 30, 2020 as compared to December 31, 2019 was primarily due to decreased workers' compensation claims liabilities, increased trade accounts receivable, dividends payments and repurchases of common stock, partially offset by proceeds from the sales and maturities of investments and restricted investments.

Net cash used in operating activities for the six months ended June 30, 2020 was \$114.4 million, compared to net cash provided of \$38.9 million for the comparable period of 2019. For the six months ended June 30, 2020, cash used in operating activities was primarily due to decreased workers' compensation claims liabilities of \$102.6 million related primarily to the transfer of obligations associated with certain claims incurred between February 1, 2014 and December 31, 2017, increased trade accounts receivable of \$24.8 million, decreased other accrued liabilities of \$2.8 million, increased prepaids and other of \$2.5 million, partially offset by net income of \$8.1 million and increased accrued payroll, payroll taxes and related benefits of \$8.0 million.

Net cash provided by investing activities for the six months ended June 30, 2020 was \$2.0 million, compared to net cash provided of \$41.5 million for the comparable period of 2019. For the six months ended June 30, 2020, cash provided by investing activities consisted primarily of proceeds from sales and maturities of investments and restricted investments of \$61.0 million, partially offset by purchases of investments and restricted investments of \$53.3 million and purchases of property, equipment and software of \$5.7 million.

Net cash used in financing activities for the six months ended June 30, 2020 was \$5.4 million, compared to net cash used of \$3.8 million for the comparable period of 2019. For the six months ended June 30, 2020, cash was primarily used for dividend payments of \$4.5 million and repurchases of common stock of \$3.0 million, partially offset by proceeds from exercises of stock options of \$2.7 million.

As part of its fronted workers' compensation insurance program with Chubb, the Company makes monthly collateral payments into trust accounts (the "Chubb trust accounts"). The balance in the Chubb trust accounts was \$264.6 million and \$393.5 million at June 30, 2020 and December 31, 2019, respectively. Included within the Chubb trust account at June 30, 2020, is \$49.2 million of restricted cash. The restricted cash accrues interest at the 3-month Treasury bill yield rate plus 0.25%. The Chubb trust account balances are included as a component of the current and long-term restricted cash and investments on the Company's condensed consolidated balance sheets.

On June 29, 2020, the Company entered into a loss portfolio transfer agreement to remove all outstanding workers' compensation claims obligations for claims incurred under its fronted insurance 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. As part of the loss portfolio transfer and due to the Company's continued favorable claims experience, third-party collateral requirements were reduced by \$48.9 million, resulting in an increase in cash and cash equivalents and a decrease in restricted cash and investments.

On May 15, 2020, the Company entered into an amended credit agreement (the "Agreement") with the Bank, which superseded the previous agreement. The Agreement increased the revolving credit line from \$33.0 million to \$50.0 million; the sublimit for standby letters of credit remains at \$8.0 million. At June 30, 2020, \$5.8 million of the sublimit for standby letters of credit was used. The Agreement expires on July 1, 2022.

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 0.50% 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, 2020 and December 31, 2019. The credit facility is collateralized by the Company's accounts receivable and other rights to receive payment.

The Agreement also provides for a \$63.7 million standby letter of credit (the "Chubb Letter of Credit"). The Chubb Letter of Credit has an expiration date of July 1, 2021, subject to automatic renewal in specified circumstances. The Bank has been granted a security interest of first priority in certain blocked securities accounts (collectively, the "Collateral Accounts"). The Company has agreed to deposit in the Collateral Accounts 50% of the Company's consolidated net income (after tax and less cash dividends) for each quarter plus, to the extent necessary, an additional amount by May 15 each year so that the deposits in the Collateral Accounts for the prior year total at least \$16 million. Through the second quarter of 2020, the Company deposited \$32.5 million into the Collateral Accounts.

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

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

- total funded debt, plus the unused principal amount of the revolving credit line, divided by EBITDA [net income before taxes plus interest expense (net of capitalized interest expense), depreciation expense, and amortization expense], on a rolling four-quarter basis is not greater than 2.75:1.0; and
- ratio of restricted and unrestricted cash and investments to workers' compensation claim liabilities is at least 1.15:1.0, measured quarterly.

The Agreement includes certain additional restrictions as follows:

- incurring additional indebtedness is prohibited without the prior approval of the Bank, other than purchase financing 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 without the Bank's prior written consent; and
- the Company is not permitted to declare or pay any dividend or distribution, or to redeem, retire or purchase any shares of the Company's capital stock without the Bank's prior approval, other than (i) quarterly cash dividends to holders of common stock in an amount not to exceed a total of \$0.30 per share during a fiscal quarter, and (ii) acquisitions of shares of common stock at fair market value in connection with satisfaction of employee tax withholding obligations incurred with regard to employee equity compensation arrangements, in an amount totaling up to \$3.5 million.

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, 2020, the Company was in compliance with all covenants.

The Company maintains a mortgage loan with the Bank with a balance of approximately \$3.8 million and \$4.0 million at June 30, 2020 and December 31, 2019, 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.

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

Inflation

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

Forward-Looking Information

Statements in this report include forward-looking statements which are not historical in nature and are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, discussion of economic conditions in our market areas and their effect on revenue levels, the 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 fronted insurance program with Chubb, the financial viability of our excess insurance carriers, the effectiveness of our management information systems, our relationship with our primary bank lender and the availability of financing and working capital to meet our funding requirements, litigation costs, the effect of changes in the interest rate environment on the value of our investment securities and long-term debt, the adequacy of our allowance for doubtful accounts, and the potential for and effect of acquisitions.

All of our forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors with respect to the Company include our ability to retain current clients and attract new clients, the effects of governmental orders imposing business closures and stay-at-home 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, the workers' compensation regulatory environment in our primary markets, security breaches or failures in the Company's information technology systems, collectability of accounts receivable, changes in effective payroll tax rates and federal and state income tax rates, the carrying values of deferred income tax assets and goodwill (which may be affected by our future operating results), the impact of the Patient Protection and Affordable Care Act, escalating medical costs, and other health care legislative initiatives on our business, the effect of conditions in the global capital markets on our investment portfolio, and the availability of capital, borrowing capacity on our revolving credit facility, or letters of credit necessary to meet state-mandated surety deposit requirements for maintaining our status as a qualified self-insured employer for workers' compensation coverage or our fronted insurance program. Additional risk factors affecting our business are discussed in Item 1A of Part II of this report and Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the SEC on March 3, 2020. 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, 2020, the Company's investments consisted principally of \$121 million in corporate bonds, \$91 million in money market funds, \$59 million in mortgage backed securities, \$36 million in asset backed securities, \$36 million in U.S. government agency securities, \$32 million in commercial paper, \$9 million in U.S. treasuries, \$5 million in supranational bonds, \$4 million in mutual funds and \$2 million in municipal bonds. The Company's outstanding debt totaled approximately \$3.8 million at June 30, 2020. Based on the Company's overall interest exposure at June 30, 2020, a 50 basis point increase in market interest rates would have a \$3.4 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, 2020.

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, 2020 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, 2019, which was filed with the SEC on March 3, 2020.

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 declared COVID-19 a pandemic and recommended containment and mitigation measures worldwide. On March 13, 2020, President Trump announced a National Emergency relating to the disease. In response to the COVID-19 pandemic, state governments nationwide, including the states where BBSI and our clients operate, have taken, and continue to take, preventative actions such as shelter-in-place orders, restrictions on travel, and temporary closures of businesses deemed to be high-risk or non-essential. These restrictions on business operations have significantly disrupted, and will continue to disrupt, the U.S. economy, including small-and mid-sized businesses, which comprise our primary client base. Our clients have experienced, and will continue to experience, workforce reductions in the form of layoffs, furloughs, and reductions in hours worked, resulting in reduced payroll costs. As our PEO fees are based on client payroll, these responses by clients to the COVID-19 situation could have a material adverse effect on our business. Additionally, clients who are impacted by government restrictions and shutdowns may experience liquidity and other financial issues, which may impact their ability to pay for our services.

In response to the pandemic, federal and state government agencies have enacted numerous new laws and regulatory guidelines designed to help the economy, individuals and employers. Many of these legislative and regulatory changes, including the Families First Coronavirus Relief Act (FFCRA) and the Coronavirus Aid, Relief, and Economic Security (CARES) Act, directly impact the Company and our clients. 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 we operate have been limited to date, future changes in regulations, or changes in the pattern of COVID-19 illnesses could increase our exposure to workers' compensation claims.

Due to the ongoing COVID-19 outbreak and related government mandates, the Company has transitioned much of its workforce to a temporary remote working model, which may adversely affect the Company's ability to provide the level of service our clients expect. As our employees work from home 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 a prolonged economic downturn, which could in turn lead to increases in workers' compensation and unemployment claims, increased uncollectable receivables and reductions in the valuation of the Company's investment portfolio.

Continuation or exacerbation of the consequences of the pandemic described above and elsewhere in this report are 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 6.	Exhibits
3.1	<u>Bylaws of the Registrant, as amended through May 27, 2020.</u>
4.1	<u>First Amendment to Second Amended and Restated Credit Agreement between the Registrant and Wells Fargo Bank, National Association, dated as of August 6, 2019. Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on May 21, 2020.</u>
10.1	<u>Separation and Release Agreement between the Registrant and Heather Gould dated as of April 3, 2020.</u>
10.2	<u>Separation and Release Agreement between the Registrant and Michael Elich, dated April 22, 2020. Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 24, 2020.</u>
10.3	<u>Employment Agreement between the Registrant and Gary Kramer Jr., dated April 22, 2020. Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on April 24, 2020.</u>
10.4	<u>Employment Agreement between the Registrant and Gerald Blotz, dated April 22, 2020. Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on April 24, 2020.</u>
10.5	<u>Employment Agreement between the Registrant and Anthony Harris, dated April 22, 2020. Incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on April 24, 2020.</u>
10.6	<u>2020 Stock Incentive Plan of the Registrant (the "Plan"). Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 2, 2020.</u>
10.7	<u>Death Benefit Agreement entered into by the Registrant and Anthony Harris effective June 30, 2020.</u>
10.8	<u>Amended Death Benefit Agreement entered into by the Registrant and Gary Kramer effective June 30, 2020.</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, 2020, has been formatted in Inline XBRL.

** Except as otherwise indicated, the SEC File Number for all exhibits is 000-21886.

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 5, 2020

By: /s/ Anthony J. Harris
Anthony J. Harris
Vice President-Finance, Treasurer and Secretary

BARRETT BUSINESS SERVICES, INC.

BYLAWS

As Amended Through May 27, 2020

ARTICLE I STOCKHOLDERS

Section 1.1 Annual Meeting. The Annual Meeting of the stockholders shall be held in May or June of each year on the date and at the time established by the board of directors for the purpose of electing directors and for the transaction of such other business as may come before the meeting. The board of directors shall timely establish the annual meeting date and time in conjunction with the notice of meeting requirements of Section 1.4, of these Bylaws.

Section 1.2 Special Meetings. Special meetings of the stockholders, for any purpose or purposes, may be called by the president or by the board of directors, and shall be called by the secretary upon written request by stockholders entitled to cast 25 percent of all votes entitled to be cast at the meeting stating the purpose of the meeting and the matters proposed to be acted upon at the meeting and upon payment by such stockholders to the corporation of the costs of the notice of the meeting. Notwithstanding the foregoing, a special meeting need not be called by the secretary to consider any matter which is substantially the same as a matter voted on at any special meeting of the stockholders held during the preceding 12 months unless requested by stockholders entitled to cast a majority of all votes entitled to be cast at the meeting.

Section 1.3 Place of Meeting. The place of meeting for all annual and special meetings of the stockholders shall be such place within the United States as shall be determined by the board of directors. In the absence of any such determination, all meetings of stockholders shall be held at the principal office of the corporation in the state of Washington.

Section 1.4 Notice of Meeting; Waiver. Written or printed notice stating the place, day, and hour of the meeting and, in case of a special meeting or if otherwise required by law, the purpose or purposes for which the meeting is called, shall be given by the secretary not earlier than 90 nor less than 10 days before the date of the meeting, either personally or by mail, to each stockholder of record entitled to vote at or to receive notice of such meeting. If given personally, such notice shall be effective when delivered to the stockholder or when left at the stockholder's residence or usual place of business. If given by mail, such notice shall be effective when deposited in the United States mail, addressed to the stockholder at his or her address as shown in the corporation's current record of stockholders, with postage thereon prepaid. A stockholder entitled to notice of a meeting waives such notice if he or she is present at the meeting in person or by proxy. A written waiver of notice of a meeting signed by a stockholder entitled to such notice, whether before or after the time stated therein, which is filed with the records of stockholders meetings, shall be equivalent to the giving of such notice. A meeting of stockholders convened on the date for which it was called may be adjourned from

time to time without further notice to a date not more than 120 days after the original record date for the meeting.

Section 1.5 Quorum; Manner of Acting. The presence in person or by proxy of stockholders entitled to cast a majority of all the votes entitled to be cast at the meeting shall constitute a quorum. Each share may be voted for as many individuals as there are directors to be elected and for whose election the share is entitled to be voted. At a meeting of stockholders duly called at which an election of directors is to be held and at which a quorum is present, each director shall be elected by the vote of a majority of the votes cast with respect to the director; provided that if the number of nominees exceeds the number of directors to be elected, directors shall be elected by the vote of a plurality of the shares represented in person or by proxy at such meeting and entitled to vote on the election of directors. For purposes of this Section, a majority of the votes cast means that the number of shares voted "for" a director exceeds the number of votes cast "against" that director.

If an incumbent director is nominated, but not reelected, the director shall tender his or her resignation to the board of directors promptly following certification of the stockholder vote. The Nominating and Governance Committee will make a recommendation to the board of directors as to whether to accept or reject the resignation. The board of directors will make a determination and publicly disclose its decision and rationale within 90 days after receipt of the tendered resignation.

Any director who tenders his or her resignation pursuant to this provision shall not participate in the Nominating and Governance Committee recommendation or action of the board of directors regarding whether to accept the resignation offer; provided, however, that if each member of the Nominating and Governance Committee fails to receive a sufficient vote for reelection, then the independent directors who did receive a sufficient vote shall appoint a committee from among themselves to consider the resignation offers and recommend to the board of directors whether to accept the resignations. If three or fewer directors do not fail to receive a sufficient vote for reelection, then all directors may participate in the decision regarding whether to accept the resignation offers.

A majority of the votes cast at a meeting of stockholders duly called and at which a quorum is present shall be sufficient to approve any other matter which may properly come before the meeting, unless more than a majority of the votes cast is required by statute or by the charter of the corporation to approve the action. Unless otherwise provided by the Maryland General Corporation Law or by the corporation's charter, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders.

Section 1.6 Proxies. At all meetings of stockholders, a stockholder may vote by proxy executed in writing by the stockholder or by his or her duly authorized attorney-in-fact. Such proxy shall be filed with the secretary of the corporation before or at the time of the meeting. No proxy shall be valid after 11 months from the date of its execution unless otherwise expressly provided in the proxy.

Section 1.7 **Voting of Shares.** Each outstanding share of the corporation's common stock shall be entitled to one vote upon each matter submitted to a vote at a meeting of the stockholders except that shares owned, directly or indirectly, by another corporation in which the corporation owns, directly or indirectly, shares entitled to cast a majority of all the votes entitled to be cast by all shares of such other corporation shall not be voted at any meeting or counted in determining the total number of outstanding shares at any given time.

Section 1.8 **Acceptance of Votes.** If the name signed on a vote, consent, waiver, or proxy appointment corresponds to the name of a stockholder, the corporation shall be entitled to accept the vote, consent, waiver, or proxy appointment and give it effect as the act of the stockholder.

If the name signed on a vote, consent, waiver, or proxy appointment does not correspond to the name of its stockholder, the corporation shall nevertheless be entitled to accept the vote, consent, waiver, or proxy appointment and give it effect as the act of the stockholder if:

- a. The stockholder is a corporation, and the name signed purports to be that of the president, a vice-president, or a proxy appointed by either of them or by another person appointed under a bylaw or resolution of the board of directors of such stockholder, a certified copy of which is presented to the corporation.
- b. The stockholder is an entity, other than a corporation, and the name signed purports to be that of an officer or agent of the entity.
- c. The name signed purports to be that of an administrator, executor, guardian, or conservator representing the stockholder.
- d. The name signed purports to be that of a receiver or trustee in bankruptcy of the stockholder.
- e. The name signed purports to be that of a pledgee, beneficial owner, or attorney-in-fact of the stockholder.
- f. Two or more persons are the stockholder whether as fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety, or otherwise, and the name signed purports to be the name of at least one of the co-owners.

The corporation shall be entitled to reject a vote, consent, waiver, or proxy if the secretary or other officer or agent authorized to tabulate votes, acting in good faith, has reasonable basis for doubt about the validity of the signature on it or about the signatory's authority to sign for the stockholder.

Section 1.9 **Action Without Meeting.** Any action required or permitted by the Maryland General Corporation Law to be taken at a meeting of the stockholders may be taken without a meeting if there are filed with the records of stockholders meetings a consent in writing which sets forth the action so taken signed by each stockholder entitled to vote on the matter and a written waiver of any right to dissent signed by each stockholder entitled to notice of the meeting but not entitled to vote at the meeting.

Section 1.10**Organization and Conduct of Stockholder Meetings.**

Each meeting of stockholders shall be conducted by the chairman of the board as chairman of the meeting or, in the absence of the chairman of the board, by the vice chairman of the board or, in the absence of the vice chairman of the board or a vacancy in the position, by the president. The order of business and all other matters of procedure at any meeting of stockholders shall be determined by the chairman of the meeting. The chairman of the meeting may prescribe such rules, regulations and procedures and take such action as, in the discretion of the chairman and without any action by the stockholders, are appropriate for the proper conduct of the meeting, including, without limitation:

- a. restricting admission to the time set for the commencement of the meeting;
- b. limiting attendance at the meeting to stockholders of record of the corporation, their duly authorized proxies and such other individuals as the chairman of the meeting may determine;
- c. limiting participation at the meeting on any matter to stockholders of record of the corporation entitled to vote on such matter, their duly authorized proxies and other such individuals as the chairman of the meeting may determine;
- d. limiting the time allotted to questions or comments;
- e. determining when and for how long the polls should be opened and when the polls should be closed;
- f. maintaining order and security at the meeting;
- g. removing any stockholder or any other individual who refuses to comply with meeting procedures, rules or guidelines as set forth by the chairman of the meeting;
- h. concluding a meeting or recessing or adjourning the meeting to a later date and time and at a place announced at the meeting; and
- i. complying with any state and local laws and regulations concerning safety and security.

Section 1.11**Advance Notice by Stockholders of Nominations and Proposals of Business.**

a. Nominations of persons for election to the board of directors and proposals of business to be transacted by the stockholders may be made at an Annual Meeting of stockholders, (or in the case of election of directors, at a special meeting of stockholders held in lieu of an Annual Meeting under Section 1.2 of these Bylaws) (1) pursuant to the corporation's proxy materials with respect to such meeting, (2) by or at the direction of the board of directors, (3) by any stockholder or group of stockholders pursuant to Section 1.12 of these Bylaws, or (4) by any stockholder at the time of the

giving of the notice required in subsection (b) of this Section 1.11, who is entitled to vote at the meeting and who has complied with the notice procedures set forth in this Section 1.11. The foregoing clause (3) shall be the exclusive means for a stockholder to make nominations or propose business (other than matters included in the corporation's proxy materials pursuant to Rule 14a-8 or Rule 14a-11 under the Securities Exchange Act of 1934 (the "Exchange Act")) at an Annual Meeting of stockholders.

b. In order to assure that stockholders and the corporation have a reasonable opportunity to consider nominations and other business proposed to be brought before a meeting of stockholders and to allow for full information to be distributed to stockholders, a stockholder properly may bring nominations or other business before an annual meeting of stockholders pursuant to clause (3) of subsection a above, only if (i) the stockholder has given timely notice thereof in writing to the secretary of the corporation, and (ii) any such business is a proper matter for stockholder action under the Maryland General Corporation Law. To be timely, a stockholder's notice shall be received by the secretary at the principal executive offices of the corporation not less than 90 or more than 120 days prior to the one-year anniversary of the date on which the corporation first mailed its proxy materials for the preceding year's Annual Meeting of stockholders; provided, however, that, subject to the last sentence of this subsection b, if the meeting is convened more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's Annual Meeting, or if no Annual Meeting was held in the preceding year, notice by the stockholder to be timely must be received not later than the close of business on the later of (i) the 90th day before such Annual Meeting or (ii) the 10th day following the day on which public announcement of the date of such meeting is first made. In no event shall an adjournment or postponement of an Annual Meeting for which notice has been given commence a new time period for the giving of a stockholder's notice.

c. Such stockholder's notice shall set forth:

(i) if such notice pertains to the nomination of directors, as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person as would be required to be disclosed in solicitations of proxies for the election of such nominee as a director in an election contest, or is otherwise required, pursuant to Regulation 14A under the Exchange Act, and such person's written consent to serve as a director if elected;

(ii) as to any business that the stockholder proposes to bring before the meeting, a brief description of such business, the reasons for conducting such business at the meeting and any material interest of such stockholder in such business; and

(iii) as to (A) the stockholder giving the notice and (B) each beneficial owner of shares of the corporation on whose behalf the nomination or proposal is made (each, a "party"):

(1) the name and address of each such party;

(2) (A) the number of shares of the corporation that are owned, directly or indirectly, beneficially and of record by each such party, (B) a description of any agreement, arrangement or understanding (including any derivative or short positions, profit interests, options, hedging transactions, and borrowed or loaned shares, regardless of whether settled in shares or cash) that has been entered into as of the date of the stockholder's notice by, or on behalf of, such stockholder or beneficial owner, the effect or intent of which is to mitigate loss, manage risk or benefit from changes in the share price of the corporation's capital stock, or increase or decrease the voting power of the stockholder or beneficial owner with respect to shares of stock of the corporation, including the notional number of shares that are the subject of such agreement, arrangement or understanding, (C) a description of any proxy, contract, arrangement, understanding, or relationship pursuant to which any such party has a right to vote, directly or indirectly, any shares of the corporation, (D) a description of any agreement, arrangement or understanding (whether or not in writing) between or among such stockholder or beneficial owner and any other person relating to acquiring, holding, voting or disposing of any shares of the corporation, including the number of shares that are the subject of such agreement, arrangement or understanding, (which information shall be supplemented by such stockholder or such beneficial owner, as the case may be, not later than ten (10) days after the record date for the meeting to disclose such ownership as of the record date); and

(3) any other information relating to each such party that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or the election of directors in a contested election pursuant to Section 14 of the Exchange Act.

d. Except as provided in subsection g below, a person shall not be eligible for election or re-election as a director at an Annual Meeting unless (i) the person is nominated by a stockholder in accordance with this Section 1.11, (ii) the person is nominated by a stockholder or group of stockholders in accordance with Section 1.12, or (iii) the person is nominated by or at the direction of the board of directors. Except as provided in subsection g below, only such business shall be conducted at an Annual Meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 1.11. The chair of the meeting shall have the power and the duty to determine whether a nomination or any business proposed to be brought before the meeting has been made in accordance with the procedures set forth in these Bylaws and, if any proposed nomination or business is not in compliance with these Bylaws, to declare that such defectively proposed business or nomination shall not be presented for stockholder action at the meeting and shall be disregarded. Notwithstanding the foregoing provisions of this Section 1.11, if the stockholder (or a

qualified representative of the stockholder) proposing a nominee for director or business to be conducted at a meeting does not appear at the meeting of stockholders of the corporation to present such nomination or business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the corporation.

e. For purposes of this Section 1.11, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to the Exchange Act.

f. Notwithstanding the foregoing provisions of this Section 1.11, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to matters set forth in this Section 1.11.

g. Nothing in this Section 1.11 shall be deemed to affect any rights of stockholders to request (i) inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act, (ii) inclusion of nominees in the corporation's proxy statement pursuant to Rule 14a-11 under the Exchange Act, or (iii) inclusion of nominees in the corporation's proxy statement pursuant to Section 1.12 of these Bylaws. Subject to Rule 14a-8 and Rule 14a-11 under the Exchange Act, nothing in these Bylaws shall be construed to permit any stockholder, or give any stockholder the right, to include or have disseminated or described in the corporation's proxy statement any nomination of a director or directors or any other business proposal, except in accordance with Section 1.12.

Section 1.12 Proxy Access.

a. Whenever the board of directors solicits proxies with respect to the election of directors at an annual meeting, subject to this Section 1.12, the corporation shall include in its proxy materials for such annual meeting the name, together with the Required Information (defined below), of any person nominated for election (the "Stockholder Nominee") to the board of directors by a stockholder or group of no more than 20 stockholders (provided that for this purpose, any two or more funds will count as one stockholder if such funds are (i) under common management and investment control, (ii) under common management and funded primarily by the same employer, or (iii) a "group of investment companies," as such term is defined in Section 12(d)(1)(G)(ii) of the Investment Company Act of 1940) that satisfies the requirements of this Section 1.12 (such stockholder or group of stockholders, the "Eligible Stockholder") and expressly elects at the time of providing the notice required by this Section 1.12 (the "Notice of Proxy Access Nomination") to have its Stockholder Nominee included in the corporation's proxy materials pursuant to this Section 1.12. "Required Information" means (i) information provided to the secretary of the corporation by the Eligible Stockholder concerning the Stockholder Nominee and the Eligible Stockholder that is required to be disclosed in the corporation's proxy materials under the Exchange Act and (ii) if the Eligible Stockholder so elects, a written statement, not to exceed 500 words, in support of its Stockholder Nominee's candidacy. Notwithstanding anything to the

contrary contained in this Section 1.12, the corporation may solicit against, and include in the proxy materials the corporation's own statement relating to any Eligible Stockholder or any Stockholder Nominee, and omit from its proxy materials any information relating to any Eligible Stockholder or any Stockholder Nominee that (x) is untrue in any material respect, (y) omits a material fact necessary in order to make the information, in light of the circumstances, not misleading or (z) would violate any applicable law or regulation.

(i) If the Eligible Stockholder consists of a group of stockholders, any and all requirements and obligations for an individual Eligible Stockholder set forth in this Section 1.12, including the Minimum Holding Period (defined below), applies to each member of such group; provided, however, that the Required Ownership Percentage (defined below) shall apply to the ownership of the group in the aggregate. No stockholder shall be permitted to join more than one group of stockholders per each annual meeting in order to cause the group to become an Eligible Stockholder.

(ii) To be timely, the Notice of Proxy Access Nomination must be received by the secretary of the corporation no earlier than the close of business on the 120th day prior to, and no later than the close of business on the 90th day prior to, the one-year anniversary of the date on which the corporation first mailed its proxy materials for the preceding year's Annual Meeting of stockholders (such 90th day, the "Final Proxy Access Nomination Date"); provided, however, that, subject to the last sentence of this subsection (ii), if the meeting is convened more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's Annual Meeting, or if no Annual Meeting was held in the preceding year, the Notice of Proxy Access Nomination must be received by the secretary of the corporation not later than the close of business on the later of (i) the 90th day before such Annual Meeting or (ii) the 10th day following the day on which public announcement of the date of such meeting is first made, and the Final Proxy Access Nomination Date shall be the latest of such date(s). In no event shall an adjournment or postponement of an Annual Meeting for which notice has been given commence a new time period for the giving of a Notice of Proxy Access Nomination.

(iii) The maximum number of Stockholder Nominees nominated by all Eligible Stockholders that will be included in the corporation's proxy materials with respect to an annual meeting of stockholders shall not exceed the greater of (i) two and (ii) 20% of the total number of directors in office as of the Final Proxy Access Nomination Date (rounded down to the nearest whole number) (the "Proxy Access Nominee Maximum"). If the Board of Directors resolves to reduce the size of the Board of Directors after the Final Proxy Access Nomination Date but before the date of the annual meeting, the maximum number of Stockholder Nominees included in the corporation's proxy materials shall be calculated based on the number of directors in office as so reduced. The following persons shall not be counted as a Stockholder Nominee for purposes of determining whether the Proxy Access Nominee Maximum has been reached:

(1) any person serving on the Board of Directors as of the Final Proxy Access Nomination Date who (i) will be included as a management nominee for the Board of Directors in the corporation's proxy materials for the annual meeting to which the Proxy Access Nominee Maximum determination relates and (ii) was included in the corporation's proxy materials as a Stockholder Nominee pursuant to this Section 1.12 for either of the two preceding annual meetings; or

(2) any individual nominated by an Eligible Stockholder for inclusion in the corporation's proxy materials pursuant to this Section 1.12 and: (i) whom the Board of Directors decides to nominate as a nominee of the Board of Directors; or (ii) whose nomination is subsequently withdrawn (whether before or after the Final Proxy Access Nomination Date).

(iv) Any Eligible Stockholder submitting more than one Stockholder Nominee for inclusion in the corporation's proxy materials pursuant to this Section 1.12 shall rank such Stockholder Nominees based on the order that the Eligible Stockholder desires such Stockholder Nominees to be selected for inclusion in the corporation's proxy materials if the total number of Stockholder Nominees submitted by Eligible Stockholders pursuant to this Section 1.12 exceeds the Proxy Access Nominee Maximum. If the number of Stockholder Nominees submitted by Eligible Stockholders exceeds the Proxy Access Nominee Maximum, the highest ranking Stockholder Nominee who meets the requirements of this Section 1.12 from each Eligible Stockholder will be selected for inclusion in the corporation's proxy materials until the Proxy Access Nominee Maximum is reached. Selection will be in order of the amount (from largest to smallest) of shares of the corporation's common stock each Eligible Stockholder disclosed as owned in its respective Notice of Proxy Access Nomination. If the Proxy Access Nominee Maximum is not reached after the highest ranking Stockholder Nominee who meets the requirements of this Section 1.12 from each Eligible Stockholder has been selected, this process will continue as many times as necessary, following the same order each time, until the Proxy Access Nominee Maximum is reached.

b. For purposes of this Section 1.12, an Eligible Stockholder shall be deemed to "own" only those outstanding shares of common stock of the corporation as to which the stockholder possesses both (i) the full voting and investment rights pertaining to the shares and (ii) the full economic interest in (including the opportunity for profit from and risk of loss on) such shares, provided that the number of shares calculated in accordance with (i) and (ii) shall not include any shares: (x) sold by such stockholder or any of its affiliates in any transaction that has not been settled or closed, including any short sale; (y) borrowed by such stockholder or any of its affiliates for any purposes or purchased by such stockholder or any of its affiliates pursuant to an agreement to resell; or (z) subject to any option, warrant, forward contract, swap, contract of sale, other derivative or similar agreement entered into by such stockholder or any of its affiliates, whether any such instrument or agreement is to be settled with shares or with cash based

on the notional amount or value of shares of common stock of the corporation, in any such case which instrument or agreement has, or is intended to have, or if exercised by either party would have, the purpose or effect of reducing in any manner, to any extent or at any time in the future, such stockholder's or its affiliates' full right to vote or direct the voting of any such shares or hedging, offsetting or altering to any degree any gain or loss realized or realizable from maintaining the full economic ownership of such shares by such stockholder or its affiliates.

(i) A stockholder shall "own" shares held in the name of a nominee or other intermediary so long as the stockholder (i) retains the right to instruct how the shares are voted with respect to the election of directors and the right to direct the disposition thereof and (ii) possesses the full economic interest in the shares, in each case subject to the limitations in Section 1.12(b) above. A stockholder's ownership of shares shall be deemed to continue during any period in which the stockholder has (i) delegated any voting power by means of a proxy, power of attorney or other instrument or arrangement which is revocable at any time by the stockholder or (ii) loaned such shares provided that the stockholder has the power to recall such loaned shares on five business days' notice. For purposes of this Section 1.12, the term "affiliate" or "affiliates" shall have the meaning ascribed thereto by Rule 12b-2 under the Exchange Act.

(ii) In order to make a nomination pursuant to this Section 1.12, an Eligible Stockholder (i) must have owned 3% or more (the "Required Ownership Percentage") of the corporation's outstanding common stock (the "Required Shares") continuously for 3 years or more (the "Minimum Holding Period") as of both the date the Notice of Proxy Access Nomination is received by the secretary of the corporation in accordance with this Section 1.12 and the record date for determining the stockholders entitled to vote at the annual meeting of stockholders and (ii) must continue to own the Required Shares through the date of such annual meeting.

(iii) In order to make a nomination pursuant to this Section 1.12, within the time period specified for delivering the Notice of Proxy Access Nomination, an Eligible Stockholder must provide the following information in writing to the secretary of the corporation:

(1) the number of shares it is deemed to own for the purposes of this Section 1.12;

(2) written statement(s), from a person and in a form acceptable for purposes of a stockholder proposal under Rule 14a-8(b)(2) under the Exchange Act, verifying that, as of a date within seven calendar days prior to the date the Notice of Proxy Access Nomination is received by the secretary of the corporation, the Eligible Stockholder owns, and has owned continuously for the Minimum Holding Period, the Required Shares;

(3) the Eligible Stockholder's agreement to provide, within five business days after the record date for the annual meeting, written statement(s), from a person and in a form acceptable for purposes of a stockholder proposal under Rule 14a-8(b)(2) under the Exchange Act, verifying the Eligible Stockholder's continuous ownership of the Required Shares through the record date;

(4) a copy of the Schedule 14N that has been filed with the Securities and Exchange Commission as required by Rule 14a-18 under the Exchange Act;

(5) the information, representations and agreements that are the same as those that would be required to be set forth in a stockholder's notice of nomination pursuant to Section 1.11(c) of this Article I;

(6) a representation that the Eligible
Stockholder:

(a) acquired the Required Shares in the ordinary course of business and not with the intent to change or influence control at the corporation, and does not presently have such intent;

(b) will maintain ownership of the Required Shares through the date of the annual meeting;

(c) has not nominated and will not nominate for election any individual as a director at the annual meeting, other than its Stockholder Nominee(s) pursuant to this Section 1.12;

(d) has not engaged and will not engage in, and has not and will not be a "participant" in another person's, "solicitation," within the meaning of Rule 14a-1(l) under the Exchange Act, in support of the election of any individual as a director at the annual meeting other than its Stockholder Nominee(s) or a nominee of the Board of Directors;

(e) agrees to comply with all applicable laws and regulations with respect to any solicitation in connection with the annual meeting or applicable to the filing and use, if any, of soliciting material;

(f) will provide facts, statements and other information in all communications with the corporation and its stockholders that are or will be true and correct in all material respects and that do not or will not omit to state a

material fact necessary in order to make the communications, in light of the circumstances under which they were made, not misleading; and

(g) an undertaking that the Eligible Stockholder agrees to (i) assume all liability stemming from any legal or regulatory violation arising out of the Eligible Stockholder's communications with the stockholders of the corporation or out of the information that the Eligible Stockholder provided to the corporation, in each case in connection with the Eligible Stockholder's use of this Section 1.12 or efforts to elect its Stockholder Nominee(s); (ii) indemnify and hold harmless the corporation and each of its directors, officers and employees individually against any liability, loss or damages in connection with any threatened or pending action, suit or proceeding, whether legal, administrative or investigative, against the corporation or any of its directors, officers or employees arising out of any nomination submitted by the Eligible Stockholder pursuant to this Section 1.12; and (iii) in the case of a nomination by a group of stockholders that together is an Eligible Stockholder, the designation by all group members of one group member that is authorized to act on behalf of all such members with respect to the nomination and matters related thereto, including withdrawal of the nomination.

(iv) In order to be eligible for nomination pursuant to this Section 1.12, within the time period specified for delivering the Notice of Proxy Access Nomination, a Stockholder Nominee must deliver to the secretary of the corporation:

- (1) a consent of such Stockholder Nominee to being named in the proxy materials as a nominee and to serving as a director if elected;
- (2) the information required with respect to such Stockholder Nominee if he were a person nominated for election or reelection as a director pursuant to Section 1.11(c) of this Article I;
- (3) a written representation and agreement that such Stockholder Nominee (i) will submit all questionnaires required by the corporation of its directors and director nominees; and (ii) will provide facts, statements and other information in all communications with the corporation and its stockholders that are or will be true and correct in all material respects and that do not or will not omit to state a material fact

necessary in order to make the communications, in light of the circumstances under which they were made, not misleading;

(4) such additional information requested by the corporation as necessary to permit the board of directors to determine if such Stockholder Nominee is independent under the listing standards of the principal U.S. exchange upon which the common stock of the corporation is listed, any applicable rules of the Securities and Exchange Commission and any publicly disclosed standards used by the board of directors in determining and disclosing the independence of the corporation's directors; and

(v) If any information or communications provided by the Eligible Stockholder or the Stockholder Nominee to the corporation or its stockholders (i) ceases to be true and correct in all material respects or (ii) requires disclosure of a new material fact to make the information or communications, in light of the circumstances under which they were made, not misleading, each Eligible Stockholder or Stockholder Nominee, as the case may be, shall promptly notify the secretary of the corporation of any defect in such previously provided information and of the information that is required to correct any such defect.

c. The corporation shall not be required to include, pursuant to this Section 1.12, a Stockholder Nominee in its proxy materials for the upcoming annual meeting of stockholders:

(i) for which the secretary of the corporation receives a notice that a stockholder has nominated a person for election to the Board of Directors pursuant to the advance notice requirements for stockholder nominees for director set forth in Section 1.11 of this Article I;

(ii) if the Eligible Stockholder who has nominated such Stockholder Nominee has engaged in or is currently engaged in, or has been or is a "participant" in another person's, "solicitation," within the meaning of Rule 14a-1(l) under the Exchange Act, in support of the election of any individual as a director at the upcoming annual meeting other than its Stockholder Nominee(s) or a nominee of the Board of Directors;

(iii) if the Stockholder Nominee is or becomes a party to any compensatory, payment, reimbursement, indemnification or other financial agreement, arrangement or understanding with any person or entity other than the corporation or a wholly owned subsidiary of the corporation, or has received or will receive any such compensation, reimbursement, indemnification or other payment from any person or entity other than the corporation or a wholly owned subsidiary of the corporation, in each case in connection with candidacy or service as a director of the corporation (other than agreements providing only for indemnification and/or reimbursement of out-of-pocket expenses in connection

with candidacy as a director) unless the amount(s) of compensation, source(s) of compensation, payment criteria, form and timing of compensation, and all other material terms and conditions with respect to such compensatory, payment, reimbursement, indemnification or other financial agreements, arrangements or understandings are fully and accurately disclosed in the Schedule 14N referred to in Section 1.12(b)(iii)(4) above;

(iv) who is not independent under the listing standards of any principal U.S. exchange upon which the common stock of the corporation is listed, any applicable rules of the Securities and Exchange Commission and any publicly disclosed standards used by the Board of Directors in determining and disclosing independence of the corporation's directors;

(v) whose election as a director would cause the corporation to be in violation of these Bylaws, the corporation's Charter, the rules and listing or governance standards of any principal U.S. exchange upon which the common stock of the corporation is listed, or any applicable state or federal law, rule or regulation;

(vi) who is or has been, within the past three years, an officer or director of a competitor, as defined in Section 8 of the Clayton Antitrust Act of 1914;

(vii) who is subject to an event for which disclosure would be required in the proxy statement for the upcoming annual meeting by Item 401(f) of Regulation S-K;

(viii) who is subject to any disqualification event specified in Rule 506(d) under the Securities Act of 1933, as amended;

(ix) if such Stockholder Nominee, or the Eligible Stockholder that nominated such Stockholder Nominee, has provided information to the corporation or its stockholders with respect to such nomination that was untrue in any material respect or that omitted to state a material fact necessary in order to make the information, in light of the circumstances under which it was provided, not misleading; or

(x) if such Stockholder Nominee, or the Eligible Stockholder that nominated such Stockholder Nominee, fails to comply with his, her or its obligations pursuant to these Bylaws, including, but not limited to, this Section 1.12.

d. Notwithstanding anything to the contrary set forth herein, the Board of Directors or the chairman of the meeting may declare the nomination of a Stockholder Nominee by an Eligible Stockholder to be invalid, and such nomination shall be disregarded notwithstanding that proxies in respect of such vote may have been received by the corporation, if:

(i) such Stockholder Nominee and/or such Eligible Stockholder has breached his, her or its obligations under this Section 1.12; or

(ii) such Eligible Stockholder (or a qualified representative thereof) does not appear at the upcoming annual meeting to present such nomination pursuant to this Section 1.12.

e. Any Stockholder Nominee who is included in the corporation's proxy materials for a particular annual meeting of stockholders but either (i) withdraws from or becomes ineligible or unavailable for election at the annual meeting, or (ii) does not receive the affirmative vote of at least 25% of the shares represented in person or by proxy at such meeting and entitled to vote in the election of directors, will be ineligible to be a Stockholder Nominee pursuant to this Section 1.12 for the next three annual meetings. For the avoidance of doubt, this Section 1.12(e) shall not prevent any stockholder from nominating any person to the Board of Directors pursuant to and in accordance with Section 1.11 of this Article I.

ARTICLE II BOARD OF DIRECTORS

Section 2.1 **General Powers.** The business and affairs of the corporation shall be managed under the direction of its board of directors.

Section 2.2 **Number, Tenure, and Qualifications.** The board of directors shall consist of not more than nine persons and not less than three persons, the exact number within such specified limits to be fixed from time to time by resolution of a majority of the entire board, provided that so long as there are less than three stockholders the number of directors may be fixed at less than three but not less than the number of stockholders. Each director shall hold office until the next annual meeting of the stockholders and until his or her successor shall have been elected and qualified unless sooner removed from office as hereinafter provided. Directors need not be residents of the state of Maryland or stockholders of the corporation.

Section 2.3 **Regular Meetings.** A regular meeting of the board of directors shall be held without other notice than this bylaw immediately after, and at the same place as, the annual meeting of stockholders. The board of directors may provide by resolution the time and place, either within or without the state of Maryland, for the holding of additional regular meetings without other notice than such resolution.

Section 2.4 **Special Meetings.** Special meetings of the board of directors may be called by or at the request of the president or any two directors. The person or persons authorized to call special meetings of the board of directors may fix any place, either within or without the state of Maryland, as the place for holding any special meeting of the board of directors called by them.

Section 2.5 **Notice; Waiver.** Notice of the date, time, and place of any special meeting shall be given at least 24 hours prior thereto by written notice delivered personally or given by facsimile transmission, e-mail, or other form of electronic transmission, or by mail or private carrier, to each director at his or her business address, facsimile number, or e-mail address, as applicable.

Such notice shall be deemed effective at the earliest of the following: (a) when received, (b) when transmitted by facsimile, e-mail, or other form of electronic transmission, (c) three days after its deposit in the United States mail, as evidenced by the postmark, if mailed postpaid and correctly addressed, and (d) on the date shown on the return receipt, if sent by registered or certified mail, return receipt requested, and the receipt is signed or sent by or on behalf of the director. A director's attendance at, or participation in, a meeting shall constitute a waiver of notice of such meeting, except where a director at the beginning of the meeting, or promptly upon the director's arrival, objects to holding of the meeting or the transacting of business at the meeting and does not thereafter vote for or assent to action taken at the meeting. A written waiver, or waiver by e-mail or other form of electronic transmission, of notice of a meeting signed by a director entitled to such notice, whether before or after the time stated therein, which specifies the meeting for which notice is waived and which is filed with the records of the meeting shall be equivalent to the giving of such notice. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board of directors need be specified in the notice or waiver of notice of such meeting.

Section 2.6 **Quorum.** A majority of the number of directors fixed from time to time pursuant to Section 2.2 shall constitute a quorum for the transaction of business at any meeting of the board of directors, but, if less than such majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

Section 2.7 **Manner of Acting.** The action of a majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors.

Section 2.8 **Vacancies.** Any vacancy occurring in the board of directors, except a vacancy resulting from an increase in the number of directors, may be filled by the affirmative vote of a majority of the remaining directors, whether or not sufficient to constitute a quorum. A vacancy resulting from an increase in the number of directors may be filled by the affirmative vote of a majority of the entire board of directors.

Section 2.9 **Presumption of Assent.** A director who is present at a meeting of the board of directors when corporate action is taken shall be presumed to have assented to the action taken unless the director announces his or her dissent at the meeting and (a) the director's dissent is entered in the minutes of the meeting; or (b) the director files his or her written dissent with the secretary of the meeting before its adjournment; or (c) the director forwards his or her written dissent within 24 hours after the meeting is adjourned, by registered or certified mail, to the secretary of the meeting or of the corporation. Such right to dissent shall not apply to a director who voted in favor of such action.

Section 2.10 **Removal of Directors.** All or any number of the directors may be removed by the stockholders with or without cause at a meeting expressly called for that purpose by the affirmative vote of a majority of all votes entitled to be cast for the election of directors. The notice of such meeting shall state that the purpose or one of the purposes of the meeting is the removal of the director or directors.

Section 2.11 Compensation. By resolution of the board of directors, each director may be paid an annual fee as director and, in addition thereto, a fixed sum for attendance at each meeting of the board of directors and executive committee or other committees and his expenses, if any, of attendance at any such meeting. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

Section 2.12 Action Without Meeting. Any action required or permitted by the Maryland General Corporation Law to be taken at a meeting of the board of directors may be taken without a meeting if a consent in writing which sets forth the action so taken is signed by each member of the board of directors and filed with the minutes of proceedings of the board of directors.

Section 2.13 Meetings By Telephone. Meetings of the board of directors may be held by means of conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time, and such participation shall constitute presence in person at the meeting.

Section 2.14 Chairman and Vice Chairman. The board of directors shall appoint from among its members a chairman and a vice chairman who shall serve at the pleasure of the board of directors. The chairman, or in his absence the vice chairman, shall preside at the meetings of the board of directors.

ARTICLE III EXECUTIVE COMMITTEE AND OTHER COMMITTEES

Section 3.1 Appointment. The board of directors may appoint from among its members an executive committee to consist of a chairman and one or more other directors. The appointment of such committee, the delegation of authority to it or action by it under that authority shall not constitute of itself compliance by any director not a member of the committee with the standard provided in the Maryland General Corporation Law for the performance of duties by directors.

Section 3.2 Authority. The executive committee, when the board of directors is not in session, shall have and may exercise all the authority of the board of directors except to the extent, if any, that such authority shall be limited by the resolution appointing the executive committee and except also that neither the executive committee nor any other committee of the board of directors appointed pursuant to Section 3.9 shall have the authority to (a) authorize dividends on stock, except as permitted under the Maryland General Corporation Law; (b) issue stock, except as provided in Section 3.10; (c) recommend to the stockholders any action which requires stockholder approval; (d) amend the bylaws; or (e) approve a merger or share exchange which does not require stockholder approval.

Section 3.3 Tenure. Each member of the executive committee shall hold office until the next regular annual meeting of the board of directors following his or her appointment and until his or her successor is appointed as a member of the executive committee.

Section 3.4 Meetings; Notice; Waiver. Regular meetings of the executive committee or any other committee of the board of directors appointed pursuant to Section 3.9 may be held without notice at such times and places as the committee may fix from time to time

by resolution. Special meetings of the executive committee or any such other committee may be called by any member thereof upon not less than 24 hours' notice stating the place, date and hour of the meeting. The provisions of Section 2.5 shall apply to the method for giving notice of special meetings of the executive committee or any such other committee and to the waiver of notice of any such meetings. The notice of a meeting of the executive committee or any such other committee need not state the business proposed to be transacted at the meeting.

Section 3.5 **Quorum; Manner of Acting.** A majority of the members of the executive committee or any such other committee shall constitute a quorum for the transaction of business at any meeting thereof, and the act of a majority of the members present at a meeting at which a quorum is present shall be the act of the committee.

Section 3.6 **Vacancies.** Any vacancy in the executive committee or any such other committee may be filled by the board of directors.

Section 3.7 **Resignations and Removal.** Any member of the executive committee or any such other committee may be removed at any time with or without cause by the board of directors. Any member of the executive committee or any such other committee may resign as a member of the committee at any time by giving written notice to the chairman of the board or secretary of the corporation, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 3.8 **Procedure.** The chairman of the executive committee shall be the presiding officer of the executive committee. The executive committee and any such other committee shall fix its own rules of procedure which shall not be inconsistent with these bylaws. The committee shall keep regular minutes of its proceedings and report the same to the board of directors for its information at the meeting thereof held next after the proceedings shall have been taken.

Section 3.9 **Appointment of Other Committees of the Board of Directors.** The board of directors may from time to time create any other committee or committees of the board of directors and appoint members of the board of directors to serve thereon. Each member of any such committee shall hold office until the next regular annual meeting of the board of directors following his or her appointment and until his or her successor is appointed as a member of such committee. Each committee shall have one or more members and, to the extent specified by the board of directors, may exercise the powers of the board subject to the limitations set forth in Section 3.2.

Section 3.10 **Issuance of Stock.** If the board of directors has given general authorization for the issuance of stock providing for or establishing a method or procedure for determining the maximum number of shares to be issued, a committee of the board of directors, in accordance with that general authorization or any stock option plan or other plan or program adopted by the board of directors, may authorize or fix the terms of stock subject to classification or reclassification and the terms on which any stock may be issued, including all terms and conditions required or permitted to be established or authorized by the board of directors under the Maryland General Corporation Law.

Section 3.11 Action Without a Meeting. Any action that may be taken by the executive committee or any such other committee at a meeting may be taken without a meeting if a consent in writing which sets forth the action so taken is signed by each member of the committee and filed with the minutes of proceedings of the committee.

Section 3.12 Meetings By Telephone. Meetings of any committee of the board of directors may be held by means of conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time, and such participation shall constitute presence in person at the meeting.

ARTICLE IV OFFICERS

Section 4.1 Number. The officers of the corporation shall be a president, a secretary and a treasurer, each of whom shall be elected by the board of directors. The board of directors may elect one or more vice presidents (the number thereof to be determined by the board of directors) and such other officers and assistant officers as may be deemed necessary. The board of directors may delegate the election of any such vice presidents, other officers or assistant officers to the corporation's president.

Section 4.2 Election and Term of Office. The officers of the corporation shall be elected annually at the first meeting of the board of directors held after each annual meeting of the stockholders. A person may hold more than one office but may not serve concurrently as both president and vice president of the corporation. Each officer shall hold office until his or her successor shall have been duly elected, or until his or her death, or until he or she shall resign or shall have been removed in the manner hereinafter provided.

Section 4.3 Removal. The board of directors may remove any officer at any time. The election of an officer shall not of itself create contract rights, and the resignation or removal of an officer shall not affect the contract rights, if any, of the corporation or the officer.

Section 4.4 Vacancies. A vacancy in any office because of death, resignation, removal, or otherwise may be filled by the board of directors for the unexpired portion of the term.

Section 4.5 President. The president shall be the chief executive officer of the corporation and, subject to the control of the board of directors, shall in general supervise and control all the business and affairs of the corporation. He or she shall preside at all meetings of the stockholders and, in the absence of the chairman or vice chairman, at all meetings of the board of directors. He or she may sign, with the secretary or any other proper officer of the corporation thereunto authorized by the board of directors, certificates for shares of stock of the corporation and any deeds, mortgages, bonds, contracts, or other instruments which the board of directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the board of directors, or by these bylaws to some other officer or agent of the corporation, or shall be required by law to be otherwise signed or executed; and in general he or she shall perform all duties incident to the office of president and such other duties as may be prescribed by the board of directors from time to time.

Section 4.6 **Vice Presidents.** In the absence of the president, or in the event of his or her death, inability, or refusal to act, the vice president (or, in the event there be more than one vice president, the vice presidents in the order designated at the time of their election, or, in the absence of any designation, then in the order of their election) shall perform the duties of the president and, when so acting, shall have all the powers of and be subject to all the restrictions upon the president. Any vice president may sign, with the secretary or an assistant secretary, certificates for shares of stock of the corporation; and shall perform such other duties as from time to time may be assigned to him or her by the president or by the board of directors.

Section 4.7 **Secretary.** The secretary shall (a) keep the minutes of the stockholders' and of the board of directors' meetings in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these bylaws or as required by law; (c) be custodian of the corporate records and responsible for the authentication of such records; (d) keep or cause to be kept a register of the post office address of each stockholder which shall be furnished to the secretary by such stockholder; (e) sign, with the president or a vice president, certificates for shares of stock of the corporation, the issuance of which shall have been authorized by the board of directors; (f) have general charge of the stock transfer books of the corporation; and (g) in general perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to him or her by the president or by the board of directors.

Section 4.8 **Treasurer.** If required by the board of directors, the treasurer shall give a bond for the faithful discharge of his or her duties in such sum and with such surety or sureties as the board of directors shall determine. He or she shall (a) have charge and custody of and be responsible for all funds and securities of the corporation, receive and give receipts for moneys due and payable to the corporation from any source whatsoever, and deposit all such moneys in the name of the corporation in such banks, trust companies, or other depositories as shall be selected in accordance with the provisions of ARTICLE V of these bylaws; and (b) in general perform all the duties incident to the office of treasurer and such other duties as from time to time may be assigned to him or her by the president or by the board of directors.

Section 4.9 **Assistant Secretaries and Assistant Treasurers.** The assistant secretaries, when authorized by the board of directors, may sign, with the president or a vice president, certificates for shares of stock of the corporation, the issuance of which shall have been authorized by the board of directors. The assistant treasurers shall, respectively, if required by the board of directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the board of directors shall determine. The assistant secretaries and assistant treasurers, in general, shall perform such duties as shall be assigned to them by the secretary or the treasurer, respectively, or by the president or the board of directors.

Section 4.10 **Salaries.** The salaries of the officers shall be fixed from time to time by the board of directors and no officer shall be prevented from receiving such salary by reason of the fact that he or she is also a director of the corporation.

ARTICLE V CONTRACTS, LOANS, CHECKS, AND DEPOSITS

Section 5.1 **Contracts.** The board of directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the corporation; and such authority may be general or confined to specific instances.

Section 5.2 **Loans.** No loans shall be contracted on behalf of the corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the board of directors. Such authority may be general or confined to specific instances.

Section 5.3 **Checks, Drafts, Etc.** All checks, drafts, or other orders for the payment of money, notes, or other evidences of indebtedness issued in the name of the corporation shall be signed by such officer or officers, agent or agents, of the corporation and in such manner as shall from time to time be determined by resolution of the board of directors.

Section 5.4 **Deposits.** All funds of the corporation not otherwise employed shall be deposited from time to time to the credit of the corporation in such banks, trust companies, or other depositories as selected by the officer or officers authorized by the board of directors to make such selection.

ARTICLE VI CERTIFICATES FOR SHARES AND THEIR TRANSFER

Section 6.1 **Certificates for Shares.** The shares of the corporation's stock may be certificated or uncertificated, as provided under the Maryland Corporations and Associations Code. All uncertificated shares shall be evidenced by a book entry system administered by the corporation's transfer agent pursuant to procedures, terms, and conditions as the corporation and the transfer agent shall adopt from time to time. The board of directors shall designate the class or classes of the corporation's securities that may be represented by uncertificated shares. Upon the issuance or transfer of uncertificated shares, the corporation shall cause the stockholder to be sent a written statement containing the information that is required for certificated shares under Maryland law relating to the share's class, restrictions on alienability and other designations. Certificated shares shall be signed manually by the president or a vice president and by the secretary or an assistant secretary and may be sealed with the corporate seal or a facsimile thereof. The signatures of such officers on a certificate may be facsimiles if the certificate is countersigned by a transfer agent, or registered by a registrar, other than the corporation itself or an employee of the corporation. All certificates for shares of stock shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the corporation. All certificates surrendered to the corporation for transfer shall be canceled and no new certificates for shares or uncertificated shares shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except that in case of a lost, stolen, destroyed, or mutilated certificate a new certificate may be issued therefor on such terms and indemnity to the corporation as the board of directors may prescribe.

Section 6.2 **Transfer of Shares.** Transfer of shares of stock of the corporation shall be made only on the stock transfer books of the corporation by the holder of record thereof or by his or her legal representative, who shall furnish proper evidence of authority to transfer, or by his or her attorney thereunto authorized by power of attorney duly executed and filed with the secretary of the corporation, and on surrender for the cancellation of the certificate, if any, for such shares. The person in whose name shares of stock stand on the books of the corporation shall be deemed by the corporation to be the owner thereof for all purposes.

ARTICLE VII AMENDMENTS

The bylaws may be amended or repealed, or new bylaws adopted, at any annual or special meeting of the stockholders by the affirmative vote of a majority of all shares of any class of stock entitled to vote at such meeting. The board of directors shall also have the authority to amend or repeal the bylaws, or adopt new bylaws, by the affirmative vote of a majority of the total number of directors then authorized, including any vacancies, and subject to the power of the stockholders to change or repeal such bylaws.

SEPARATION AND RELEASE AGREEMENT

THIS CONFIDENTIAL SEPARATION AND RELEASE AGREEMENT ("Agreement") is made by and among Barrett Business Services, Inc. ("BBSI"), and Heather Gould, an individual residing at [•] ("Employee"). "BBSI" and "Employee" are collectively referred to as the "Parties." The Parties agree as follows:

1. Background. Employee is employed as BBSI's Chief Strategy Officer. Employee's employment with BBSI will end as of April 3, 2020 ("Termination Date"). BBSI has offered Employee severance pay, to which Employee would not otherwise be entitled, in consideration of Employee's release and waiver of all claims against BBSI arising from Employee's employment with and termination of employment from BBSI. Employee has been given adequate time within which to consider this Agreement under the advice of an attorney of their choice and enters into this Agreement voluntarily. Employee wishes to accept the severance pay and agrees to abide by the covenants, terms and conditions set forth in this Agreement.

2. Effective Date. Unless otherwise revoked by Employee as provided in Paragraphs 17 and 18 below, this Agreement shall be effective on the eighth (8th) day following the date Employee signs and returns this Agreement to BBSI (the "Effective Date").

3. Separation Pay. As separation pay, BBSI agrees (a) to pay Employee the lump sum of \$11,250 and (b) to continue Employee's salary, at the level that Employee was earning as of March 1, 2020, through December 31, 2020. The separation pay is consideration for the terms of this Agreement, and Employee acknowledges the adequacy of this consideration. BBSI shall make the lump sum payment within fourteen (14) days of the Effective Date. BBSI will make the salary continuation payments every other week on BBSI's ordinary paydays. The separation pay shall be subject to all applicable payroll taxes and deductions. Employee acknowledges and understands that it is Employee's responsibility to comply with any obligation to pay taxes with respect to any proceeds received from BBSI in connection with this Agreement, and Employee agrees to indemnify and hold BBSI harmless from any failure on Employee's part to comply with those obligations.

4. Restricted Stock Units. Outstanding restricted stock units that (a) are held by Employee on the Termination Date and (b) were scheduled to vest after the Termination Date and on or before July 14, 2020, will be accelerated by BBSI and considered fully vested as of the Termination Date.

5. Outplacement. BBSI will pay up to \$10,000 for Employee to use employee outplacement services through a vendor of Employee's choosing. Employee will submit appropriate documentation to BBSI concerning the outplacement expenses, and BBSI will make payments directly to the vendor.

6. Release by Employee. In consideration of the promises made and the separation pay provided herein, Employee hereby fully and forever waives, releases and discharges and covenants not to sue BBSI and its current and future agents, employees, attorneys, insurers, officers, shareholders, directors, parent companies, subsidiaries and related companies and entities (collectively the "Released Parties") from and against any and all liabilities, claims, demands, actions and causes of action, suits, charges, damages, or other demands or claims of any kind whatsoever known or unknown, foreseen or unforeseen, including but not limited to those involving any matter arising out of or in any way related, directly or indirectly, to Employee's employment with BBSI or the termination thereof (the "Claims"). The Parties agree and acknowledge that the Claims released include, but are not limited to, any claims or actions based upon any common law tort action, breach of contract, breach of the covenant of good

faith and fair dealing, misrepresentation, promissory estoppel, wrongful discharge, fraud, defamation, privacy violations, interference with contract, infliction of emotional distress, hiring, rehire or reemployment rights, and any and all discrimination claims or rights to sue that might be available to Employee under federal, state, or local statutes, laws, regulations or ordinances, including but not limited to Title VII of the Civil Rights Act; the Americans with Disabilities Act, as amended by the ADA Amendments Act of 2008; the Family and Medical Leave Act; the Fair Labor Standards Act; the Employee Retirement Income Security Act; the OFCCP laws and related regulations, including Section 503 of the Rehabilitation Act, Section 4212 of the Vietnam Era Veterans Readjustment Act, and Executive Order 11246, as amended; the Fair Credit Reporting Act; and any provisions of the Oregon Constitution, and Oregon statutes and regulations concerning whistleblowing, civil rights, wages and hours, employee leaves, and any other statutes pertaining to employment.

7. Claims Not Released by Employee. The general release and waiver of claims in paragraph 6 does not require Employee to waive, release, or discharge any claims that Employee cannot lawfully waive, including without limitation claims for unemployment benefits or workers' compensation benefits, and Employee represents that to the extent Employee has suffered a work-related injury in the course of Employee's employment with BBSI, Employee has already reported such injury to BBSI. Employee's release does not prohibit Employee from filing a charge with the Equal Employment Opportunity Commission or other similar federal or state administrative agencies, although Employee waives any right to monetary relief related to such an administrative charge or complaint or in an associated lawsuit. Employee's release does not waive any rights to vested benefits, such as pension or retirement benefits, the rights to which are governed by the terms of applicable plan documents.

8. No Pending Lawsuits. Employee represents that Employee has not filed any lawsuits against BBSI or any of the other Released Parties. Except as otherwise permitted under paragraphs 7 and 9, Employee promises and agrees that Employee will not do so at any time in the future with respect to any Claims which arose on or before the Effective Date of this Agreement.

9. Protected Rights. Nothing in this Agreement is intended to or shall interfere with Employee's rights under federal or state laws to file a charge or complaint with any federal or state regulatory authority ("Government Agencies"). Employee further understands that this Agreement does not limit Employee's ability to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted, without notice to BBSI. However, Employee expressly waives and releases any right of Employee to recover monetary relief related to such an administrative charge or complaint or in an associated lawsuit.

10. Ownership of Claims by Employee. Employee represents and warrants that Employee has not assigned or transferred any Claim against the Released Parties to any third party. Employee further agrees to indemnify, defend and hold harmless each and all of the Released Parties against any and all Claims based on, arising out of or in connection with any such transfer or assignment, or purported transfer or assignment, of any Claims or any portion thereof or interest therein.

11. Earned Salary and Benefits. Regardless of whether Employee signs this Agreement, Employee shall be paid Employee's compensation and benefits earned and vested through the Termination Date.

12. Continued Obligation Regarding Disclosure of BBSI Information. Employee acknowledges and reaffirms her continuing duties to protect information of BBSI, as stated in Paragraph 7 of her Employment Agreement with BBSI, which became effective March 26, 2012. Employee further acknowledges and reaffirms BBSI's continuing rights to enforce that paragraph, including the right to injunctive relief, in addition to any other rights, damages, or remedies BBSI may have in law or equity. Pursuant to the Defend Trade Secrets Act of 2016, 18 U.S.C. § 1833(b),

Employee will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law, or (ii) is made in a complaint or other document filed in a proceeding, if such filing is made under seal.

13. Continuing Covenants of Employee. Employee acknowledges and reaffirms her covenants to BBSI, as stated in Paragraph 8 of her Employment Agreement with BBSI, which became effective March 26, 2012. Those covenants include Employee's covenants not to solicit BBSI customers and employees. Employee further acknowledges and reaffirms BBSI's continuing rights to enforce that paragraph, including the right to injunctive relief, in addition to any other rights, damages, or remedies BBSI may have in law or equity.

14. Continuing Duty to Cooperate. Employee agrees to cooperate with BBSI in the defense of third-party legal claims or administrative charges that concern events that occurred during Employee's tenure at BBSI. Employee agrees to make herself reasonably available after the Termination Date to assist BBSI in defense of those claims or charges.

15. Continuing Duty to Defend and Indemnify: BBSI acknowledges and reaffirms its continuing obligation to defend and indemnify Employee as provided in Articles V and VI of its corporate charter.

16. Non-disparagement. The Parties agree that they wish to end their relationship and part company in an amicable manner. Accordingly, and except as otherwise permitted under paragraphs 7 and 9, Employee agrees to not disparage, criticize, or demean BBSI, its work, services, or personnel with any third party or through any media, social media platform, or other publication. Nothing in this Agreement shall be construed to limit Employee's ability to communicate with any Government Agencies regarding a potential violation of federal or state laws or regulations.

17. Return of BBSI Property. Employee represents and warrants that Employee has or shall return to BBSI all of BBSI's property in Employee's possession by no later than Employee's Termination Date, including, but not limited to computers, phones, smart phones, tablets, electronic storage devices, customer information, and all tangible and intangible property belonging to BBSI or relating to Employee's employment with BBSI. Employee further represents and warrants that Employee has not retained copies, electronic or otherwise, of such property.

18. Age Discrimination in Employment Act Acknowledgments. In conjunction with the Age Discrimination in Employment Act:

A. Employee acknowledges that Employee has had a reasonable time within which to consider this Agreement before executing it, and that no one coerced or hurried Employee into executing this Agreement;

B. Employee acknowledges that Employee has carefully read and fully understands all of the provisions of this Agreement, and declares that the Agreement is written in a manner that Employee understands;

C. Employee acknowledges that Employee is, through this Agreement, releasing BBSI and all Released Parties from any and all claims Employee may have against them and that this Agreement constitutes a release and discharge of claims arising under the Age

Discrimination in Employment Act, 29 U.S.C. §§ 621-634, including the Older Workers' Benefit Protection Act, 29 U.S.C. § 626(f) ("OWBPA");

- D. Employee declares that Employee's agreement to all of the terms set forth in this Agreement is knowing and voluntary;
- E. Employee knowingly and voluntarily intends to be legally bound by the terms of this Agreement;
- F. Employee acknowledges and agrees that through this Agreement, Employee is receiving consideration in addition to anything of value to which Employee is already entitled;
- G. Employee acknowledges that Employee was advised and hereby is advised in writing to consider the terms of this Agreement and consult with an attorney of Employee's choice prior to executing this Agreement;
- H. Employee acknowledges that Employee understands that rights or claims that may arise after the date this Agreement is executed are not waived;
- I. Employee acknowledges that Employee has twenty-one (21) days to consider this Agreement, and in the event Employee decides to execute this Agreement in fewer than twenty-one (21) days, Employee has done so with the express understanding that Employee has been given and declined the opportunity to consider the Agreement for a full twenty-one (21) days and is knowingly and voluntarily waiving the balance of the twenty-one (21) day period;
- J. Employee acknowledges that changes to the form of this Agreement, whether material or immaterial, shall not restart the running of the twenty-one (21) day period;
- K. Employee understands that Employee may not sign this Agreement before the Termination Date; and
- L. Employee acknowledges that Employee may revoke this Agreement at any time within seven (7) days after Employee executes the Agreement and that this Agreement is not effective or enforceable until the eighth day following the execution of the Agreement.

19. Return and Revocation of Agreement. This Agreement must be signed by Employee and delivered to BBSI by the close of business on April 24, 2020, or the separation pay offer contained within this Agreement will automatically terminate. The signed Agreement must be personally delivered to P.K. Runkles-Pearson, Miller Nash Graham & Dunn LLP, 111 SW Fifth Ave., Suite 3400, Portland OR 97201, mailed to and received by Ms. Runkles-Pearson, or delivered to BBSI through DocuSign. Employee shall have seven (7) days after signing and returning this Agreement to revoke Employee's approval and void the Agreement in its entirety. Any revocation of this Agreement within this seven (7) day period should be submitted in writing and state "I hereby revoke my agreement to the Confidential Employment Separation Agreement and General Release." The revocation must be personally delivered to P.K. Runkles-Pearson, Miller Nash Graham & Dunn LLP, 111 SW Fifth Ave., Suite 3400, Portland OR 97201, mailed to and received by Ms. Runkles-Pearson, or delivered to BBSI through DocuSign. Regardless of the method of delivery, the revocation must be received within seven (7) days of the date this Agreement

was signed by Employee and returned to Ms. Runkles-Pearson. If Employee revokes and voids this Agreement, Employee will not be entitled to the separation pay identified in Paragraph 3.

20. Other Terms. BBSI cannot guarantee whether or not Employee will be found eligible for or will be provided benefits under any claim made for unemployment.

21. No Admission of Liability. This Agreement shall not be in any way construed as an admission by BBSI that it has acted wrongfully with respect to Employee or any other person.

22. Binding Effect. This Agreement shall be binding on the Parties and their heirs, administrators, representatives, executors, successors and assigns and shall inure to their benefit and that of their heirs, administrators, representatives, executors, successors and assigns.

23. Severability. The provisions of this Agreement are severable. If any provision of this Agreement is held to be invalid or unenforceable, it shall not affect the validity or enforceability of any other provision of this Agreement.

24. Entire Agreement. This Agreement sets forth the entire agreement between BBSI and Employee and supersedes all prior oral or written agreements or understandings, if any, between BBSI and Employee concerning the subject matter of this Agreement. This Agreement may not be altered, amended or modified, except by a subsequent written document signed by BBSI and Employee.

25. Waiver. The failure of any Party to insist upon strict performance of any of the terms and provisions of this Agreement shall not be construed as a waiver or relinquishment of any such terms or conditions or of any other term or condition and the same shall be and remain in full force and effect. No waiver shall be claimed as to any term or provision of this Agreement unless such waiver is in writing and signed by the Parties.

26. Attorneys' Fees. The Parties agree to pay their own attorney fees and costs incurred in the preparation and review of this Agreement. In the event of any dispute or legal or equitable action arising from this Agreement, the substantially prevailing party shall be entitled to its reasonable attorney's fees and costs.

27. Governing Law, Venue and Forum. This Agreement shall be construed in accordance with the laws of the state of Washington, and the proper venue shall be in the state of Washington. The Parties agree that the proper venue for any proceeding brought in state court pursuant to this Agreement shall be in Clark County, Washington.

28. Code Section 409A. This Agreement is intended to be interpreted and applied so that the payments and benefits set forth herein will be exempt from the requirements of Internal Revenue Code Section 409A. Accordingly, to the maximum extent permitted, this Agreement will be interpreted to be exempt from Internal Revenue Code Section 409A.

29. Acknowledgment by Employee.

A. Employee acknowledges that Employee was free to and was advised and encouraged to retain an attorney to thoroughly discuss all aspects of this Agreement, and specifically, Employee's knowing and voluntary waiver and release of rights as provided in paragraph 6, above. Employee has carefully read and fully understands all the provisions of this Agreement, and Employee is knowingly, voluntarily and of Employee's own free will entering into this Agreement.

B. Employee acknowledges that the separation pay Employee is to receive under the terms of this Agreement in exchange for Employee's release and waiver is consideration to which

Employee would not otherwise be entitled and that the consideration set forth herein is adequate and satisfactory.

C. Employee acknowledges that Employee's employment with BBSI will be permanently and irrevocably severed on or before the Termination Date and that BBSI has no obligation to re-hire, re-employ, recall or hire Employee in the future.

PLEASE READ CAREFULLY. THIS AGREEMENT INCLUDES A RELEASE OF CERTAIN KNOWN OR UNKNOWN CLAIMS.

Read, Understood and Agreed to:

Employee:

/s/ Heather Gould

Heather Gould

Date: 4/3/2020

Barrett Business Services, Inc.:

By: /s/ Gary Kramer

Its: CEO

Date: 4/3/2020

DEATH BENEFIT AGREEMENT

Employee: Anthony Harris

Employer: Barrett Business Services, Inc., a Maryland corporation

Death Benefit: \$1,000,000, paid in one lump sum as set forth below

Effective Date: June 30, 2020

RECITALS

- A. Employee has been employed by Employer and rendered valuable services to Employer.
- B. In consideration for Employee's past, current, and future service to Employer, Employer desires to enter into this Death Benefit Agreement (this "Agreement") to pay, upon Employee's death, the Death Benefit to the beneficiary designated by Employee.

AGREEMENT

For good and valuable consideration, the receipt and sufficiency of which is acknowledged, the parties agree as follows:

1. Beneficiary Designation

1.1 Beneficiary Designation. Subject to Section 1.3, Employee has the right, at any time, to designate one or more persons or an entity as the beneficiary or beneficiaries to whom the Death Benefit will be paid in the event of Employee's death (the "Beneficiary"). Each Beneficiary designation must be in writing on the form prescribed by Employer and will be effective only when filed with Employer during Employee's lifetime.

1.2 Changing Beneficiary. Subject to Section 1.3, any Beneficiary designation may be changed by Employee without the consent of the previously named Beneficiary by the filing of a new designation with Employer. The filing of a new designation will cancel all designations previously filed.

1.3 Community Property. If Employee is or becomes married and resides in Washington or any other community property state, the following rules will apply:

(a) Designation of a Beneficiary other than Employee's spouse will not be effective unless the spouse executes a written consent that acknowledges the effect of the designation, or it is established that consent cannot be obtained because the spouse cannot be located;

(b) A designation may be changed by Employee with the consent of Employee's spouse as provided for in Section 1.3(a) by the filing of a new designation with Employer;

(c) If Employee's marital status changes after Employee has designated a Beneficiary, the following will apply:

(i) If Employee is married at the time of death but was unmarried when the designation was made, the designation will be void unless the spouse has consented to it in the manner prescribed in Section 1.3(a);

(ii) If Employee is unmarried at the time of death but was married when the designation was made:

(1) The designation will be void if the spouse was named as Beneficiary unless Employee had submitted a change of beneficiary listing the former spouse as the beneficiary; and

(2) The designation will remain valid if a non-spouse Beneficiary was named.

(iii) If Employee was married when the designation was made and is married to a different spouse at death, the designation will be void unless the new spouse has consented to it in the manner prescribed above.

1.4 No Beneficiary Designation. In the absence of an effective Beneficiary designation, or if all designated Beneficiaries predecease Employee, then the Death Benefit will be paid to the personal representative of Employee's estate.

2. Payment of Benefit. In the event of Employee's death, Employer will pay the Death Benefit directly to Employee's Beneficiary within 60 days after the date of death.

3. Limitation. Notwithstanding any other provision of this Agreement, no benefit will be payable under this Agreement if Employee's death occurs under circumstances such that the policy on the life of Employee described in Section 5 does not pay a full death benefit, for example, in the case of suicide or other circumstances.

4. Employment Requirement. Upon termination of Employee's employment with Employer for any reason other than due to Employee's death, the Death Benefit will be forfeited to Employer with no payment to Employee. For purposes of this Agreement, "employment" will include periods of illness or other leaves of absence authorized by Employer.

5. Source of Benefits. The Death Benefit will be paid solely out of the general assets of Employer. In order to pay the Death Benefit provided for under this Agreement, Employer may elect, in its sole discretion, to purchase a life insurance policy on the life of Employee. Employee will cooperate with Employer and any insurance carrier as necessary to obtain the insurance. Employer will be the owner of any policy or policies of life insurance purchased under this Agreement, and any such policy or policies will be, and remain, a general, unpledged, and unrestricted asset of Employer. Neither Employee nor any Beneficiary or other person will have any claim against, right to, or security or other interest in, any specific fund, account, insurance policy, or other asset of Employer with respect to any benefits under this Agreement.

6. Miscellaneous.

6.1 Nonassignability. Neither Employee nor any other person will have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt the amounts, if any, payable under this Agreement, or any part of such amounts, which are, and all rights to which are, expressly declared to be unassignable and nontransferable. No part of the amounts payable will, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by Employee or any other person, nor be transferable by operation of law in the event of Employee's or any other person's bankruptcy or insolvency.

6.2 Not a Contract of Future Service. The terms and conditions of this Agreement may not be deemed to constitute a contract of future service between Employer and Employee, and Employee (or his or her Beneficiary) will have no rights against Employer except as may otherwise be specifically provided in this Agreement.

6.3 Governing Law. This Agreement will be construed and interpreted according to the laws of the State of Washington (without regard to conflict of laws principles).

6.4 Notice. Any notice or filing required or permitted to be given to Employer under this Agreement will be sufficient if in writing and hand delivered, or sent by registered or certified mail, to the Secretary of Employer. Such notice will be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

6.5 Successors. This Agreement will bind and inure to the benefit of Employer and its successors and assigns. The term successors as used in this Section 6.5 includes any corporate or other business entity which, whether by merger, consolidation, purchase or otherwise, acquires all or substantially all of the business and assets of Employer, and successors of any such corporation or other business entity.

6.6 Withholding. Employer may deduct from all payments made to a Beneficiary under this Agreement any Federal, state or local taxes required by law to be withheld with respect to such payments.

[Signature Page Follows]

The parties have executed this Death Benefit Agreement as of the date first written above.

Employee:

Employer:

BARRETT BUSINESS SERVICES, INC.

/s/ Anthony Harris
Anthony Harris

By: /s/ Anthony Meeker
Name: Anthony Meeker
Title: Chairman of the Board

AMENDED DEATH BENEFIT AGREEMENT

Employee: Gary Kramer

Employer: Barrett Business Services, Inc., a Maryland corporation

Death Benefit: \$2,000,000, paid in one lump sum as set forth below

Effective Date: June 30, 2020

RECITALS

- A. Employee has been employed by Employer and rendered valuable services to Employer.
- B. In consideration for Employee's past, current, and future service to Employer, Employer desires to enter into this Death Benefit Agreement (this "Agreement") to pay, upon Employee's death, the Death Benefit to the beneficiary designated by Employee.

AGREEMENT

For good and valuable consideration, the receipt and sufficiency of which is acknowledged, the parties agree as follows:

1. Beneficiary Designation

1.1 Beneficiary Designation. Subject to Section 1.3, Employee has the right, at any time, to designate one or more persons or an entity as the beneficiary or beneficiaries to whom the Death Benefit will be paid in the event of Employee's death (the "Beneficiary"). Each Beneficiary designation must be in writing on the form prescribed by Employer and will be effective only when filed with Employer during Employee's lifetime.

1.2 Changing Beneficiary. Subject to Section 1.3, any Beneficiary designation may be changed by Employee without the consent of the previously named Beneficiary by the filing of a new designation with Employer. The filing of a new designation will cancel all designations previously filed.

1.3 Community Property. If Employee is or becomes married and resides in Washington or any other community property state, the following rules will apply:

(a) Designation of a Beneficiary other than Employee's spouse will not be effective unless the spouse executes a written consent that acknowledges the effect of the designation, or it is established that consent cannot be obtained because the spouse cannot be located;

(b) A designation may be changed by Employee with the consent of Employee's spouse as provided for in Section 1.3(a) by the filing of a new designation with Employer;

(c) If Employee's marital status changes after Employee has designated a Beneficiary, the following will apply:

(i) If Employee is married at the time of death but was unmarried when the designation was made, the designation will be void unless the spouse has consented to it in the manner prescribed in Section 1.3(a);

(ii) If Employee is unmarried at the time of death but was married when the designation was made:

(1) The designation will be void if the spouse was named as Beneficiary unless Employee had submitted a change of beneficiary listing the former spouse as the beneficiary; and

(2) The designation will remain valid if a non-spouse Beneficiary was named.

(iii) If Employee was married when the designation was made and is married to a different spouse at death, the designation will be void unless the new spouse has consented to it in the manner prescribed above.

1.4 No Beneficiary Designation. In the absence of an effective Beneficiary designation, or if all designated Beneficiaries predecease Employee, then the Death Benefit will be paid to the personal representative of Employee's estate.

2. Payment of Benefit. In the event of Employee's death, Employer will pay the Death Benefit directly to Employee's Beneficiary within 60 days after the date of death.

3. Limitation. Notwithstanding any other provision of this Agreement, no benefit will be payable under this Agreement if Employee's death occurs under circumstances such that the policy on the life of Employee described in Section 5 does not pay a full death benefit, for example, in the case of suicide or other circumstances.

4. Employment Requirement. Upon termination of Employee's employment with Employer for any reason other than due to Employee's death, the Death Benefit will be forfeited to Employer with no payment to Employee. For purposes of this Agreement, "employment" will include periods of illness or other leaves of absence authorized by Employer.

5. Source of Benefits. The Death Benefit will be paid solely out of the general assets of Employer. In order to pay the Death Benefit provided for under this Agreement, Employer may elect, in its sole discretion, to purchase a life insurance policy on the life of Employee. Employee will cooperate with Employer and any insurance carrier as necessary to obtain the insurance. Employer will be the owner of any policy or policies of life insurance purchased under this Agreement, and any such policy or policies will be, and remain, a general, unpledged, and unrestricted asset of Employer. Neither Employee nor any Beneficiary or other person will have any claim against, right to, or security or other interest in, any specific fund, account, insurance policy, or other asset of Employer with respect to any benefits under this Agreement.

6. Miscellaneous.

6.1 Nonassignability. Neither Employee nor any other person will have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt the amounts, if any, payable under this Agreement, or any part of such amounts, which are, and all rights to which are, expressly declared to be unassignable and nontransferable. No part of the amounts payable will, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by Employee or any other person, nor be transferable by operation of law in the event of Employee's or any other person's bankruptcy or insolvency.

6.2 Not a Contract of Future Service. The terms and conditions of this Agreement may not be deemed to constitute a contract of future service between Employer and Employee, and Employee (or his or her Beneficiary) will have no rights against Employer except as may otherwise be specifically provided in this Agreement.

6.3 Governing Law. This Agreement will be construed and interpreted according to the laws of the State of Washington (without regard to conflict of laws principles).

6.4 Notice. Any notice or filing required or permitted to be given to Employer under this Agreement will be sufficient if in writing and hand delivered, or sent by registered or certified mail, to the Secretary of Employer. Such notice will be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

6.5 Successors. This Agreement will bind and inure to the benefit of Employer and its successors and assigns. The term successors as used in this Section 6.5 includes any corporate or other business entity which, whether by merger, consolidation, purchase or otherwise, acquires all or substantially all of the business and assets of Employer, and successors of any such corporation or other business entity.

6.6 Withholding. Employer may deduct from all payments made to a Beneficiary under this Agreement any Federal, state or local taxes required by law to be withheld with respect to such payments.

[Signature Page Follows]

The parties have executed this Death Benefit Agreement as of the date first written above.

Employee:

Employer:

BARRETT BUSINESS SERVICES, INC.

/s/ Gary Kramer
Gary Kramer

By: /s/ Anthony Meeker
Name: Anthony Meeker
Title: Chairman of the Board

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 5, 2020

/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 5, 2020

/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, 2020 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 5, 2020

/s/ Anthony J. Harris

Anthony J. Harris
Chief Financial Officer

August 5, 2020

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.