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 September 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)**	**52-0812977** **(IRS Employer Identification No.)**
8100 NE Parkway Drive, Suite 200 **Vancouver, Washington** **(Address of principal executive offices)**	**98662** **(Zip Code)**

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

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 October 21, 2020, 7,646,324 shares of the registrant's common stock ($0.01 par value) were outstanding.

BARRETT BUSINESS SERVICES, INC.

INDEX TO FORM 10-Q

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)

	September 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 61,193	$ 44,570
Investments	86,679	82,590
Trade accounts receivable, net	212,362	163,561
Income taxes receivable	1,740	1,335
Prepaid expenses and other	13,883	14,919
Restricted cash and investments	90,608	116,873
Total current assets	466,465	423,848
Property, equipment and software, net	35,148	31,724
Operating lease right-of-use assets	23,730	23,805
Restricted cash and investments	245,035	327,326
Goodwill	47,820	47,820
Other assets	5,081	3,618
Deferred income taxes	—	2,788
	$ 823,279	$ 860,929
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 221	$ 221
Accounts payable	6,447	5,993
Accrued payroll, payroll taxes and related benefits	205,476	174,168
Current operating lease liabilities	7,303	6,671
Other accrued liabilities	6,603	8,846
Workers' compensation claims liabilities	96,583	118,273
Safety incentives liability	23,354	27,950
Total current liabilities	345,987	342,122
Long-term workers' compensation claims liabilities	250,765	320,713
Long-term debt	3,565	3,730
Deferred income taxes	2,947	—
Long-term operating lease liabilities	17,355	17,883
Customer deposits and other long-term liabilities	5,348	4,682
Total liabilities	625,967	689,130
Commitments and contingencies (Notes 4 and 6)		
Stockholders' equity:		
Common stock, $.01 par value; 20,500 shares authorized, 7,646 and 7,514 shares issued and outstanding	76	75
Additional paid-in capital	23,938	20,227
Accumulated other comprehensive income	7,649	2,819
Retained earnings	165,649	148,678
Total stockholders' equity	197,312	171,799
	$ 823,279	$ 860,929

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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues:				
Professional employer service fees	$ 199,082	$ 214,156	$ 573,162	$ 607,840
Staffing services	28,431	33,806	74,486	89,319
Total revenues	227,513	247,962	647,648	697,159
Cost of revenues:				
Direct payroll costs	21,452	25,464	56,325	67,298
Payroll taxes and benefits	100,142	104,847	313,275	321,341
Workers' compensation	46,685	46,887	146,120	154,290
Total cost of revenues	168,279	177,198	515,720	542,929
Gross margin	59,234	70,764	131,928	154,230
Selling, general and administrative expenses	35,587	41,352	100,957	113,517
Depreciation and amortization	1,341	970	3,512	2,909
Income from operations	22,306	28,442	27,459	37,804
Other income (expense):				
Investment income, net	1,664	2,882	6,431	9,286
Interest expense	(366)	(394)	(907)	(1,352)
Other, net	(4)	—	169	12
Other income, net	1,294	2,488	5,693	7,946
Income before income taxes	23,600	30,930	33,152	45,750
Provision for income taxes	5,089	5,959	6,538	9,172
Net income	$ 18,511	$ 24,971	$ 26,614	$ 36,578
Basic income per common share	$ 2.42	$ 3.34	$ 3.51	$ 4.92
Weighted average number of basic common shares outstanding	7,639	7,483	7,572	7,433
Diluted income per common share	$ 2.40	$ 3.24	$ 3.46	$ 4.76
Weighted average number of diluted common shares outstanding	7,709	7,711	7,688	7,686

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 September 30,	
	2020	2019
Net income	$ 18,511	$ 24,971
Unrealized gains on investments, net of tax of $263 and $376 in 2020 and 2019, respectively	688	987
Comprehensive income	$ 19,199	$ 25,958

	Nine Months Ended September 30,	
	2020	2019
Net income	$ 26,614	$ 36,578
Unrealized gains on investments, net of tax of $1,847 and $2,935 in 2020 and 2019, respectively	4,830	7,687
Comprehensive income	$ 31,444	$ 44,265

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 Nine Months Ended September 30, 2020
(Unaudited)
(In Thousands)

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive Income	Retained	
	Shares	Amount	Capital	(Loss)	Earnings	Total
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	7,505	$ 75	$ 20,925	$ 84	$ 140,192	$ 161,276
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	7,598	$ 76	$ 23,421	$ 6,961	$ 149,430	$ 179,888
Common stock issued on exercise of options, purchase of ESPP shares and vesting of restricted stock units	66	—	300	—	—	300
Common stock repurchased on vesting of restricted stock units	(18)	—	(928)	—	—	(928)
Share-based compensation expense	—	—	1,145	—	—	1,145
Cash dividends on common stock ($0.30 per share)	—	—	—	—	(2,292)	(2,292)
Unrealized gain on investments, net of tax	—	—	—	688	—	688
Net income	—	—	—	—	18,511	18,511
Balance, September 30, 2020	7,646	$ 76	$ 23,938	$ 7,649	$ 165,649	$ 197,312

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 Nine Months Ended September 30, 2019
(Unaudited)
(In Thousands)

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive Income	Retained	
	Shares	Amount	Capital	(Loss)	Earnings	Total
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	7,410	$ 74	$ 16,768	$ (1,411)	$ 104,442	$ 119,873
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	7,414	$ 74	$ 19,265	$ 1,632	$ 116,496	$ 137,467
Common stock issued on exercise of options and vesting of restricted stock units	116	1	279	—	—	280
Common stock repurchased on vesting of restricted stock units	(36)	—	(2,958)	—	—	(2,958)
Share-based compensation expense	—	—	1,673	—	—	1,673
Cash dividends on common stock ($0.30 per share)	—	—	—	—	(2,249)	(2,249)
Unrealized gain on investments, net of tax	—	—	—	987	—	987
Net income	—	—	—	—	24,971	24,971
Balance, September 30, 2019	7,494	$ 75	$ 18,259	$ 2,619	$ 139,218	$ 160,171

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)

	Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities:		
Net income	$ 26,614	$ 36,578
Reconciliations of net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,512	2,909
Non-cash lease expense	5,394	5,243
Investment (accretion) amortization and (gains) losses recognized	343	940
Deferred Income taxes	3,890	—
Share-based compensation	2,284	5,501
Changes in certain operating assets and liabilities:		
Trade accounts receivable	(48,801)	(35,870)
Income taxes	(405)	(995)
Prepaid expenses and other	1,036	(2,094)
Accounts payable	454	1,096
Accrued payroll, payroll taxes and related benefits	32,554	40,763
Other accrued liabilities	(2,698)	(7,322)
Workers' compensation claims liabilities	(93,097)	16,857
Safety incentives liability	(4,596)	(1,483)
Operating lease liabilities	(5,215)	(4,673)
Other assets and liabilities, net	(130)	75
Net cash (used in) provided by operating activities	(78,861)	57,525
Cash flows from investing activities:		
Purchase of property, equipment and software	(6,936)	(7,672)
Purchase of investments	(50,329)	(658)
Proceeds from sales and maturities of investments	46,791	15,941
Purchase of restricted investments	(32,508)	(3,946)
Proceeds from sales and maturities of restricted investments	45,160	42,409
Net cash provided by investing activities	2,178	46,074
Cash flows from financing activities:		
Proceeds from credit-line borrowings	—	18,843
Payments on credit-line borrowings	—	(18,843)
Payments on long-term debt	(165)	(166)
Repurchase of common stock	(2,987)	—
Common stock repurchased on vesting of stock awards	(1,416)	(3,136)
Dividends paid	(6,826)	(5,954)
Proceeds from exercise of stock options	3,014	458
Net cash used in financing activities	(8,380)	(8,798)
Net (decrease) increase in cash, cash equivalents and restricted cash	(85,063)	94,801
Cash, cash equivalents and restricted cash, beginning of period	273,341	140,702
Cash, cash equivalents and restricted cash, end of period	$ 188,278	$ 235,503

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 $ 784,000 and $888,000 at September 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 $23.4 million and $28.0 million at September 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 nine months ended September 30, 2020 and 2019 did not materially differ from interest expense. Income taxes paid during the nine months ended September 30, 2020 totaled $3.2 million. Income taxes paid during the nine months ended September 30, 2019 totaled $ 10.1 million.

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

	September 30, 2020	December 31, 2019	September 30, 2019	December 31, 2018
Cash and cash equivalents	$ 61,193	$ 44,570	$ 35,452	$ 35,371
Restricted cash, included in restricted cash and investments	127,085	228,771	200,051	105,331
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 188,278	$ 273,341	$ 235,503	$ 140,702

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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Weighted average number of basic shares outstanding	7,639	7,483	7,572	7,433
Effect of dilutive securities	70	228	116	253
Weighted average number of diluted shares outstanding	7,709	7,711	7,688	7,686

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 September 30, 2020 and December 31, 2019 measured at fair value on a recurring basis (in thousands):

	September 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	$ 32,723	$ —	$ 32,723	$ 35,526	$ —	$ 35,526
Discount notes	9,998	1	9,999	—	—	—
Total cash equivalents	42,721	1	42,722	35,526	—	35,526
Investments:						
Corporate bonds	36,732	558	37,290	53,493	156	53,649
Asset backed securities	36,950	(330)	36,620	14,017	(13)	14,004
U.S. government agency securities	7,399	791	8,190	7,408	282	7,690
Mortgage backed securities	4,465	13	4,478	2,737	1	2,738
U.S. treasuries	100	1	101	4,500	9	4,509
Total investments	85,646	1,033	86,679	82,155	435	82,590
Restricted cash and investments (1):						
Corporate bonds	95,881	4,461	100,342	98,481	1,931	100,412
Mortgage backed securities	52,650	2,481	55,131	62,930	837	63,767
Money market funds	32,879	3	32,882	29,046	—	29,046
U.S. government agency securities	25,697	2,514	28,211	27,885	642	28,527
Commercial paper	5,998	1	5,999	—	—	—
Supranational bonds	4,773	29	4,802	4,770	30	4,800
U.S. treasuries	4,760	31	4,791	16,906	21	16,927
Mutual funds	4,712	—	4,712	3,466	—	3,466
Municipal bonds	4,062	14	4,076	—	—	—
Asset backed securities	270	5	275	303	—	303
Total restricted cash and investments	231,682	9,539	241,221	243,787	3,461	247,248
Total investments	$ 360,049	$ 10,573	$ 370,622	$ 361,468	$ 3,896	$ 365,364

(1) Included in restricted cash and investments within the condensed consolidated balance sheets is restricted cash of $94.4 million and $197.0 million as of September 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 sheets based on the nature of the restriction.

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

	September 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	$ 32,723	$ —	$ —	$ —	$ 32,723	$ 35,526	$ —	$ —	$ —	$ 35,526
Discount notes	9,999	—	9,999	—	—	—	—	—	—	—
Investments:										
Corporate bonds	37,290	—	37,290	—	—	53,649	—	53,649	—	—
Asset backed securities	36,620	—	36,620	—	—	14,004	—	14,004	—	—
U.S. government agency securities	8,190	—	8,190	—	—	7,690	—	7,690	—	—
Mortgage backed securities	4,478	—	4,478	—	—	2,738	—	2,738	—	—
U.S. treasuries	101	—	101	—	—	4,509	—	4,509	—	—
Restricted cash and investments:			—							
Corporate bonds	100,342	—	100,342	—	—	100,412	—	100,412	—	—
Mortgage backed securities	55,131	—	55,131	—	—	63,767	—	63,767	—	—
Money market funds	32,882	—	—	—	32,882	29,046	—	—	—	29,046
U.S. government agency securities	28,211	—	28,211	—	—	28,527	—	28,527	—	—
Commercial paper	5,999	—	5,999	—	—	—	—	—	—	—
Supranational bonds	4,802	—	4,802	—	—	4,800	—	4,800	—	—
U.S. treasuries	4,791	—	4,791	—	—	16,927	—	16,927	—	—
Mutual funds	4,712	4,712	—	—	—	3,466	3,466	—	—	—
Municipal bonds	4,076	—	4,076	—		—	—	—	—	—
Asset backed securities	275	—	275	—	—	303	—	303	—	—
Total investments	$ 370,622	$ 4,712	$ 300,305	$ —	$ 65,605	$ 365,364	$ 3,466	$ 297,326	$ —	$ 64,572

(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 September 30, 2020. Actual maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

	September 30, 2020				
(In thousands)	Less than 1 Year	Between 1 to 5 Years	Between 5 to 10 Years	After 10 Years	Total
Corporate bonds	$ 41,077	$ 62,479	$ 34,076	$ —	$ 137,632
Money market funds	65,605	—	—	—	65,605
Asset backed securities	—	286	—	36,609	36,895
U.S. government agency securities	1,018	14,646	20,737	—	36,401
Discount notes	9,999	—	—	—	9,999
Commercial paper	5,999	—	—	—	5,999
U.S. treasuries	3,330	1,562	—	—	4,892
Supranational bonds	4,802	—	—	—	4,802
Municipal bonds	—	4,076	—	—	4,076
Total	$ 131,830	$ 83,049	$ 54,813	$ 36,609	$ 306,301

The average contractual maturity of mortgage backed securities, which are excluded from the table above, was 18 years as of September 30, 2020.

Note 3 – Workers' Compensation Claims

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Beginning balance				
Workers' compensation claims liabilities	$ 336,504	$ 430,736	$ 438,986	$ 413,397
Add: claims expense accrual				
Current period	35,138	37,404	106,359	118,934
Prior periods	(2,977)	(5,593)	(5,163)	(10,245)
	32,161	31,811	101,196	108,689
Less: claim payments related to				
Current period	7,046	8,609	13,123	14,213
Prior periods	15,640	23,815	181,170	77,619
	22,686	32,424	194,293	91,832
Change in claims incurred in excess of retention limits	1,369	(77)	1,459	(208)
Ending balance				
Workers' compensation claims liabilities	$ 347,348	$ 430,046	$ 347,348	$ 430,046
Incurred but not reported (IBNR)	$ 203,595	$ 274,344	$ 203,595	$ 274,344
Ratio of IBNR to workers' compensation claims liabilities	59 %	64 %	59 %	64 %

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 $ 3.0 million per occurrence, except in Maryland and Colorado, where our retention per occurrence is $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 $277.4 million and $393.5 million at September 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 September 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 September 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 September 30, 2020, the Company recorded a receivable from Chubb of $ 0.7 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 on the condensed consolidated balance sheets.

The Company provided a total of $ 347.3 million and $439.0 million at September 30, 2020 and December 31, 2019, respectively, as an estimated future liability for unsettled workers' compensation claims liabilities. Of this amount, $4.8 million and $3.3 million at September 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 $4.8 million and $3.3 million at September 30, 2020 and December 31, 2019, respectively, included on other assets on the condensed consolidated balance sheets.

Note 4 - Revolving Credit Facility and Long-Term Debt

On September 30, 2020, the Company entered into an amended credit agreement (the "Agreement") with the Bank, which reverted to the provisions set forth in the agreement prior to May 15, 2020. The Agreement reduced the revolving credit line from $50.0 million back to $33.0 million; the sublimit for standby letters of credit remains at $8.0 million. At September 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 0.375% per year on the average daily unused amount of the revolving credit line, as well as a fee of 1.75% of the face amount of each letter of credit reserved under the line of credit. The Company had no outstanding borrowings on its revolving credit line at September 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 third 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:

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

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

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

The Agreement also contains customary events of default and specified cross-defaults under the Company's workers' compensation insurance arrangements. If an event of default under the Agreement occurs and is continuing, the Bank may declare any outstanding obligations under the Agreement to be immediately due and payable. At September 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 September 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 September 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 total additional tax due of approximately $2.3 million for the tax years 2012 through 2014. The Company strongly 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 September 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, and a hearing date remains pending.

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

In October 2020, prior to the close of our trading window, the Company reinstated its stock repurchase plan and repurchased 57,018 shares at an average price of $53.61 per share.

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 35 states and the District of Columbia through a network of 59 branch locations in California, Oregon, Washington, Arizona, Colorado, Idaho, Utah, Maryland, Nevada, Pennsylvania, Delaware, North Carolina, New Mexico, and Virginia. We also have several smaller recruiting locations in our general market areas, which are under the direction of a branch office.

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 and similar restrictions 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 nine months ended September 30, 2020 and 2019 ($ in thousands):

	Percentage of Total Net Revenues							
	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
Revenues:								
Professional employer service fees	$ 199,082	87.5 %	$ 214,156	86.4 %	$ 573,162	88.5 %	$ 607,840	87.2 %
Staffing services	28,431	12.5	33,806	13.6	74,486	11.5	89,319	12.8
Total revenues	227,513	100.0	247,962	100.0	647,648	100.0	697,159	100.0
Cost of revenues:								
Direct payroll costs	21,452	9.4	25,464	10.3	56,325	8.7	67,298	9.7
Payroll taxes and benefits	100,142	44.0	104,847	42.3	313,275	48.4	321,341	46.1
Workers' compensation	46,685	20.5	46,887	18.9	146,120	22.6	154,290	22.1
Total cost of revenues	168,279	73.9	177,198	71.5	515,720	79.6	542,929	77.9
Gross margin	59,234	26.1	70,764	28.5	131,928	20.4	154,230	22.1
Selling, general and administrative expenses	35,587	15.6	41,352	16.7	100,957	15.6	113,517	16.3
Depreciation and amortization	1,341	0.6	970	0.4	3,512	0.5	2,909	0.4
Income from operations	22,306	9.9	28,442	11.4	27,459	4.2	37,804	5.4
Other income, net	1,294	0.6	2,488	1.0	5,693	0.9	7,946	1.1
Income before income taxes	23,600	10.4	30,930	12.4	33,152	5.1	45,750	6.5
Provision for income taxes	5,089	2.2	5,959	2.4	6,538	1.0	9,172	1.3
Net income	$ 18,511	8.1 %	$ 24,971	10.0 %	$ 26,614	4.1 %	$ 36,578	5.2 %

We report professional employer ("PEO") services revenues net of direct payroll costs because we are not the primary obligor for wage payments to our clients' employees. However, management believes that gross 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 nine months ended September 30, 2020 and 2019.

(in thousands)	(Unaudited) Three Months Ended September 30, 2020	2019	(Unaudited) Nine Months Ended September 30, 2020	2019
Gross billings	$ 1,511,908	$ 1,552,882	$ 4,321,018	$ 4,377,089
PEO and staffing wages	$ 1,300,352	$ 1,322,469	$ 3,710,788	$ 3,725,416

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 closely connected to 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 September 30, 2020	2019	(Unaudited) Nine Months Ended September 30, 2020	2019
Workers' compensation	$ 46,685	$ 46,887	$ 146,120	$ 154,290
Safety incentive costs	5,369	8,265	19,150	22,801
Non-GAAP gross workers' compensation	$ 52,054	$ 55,152	$ 165,270	$ 177,091

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 September 30, 2020	2019	(Unaudited) Percentage of Gross Billings Nine Months Ended September 30, 2020	2019
PEO and staffing wages	86.0%	85.2%	85.9%	85.1%
Payroll taxes and benefits	6.6%	6.8%	7.3%	7.3%
Non-GAAP gross workers' compensation	3.4%	3.6%	3.8%	4.0%

The presentation of revenues on a net basis and the relative contributions of staffing and 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 September 30, 2020 and 2019

Net income for the third quarter of 2020 amounted to $18.5 million compared to net income of $25.0 million for the third quarter of 2019. Diluted income per share for the third quarter of 2020 was $2.40 compared to diluted income per share of $3.24 for the third quarter of 2019.

Revenues for the third quarter of 2020 totaled $227.5 million, a decrease of $20.4 million or 8.2% over the third quarter of 2019, which reflects a decrease in the Company's PEO service fee revenue of $15.1 million or 7.0% and a decrease in staffing services revenue of $5.4 million or 15.9%.

The reduction in PEO services 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 1.3% compared to the third 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 $5.4 million and $8.3 million in the third 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 third quarter of 2020 totaled $59.2 million or 26.1% of revenue compared to $70.8 million or 28.5% of revenue for the third 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 third quarter of 2020 totaled $21.5 million or 9.4% of revenue compared to $25.5 million or 10.3% of revenue for the third 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 third quarter of 2019.

Payroll taxes and benefits for the third quarter of 2020 totaled $100.1 million or 44.0% of revenue compared to $104.8 million or 42.3% of revenue for the third 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 third quarter of 2019, partially offset by a decrease in payroll taxes as a percent of wages.

Workers' compensation expense for the third quarter of 2020 totaled $46.7 million or 20.5% of revenue compared to $46.9 million or 18.9% for the third quarter of 2019. The increase in workers' compensation expense as a percentage of revenue is primarily related to favorable claims development, offset by a favorable adjustment related to claims incurred in prior periods of $3.0 million compared to a favorable adjustment of $5.6 million in the 2019 third quarter.

Selling, general and administrative ("SG&A") expenses for the third quarter of 2020 totaled $35.6 million or 15.6% of revenue compared to $41.4 million or 16.7% of revenue for the third quarter of 2019. The decrease was primarily attributable to a decrease in employee-related expenses, which included a reduction in our workforce, and reduced employee profit sharing and incentive compensation of $3.7 million. Employee-related expenses will likely continue to be lower through the first half of 2021 due to measures taken in response to COVID-19.

Other income, net for the third quarter of 2020 was $1.3 million, compared to other income, net of $2.5 million for the third quarter of 2019. The decrease was primarily attributable to a decrease in investment income in the third quarter of 2020 as a result of lower interest rates.

Our effective income tax rate for the third quarter of 2020 was 21.6%, compared to 19.3% for the third 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.

Nine Months Ended September 30, 2020 and 2019

Net income for the first nine months of 2020 amounted to $26.6 million compared to net income of $36.6 million for the first nine months of 2019. Diluted income per share for the first nine months of 2020 was $3.46 compared to diluted income per share of $4.76 for the first nine months of 2019.

Revenues for the first nine months of 2020 totaled $647.6 million, a decrease of $49.5 million or 7.1% over the first nine months of 2019, which reflects a decrease in the Company's PEO service fee revenue of $34.7 million or 5.7% and a decrease in staffing services revenue of $14.8 million or 16.6%.

The reduction in PEO services revenues was primarily attributable to the effects of COIVD-19 on our clients and our business. Gross billings for PEO services to continuing customers decreased 0.1% compared to the first nine months of 2019. This decrease was primarily the result of COVID-19 impacts, which we expect to continue for the foreseeable future. PEO revenue is presented net of safety incentives of $19.2 million and $22.8 million in the first nine 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 nine months of 2020 totaled $131.9 million or 20.4% of revenue compared to $154.2 million or 22.1% of revenue for the first nine 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 nine months of 2020 totaled $56.3 million or 8.7% of revenue compared to $67.3 million or 9.7% of revenue for the first nine 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 nine months of 2019.

Payroll taxes and benefits for the first nine months of 2020 totaled $313.3 million or 48.4% of revenue compared to $ 321.3 million or 46.1% of revenue for the first nine 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 nine months of 2019 , partially offset by the decrease in payroll taxes as a percent of wages .

Workers' compensation expense for the first nine months of 2020 totaled $146.1 million or 22.6% of revenue compared to $154.3 million or 22.1% of revenue for the first nine months of 2019. The increase in workers' compensation expense as a percentage of revenue was primarily due to a favorable adjustment of $5.2 million related to prior period claims during the first nine months of 2020, compared to a favorable adjustment of $10.2 million in the first nine months of 2019, partially offset by favorable claims development and lower frictional costs in 2020.

SG&A expenses for the first nine months of 2020 totaled $101.0 million or 15.6% of revenue compared to $113.5 million or 16.3% of revenue for the first nine months of 2019. The decrease was primarily attributable to a decrease in employee-related expenses, which included a reduction in our workforce and reduced employee profit sharing and incentive compensation of $10.1 million. Employee-related expenses will likely continue to be lower through the first half of 2021 due to measures taken in response to COVID-19.

Other income, net for the first nine months of 2020 was $5.7 million as compared to other income, net of $7.9 million for the first nine months of 2019. The decrease was primarily attributable to a decrease in investment income in the first nine months of 2020 as a result of lower interest rates.

Our effective income tax rate for the first nine months of 2020 was 19.7% compared to 20.0% for the first nine 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 $188.3 million, which includes cash, cash equivalents, and restricted cash, decreased $85.1 million for the nine months ended September 30, 2020, compared to an increase of $94.8 million for the comparable period of 2019. The decrease in cash at September 30, 2020 as compared to December 31, 2019 was primarily due to the loss portfolio transfer entered into in June 2020, as well as increased trade accounts receivable, partially offset by increased accrued payroll, payroll taxes and related benefits and net income.

Net cash used in operating activities for the nine months ended September 30, 2020 was $78.9 million, compared to net cash provided of $57.5 million for the comparable period of 2019. For the nine months ended September 30, 2020, cash used in operating activities was primarily due to decreased workers' compensation claims liabilities of $93.1 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 $48.8 million, decreased safety incentive liability of $4.6 million, partially offset by net income of $26.6 million, and increased accrued payroll, payroll taxes and related benefits of $32.6 million.

Net cash provided by investing activities for the nine months ended September 30, 2020 was $2.2 million, compared to net cash provided of $46.1 million for the comparable period of 2019. For the nine months ended September 30, 2020, cash provided by investing activities consisted primarily of proceeds from sales and maturities of investments and restricted investments of $92.0 million, partially offset by purchases of investments and restricted investments of $82.8 million and purchases of property, equipment and software of $6.9 million.

Net cash used in financing activities for the nine months ended September 30, 2020 was $8.4 million, compared to net cash used of $8.8 million for the comparable period of 2019. For the nine months ended September 30, 2020, cash was primarily used for dividend payments of $6.8 million, repurchases of common stock of $3.0 million and common stock repurchased on vesting of restricted stock units of $1.4 million, partially offset by proceeds from exercises of stock options of $3.0 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 $277.4 million and $393.5 million at September 30, 2020 and December 31, 2019, respectively. Included within the Chubb trust account at September 30, 2020, is $91.6 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 September 30, 2020, the Company entered into an amended credit agreement (the "Agreement") with the Bank, which reverted to the provisions set forth in the agreement prior to May 15, 2020. The Agreement reduced the revolving credit line from $50.0 million back to $33.0 million; the sublimit for standby letters of credit remains at $8.0 million. At September 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 0.375% per year on the average daily unused amount of the revolving credit line, as well as a fee of 1.75% of the face amount of each letter of credit reserved under the line of credit. The Company had no outstanding borrowings on its revolving credit line at September 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 third 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:

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

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

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

The Agreement also contains customary events of default and specified cross-defaults under the Company's workers' compensation insurance arrangements. If an event of default under the Agreement occurs and is continuing, the Bank may declare any outstanding obligations under the Agreement to be immediately due and payable. At September 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 September 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 shelter-in-place and social distancing requirements, difficulties associated with integrating clients into our operations, economic trends in our service areas, the potential for material deviations from expected future workers' compensation claims experience, changes in the workers' compensation regulatory environment in our primary markets, security breaches or failures in the Company's information technology systems, collectability of accounts receivable, changes in effective payroll tax rates and federal and state income tax rates, the carrying values of deferred income tax assets and goodwill (which may be affected by our future operating results), the impact of and potential changes to the Patient Protection and Affordable Care Act, escalating medical costs, and other health care legislative initiatives on our business, the effect of conditions in the global capital markets on our investment portfolio, and the availability of capital, borrowing capacity on our revolving credit facility, or letters of credit necessary to meet state-mandated surety deposit requirements for maintaining our status as a qualified self-insured employer for workers' compensation coverage or our 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 September 30, 2020, the Company’s investments consisted principally of $138 million in corporate bonds, $66 million in money market funds, $60 million in mortgage backed securities, $37 million in asset backed securities, $36 million in U.S. government agency securities, $10 million in discount notes, $6 million in commercial paper, $5 million in U.S. treasuries, $5 million in supranational bonds, $5 million in mutual funds and $4 million in municipal bonds. The Company’s outstanding debt totaled approximately $3.8 million at September 30, 2020. Based on the Company’s overall interest exposure at September 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 September 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 September 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 and the United States government declared COVID-19 a pandemic and recommended containment and mitigation measures worldwide. 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 pandemic 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 in which we operate have been limited to date, these changes in laws and regulations or in the pattern of COVID-19 illnesses could increase our exposure to workers' compensation claims.

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 value of the Company's investment portfolio.

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

Item 6. Exhibits

4.1	Second Amendment, dated as of September 25, 2020, to Second Amended and Restated Credit Agreement between the Registrant and Wells Fargo Bank, National Association. Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on October 6, 2020.
10.1	Form of Restricted Stock Units Award Agreement for Executive Officers under the Registrant's 2020 Stock Incentive Plan (the "2020 Plan").
10.2	Form of Restricted Stock Units Award Agreement for Non-Employee Directors under the 2020 Plan .
10.3	Form of Restricted Stock Units Award Agreement under the Registrant's Nonqualified Deferred Compensation Plan.
10.4	Summary of Compensation Arrangements for Non-Employee Directors of the Registrant effective July 1, 2020.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
32	Certification pursuant to 18 U.S.C. Section 1350.
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 September 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: November 4, 2020

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

EXHIBIT 10.1

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

EMPLOYEE RESTRICTED STOCK UNITS
(Executive Officer)

This Employee Restricted Stock Units Award Agreement (this "Agreement"), effective as of the date indicated below, evidences the grant of Restricted Stock Units ("RSUs") to Participant under Article 9 of the Barrett Business Services, Inc., 2020 Stock Incentive Plan (the "Plan").

Corporation:	**BARRETT BUSINESS SERVICES, INC.**
Participant:	________________________________
Grant Date:	**July 1, 2020**
Number of RSUs:	_________________
Initial Value of Grant:	$______, based on the closing price of a Share of Common Stock, $______, on July 1, 2020.
Restriction Periods:	Each Restriction Period commences on the Grant Date; Restriction Period 1 ends on July 1, 2021, Restriction Period 2 on July 1, 2022, Restriction Period 3 on July 1, 2023, and Restriction Period 4 on July 1, 2024.
Vesting Schedule:	25% on the last day of each Restriction Period.

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

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

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

BARRETT BUSINESS SERVICES, INC.

____
Participant

By ________________________________
Name ________________________________
Its ________________________________

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

EMPLOYEE RESTRICTED STOCK UNITS
(Executive Officer)
TERMS AND CONDITIONS

1. Defined Terms

When used in this Agreement, **"Grant Date"** means the date the RSUs are granted, which is reflected as the date of this Agreement.

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

2. Terms of RSUs

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

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

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

2.3 **Requirement of Continuous Service**. Except as otherwise provided in this Agreement, in the event that Participant's Continuous Service is interrupted or terminated, all Restricted Shares not previously Vested will be forfeited immediately without payment of any kind to Participant.

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

(a) Participant's death or termination of employment by reason of Disability; or

(b) A Change in Control Date.

2.5 **Settlement.**

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

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

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

2.7 **RSUs Not Transferable**. Except as provided in Section 6.5(d) of the Plan, neither the RSUs, nor this Agreement, nor any interest or right in the RSUs or this Agreement, may be sold, pledged, assigned, or transferred in any manner other than by will or the laws of descent and distribution, unless and until the RSUs have been settled as provided in this Agreement. Neither the RSUs nor any interest or right in the RSUs will be liable for the debts, obligations, contracts or engagements of Participant or Participant's successors in interest or will be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition will be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence. Shares issued upon settlement of RSUs may be subject to additional transfer restrictions as provided in this Agreement.

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

3. Tax Withholding and Reimbursement

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

4. Conditions Precedent

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

5. Successorship

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

6. Notices

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

7. Arbitration

Any dispute or claim that arises out of or that relates to this Agreement or to the interpretation, breach, or enforcement of this Agreement, must be resolved by mandatory arbitration administered by and in accordance with the then effective arbitration rules of Arbitration Service of Portland, Inc. The place of arbitration will be Multnomah County, Oregon. The award rendered by the arbitrator will be final and binding, and judgment may be entered on the award in any court having jurisdiction.

8. Attorney Fees

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

9. Clawback/Recovery

Compensation paid to the Participant under this Award is subject to recoupment in accordance with any clawback policy of Corporation in effect from time to time, including the compensation recovery policy adopted by the Board on April 22, 2020, and any replacement or additional policy adopted after the date of this Agreement, as well as any similar requirement of applicable law, including without limitation the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Sarbanes-Oxley Act of 2002, and rules adopted by a governmental agency or applicable securities exchange under any such law. Participant agrees to promptly repay or return any such compensation as directed by Corporation under any such clawback policy or requirement, including the value received from a disposition of Shares acquired pursuant to this Award.

10. Code Section 409A

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

EXHIBIT 10.2

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

NON-EMPLOYEE DIRECTOR RESTRICTED STOCK UNITS

This Non-Employee Director Restricted Stock Units Award Agreement (this "Agreement"), effective as of the date indicated below, evidences the grant of Restricted Stock Units ("RSUs") to Participant under Article 9 of the Barrett Business Services, Inc., 2020 Stock Incentive Plan (the "Plan").

Corporation:	**BARRETT BUSINESS SERVICES, INC.**
Participant:	_________________________________
Grant Date:	**July 1, 2020**
Number of RSUs:	_________________
Initial Value of Grant:	$______, based on the closing price of a Share of Common Stock, $______, on July 1, 2020.
Restriction Period:	The Restriction Period commences on the Grant Date and ends on July 1, 2021
Vesting Schedule:	100% on the last day of the Restriction Period.

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

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

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

BARRETT BUSINESS SERVICES, INC.

____
Participant

By _________________________________
Name _________________________________
Its _________________________________

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

NON-EMPLOYEE DIRECTOR RESTRICTED STOCK UNITS
TERMS AND CONDITIONS

1. Defined Terms

When used in this Agreement, "**Grant Date**" means the date the RSUs are granted, which is reflected as the date of this Agreement.

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

2. Terms of RSUs

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

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

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

2.3 **Requirement of Continuous Service**. Except as otherwise provided in this Agreement, in the event that Participant's Continuous Service is interrupted or terminated, all Restricted Shares not previously Vested will be forfeited immediately without payment of any kind to Participant.

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

(a) Participant's death or withdrawal from the Board by reason of Disability; or

(b) A Change in Control Date.

2.5 **Settlement**.

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

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

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

2.7 **RSUs Not Transferable**. Except as provided in Section 6.5(d) of the Plan, neither the RSUs, nor this Agreement, nor any interest or right in the RSUs or this Agreement, may be sold, pledged, assigned, or transferred in any manner other than by will or the laws of descent and distribution, unless and until the RSUs have been settled as provided in this Agreement. Neither the RSUs nor any interest or right in the RSUs will be liable for the debts, obligations, contracts or engagements of Participant or Participant's successors in interest or will be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition will be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence. Shares issued upon settlement of RSUs may be subject to additional transfer restrictions as provided in this Agreement.

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

3. Tax Reimbursement

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

4. Conditions Precedent

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

5. Successorship

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

6. Notices

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

7. Arbitration

Any dispute or claim that arises out of or that relates to this Agreement or to the interpretation, breach, or enforcement of this Agreement, must be resolved by mandatory arbitration administered by and in accordance with the then effective arbitration rules of Arbitration Service of Portland, Inc. The place of arbitration will be Multnomah County, Oregon. The award rendered by the arbitrator will be final and binding, and judgment may be entered on the award in any court having jurisdiction.

8. Attorney Fees

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

9. Clawback/Recovery

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

10. Code Section 409A

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

EXHIBIT 10.3

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

RESTRICTED STOCK UNITS
(Deferred Compensation Match)

This Restricted Stock Units Award Agreement (this "Agreement"), effective as of the date indicated below, evidences the award of Restricted Stock Units ("RSUs") to Participant under Article 9 of the Barrett Business Services, Inc., 2020 Stock Incentive Plan (the "Plan").

Corporation:	**BARRETT BUSINESS SERVICES, INC.**
Participant:	________________________________
Grant Date:	__________________
Number of RSUs:	__________________
Initial Value of Grant:	Based on the closing price of a Share of Common Stock on ___________, 20__, 35% of the dollar amount allocated to Participant's account and representing compensation deferred under the Corporation's Nonqualified Deferred Compensation Plan during the period beginning _____, 20 __, through ___________, 20__; provided that such value may not exceed $75,000 during a calendar year.
Vesting Date:	The fifth anniversary of the Grant Date.

The award represents an automatic grant of RSUs with the value indicated above. Each RSU represents a hypothetical Share of Common Stock. As a holder of RSUs, Participant will have only the rights of a general unsecured creditor of Corporation until delivery of Shares is made as specified in this Agreement.

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

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

BARRETT BUSINESS SERVICES, INC.

____
Participant

By ________________________________
Name ________________________________
Its ________________________________

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

RESTRICTED STOCK UNITS
(Deferred Compensation Match)

TERMS AND CONDITIONS

1. Defined Terms

When used in this Agreement, **"Grant Date"** means the date the RSUs are granted, which is reflected as the date of this Agreement.

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

2. Terms of RSUs

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

2.1 **Vesting**. Subject to the accelerated Vesting provisions of Section 2.3, the RSUs are initially unvested and, if not previously forfeited, will become fully vested and non-forfeitable on the Vesting Date shown on the first page of this Agreement.

2.2 **Requirement of Continuous Service**. Except as otherwise provided in this Agreement, in the event that Participant's Continuous Service is interrupted or terminated, all Restricted Shares not previously Vested will be forfeited immediately without payment of any kind to Participant.

2.3 **Acceleration of Vesting**. Notwithstanding Section 2.2, the RSUs will become fully Vested upon the occurrence of either:

(a) Participant's death or termination of employment by reason of Disability; or

(b) A Change in Control Date.

2.4 **Settlement.**

(a) Generally. Unless previously forfeited pursuant to Section 2.2 or otherwise provided by this Agreement, the RSUs will be settled on the Vesting Date or, if not a business day, on the first business day thereafter (the "Settlement Date"), by the delivery to

Participant of an unrestricted certificate for a number of Shares of Common Stock equal to the RSUs granted under this Award. Shares issued upon settlement of RSUs may be subject to additional transfer restrictions as provided in this Agreement.

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

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

2.6 **RSUs Not Transferable**. Except as provided in Section 6.5(d) of the Plan, neither the RSUs, nor this Agreement, nor any interest or right in the RSUs or this Agreement, may be sold, pledged, assigned, or transferred in any manner other than by will or the laws of descent and distribution, unless and until the RSUs have been settled as provided in this Agreement. Neither the RSUs nor any interest or right in the RSUs will be liable for the debts, obligations, contracts or engagements of Participant or Participant's successors in interest or will be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition will be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence. Shares issued upon settlement of RSUs may be subject to additional transfer restrictions as provided in this Agreement.

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

3. Tax Withholding and Reimbursement

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

4. Conditions Precedent

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

5. Successorship

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

6. Notices

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

7. Arbitration

Any dispute or claim that arises out of or that relates to this Agreement or to the interpretation, breach, or enforcement of this Agreement, must be resolved by mandatory arbitration administered by and in accordance with the then effective arbitration rules of Arbitration Service of Portland, Inc. The place of arbitration will be Multnomah County, Oregon. The award rendered by the arbitrator will be final and binding, and judgment may be entered on the award in any court having jurisdiction.

8. Attorney Fees

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

9. Clawback/Recovery

Compensation paid to the Participant under this Award is subject to recoupment in accordance with any clawback policy of Corporation in effect from time to time, including the compensation recovery policy adopted by the Board on April 22, 2020, and any replacement or additional policy adopted after the date of this Agreement, as well as any similar requirement of applicable law, including without limitation the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Sarbanes-Oxley Act of 2002, and rules adopted by a governmental agency or applicable securities exchange under any such law. Participant agrees to promptly repay or return any such compensation as directed by Corporation under any such clawback policy or requirement, including the value received from a disposition of Shares acquired pursuant to this Award.

10. Code Section 409A

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

EXHIBIT 10.4

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

As of July 1, 2020, compensation arrangements for non-employee directors of Barrett Business Services, Inc. (the "Company"), continue to include an annual retainer of $60,000 ($100,000 for the Chairman of the Board) payable in cash in monthly installments. Committee chairs receive an annual cash retainer, payable in monthly installments, as follows: chair of Audit and Compliance Committee, $15,000; chair of Compensation Committee, $10,000; chair of Risk Management Committee, $10,000; and chair of Corporate Governance and Nominating Committee, $10,000. Committee members receive an annual cash retainer, payable in monthly installments, as follows: Audit and Compliance Committee, $7,500; Compensation Committee, $5,000; Risk Management Committee, $5,000; and Corporate Governance and Nominating Committee, $5,000.

In addition, each non-employee director as of July 1, 2020, received an award of restricted stock units ("RSUs") under the Company's 2020 Stock Incentive Plan. The RSU awards had a grant date fair value of approximately $75,000 (based on the closing sale price of BBSI common stock on July 1, 2020, of $51.45). The 2020 RSU awards will vest in full on July 1, 2021.

EXHIBIT 31.1

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: November 4, 2020

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

EXHIBIT 31.2

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: November 4, 2020

/s/ Anthony J. Harris
Anthony J. Harris
Chief Financial Officer

EXHIBIT 32

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 September 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	/s/ Anthony J. Harris
Gary E. Kramer	Anthony J. Harris
Chief Executive Officer	Chief Financial Officer
November 4, 2020	November 4, 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.