UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2016

☐ **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)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☒

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐

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

As of August 1, 2016, 7,243,667 shares of the registrant's common stock ($0.01 par value) were outstanding.

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BARRETT BUSINESS SERVICES, INC.

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EXPLANATORY NOTE

Restatement of Consolidated Financial Statements

In this Quarterly Report on Form 10-Q, Barrett Business Services, Inc. ("BBSI," "we," "our," "us," or the "Company"), presents for comparison restated unaudited condensed consolidated financial statements for the three and six months ended June 30, 2015 (the "Restated Periods"). Investors should review our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, which was filed on May 25, 2016, and should not rely on any other previously filed reports, earnings releases or similar communications relating to the Restated Periods. We have not amended any previously filed reports.

For a description of the restatement, see Note 2 of Notes to Unaudited Condensed Consolidated Financial Statements. For more information regarding the restatement and its effects, refer to Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report and our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

For a description of material weaknesses in internal control over financial reporting identified by management and management's plan to remediate the material weaknesses, see Item 4, "Controls and Procedures" in this report and Part II, Item 9A, "Controls and Procedures" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

PART I – FINANCIAL INFORMATION

Item 1. Unaudited Interim Condensed Consolidated Financial Statements

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

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 422	$ 25,218
Trade accounts receivable, net	177,927	90,529
Income taxes receivable	0	1,038
Prepaid expenses and other	4,818	3,173
Restricted certificates of deposit	0	10,000
Restricted marketable securities and workers' compensation deposits	48,371	76,110
Deferred income taxes	20,908	20,941
Total current assets	252,446	227,009
Marketable securities	2,362	6,082
Property, equipment and software, net	23,958	22,820
Restricted certificates of deposit	10,000	0
Restricted marketable securities and workers' compensation deposits	235,584	187,916
Other assets	4,551	5,130
Goodwill	47,820	47,820
	$576,721	$ 496,777
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 7,721	$ 19,833
Accounts payable	4,458	3,217
Accrued payroll, payroll taxes and related benefits	186,295	121,343
Income taxes payable	71	0
Other accrued liabilities	4,419	6,166
Workers' compensation claims liabilities	71,785	65,581
Safety incentives liability	24,262	21,253
Total current liabilities	299,011	237,393
Long-term workers' compensation claims liabilities	205,265	190,094
Long-term debt	4,502	0
Deferred income taxes	13,256	13,256
Customer deposits and other long-term liabilities	1,399	1,483
Total liabilities	523,433	442,226
Commitments and contingencies (Notes 5 and 7)		
Stockholders' equity:		
Common stock, $.01 par value; 20,500 shares authorized, 7,210 and 7,203 shares issued and outstanding	72	72
Additional paid-in capital	8,301	6,964
Accumulated other comprehensive income (loss)	23	(31)
Retained earnings	44,892	47,546
	53,288	54,551
	$576,721	$ 496,777

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

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

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015 (As Restated)(1)
Revenues:		
Professional employer service fees	$165,776	$ 139,612
Staffing services	37,641	42,347
Total revenues	203,417	181,959
Cost of revenues:		
Direct payroll costs	28,223	32,188
Payroll taxes and benefits	82,885	71,808
Workers' compensation	50,056	41,485
Total cost of revenues	161,164	145,481
Gross margin	42,253	36,478
Selling, general and administrative expenses	28,490	21,429
Depreciation and amortization	769	709
Income from operations	12,994	14,340
Other income (expense):		
Investment income	259	229
Interest expense	(248)	(562)
Other, net	(5)	(65)
Other income (expense), net	6	(398)
Income before income taxes	13,000	13,942
Provision for income taxes	4,478	5,040
Net income	$ 8,522	$ 8,902
Basic earnings per common share	$ 1.18	$ 1.24
Weighted average number of basic common shares outstanding	7,210	7,151
Diluted earnings per common share	$ 1.16	$ 1.21
Weighted average number of diluted common shares outstanding	7,328	7,327
Cash dividends per common share	$ 0.22	$ 0.22

(1) See Note 2. Restatement of Previously Issued Condensed Consolidated Financial Statements.

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

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

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015 (As Restated)(1)
Revenues:		
Professional employer service fees	$320,452	$ 266,846
Staffing services	73,932	81,513
Total revenues	394,384	348,359
Cost of revenues:		
Direct payroll costs	55,649	61,952
Payroll taxes and benefits	186,645	159,885
Workers' compensation	99,450	81,113
Total cost of revenues	341,744	302,950
Gross margin	52,640	45,409
Selling, general and administrative expenses	50,394	38,399
Depreciation and amortization	1,518	1,392
Income from operations	728	5,618
Other income (expense):		
Investment income	507	316
Interest expense	(508)	(1,082)
Other, net	(1)	(79)
Other expense, net	(2)	(845)
Income before income taxes	726	4,773
Provision for income taxes	207	1,699
Net income	$ 519	$ 3,074
Basic earnings per common share	$ 0.07	$ 0.43
Weighted average number of basic common shares outstanding	7,209	7,143
Diluted earnings per common share	$ 0.07	$ 0.42
Weighted average number of diluted common shares outstanding	7,323	7,328
Cash dividends per common share	$ 0.44	$ 0.44

(1) See Note 2. Restatement of Previously Issued Condensed Consolidated Financial Statements.

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

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

	Three Months Ended June 30,	
	2016	2015 (As Restated)(1)
Net income	$8,522	$ 8,902
Unrealized gains (losses) on marketable securities, net of tax of $10 and $(11) in 2016 and 2015, respectively	20	(17)
Comprehensive income	$8,542	$ 8,885

	Six Months Ended June 30,	
	2016	2015 (As Restated)(1)
Net income	$ 519	$ 3,074
Unrealized gains on marketable securities, net of tax of $33 and $17 in 2016 and 2015, respectively	54	27
Comprehensive income	$ 573	$ 3,101

(1) See Note 2. Restatement of Previously Issued Condensed Consolidated Financial Statements.

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

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Barrett Business Services, Inc.
Condensed Consolidated Statements of Stockholders' Equity
Six Months Ended June 30, 2016 and 2015
(Unaudited)
(In Thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
Balance, December 31, 2014 (As Restated) (1)	7,126	$ 71	$ 4,410	$ (23)	$28,362	$32,820
Common stock issued on exercise of options and vesting of restricted stock units	50	1	689	0	0	690
Common stock repurchased on vesting of restricted stock units	(1)	0	(65)	0	0	(65)
Share based compensation expense	0	0	1,069	0	0	1,069
Excess tax benefits from share-based compensation	0	0	70	0	0	70
Cash dividends on common stock	0	0	0	0	(3,141)	(3,141)
Unrealized holding gain on marketable securities, net of tax	0	0	0	27	0	27
Net Income	0	0	0	0	3,074	3,074
Balance, June 30, 2015 (As Restated) (1)	7,175	$ 72	$ 6,173	$ 4	$28,295	$34,544
Balance, December 31, 2015	7,203	$ 72	$ 6,964	$ (31)	$47,546	$54,551
Common stock issued on exercise of options and vesting of restricted stock units	8	0	72	0	0	72
Common stock repurchased on vesting of restricted stock units	(1)	0	(40)	0	0	(40)
Share based compensation expense	0	0	1,040	0	0	1,040
Excess tax benefits from share-based compensation	0	0	265	0	0	265
Cash dividends on common stock	0	0	0	0	(3,173)	(3,173)
Unrealized holding gain on marketable securities, net of tax	0	0	0	54	0	54
Net Income	0	0	0	0	519	519
Balance, June 30, 2016	7,210	$ 72	$ 8,301	$ 23	$44,892	$53,288

(1) Restatement impacts to the Condensed Consolidated Statements of Stockholders' Equity include the first six months of 2015 adjustment to net income as well as previous period cumulative adjustments to beginning retained earnings. See Note 2. Restatement of Previously Issued Condensed Consolidated Financial Statements.

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

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

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015 (As Restated)(1)
Cash flows from operating activities:		
Net income	$ 519	$ 3,074
Reconciliations of net income to net cash provided by operating activities:		
Depreciation and amortization	1,518	1,392
Losses recognized on marketable securities	3	1
Deferred income taxes	0	72
Share-based compensation	1,040	1,069
Excess tax benefit from share-based compensation	(265)	(70)
Changes in certain operating assets and liabilities:		
Trade accounts receivable	(87,398)	(35,235)
Income taxes receivable	1,038	2,753
Prepaid expenses and other	(1,645)	(1,876)
Accounts payable	1,241	(300)
Accrued payroll, payroll taxes and related benefits	64,952	24,919
Other accrued liabilities	(1,747)	(1,385)
Income taxes payable	336	0
Workers' compensation claims liabilities	21,375	13,966
Safety incentives liability	3,009	3,915
Customer deposits, long-term liabilities and other assets, net	495	278
Net cash provided by operating activities	4,471	12,573
Cash flows from investing activities:		
Purchase of property and equipment	(2,656)	(1,365)
Purchase of marketable securities	(284)	(2,315)
Proceeds from sales and maturities of marketable securities	4,026	47,197
Purchase of restricted certificates of deposit	(10,000)	0
Proceeds from maturities of restricted certificates of deposit	10,000	0
Purchase of restricted marketable securities	(79,441)	(64,483)
Proceeds from maturities of restricted marketable securities	59,574	3,621
Net cash used in investing activities	(18,781)	(17,345)
Cash flows from financing activities:		
Proceeds from credit-line borrowings	11,300	44,934
Payments on credit-line borrowings	(11,300)	(41,711)
Payments on long-term debt	(7,610)	(3,110)
Common stock repurchased on vesting of restricted stock units	(40)	(65)
Dividends paid	(3,173)	(3,141)
Proceeds from exercise of stock options and vesting of restricted stock units	72	690
Excess tax benefits from share-based compensation	265	70
Net cash used in financing activities	(10,486)	(2,333)
Net decrease in cash and cash equivalents	(24,796)	(7,105)
Cash and cash equivalents, beginning of period	25,218	11,544
Cash and cash equivalents, end of period	$ 422	$ 4,439

(1) See Note 2. Restatement of Previously Issued Condensed Consolidated Financial Statements.

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

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

Note 1 - Basis of Presentation of Interim Period Statements

The accompanying condensed consolidated financial statements are unaudited and have been prepared by Barrett Business Services, Inc. ("BBSI", the "Company", "our" or "we"), pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures typically included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the 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 2015 Annual Report on Form 10-K at pages F1 – F62. The results of operations for an interim period are not necessarily indicative of the results of operations for a full year.

Revenue recognition

We recognize professional employer (PEO) service and staffing service revenue as services are rendered by our workforce. 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. Our client services 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 services agreements provide for immediate termination upon any default of the client regardless of when notice is given.

We report PEO revenues on a net basis because we are not the primary obligor for the services provided by our clients to their customers pursuant to our client services agreements. We reduce these service fee revenues by the amounts invoiced to our clients for direct payroll expenses such as salaries, wages, health insurance, employee out-of-pocket expenses incurred incidental to employment, and safety incentives. Safety incentives represent cash incentives paid to certain client companies for maintaining safe-work practices and minimizing workplace injuries. The safety incentive is based on a percentage of annual payroll and is paid annually to clients who meet predetermined workers' compensation claims cost objectives.

Cost of revenues

Our cost of revenues for staffing services includes direct payroll costs, employer payroll related taxes, employee benefits, and workers' compensation costs. Our cost of revenues for PEO services includes only employer payroll related taxes 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

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

of the costs associated with our workers' compensation program, including claims reserves, claims administration fees, legal fees, medical cost containment (MCC) expense, state administrative agency fees, third-party broker commissions, risk manager payroll, and excess insurance premiums for catastrophic injuries. We maintain separate workers' compensation insurance policies for employees working in states where the Company is not self-insured, including California.

Cash and cash equivalents

We consider non-restricted short-term investments, which 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 consolidated statements of cash flows. A substantial portion of the Company's cash and cash equivalents is invested in tax-exempt money market funds managed by the Company's principal bank. 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.

Marketable securities

As of June 30, 2016, the Company's marketable securities consisted of municipal bonds, corporate bonds, and money market funds. We classify our marketable securities as trading or available-for-sale. The Company had no trading marketable securities at June 30, 2016 and December 31, 2015. The Company classifies money market funds, municipal bonds, and corporate bonds as available for sale. They are reported at fair value with unrealized gains and losses, net of taxes, shown as a component of accumulated other comprehensive income (loss) in stockholders' equity. Management considers available evidence in evaluating potential impairment of investments, including the duration and extent to which fair value is less than cost and the Company's ability and intent to hold the investments. Realized gains and losses on sales of restricted marketable securities are included in other income (expense) as other, net in our condensed consolidated statements of operations. In the event a loss is determined to be other-than-temporary, the loss will be recognized in the condensed consolidated statements of operations.

Restricted marketable securities

At June 30, 2016, restricted marketable securities consisted of money market funds, certificates of deposit, U.S. Treasuries, corporate bonds, and municipal bonds with maturities generally from 180 days to two years. At June 30, 2016, the approximate fair value of restricted marketable securities equaled their approximate amortized cost. Restricted marketable securities have been 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. Realized gains and losses on sales of restricted marketable securities are included in other income (expense) as other, net in our condensed consolidated statements of operations. In the event a loss is determined to be other-than-temporary, the loss will be recognized in the condensed consolidated statements of operations.

Allowance for doubtful accounts

The Company had an allowance for doubtful accounts of $258,000 and $268,000 at June 30, 2016 and December 31, 2015, respectively. We make estimates of the collectability of our accounts receivable for services provided to our customers. Management analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customers' payment trends when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of our customers deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required.

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

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 internal claims adjusters and our third-party administrators for workers' compensation claims, coupled with an actuarial estimate of future adverse cost development with respect to reported claims and incurred but not reported claims (together, IBNR). At June 30, 2016 and December 31, 2015, workers' compensation claims liabilities included case reserve estimates for reported losses, plus additional amounts for estimated future adverse cost development of IBNR claims, MCC and legal costs, and unallocated loss adjustment expenses, including future administrative fees to be paid to third-party service providers. 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, changes in individuals involved in the reserve estimation process, 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.

The Company's independent actuary provides management with an estimate of the current and long-term portions of our total workers' compensation claims, which is an important factor in our process for estimating workers' compensation claims liabilities. The current portion represents the independent actuary's best estimate of payments the Company will make related to workers' compensation claims over the ensuing twelve months. The Company will also pay out a portion of claims first incurred in the ensuing twelve months during that twelve-month period. The long-term portion represents the independent actuary's best estimate of payments the Company will make related to workers' compensation claims more than twelve months in the future.

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.

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

During the three months ended June 30, 2016, the Company reached an agreement to pay its third-party provider of MCC services $9.5 million for all MCC fees on workers' compensation claims with dates of injury between January 1, 2016 and December 31, 2016. Under this agreement, the Company will make payments for these services totaling $593,250 each quarter starting April 1, 2016 and continuing through January 1, 2020. The agreement limits the maximum amount of claims and services to be provided.

Safety incentives liability

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 and the expected payout as determined by historical incentive payment trends. The Company provided $24.3 million and $21.3 million at June 30, 2016 and December 31, 2015, respectively, as an estimate of the liability for unpaid safety incentives. Safety incentive costs are netted against PEO service revenue in our condensed consolidated statements of operations.

Statements of cash flows

Interest paid during the six months ended June 30, 2016 and 2015 did not materially differ from interest expense. Income taxes received during the six months ended June 30, 2016 and 2015 totaled $1.2 million and $1.1 million, respectively.

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. Basic and diluted shares outstanding are summarized as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Weighted average number of basic shares outstanding	7,210	7,151	7,209	7,143
Effect of dilutive securities	118	176	114	185
Weighted average number of diluted shares outstanding	7,328	7,327	7,323	7,328

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

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 all marketable securities, allowance for doubtful accounts, deferred income taxes, carrying values for goodwill and property and equipment, accrued workers' compensation liabilities and safety incentive liabilities. Actual results may differ from such estimates.

Recent accounting pronouncements

In May 2014, FASB issued ASU No. 2014-09 which provides for a single, principles-based model for revenue recognition that will replace most existing revenue recognition guidance under U.S. GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method. In March and April 2016, the FASB issued ASU 2016-08 Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU 2016-10 Identifying Performance Obligations and Licensing, ASU 2016-11 Revenue Recognition and Derivatives and Hedging: Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting, and ASU 2016-12 Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients, which all provide further clarification to be considered when implementing ASU 2014-09. The Company has not yet selected a transition method or determined the effect of the standard on its ongoing financial reporting.

In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 by one year. ASU 2014-09 is discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted as of the date of the original effective date, for interim and annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the provisions of ASU 2015-14 and ASU 2014-09.

Note 2 - Restatement of Previously Issued Condensed Consolidated Financial Statements

On May 25, 2016, the Company filed its Form 10-K for 2015 which included annual consolidated financial statements for the year ended December 31, 2015. Included within the 2015 Form 10-K were the restated consolidated financial statements for the years ended December 31, 2014 and 2013 and related quarters, as well as the quarterly periods ended March 31, 2015 and June 30, 2015.

The following schedules reflect the previously reported and restated financial information as of and for the three and six months ended June 30, 2015.

Impact on Condensed Consolidated Balance Sheet (Unaudited) (In Thousands, Except Par Value)

	June 30, 2015		
	As Previously Reported	Restatement Adjustments	As Restated
ASSETS			
Current assets:			
Cash and cash equivalents	$ 4,439	$ 0	$ 4,439
Trade accounts receivable, net	137,862	0	137,862
Income taxes receivable	8,737	457	9,194
Prepaid expenses and other	5,689	0	5,689
Restricted certificates of deposit	26,015	0	26,015
Restricted marketable securities and workers' compensation deposits	21,343	0	21,343
Deferred income taxes	15,774	3,209	18,983
Total current assets	219,859	3,666	223,525
Marketable securities	6,048	0	6,048
Property, equipment and software, net	22,648	0	22,648
Restricted certificates of deposit	88,320	0	88,320
Restricted marketable securities and workers' compensation deposits	101,828	0	101,828
Other assets	4,840	0	4,840
Goodwill	47,820	0	47,820
	$ 491,363	$ 3,666	$495,029
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Line of credit	$ 3,223	$ 0	$ 3,223
Current portion of long-term debt	27,220	0	27,220
Accounts payable	2,419	0	2,419
Accrued payroll, payroll taxes and related benefits	141,278	(522)	140,756
Other accrued liabilities	4,845	0	4,845
Workers' compensation claims liabilities	60,457	4,931	65,388
Safety incentives liability	18,147	0	18,147
Total current liabilities	257,589	4,409	261,998
Long-term workers' compensation claims liabilities	169,154	4,702	173,856
Long-term debt	14,723	0	14,723
Deferred income taxes	8,159	262	8,421
Customer deposits and other long-term liabilities	1,487	0	1,487
Total liabilities	451,112	9,373	460,485
Commitments and contingencies			
Stockholders' equity:			
Common stock, $.01 par value; 20,500 shares authorized, 7,141 shares issued and outstanding	72	0	72
Additional paid-in capital	6,173	0	6,173
Accumulated other comprehensive income	4	0	4
Retained earnings	34,002	(5,707)	28,295
	40,251	(5,707)	34,544
	$ 491,363	$ 3,666	$495,029

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Note 2 - Restatement of Previously Issued Condensed Consolidated Financial Statements (Continued)

Impact on Condensed Consolidated Statement of Operations (Unaudited) (In Thousands, Except Per Share Amounts)

	Three months ended June 30, 2015		
	As Previously Reported	Restatement Adjustments	As Restated
Revenues:			
Professional employer service fees	$ 140,048	$ (436)	$139,612
Staffing services	42,347	0	42,347
Total revenues	182,395	(436)	181,959
Cost of revenues:			
Direct payroll costs	32,188	0	32,188
Payroll taxes and benefits	72,146	(338)	71,808
Workers' compensation	41,897	(412)	41,485
Total cost of revenues	146,231	(750)	145,481
Gross margin	36,164	314	36,478
Selling, general and administrative expenses	21,278	151	21,429
Depreciation and amortization	709	0	709
Income from operations	14,177	163	14,340
Other income (expense):			
Investment income	148	81	229
Interest expense	(562)	0	(562)
Other, net	(65)	0	(65)
Other expense, net	(479)	81	(398)
Income before income taxes	13,698	244	13,942
Provision for income taxes	4,952	88	5,040
Net income	$ 8,746	$ 156	$ 8,902
Basic earnings per common share	$ 1.22	$ 0.02	$ 1.24
Weighted average number of basic common shares outstanding	7,151	0	7,151
Diluted earnings per common share	$ 1.19	$ 0.02	$ 1.21
Weighted average number of diluted common shares outstanding	7,327	0	7,327
Cash dividends per common share	$ 0.22		$ 0.22

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Note 2 - Restatement of Previously Issued Condensed Consolidated Financial Statements (Continued)

	Six months ended June 30, 2015		
	As Previously Reported	Restatement Adjustments	As Restated
Revenues:			
Professional employer service fees	$ 267,799	$ (953)	$266,846
Staffing services	81,513	0	81,513
Total revenues	349,312	(953)	348,359
Cost of revenues:			
Direct payroll costs	61,952	0	61,952
Payroll taxes and benefits	160,440	(555)	159,885
Workers' compensation	81,780	(667)	81,113
Total cost of revenues	304,172	(1,222)	302,950
Gross margin	45,140	269	45,409
Selling, general and administrative expenses	38,253	146	38,399
Depreciation and amortization	1,392	0	1,392
Income from operations	5,495	123	5,618
Other income (expense):			
Investment income	236	80	316
Interest expense	(1,082)	0	(1,082)
Other, net	(78)	(1)	(79)
Other expense, net	(924)	79	(845)
Income before income taxes	4,571	202	4,773
Provision for income taxes	1,627	72	1,699
Net income	$ 2,944	$ 130	$ 3,074
Basic earnings per common share	$ 0.41	$ 0.02	$ 0.43
Weighted average number of basic common shares outstanding	7,143	0	7,143
Diluted earnings per common share	$ 0.40	$ 0.02	$ 0.42
Weighted average number of diluted common shares outstanding	7,328	0	7,328
Cash dividends per common share	$ 0.44		$ 0.44

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Note 2 - Restatement of Previously Issued Condensed Consolidated Financial Statements (Continued)

Impact on Condensed Consolidated Statement of Comprehensive Income (Unaudited) (In Thousands)

	Three months ended June 30, 2015		
	As Previously Reported	Restatement Adjustments	As Restated
Net income	$ 8,746	$ 156	$ 8,902
Unrealized losses on marketable securities, net of tax of $11	(17)	0	(17)
Comprehensive income	$ 8,729	$ 156	$ 8,885

	Six months ended June 30, 2015		
	As Previously Reported	Restatement Adjustments	As Restated
Net income	$ 2,944	$ 130	$ 3,074
Unrealized gains on marketable securities, net of tax of $17	27	0	27
Comprehensive income	$ 2,971	$ 130	$ 3,101

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Note 2 - Restatement of Previously Issued Condensed Consolidated Financial Statements (Continued)

Impact on Condensed Consolidated Statement of Cash Flows (Unaudited) (In Thousands)

	Six months ended June 30, 2015		
	As Previously Reported	Restatement Adjustments	As Restated
Cash flows from operating activities:			
Net income	$ 2,944	$ 130	$ 3,074
Reconciliations of net income to net cash provided by operating activities:			
Depreciation and amortization	1,392	0	1,392
Losses recognized on marketable securities	1	0	1
Deferred income taxes	0	72	72
Share based compensation	1,069	0	1,069
Excess tax benefit from share-based compensation	(70)	0	(70)
Changes in certain operating assets and liabilities:			
Trade accounts receivable	(35,235)	0	(35,235)
Income taxes receivable	2,754	(1)	2,753
Prepaid expenses and other	(1,876)	0	(1,876)
Accounts payable	(300)	0	(300)
Accrued payroll, payroll taxes and related benefits	24,094	825	24,919
Other accrued liabilities	(21)	(1,364)	(1,385)
Workers' compensation claims liabilities	13,629	337	13,966
Safety incentives liability	3,915	0	3,915
Customer deposits, long-term liabilities and other assets, net	278	0	278
Net cash provided by operating activities	12,574	(1)	12,573
Cash flows from investing activities:			
Purchase of property and equipment	(1,365)	0	(1,365)
Purchase of marketable securities	(2,315)	0	(2,315)
Proceeds from sales and maturities of marketable securities	47,197	0	47,197
Purchase of restricted marketable securities	(64,483)	0	(64,483)
Proceeds from maturities of restricted marketable securities	3,621	0	3,621
Net cash used in investing activities	(17,345)	0	(17,345)
Cash flows from financing activities:			
Proceeds from credit-line borrowings	44,934	0	44,934
Payments on credit-line borrowings	(41,711)	0	(41,711)
Payments on long-term debt	(3,110)	0	(3,110)
Common stock repurchased on vesting of restricted stock units	(65)	0	(65)
Dividends paid	(3,142)	1	(3,141)
Proceeds from the exercise of stock options and vesting of restricted stock units	690	0	690
Excess tax benefit from share-based compensation	70	0	70
Net cash used in financing activities	(2,334)	1	(2,333)
Net decrease in cash and cash equivalents	(7,105)	0	(7,105)
Cash and cash equivalents, beginning of period	11,544	0	11,544
Cash and cash equivalents, end of period	$ 4,439	$ 0	$ 4,439

Note 3 - Fair Value Measurement

The following table summarizes the Company's marketable securities at June 30, 2016 and December 31, 2015 measured at fair value on a recurring basis (in thousands):

	June 30, 2016			December 31, 2015		
	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	Cost	Gross Unrealized Gains (Losses)	Recorded Basis
Current:						
Cash Equivalents:						
Money Market Funds	$ 4,830	$ 0	$ 4,830	$ 21,312	$ 0	$ 21,312
Available for Sale - Restricted:						
Money Market Funds	48,371	0	48,371	76,023	0	76,023
Certificate of Deposit	0	0	0	10,000	0	10,000
Total Current Investments	53,201	0	53,201	107,335	0	107,335
Long term:						
Available-for-sale:						
Municipal Bonds	1,500	1	1,501	3,135	(3)	3,132
Corporate Bonds	863	(2)	861	2,970	(24)	2,946
Money Market Funds	94	0	94	4	0	4
Available for Sale - Restricted:						
Money Market Funds	221,728	0	221,728	175,869	0	175,869
Certificates of Deposit	11,776	(1)	11,775	496	(1)	495
U.S. Treasuries	5,280	17	5,297	4,752	1	4,753
Corporate Bonds	3,217	8	3,225	2,996	(24)	2,972
Municipal Bonds	3,160	12	3,172	3,613	(1)	3,612
Total Long Term Investments	247,618	35	247,653	193,835	(52)	193,783
Total Investments	$300,819	$ 35	$300,854	$301,170	$ (52)	$301,118

Note 3 - Fair Value Measurement (Continued)

The following table summarizes the Company's financial assets at June 30, 2016 and December 31, 2015 measured at fair value on a recurring basis by fair value hierarchy level (in thousands):

	June 30, 2016				December 31, 2015			
	Total Recorded Basis	Level 1	Level 2	Level 3	Total Recorded Basis	Level 1	Level 2	Level 3
Cash Equivalents:								
Money Market	$ 4,830	$ 0	$ 4,830	$ 0	$ 21,312	$ 0	$ 21,312	$ 0
Available for Sale - Unrestricted:								
Municipal Bonds	1,501	50	1,451	0	3,132	241	2,891	0
Corporate Bonds	861	401	460	0	2,946	2,291	655	0
Money Market Funds	94	0	94	0	4	0	4	0
Available for Sale - Restricted:								
Money Market	270,099	888	269,211	0	251,892	17	251,875	0
Certificates of Deposit	11,775	0	11,775	0	10,495	0	10,495	0
U.S. Treasuries	5,297	5,297	0	0	4,753	4,753	0	0
Corporate Bonds	3,225	2,174	1,051	0	2,972	2,285	687	0
Municipal Bonds	3,172	213	2,959	0	3,612	389	3,223	0
Total Available for Sale Securities	296,024	9,023	287,001	0	279,806	9,976	269,830	0
Total Investments	$300,854	$9,023	$291,831	$ 0	$301,118	$9,976	$291,142	$ 0

Note 4 - Workers' Compensation Claims

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015 (As Restated)	2016	2015 (As Restated)
Beginning balance				
Workers' compensation claims liabilities	$265,142	$ 231,723	$255,675	$ 225,279
Add: claims expense accrual:				
Current period	34,627	30,748	65,781	58,530
Prior periods	(1,396)	(4,234)	(548)	(7,131)
	33,231	26,514	65,233	51,399
Less: claim payments related to:				
Current period	3,698	3,512	4,969	4,410
Prior periods	17,625	15,481	38,889	33,024
	21,323	18,993	43,858	37,434
Ending balance				
Workers' compensation claims liabilities	$277,050	$ 239,244	$277,050	$ 239,244
Incurred but not reported (IBNR)	$140,115	$ 118,959	$140,115	$ 118,959

The states of California, Oregon, Maryland, Washington, Delaware and Colorado required us to maintain specified investment balances or other financial instruments totaling $158.2 million at June 30, 2016 to cover potential workers' compensation claims losses related to the Company's current and former status as a self-insured employer. In partial satisfaction of these requirements at June 30, 2016, we have provided surety bonds and standby letters of credit totaling $152.0 million, including a California requirement of $147.2 million.

As part of its fronted workers' compensation insurance program with ACE Group ("ACE") in the states of California, Delaware, Virginia, Pennsylvania and the District of Columbia, the Company makes payments into a trust account ("the ACE trust account") to be used for the payment of future claims. The balance in the ACE trust account was $232.9 million and $166.6 million at June 30, 2016 and December 31, 2015, respectively. The ACE trust account balances are included as a component of the current and long-term restricted marketable securities and workers' compensation deposits in the Company's condensed consolidated balance sheets.

Note 5 - Revolving Credit Facility and Long-Term Debt

The Company maintains a credit agreement (the “Agreement”) with its principal bank, Wells Fargo Bank, National Association (the “Bank”). The Agreement provided for a $40.0 million term loan maturing December 31, 2016, as well as a $14.0 million revolving credit line, with a $6.0 million sublimit for unsecured standby letters of credit. The outstanding balance on the term loan was $7.5 million and $15.0 million at June 30, 2016 and December 31, 2015, respectively.

The Agreement also included $42.3 million in cash-secured letters of credit at June 30, 2016 to satisfy collateral requirements associated with the Company’s former status as a self-insured employer in California. In conjunction with these letters of credit, the Company posted with the Bank as collateral $44.0 million in restricted money market funds and restricted certificates of deposit.

The term loan with the Bank requires payments of $5.0 million on September 30, 2016 and $2.5 million upon the earlier of December 31, 2016 or the receipt of federal unemployment tax refunds. The term loan bears interest at the one month LIBOR plus 4.0%.

Advances under the revolving credit facility bear interest as selected by the Company of either (a) a daily floating rate of one month LIBOR plus 2.0% or (b) a fixed rate of LIBOR plus 2.0%. The Agreement also provides for an unused commitment fee of 0.35% per year on the average daily unused amount of the revolving credit facility, and a fee of 1.75% of the face amount of each letter of credit. The Company had no outstanding borrowings on its revolving credit line at June 30, 2016 and December 31, 2015. The revolving line of credit expires on October 1, 2017.

The credit facility is collateralized by the Company’s accounts receivable and other rights to receive payment, general intangibles and equipment.

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

- minimum Fixed Charge Coverage ratio of no less than 2.25:1.0, measured quarterly on a rolling four-quarter basis, with Fixed Charge Coverage Ratio defined as (i) EBITDA (net profit before taxes plus interest expense, net of capitalized interest expense, depreciation expense and amortization expense) minus distributions, dividends and cash taxes paid, divided by (ii) $9,425,000. Prior to June 30, 2016, the minimum Fixed Charge Coverage ratio was no less than 1.50:1.0, measured quarterly on a rolling four-quarter basis.
- ratio of restricted and unrestricted cash and marketable securities to workers’ compensation and safety incentive liabilities of at least 1.0:1.0, measured quarterly.

The Agreement includes certain additional restrictions as follows:

- capital expenditures may not exceed a total of $4.0 million in 2016 without the Bank’s prior approval;
- incurring additional indebtedness is prohibited without the prior approval of the Bank, other than up to $200,000 per year in purchase money financing and the aggregate of all purchase money indebtedness may not exceed $400,000 at any time;

Note 5 - Revolving Credit Facility and Long-Term Debt (Continued)

- repurchases of the Company's common stock are prohibited.
- quarterly cash dividends up to $0.22 per share may be paid so long as there is no default by the Company and payment would not cause a default; and
- delisting of the Company's common stock by The Nasdaq Stock Market ("Nasdaq") is an event of default.

The Agreement also contains customary events of default. If an event of default under the Agreement occurs and is continuing, the Bank may declare any outstanding obligations under the Agreement to be immediately due and payable.

At June 30, 2016, the Company was in violation of the ratio of restricted and unrestricted cash and marketable securities to workers' compensation and safety incentive liabilities of at least 1.0:1.0. The Bank agreed to waive this covenant violation.

The Company maintains a mortgage loan with the Bank with a balance of approximately $4.7 million and $4.8 million at June 30, 2016 and December 31, 2015, 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 2.25%, with the unpaid principal balance due November 1, 2017.

Note 6 - Income Taxes

Under ASC 740, "Income Taxes," management evaluates the realizability of the deferred tax assets on a quarterly basis under a "more-likely than not" standard. As part of this evaluation, management reviews all evidence both positive and negative to determine if a valuation allowance is needed. One component of this analysis is to determine whether the Company was in a cumulative loss position for the most recent 12 quarters. The Company was in a cumulative income position for the 12 quarters ended June 30, 2016.

The Internal Revenue Service is examining the Company's federal tax returns for the years ended December 31, 2011, 2012, 2013 and 2014.

Note 7 - Litigation

On November 6, 2014, plaintiffs in *Michael Arciaga, et al. v. Barrett Business Services, Inc., et al*, filed an action in the United States District Court for the Western District of Washington against BBSI, Michael L. Elich, BBSI's Chief Executive Officer, and James D. Miller, BBSI's then Chief Financial Officer. The action purported to be a class action brought on behalf of all Company shareholders alleging violations of the federal securities laws. The claims arose from the decline in the market price for BBSI common stock following announcement of a charge for increased workers' compensation reserves expense. The lawsuit sought compensatory damages (in an amount to be determined at trial), plus interest, and costs and expenses (including attorney fees and expert fees).

On November 13, 2014, a second purported shareholder class action was filed in the United States District Court for the Western District of Washington, entitled *Christopher P. Carnes, et al. v. Barrett Business Services, Inc., et al* The *Carnes* complaint named the same defendants as the *Arciaga* case and asserted similar claims for relief.

Similarly, on November 17, 2014, a third purported shareholder class action was filed in the United States District Court for the Western District of Washington, entitled *Shiva Stein, et al. v. Barrett Business Services, Inc., et al.* The *Stein* complaint named the same defendants as the *Arciaga* and *Carnes* cases and asserted similar claims for relief.

On February 25, 2015, the court ordered consolidation of the three cases, and any new or other cases involving the same subject matter, into a single action for pretrial purposes. The consolidated cases were recaptioned as *In re Barrett Business Services Securities Litigation.* The court also appointed the Painters & Allied Trades District Council No. 35 Pension and Annuity Funds as the lead plaintiff. Discovery has not been undertaken as it is automatically stayed under the federal Private Securities Litigation Reform Act.

On April 29, 2015, the plaintiffs in the class action filed a consolidated amended complaint, naming BBSI, Elich and Miller as defendants. On June 12, 2015, defendants filed a motion to dismiss the consolidated amended complaint.

On November 23, 2015, before the court had ruled on the motion to dismiss, plaintiffs filed a first amended consolidated complaint, naming the same defendants. The first amended consolidated complaint included new allegations relating to disclosures in BBSI's Current Report on Form 8-K filed on November 9, 2015.

On February 16, 2016, BBSI filed a motion to dismiss the first amended consolidated complaint. That same day, Messrs. Elich and Miller, through separate counsel, also filed motions to dismiss the first amended consolidated complaint, adopting BBSI's motion in its entirety.

Note 7 – Litigation (Continued)

On March 21, 2016, before the court had ruled on the motion to dismiss the first amended consolidated complaint, plaintiffs filed a second amended consolidated complaint, naming the same defendants. The second amended consolidated complaint dropped certain allegations from the first amended complaint and added new allegations relating to disclosures in BBSI's Current Report on Form 8-K filed on March 9, 2016. Among other disclosures, BBSI reported that (1) previously issued financial statements could not be relied on, (2) Mr. Miller had reported making unsupported journal entries, (3) Mr. Miller's employment had been terminated, and (4) BBSI was in the process of engaging a Big Four accounting firm to conduct an independent forensic accounting investigation.

BBSI responded to the second amended consolidated complaint by filing a motion to dismiss on May 23, 2016. Messrs. Elich and Miller joined in that motion. BBSI filed its reply brief to plaintiffs' opposition to the motion to dismiss on July 25, 2016.

BBSI received a subpoena from the San Francisco office of the Division of Enforcement of the Securities and Exchange Commission (the "SEC") in May 2015 in connection with the SEC's investigation of the Company's accounting practices with regard to its workers' compensation reserves. In April 2016, the SEC issued a second subpoena to BBSI for documents relating to the disclosures made by the Company following Mr. Miller's termination. The Company was also advised by the United States Department of Justice in mid-June 2016 that it has commenced an investigation. BBSI is cooperating fully with the investigations.

On June 17, 2015, Daniel Salinas ("Salinas") filed a shareholder derivative lawsuit against BBSI and certain of its officers and directors in the Circuit Court for Baltimore City, Maryland. The complaint alleges breaches of fiduciary duty, unjust enrichment and other violations of law and seeks recovery of various damages, including the costs and expenses incurred in connection with the Company's reserve strengthening process, reserve study and consultants, the cost of stock repurchases by BBSI in October 2014, compensation paid to the Company's officers, and costs of negotiating the Company's credit facility with its principal lender, as well as the proceeds of sales of stock by certain of BBSI's officers and directors during 2013 and 2014. On September 28, 2015, the Company and the individual defendants filed motions to dismiss the derivative suit and a motion to stay pending resolution of *In re Barrett Business Services Securities Litigation*. On December 4, 2015, Salinas filed an opposition to each motion. On January 27, 2016, the defendants filed a reply to the opposition brief. On February 11, 2016, Judge Michel Pierson heard oral argument on the motions. A decision has not been issued.

Management is unable to estimate the probability, or the potential range of loss arising from the legal actions described above.

BBSI is subject to other legal proceedings and claims, which arise in the ordinary course of our business. In the opinion of management, the amount of ultimate liability with respect to other currently pending or threatened actions is not expected to materially affect the Company's consolidated financial position or results of operations.

Note 8 – Subsequent Events

On July 1, 2016 the Company sold 1.25 acres of river front property on the Columbia River in Washougal, Washington for $1.5 million. The loss on the sale was immaterial.

On July 7, 2016 Nasdaq issued a written decision which stated the Nasdaq hearings panel had determined that the Company had regained compliance with Nasdaq listing standards.

On August 8, 2016, the Company received notification from the Internal Revenue Service of overpayment of federal unemployment taxes (FUTA) in the amounts of $795,000 and $1.8 million for 2013 and 2014, respectively, based on the Company's amended returns for those years. In addition, the Company has filed an amendment for a 2015 FUTA refund. As of August 9, 2016, the Company has not received a notice from the Internal Revenue Service regarding the 2015 amended return.

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 comprised of 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 22 states and the District of Columbia through a network of 55 branch locations in California, Oregon, Washington, Arizona, Colorado, Idaho, Nevada, Utah, Delaware, Maryland, North Carolina and Virginia. We also have several smaller recruiting locations in our general market areas, which are under the direction of a branch office.

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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 inform 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 4,000 companies each day, define our approach to guiding business owners through the challenges associated with being an employer. BBSI's business teams align with each business owner client through a structured three-tiered progression. In doing so, business teams focus on the objectives of each business owner and deliver planning, guidance and resources in support of those objectives.

Tier 1: Tactical Alignment

The first stage focuses on the mutual setting of expectations and is essential to a successful client relationship. It begins with a process of assessment and 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 internal claims managers and 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.

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

Results of Operations

The following table sets forth the percentages of total revenues represented by selected items in the Company's Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015.

	Percentage of Total Revenue			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015 (As Restated)	2016	2015 (As Restated)
Revenues:				
Professional employer service fees	81.5%	76.7%	81.3%	76.6%
Staffing services	18.5	23.3	18.7	23.4
Total revenues	100.0	100.0	100.0	100.0
Cost of revenues:				
Direct payroll costs	13.9	17.7	14.1	17.8
Payroll taxes and benefits	40.7	39.5	47.4	45.9
Workers' compensation	24.6	22.8	25.2	23.3
Total cost of revenues	79.2	80.0	86.7	87.0
Gross margin	20.8	20.0	13.3	13.0
Selling, general and administrative expenses	14.0	11.7	12.7	11.0
Depreciation and amortization	0.4	0.4	0.4	0.4
Income from operations	6.4	7.9	0.2	1.6
Other income (expense), net	0.0	(0.2)	0.0	(0.2)
Income before income taxes	6.4	7.7	0.2	1.4
Provision for income taxes	2.2	2.8	0.1	0.5
Net income	4.2%	4.9%	0.1%	0.9%

We report professional employer service revenues on a net basis because we are not the primary obligor for the services provided by our co-employed clients to their customers pursuant to our client service agreements. We present for comparison purposes the gross revenues and cost of revenues information for the three and six months ended June 30, 2016 and 2015 in the table below. Although not in accordance with GAAP, management believes this information is more informative as to the level of our business activity and more illustrative of how we manage our operations, including the preparation of our internal operating forecasts, because it presents our professional employer services on a basis comparable to our staffing services.

The presentation of revenues on a net basis and the relative contributions of staffing and professional employer services revenues can create volatility in our gross margin percentage. The general impact of fluctuations in our revenue mix is described below.

- A relative increase in professional employer services revenue will result in higher gross margin percentage. Improvement in gross margin percentage occurs because incremental client service revenue dollars are reported as revenue net of all related direct payroll and safety incentive costs.

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

- A relative decrease in staffing revenues will typically result in a higher gross margin percentage. Staffing revenues are presented at gross with the related direct costs reported in cost of revenues. While staffing relationships typically have higher margins than professional employer service relationships, an increase in staffing revenues and related costs increases the impact of the net professional employer services revenue on gross margin percentage.

Non-GAAP (in thousands)	(Unaudited) Three Months Ended June 30, 2016	2015 (As Restated)	(Unaudited) Six Months Ended June 30, 2016	2015 (As Restated)
Revenues:				
Professional employer services	$1,102,884	$ 929,521	$2,130,482	$1,787,282
Staffing services	37,641	42,347	73,932	81,513
Total revenues	1,140,525	971,868	2,204,414	1,868,795
Cost of revenues:				
Direct payroll costs	958,458	815,773	1,852,508	1,570,209
Payroll taxes and benefits	82,885	71,808	186,645	159,885
Workers' compensation	56,929	47,809	112,621	93,292
Total cost of revenues	1,098,272	935,390	2,151,774	1,823,386
Gross margin	$ 42,253	$ 36,478	$ 52,640	$ 45,409

A reconciliation of non-GAAP gross revenues to net revenues is as follows for the three and six months ended June 30, 2016 and 2015 (in thousands):

	(Unaudited) Three Months Ended June 30,					
	Gross Revenue Reporting Method (Non-GAAP)		Reclassification		Net Revenue Reporting Method (GAAP)	
	2016	2015 (As Restated)	2016	2015 (As Restated)	2016	2015 (As Restated)
Revenues:						
Professional employer services	$1,102,884	$ 929,521	$(937,108)	$ (789,909)	$165,776	$ 139,612
Staffing services	37,641	42,347	0	0	37,641	42,347
Total revenues	$1,140,525	$ 971,868	$(937,108)	$ (789,909)	$203,417	$ 181,959
Cost of revenues	$1,098,272	$ 935,390	$(937,108)	$ (789,909)	$161,164	$ 145,481

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

	(Unaudited) Six Months Ended June 30,					
	Gross Revenue Reporting Method (Non-GAAP)		Reclassification		Net Revenue Reporting Method (GAAP)	
	2016	2015 (As Restated)	2016	2015 (As Restated)	2016	2015 (As Restated)
Revenues:						
Professional employer services	$2,130,482	$1,787,282	$(1,810,030)	$(1,520,436)	$320,452	$ 266,846
Staffing services	73,932	81,513	0	0	73,932	81,513
Total revenues	$2,204,414	$1,868,795	$(1,810,030)	$(1,520,436)	$394,384	$ 348,359
Cost of revenues	$2,151,774	$1,823,386	$(1,810,030)	$(1,520,436)	$341,744	$ 302,950

The amount of the reclassification is comprised of direct payroll costs and safety incentives attributable to our professional employer services client companies.

Three months ended June 30, 2016 and 2015

Net income for the second quarter of 2016 amounted to $8.5 million compared to net income of $8.9 million for the second quarter of 2015. Diluted income per share for the second quarter of 2016 was $1.16 compared to diluted income per share of $1.21 for 2015.

Revenues for the second quarter of 2016 totaled $203.4 million, an increase of approximately $21.5 million or 11.8% over the second quarter of 2015, which reflects an increase in the Company's professional employer service fee revenue of $26.2 million or 18.7%, offset by a decrease in staffing services revenue of $4.7 million or 11.1%.

Approximately 78% of our total net revenues for both periods was attributable to our California operations.

Our growth in professional employer service revenues was attributable to both new and existing customers. Due to continued strength in our referral channels, business from new customers during the second quarter of 2016 nearly doubled business lost from former customers. Professional employer service revenue from continuing customers reflected an 8.7% increase compared to the second quarter of 2015, primarily resulting from increases in employee headcount and hours worked. The decrease in staffing services revenue was due primarily to a decrease in net staffing business as lost business from former customers exceeded the addition of new business, coupled with a decrease in revenue from continuing customers.

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

Three months ended June 30, 2016 and 2015 (Continued)

Gross margin for the second quarter of 2016 totaled approximately $42.3 million or 20.8% of revenue compared to $36.5 million or 20.0% of revenue for the second quarter of 2015. The increase in gross margin percentage was primarily due to a decrease in direct payroll cost, as a percentage of revenues, partially offset by increases in workers' compensation expense along with payroll taxes and benefits, as a percentage of revenues.

Direct payroll costs as a percentage of revenues decreased to 13.9% for the second quarter of 2016 from 17.7% for the second quarter of 2015, primarily due to the increase in professional employer services and the decrease of staffing services within the mix of our customer base compared to the second quarter of 2015.

Payroll taxes and benefits as a percentage of revenues for the second quarter of 2016 was 40.7% compared to 39.5% for the second quarter of 2015. The percentage rate increase was primarily due to the effect of growth in professional employer services, where payroll taxes and benefits are presented at gross cost. The effect of the growth in professional employer services on payroll taxes and benefits was partially offset by a decline in the overall state unemployment tax rates in states where the Company does business.

Workers' compensation expense, in terms of dollars and as a percentage of revenues, increased from $41.5 million or 22.8% in the second quarter of 2015 to $50.1 million or 24.6% in the second quarter of 2016. The percentage rate increase was primarily due to the change in prior periods' claims expense from $(4.2) million in the second quarter of 2015 to $(1.4) million in the second quarter of 2016.

Selling, general and administrative ("SG&A") expenses for the second quarter of 2016 totaled approximately $28.5 million, an increase of $7.1 million or 33.0% over the second quarter of 2015. A portion of the increase was due to $2.6 million in legal and accounting costs associated with financial restatements, outside investigations and legal proceedings related to securities law issues. We also incurred higher management payroll and other branch level expenses to support our business growth.

Other income, net for the second quarter of 2016 totaled approximately $6,000 as compared to an expense of $398,000 for the second quarter of 2015. The change was primarily attributable to a decrease in interest expense from $562,000 in the second quarter of 2015 to $248,000 in the second quarter of 2016.

Our effective income tax rate for the second quarter of 2016 was 34.4%, compared to 36.1% for the second quarter of 2015. Our income tax rate typically differs from the federal statutory tax rate of 35% primarily due to federal and state tax credits.

The Internal Revenue Service is examining the Company's federal tax returns for the years ended December 31, 2011, 2012, 2013 and 2014.

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

Six months ended June 30, 2016 and 2015

Net income for the six months ended June 30, 2016 amounted to $519,000 compared to a net income of $3.1 million for the first six months of 2015. Diluted income per share for the first six months of 2016 was $0.07 compared to diluted income per share of $0.42 for 2015.

Revenues for the first six months of 2016 totaled $394.4 million, an increase of approximately $46.0 million or 13.2% over the similar period of 2015, which reflects an increase in the Company's professional employer service fee revenue of $53.6 million or 20.1%, offset by a decrease in staffing services revenue of $7.6 million or 9.3%.

Approximately 79% and 78%, respectively, of our total net revenues during the first six months ended June 30, 2016 and 2015 was attributable to our California operations.

Our growth in professional employer service revenues was attributable to both new and existing customers. Due to continued strength in our referral channels, business from new customers during the first six months of 2016 nearly doubled business lost from former customers. Professional employer service revenue from continuing customers reflected a 7.5% increase compared to the first six months of 2015, primarily resulting from increases in employee headcount and hours worked. The decrease in staffing services revenue was due primarily to a decrease in net staffing business as lost business from former customers exceeded the addition of new business, coupled with a decrease in revenue from continuing customers.

Gross margin for the first six months of 2016 increased to approximately $52.6 million or 13.3% of revenue compared to $45.4 million or 13.0% of revenue for the first six months of 2015. The increase in gross margin percentage was primarily due to a decrease in direct payroll cost, as a percentage of revenues, partially offset by increases in workers' compensation expense along with payroll taxes and benefits, as a percentage of revenues.

Direct payroll costs as a percentage of revenues decreased to 14.1% for the first six months of 2016 from 17.8% for the first six months of 2015, primarily due to the increase in professional employer services and the decrease of staffing services within the mix of our customer base compared to the first six months of 2015.

Payroll taxes and benefits as a percentage of revenues for the first six months of 2016 was 47.4% compared to 45.9% for the first six months of 2015. The percentage rate increase was primarily due to the effect of growth in professional employer services, where payroll taxes and benefits are presented at gross cost. The effect of the growth in professional employer services on payroll taxes and benefits was partially offset by a decline in the overall state unemployment tax rates in states where the Company does business.

Workers' compensation expense, in terms of dollars and as a percentage of revenues, increased from $81.1 million or 23.3% in the first six months of 2015 to $99.5 million or 25.2% in the first six months of 2016. The percentage rate increase was primarily due to the change in prior periods' claims expense from ($7.1) million in the first six months of 2015 to $(0.5) million in the first six months of 2016.

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

Six months ended June 30, 2016 and 2015 (Continued)

SG&A expenses for the first six months of 2016 totaled approximately $50.4 million, an increase of $12.0 million or 31.2% over the first six months of 2015. A portion of the increase was due to $4.4 million in legal and accounting costs associated with financial restatements, outside investigations and legal proceedings related to securities law issues. We also incurred higher management payroll and other branch level expenses to support our business growth.

Other expense, net for the six months ended June 30, 2016 totaled approximately $2,000 as compared to $845,000 for the comparable 2015 period. The change was primarily attributable to a decrease in interest expense from $1.1 million in the first six months of 2015 to $508,000 in the first six months of 2016, as well as an increase in investment income from $316,000 in the first six months of 2015 to $507,000 in the first six months of 2016.

Our effective income tax rate for the first six months of 2016 was 28.5%, compared to 35.6% for the first six months of 2015. The decrease in the effective income tax rate is primarily due to discrete items of $42,000, which had a material impact on the rate due to the relative proportion of these discrete items to net income compared to the first six months of 2015.

Fluctuations in Quarterly Operating Results

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

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

Liquidity and Capital Resources

The Company's cash position of $422,000 at June 30, 2016 decreased $24.8 million from December 31, 2015, which compares to a decrease of $4.4 million for the comparable period of 2015. The decrease in cash at June 30, 2016, as compared to December 31, 2015, was primarily due to purchases of securities of $89.7 million and an increase in trade accounts receivable of $87.4 million, partially offset by net income of $519,000, proceeds from sales and maturities of securities of $73.6 million, an increase in accrued payroll, payroll taxes and related benefits of $65.0 million, and an increase in workers' compensation claims liabilities of $21.4 million.

Net cash provided by operating activities for the six months ended June 30, 2016 amounted to $4.5 million, compared to cash provided by operating activities of $12.6 million for the comparable period of 2015. For the six months ended June 30, 2016, cash flow was primarily due to net income of $519,000, an increase in accrued payroll, payroll taxes and related benefits of $65.0 million, an increase in workers' compensation claims liabilities of $21.4 million, and an increase in safety incentive liability of $3.0 million, partially offset by an increase in trade accounts receivable of $87.4 million.

Net cash used in investing activities totaled $18.8 million for the six months ended June 30, 2016, compared to net cash used of $17.3 million for the comparable period of 2015. For the six months ended June 30, 2016, cash used in investing activities consisted primarily of purchases of restricted marketable securities of $79.4 million and restricted certificates of deposits of $10.0 million, partially offset by proceeds from sales and maturities of restricted marketable securities of $59.6 million and restricted certificates of deposits of $10.0 million.

Net cash used in financing activities for the six months ended June 30, 2016 was $10.5 million, compared to net cash used in financing activities of $2.3 million for the comparable period of 2015. For the six months ended June 30, 2016, cash was primarily used for debt payments of $7.6 million and dividend payments of $3.2 million.

The states of California, Oregon, Maryland, Washington, Delaware and Colorado required us to maintain specified investment balances or other financial instruments totaling $158.2 million at June 30, 2016 to cover potential workers' compensation claims losses related to the Company's current and former status as a self-insured employer. In partial satisfaction of these requirements, at June 30, 2016, we have provided surety bonds and standby letters of credit totaling $152.0 million, including a California requirement of $147.2 million.

Due to a decrease in our California workers' compensation claims liability during the first six months of 2016, the surety insurers decreased their letter of credit requirement to $42.3 million at June 30, 2016 from $88.3 million at December 31, 2015. The collateral associated with the letters of credit decreased to $44.0 million at June 30, 2016 from $92.4 million at December 31, 2015.

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

Management expects the letters of credit and related collateral to decrease over time as a result of a declining self-insured liability in California. The Company's self-insured status in California ended on December 31, 2014.

As part of the ACE fronted workers' compensation insurance program, the Company makes monthly payments into the ACE trust account, to be used for the payment of future claims. The balance in the ACE trust account was $232.9 million and $166.6 million at June 30, 2016 and December 31, 2015, respectively. The ACE trust account balance is made up of money market funds, included as a component of the current and long-term restricted marketable securities and workers' compensation deposits in the Company's consolidated balance sheets.

As disclosed in Note 5 to the condensed consolidated financial statements in this report, the Company maintains a credit agreement (the "Agreement") with its principal bank, Wells Fargo Bank, National Association (the "Bank"). The Agreement provided for a $40.0 million term loan maturing December 31, 2016, as well as a $14.0 million revolving credit line, with a $6.0 million sublimit for unsecured standby letters of credit. The outstanding balance on the term loan was $7.5 million and $15.0 million at June 30, 2016 and December 31, 2015, respectively.

The Agreement also included $42.3 million in cash-secured letters of credit at June 30, 2016 to satisfy collateral requirements associated with the Company's former status as a self-insured employer in California. In conjunction with these letters of credit, the Company posted with the Bank as collateral $44.0 million in restricted money market funds and restricted certificates of deposit.

The term loan with the Bank requires payments of $5.0 million on September 30, 2016 and $2.5 million upon the earlier of December 31, 2016 or the receipt of federal unemployment tax refunds. The term loan bears interest at the one month LIBOR plus 4.0%.

Advances under the revolving credit facility bear interest as selected by the Company of either (a) a daily floating rate of one month LIBOR plus 2.0% or (b) a fixed rate of LIBOR plus 2.0%. The Agreement also provides for an unused commitment fee of 0.35% per year on the average daily unused amount of the revolving credit facility, and a fee of 1.75% of the face amount of each letter of credit. The Company had no outstanding borrowings on its revolving credit line at June 30, 2016 and December 31, 2015. The revolving line of credit expires on October 1, 2017.

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

The credit facility is collateralized by the Company's accounts receivable and other rights to receive payment, general intangibles and equipment.

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

- minimum Fixed Charge Coverage ratio of no less than 2.25:1.0, measured quarterly on a rolling four-quarter basis, with Fixed Charge Coverage Ratio defined as (i) EBITDA (net profit before taxes plus interest expense, net of capitalized interest expense, depreciation expense and amortization expense) minus distributions, dividends and cash taxes paid, divided by (ii) $9,425,000. Prior to June 30, 2016, the minimum Fixed Charge Coverage ratio was no less than 1.50:1.0, measured quarterly on a rolling four-quarter basis.
- ratio of restricted and unrestricted cash and marketable securities to workers' compensation and safety incentive liabilities of at least 1.0:1.0, measured quarterly.

The Agreement includes certain additional restrictions as follows:

- capital expenditures may not exceed a total of $4.0 million in 2016 without the Bank's prior approval;
- incurring additional indebtedness is prohibited without the prior approval of the Bank, other than up to $200,000 per year in purchase money financing and the aggregate of all purchase money indebtedness may not exceed $400,000 at any time;
- repurchases of the Company's common stock are prohibited.
- quarterly cash dividends up to $0.22 per share may be paid so long as there is no default by the Company and payment would not cause a default; and
- delisting of the Company's common stock by The Nasdaq Stock Market ("Nasdaq") is an event of default.

The Agreement also contains customary events of default. If an event of default under the Agreement occurs and is continuing, the Bank may declare any outstanding obligations under the Agreement to be immediately due and payable.

At June 30, 2016, the Company was in violation of the ratio of restricted and unrestricted cash and marketable securities to workers' compensation and safety incentive liabilities of at least 1.0:1.0. The Bank agreed to waive this covenant violation.

The Company maintains a mortgage loan with the Bank with a balance of approximately $4.7 million and $4.8 million at June 30, 2016 and December 31, 2015, 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 2.25%, with the unpaid principal balance due November 1, 2017.

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

The Company is self-insured for certain business insurance risks such as general liability, errors and omissions and umbrella coverage. Management may explore in the future whether to pursue other vehicles to provide coverage including coverages provided by the Company's captive insurance companies.

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 expenses for workers' compensation claims.

Forward-Looking Information

Statements in this report which are not historical in nature, including discussion of economic conditions in our market areas and their effect on revenue levels, the effect of changes in our mix of services on gross margin, the adequacy of our workers' compensation reserves, the effect of changes in estimates of our future claims liabilities on our workers' compensation reserves, the effect of changes in our reserving practices and claims management process on our actuarial estimates and workers' compensation reserves, 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 fully licensed insurance subsidiaries, the effects of becoming self-insured for certain business risks, the risks of operation and cost of our fronted insurance program with ACE, our ability to pass on increased costs relating to the mandate to provide health insurance coverage to our clients, the effects of material weaknesses in our internal control environment, the effectiveness of our management information systems, payment of future dividends, our relationship with our primary bank lender and the availability of financing and working capital to meet our funding requirements, compliance with the continued listing requirements of The Nasdaq Stock Market ("Nasdaq"), current and future shareholder litigation, the ongoing investigations by the Securities and Exchange Commission (the "SEC"), and the United States Department of Justice (the "DOJ"), 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, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors with respect to the Company include our ability to retain current clients and attract new clients, difficulties associated with integrating clients into our operations, economic trends in our service areas, the potential for material deviations from expected future workers' compensation claims experience, the effect of changes in the workers' compensation regulatory environment in one or more of our primary markets, collectability of accounts receivable, the carrying values of deferred income tax assets and goodwill, which may be affected by our future operating results, the outcome of the examination of our federal tax returns for the years ended December 31, 2011, 2012, 2013 and 2014 by the Internal Revenue Service, the cost of defending against or settling

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

Forward-Looking Information (Continued)

shareholder litigation, the expenses associated with cooperating in the SEC and DOJ investigations and the potential imposition of fines, penalties and other remedies, the costs of remediating material weaknesses in our internal control environment, including the recruitment of a new Chief Financial Officer and additional members of the Board of Directors with experience in the oversight of financial reporting by public companies, the effect on our stock price if our Common Stock is delisted by Nasdaq, the impact of the Patient Protection and Affordable Care Act and escalating medical costs 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. We disclaim any obligation to update any such factors or 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 of liquid assets and its outstanding borrowings on its line of credit and long-term debt. As of June 30, 2016, the Company's investment portfolio consisted principally of approximately $275.0 million in money market funds, $11.8 million in certificates of deposit, $5.3 million in U.S. Treasuries, $4.7 million in municipal bonds, and $4.1 million in corporate bonds. The Company's outstanding long-term debt totaled approximately $12.2 million at June 30, 2016. Based on the Company's overall interest exposure at June 30, 2016, a 100 basis point increase in market interest rates would not have a material effect on the fair value of the Company's investment portfolio of liquid assets, its outstanding borrowings or its results of operations because of the predominantly short maturities of the securities within the investment portfolio and the relative size of the outstanding borrowings.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining for our Company adequate internal control over financial reporting as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act.

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 Chief Executive Officer ("CEO") and Chief Financial Officer ("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.

Item 4. Controls and Procedures (Continued)

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 not effective as of June 30, 2016 because of the material weaknesses in our internal control over financial reporting ("ICFR") described below.

Previously Identified Material Weaknesses

As reported in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, management identified the following material weaknesses in internal control over financial reporting:

1) The control environment, which includes the Company's Code of Business Conduct, is the responsibility of senior management and the Company's Audit and Compliance Committee of the Board of Directors (the "Audit Committee"), sets the tone of our organization, influences the control consciousness of employees and is the foundation for the other components of ICFR. On March 3, 2016, the Audit Committee met with James D. Miller, the Company's then CFO. Mr. Miller reported that he had made unsupported journal entries in the Company's financial records in circumvention of the Company's ICFR. Based on information provided by Mr. Miller and additional investigation undertaken at the direction of the Audit Committee, the primary effect of the unsupported, non-GAAP journal entries, confirmed as such through the investigation, was the understatement of workers' compensation expense and overstatement of payroll taxes and benefits expense during the years ended December 31, 2014, 2013 and 2012. Following these events, the Company determined that the former CFO did not promote an attitude of integrity and control consciousness, leading to insufficient attention to his responsibilities and the Company's ICFR. As a result of the actions of the former CFO, we have determined that our management review controls were not operating effectively, leading to additional material weaknesses as noted below. Further, effective mitigating controls were not in place elsewhere among senior management or the Board of Directors to discourage, prevent or detect management override of internal controls related to the Company's financial reporting process.

2) The Company did not maintain effective internal control over the process for deriving accounting estimates related to workers' compensation expense. Specifically, the Company did not ensure appropriate review of the data provided to its actuary or the analysis underlying actuarial reports provided by the actuary. As a result of this control deficiency, the Company failed to detect on a timely basis errors in its workers' compensation expense with respect to MCC fees incurred for the administration of workers' compensation claims, unallocated loss adjustment expense, and costs related to development of prior period claims.

3) The Company did not maintain effective internal control over the review, approval, and documentation of journal entries. Specifically, the Company failed to detect on a timely basis the recording of unsupported journal entries in the Company's books and records relating primarily to payroll taxes and benefits and workers' compensation expense.

4) The Company did not design and maintain effective internal control over account reconciliation procedures related to workers' compensation accruals. As a result of this deficiency, the Company failed to detect on a timely basis errors related to workers' compensation liability and workers' compensation expense.

Item 4. Controls and Procedures (Continued)

5) The Company did not maintain effective internal controls related to its information and technology systems. Specifically the Company did not maintain effective controls over program changes and access to programs and data, and mitigating controls were ineffective.

6) The Company did not maintain effective internal control over the review of payroll tax accruals and payroll tax expense, allowing for management override of controls. As a result of this deficiency, the Company failed to detect on a timely basis errors in the calculation of its federal and state payroll tax accruals and payroll tax expense.

Plan for Remediation of Material Weaknesses

The Company's Board of Directors, Audit Committee, and management are actively engaged in the planning for and implementation of remediation efforts to address the material weaknesses identified above. Management has taken the following actions to address the material weaknesses:

- Terminated the employment of the former CFO following his report to the Audit Committee regarding his actions in recording unsupported journal entries in the Company's financial records.
- The Audit Committee engaged an independent public accounting firm to perform a forensic accounting investigation for the period from January 1, 2009, through March 31, 2016. This investigation has been completed.
- Hired a permanent CFO with meaningful industry, public company accounting and financial experience.
- Instituted a search with the goal of adding to the Board of Directors two or more individuals with expertise in the governance of public companies, including board level independent oversight experience, service on an audit committee, and public company accounting and auditing. The Company intends to add an individual to serve as chair of the Audit Committee and as its Audit Committee financial expert.
- Directed the Audit Committee to ensure timely review by the Audit Committee of all engagements entered into by management relating to actuaries, specialists or other professionals whose consulting work could have an impact on the Company's financial reporting.
- Established a Workers' Compensation Committee ("WCC") consisting of the Chief Operating Officer – Corporate Operations, Chief Financial Officer, Corporate Controller and Director of Insurance to oversee the Company's controls and procedures related to workers' compensation claims administration and expense and its process for developing reserve estimates, as well as to participate in substantive communications with the Company's independent actuary with regard to the Company's reserve for workers' compensation liabilities.
- Established a procedure for quarterly meetings of the WCC with the Company's independent actuary with the goal of ensuring that the actuary is fully informed and has a complete understanding of the components included in the payroll and workers' compensation claims data provided to the actuary by the Company and to vet fully the quarterly actuarial report produced by the actuary. Meetings occurred in April and July, 2016.
- Directed the Company's interim CFO to implement a process of regular communication with the Audit Committee regarding management initiatives that may have a material effect on the Company's financial statements or involve material changes in the Company's accounting practices or ICFR.

Item 4. Controls and Procedures (Continued)

- Met with members of the Company’s accounting staff to ensure their understanding of the requirements and importance of the Company’s Code of Ethics for Senior Financial Officers, a specific section of the Company’s Code of Business Conduct.
- Directed the Company’s interim CFO to retain an outside third-party expert to provide in-depth education and training as promptly as practicable for all BBSI accounting staff and other relevant personnel regarding the disclosure and financial records requirements of the federal securities laws applicable to public companies, the requirements and importance of ICFR, and the requirements and significance of the Company’s Code of Ethics for Senior Financial Officers.

The following actions are also currently being undertaken by management to address the material weaknesses:

- Implementing a process of regular communication by the Board of Directors, Audit Committee, and executive officers to all employees regarding the ethical values of the Company and the requirement on the part of all directors, officers, and employees to comply with applicable law, the Company’s Code of Business Conduct, and the Company’s accounting policies and ICFR. As an initial step, the CEO distributed a written communication companywide reiterating the Company’s focus on honesty and integrity, establishing at the Director level a designated liaison at the Company who employees may contact to discuss a potential ethical issue and reminding employees of their ability to report concerns anonymously through the Company’s whistleblower hotline in place since 2004.
- Engaging one or more outside third-party experts to assist management with assessing and enhancing the Company’s control environment.
- Increasing and enhancing resources within the accounting and finance group to address standardization of processes, training regarding critical accounting policies affecting the Company and development of competencies and understanding of relevant accounting policies and ICFR.

Lastly, over the course of the ensuing months, management intends to undertake the following actions in consultation with an outside third-party expert to address material weaknesses in the Company’s control environment:

- Enhancing the design of processes and controls relating to the determination of certain accounting estimates, and in particular, appropriate review of the inputs and data used in the formulation of the estimates, including data provided to actuaries, review of actuarial reports, and review, approval and application of appropriate GAAP for transactions and accounting methodology changes.
- Enhancing the design of processes and controls surrounding manual journal entries, including implementation of new controls over the review, approval and recording of manual journal entries to ensure that manual journal entries recorded in the financial records are properly prepared, supported by adequate documentation, and independently reviewed and approved.
- Enhancing the design of processes and controls relating to effective and timely reconciliations of balance sheet accounts.
- Implementing changes to controls over restrictions on access to and segregation of duties within the Company’s information and technology system.
- Enhancing the design of processes and controls relating to the implementation of improvements to the Company’s information and technology systems.

Item 4. Controls and Procedures (Continued)

Management believes the measures described above will remediate the material weaknesses that have been identified. As it continues to evaluate and improve ICFR, management may determine to take additional measures to address control deficiencies or to modify, or in appropriate circumstances not to implement, certain of the remediation measures described above.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, our 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 our 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

On November 6, 2014, plaintiffs in *Michael Arciaga, et al. v. Barrett Business Services, Inc., et al*, filed an action in the United States District Court for the Western District of Washington against BBSI, Michael L. Elich, BBSI's Chief Executive Officer, and James D. Miller, BBSI's then Chief Financial Officer. The action purported to be a class action brought on behalf of all Company shareholders alleging violations of the federal securities laws. The claims arose from the decline in the market price for BBSI Common Stock following announcement of a charge for increased workers' compensation reserves expense. The lawsuit sought compensatory damages (in an amount to be determined at trial), plus interest, and costs and expenses (including attorney fees and expert fees).

On November 13, 2014, a second purported shareholder class action was filed in the United States District Court for the Western District of Washington, entitled Christopher P. Carnes, et al. v. Barrett Business Services, Inc., et al. The Carnes complaint named the same defendants as the *Arciaga* case and asserted similar claims for relief. Similarly, on November 17, 2014, a third purported shareholder class action was filed in the United States District Court for the Western District of Washington, entitled *Shiva Stein, et al. v. Barrett Business Services, Inc., et al.* The *Stein* complaint named the same defendants as the *Arciaga* and *Carnes* cases and asserted similar claims for relief.

Item 1. Legal Proceedings (Continued)

On February 25, 2015, the court ordered consolidation of the three cases, and any new or other cases involving the same subject matter, into a single action for pretrial purposes. The consolidated cases were recaptioned as In re Barrett Business Services Securities Litigation. The court also appointed the Painters & Allied Trades District Council No. 35 Pension and Annuity Funds as the lead plaintiff. Discovery has not been undertaken as it is automatically stayed under the federal Private Securities Litigation Reform Act.

On April 29, 2015, the plaintiffs in the class action filed a consolidated amended complaint, naming BBSI, Elich and Miller as defendants. On June 12, 2015, defendants filed a motion to dismiss the consolidated amended complaint.

On November 23, 2015, before the court had ruled on the motion to dismiss, plaintiffs filed a first amended consolidated complaint, naming the same defendants. The first amended consolidated complaint included new allegations relating to disclosures in BBSI's Current Report on Form 8-K filed on November 9, 2015.

On February 16, 2016, BBSI filed a motion to dismiss the first amended consolidated complaint. That same day, Messrs. Elich and Miller, through separate counsel, also filed motions to dismiss the first amended consolidated complaint, adopting BBSI's motion in its entirety.

On March 21, 2016, before the court had ruled on the motion to dismiss the first amended consolidated complaint, plaintiffs filed a second amended consolidated complaint, naming the same defendants. The second amended consolidated complaint dropped certain allegations from the first amended complaint and added new allegations relating to disclosures in BBSI's Current Report on Form 8-K filed on March 9, 2016. Among other disclosures, BBSI reported that (1) previously issued financial statements could not be relied on, (2) Mr. Miller had reported making unsupported journal entries, (3) Mr. Miller's employment had been terminated, and (4) BBSI was in the process of engaging a Big Four accounting firm to conduct an independent forensic accounting investigation. In a Current Report on Form 8-K filed on April 19, 2016, BBSI reported the results of the investigation, as well as the discovery of certain errors in BBSI's previously filed financial statements. See Part I, Item 4 "Controls and Procedures" of this report for additional information.

BBSI responded to the second amended consolidated complaint by filing a motion to dismiss on May 23, 2016. Messrs. Elich and Miller joined in that motion. BBSI filed its reply brief to plaintiffs' opposition to the motion to dismiss on July 25, 2016.

BBSI received a subpoena from the San Francisco office of the Division of Enforcement of the Securities and Exchange Commission (the "SEC") in May 2015 in connection with the SEC's investigation of the Company's accounting practices with regard to its workers' compensation reserves. In April 2016, the SEC issued a second subpoena to BBSI for documents relating to the disclosures made by the Company following Mr. Miller's termination.

The Company was also advised by the United States Department of Justice in mid-June 2016 that it has commenced an investigation. BBSI is cooperating fully with the investigation.

Item 1. Legal Proceedings (Continued)

On June 17, 2015, Daniel Salinas ("Salinas") filed a shareholder derivative lawsuit against BBSI and certain of its officers and directors in the Circuit Court for Baltimore City, Maryland. The complaint alleges breaches of fiduciary duty, unjust enrichment and other violations of law and seeks recovery of various damages, including the costs and expenses incurred in connection with the Company's reserve strengthening process, reserve study and consultants, the cost of stock repurchases by BBSI in October 2014, compensation paid to the Company's officers, and costs of negotiating the Company's credit facility with its principal lender, as well as the proceeds of sales of stock by certain of BBSI's officers and directors during 2013 and 2014. On September 28, 2015, the Company and the individual defendants filed motions to dismiss the derivative suit and a motion to stay pending resolution of In re Barrett Business Services Securities Litigation. On December 4, 2015, Salinas filed an opposition to each motion. On January 27, 2016, the defendants filed a reply to the opposition brief. On February 11, 2016, Judge Michel Pierson heard oral argument on the motions. A decision has not been issued.

Management is unable to estimate the probability, or the potential range of loss arising from the legal actions described above.

BBSI is subject to other legal proceedings and claims which arise in the ordinary course of our business. In the opinion of management, the amount of ultimate liability with respect to other currently pending or threatened actions is not expected to materially affect the Company's consolidated financial position or results of operations.

Item 1A. Risk Factors

There have been no material changes in the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2015, which was filed with the SEC on May 25, 2016.

Item 6. Exhibits

Exhibits are listed in the Exhibit Index that follows the signature page of this report.

SIGNATURES

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

		BARRETT BUSINESS SERVICES, INC. Registrant
Date: August 9, 2016	By:	/s/ Thomas J. Carley Thomas J. Carley Interim Principal Financial and Accounting Officer

EXHIBIT INDEX**

4.1	Third Amendment to Credit Agreement dated as of April 15, 2016, between the Registrant and Wells Fargo Bank, National Association ("Wells Fargo").
4.2	Third Amendment to Second Amended and Restated Third Party Security Agreement: Specific Rights to Payment dated as of April 15, 2016, between Associated Insurance Company for Excess ("AICE") and Wells Fargo.
4.3	Fourth Amendment to Credit Agreement dated as of June 28, 2016, between the Registrant and Wells Fargo.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of Interim Chief Financial Officer pursuant to Rule 13a-14(a).
32.	Certification pursuant to 18 U.S.C. Section 1350.
101.	INS XBRL Instance Document
101.	SCH XBRL Taxonomy Extension Schema Document
101.	CAL XBRL Taxonomy Extension Calculation Linkbase Document
101.	DEF XBRL Taxonomy Extension Definition Linkbase Document
101.	LAB XBRL Taxonomy Extension Label Linkbase Document
101.	PRE XBRL Taxonomy Extension Presentation Linkbase Document

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

EXHIBIT 4.1

THIRD AMENDMENT TO CREDIT AGREEMENT

THIS THIRD AMENDMENT TO CREDIT AGREEMENT (this “Amendment”) is entered into effective as of April 15, 2016, by and between BARRETT BUSINESS SERVICES, INC., a Maryland corporation (“Borrower”), and WELLS FARGO BANK, NATIONAL ASSOCIATION (“Bank”).

RECITALS

A. Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of December 29, 2014, as amended from time to time (the “Credit Agreement”) and that certain Standby Letter of Credit Agreement (Credit Agreement/Loan Agreement Version) between Bank and Borrower dated September 18, 2012, as amended from time to time (the “Standby Letter of Credit Agreement”).

B. Pursuant to the Credit Agreement and the Standby Letter of Credit Agreement, Borrower remains indebted to Bank under the following obligations:

1. A line of credit in the maximum principal amount of $14,000,000, as evidenced by that certain Revolving Line of Credit Note dated as of December 29, 2014, by Borrower in favor of Bank, as amended or modified;

2. A term loan in the original principal amount of $5,512,500, as evidenced by that certain Term Note dated as of November 1, 2012, by Borrower in favor of Bank, as amended or modified;

3. A term loan in the original principal amount of $40,000,000, as evidenced by that certain Term Note 2 dated as of December 29, 2014, by Borrower in favor of Bank, as amended or modified;

4. Standby Letter of Credit No. IS0133585U in the amount of Fifteen Million Dollars ($15,000,000.00), for the benefit of Atlantic Specialty Insurance Company dated December 19, 2013, as amended from time to time; and

5. Standby Letter of Credit No. IS0133565U in the amount of Twenty-Two Million Three Hundred Nineteen Thousand Eight Hundred Thirty-Nine and 80/100 Dollars ($22,319,839.80) for the benefit of Westchester Fire Insurance Company dated December 19, 2013, as amended from time to time.

C. Borrower is currently in default under the term of the Credit Agreement as outlined in that certain Notice of Default with Reservation of Rights and Forbearance letter from Bank to Borrower dated March 30, 2016, as amended, modified, and/or supplemented from time to time (the “Forbearance Letter”).

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

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

1. Subsections 1.4(a)(i) and (ii) of the Credit Agreement (captioned "Existing Insurance Letters of Credit" and "Amendment to Existing Westchester SLC") are hereby deleted in their entirety, and the following substituted therefor:

> "(i) Existing Insurance Letters of Credit. In addition to the Existing Line of Credit Letters of Credit, Bank has issued or caused an affiliate to issue the following standby letters of credit for the account of Borrower, each of which is subject to the terms of the Letter of Credit Agreement and is outstanding as of April 15, 2016 (each an "Existing Insurance Letter of Credit" and collectively, the "Existing Insurance Letters of Credit"): (A) Standby Letter of Credit No. IS0133585U in the amount of Fifteen Million Dollars ($15,000,000.00), for the benefit of Atlantic Specialty Insurance Company dated December 19, 2013, as amended from time to time (the "Existing Atlantic SLC"); and (B) Standby Letter of Credit No. IS0133565U in the amount of Twenty-Two Million Three Hundred Nineteen Thousand Eight Hundred Thirty-Nine and 80/100 Dollars ($22,319,839.80) for the benefit of Westchester Fire Insurance Company dated December 19, 2013, as amended from time to time (the "Existing Westchester SLC").
>
> (ii) New Insurance Letter of Credit. Subject to the terms of this Agreement, Bank hereby agrees, at the request of Borrower, to issue Standby Letter of Credit No. IS0405794U for the account of Borrower in the amount of Five Million Dollars ($5,000,000.00), for the benefit of Argonaut Insurance Co., as amended from time to time (the "New Argonaut SLC"). The form and substance of the New Argonaut SLC shall be subject to approval by Bank, in its sole discretion. For purposes of this Agreement, "Insurance Letters of Credit" means, collectively, the Existing Insurance Letters of Credit and the New Argonaut SLC, as may be amended from time to time, all of which, as amended, shall remain subject to the terms and conditions of this Agreement."

2. Borrower acknowledges and agrees that the Existing Defaults (as defined in the Forbearance Letter) constitute material and ongoing defaults as to which it has no defenses, setoffs or counterclaims and requests that Bank waive the condition precedent in Section 3.2(a) of the Credit Agreement related to the nonexistence of any Event of Default in order to issue the New Argonaut SLC, which Bank agrees to waive. This waiver applies only to this specific condition precedent for the New Argonaut SLC. It is not a waiver for any subsequent extension of credit or any breach of the same provisions of the Credit Agreement, nor is it a waiver of any breach of any other provision of the Credit Agreement.

3. Borrower has requested Bank's consent, in accordance with Section 5.7 of the Credit Agreement, to declare and pay the next regularly scheduled quarterly dividend (in June 2016) and Bank hereby gives such consent.

4. The obligation of Bank to amend the terms and conditions of the Credit Agreement as provided herein is subject to the fulfillment to Bank's satisfaction of all of the following conditions by no later than April 29, 2016:

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

(i) This Amendment;

(ii) Third Amendment to Second Amended and Restated Third Party Security Agreement: Specific Rights to Payment; and

(iii) Such other documents as Bank may require under or in connection with any other section of this Amendment.

(b) Forbearance Letter Extension. Bank shall have received a duly countersigned copy of its letter dated April 15, 2016, related to the Forbearance Letter, including an acknowledgment that the issuance of the New Argonaut SLC is not a waiver of the Existing Defaults.

(c) Funding of AICE Deposit Accounts and AICE Securities Account.Borrower shall have deposited, or caused AICE to deposit, funds into the AICE Deposit Accounts and/or the AICE Securities Account (in the form of additional cash, time deposit(s), financial assets, investment property or other assets or any combination thereof acceptable to Bank in its sole discretion) to increase the collateral value by no less than $5,000,000, in the aggregate.

(d) Confirmation of Regulatory Authority. Bank shall have received evidence, in form and substance satisfactory to Bank in its sole discretion, that Borrower and AICE have obtained (1) approval from the Department of Insurance of the State of Arizona of the transactions contemplated in this Amendment, or (2) assurances, in form and substance satisfactory to Bank in its sole discretion, that such approval is not required under applicable law.

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

5. Bank has not made any other funding commitments or other agreements to forbear, nor any other commitment, agreement or understanding of any other kind to or with Borrower or any affiliate of Borrower, other than as expressly set out in the Forbearance Letter. Neither this Amendment, including the issuance of the New Argonaut SLC, nor Bank's participation in any negotiations, either prior to the date hereof or hereafter shall: (i) create any obligation of Bank to modify, renew, compromise, extend, reinstate or otherwise amend the Forbearance Letter, the Credit Agreement, the Standby Letter of Credit Agreement, or any of the other Loan Documents; (ii) create any express or implied obligations on the part of Bank other than those expressly set forth in the Forbearance Letter and this Amendment; (iii) constitute an express or implied waiver of any right or remedy provided under the Forbearance Letter, the Credit Agreement, the Standby Letter of Credit Agreement, this Amendment, or any of the other Loan Documents with respect to the Existing Defaults, all of which rights and remedies are expressly reserved by Bank; (iv) constitute an agreement by Bank to refrain from taking any action which it may be entitled to take pursuant to the Forbearance Letter, the Credit Agreement, the Standby Letter of Credit Agreement, this Amendment, or any of the other Loan Documents with respect to the Existing Defaults; or (v) constitute a waiver or cure of any default, whether or not such default is material, now existing or hereafter arising under the Forbearance Letter, the Credit Agreement, the Standby Letter of Credit Agreement, this Amendment, or any of the other Loan Documents, or applicable law.

6. Except as expressly provided herein, nothing in this Amendment shall alter or affect any provision, condition or covenant contained in the any of the Loan Documents, or affect or impair any rights, powers, or remedies thereunder, it being the intent of the parties hereto that the provisions of the Loan Documents shall continue in full force and effect except as expressly modified hereby. Nothing in this Amendment or issuance of the New Argonaut SLC, any correspondence, any oral communications between Bank and Borrower constitutes a waiver, modification or release of any breach, default or Event of Default, whether now existing or hereafter arising, or any of Bank's rights and remedies under the Forbearance Letter, the

Credit Agreement, the Standby Letter of Credit Agreement, this Amendment, any of the other Loan Documents, any other agreement, instrument or document between Bank and Borrower or by Borrower in favor of Bank and applicable law. Nothing in this Amendment or issuance of the New Argonaut SLC obligates or commits Bank to forbear or to continue to forbear from exercising any of its rights and remedies, or to honor any advance requests. Further, forbearance, if any, by Bank does not constitute a course of dealing or a course of conduct.

7. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment (except for such terms as are amended hereby, which terms shall have the meanings set forth in this Amendment). This Amendment and the Credit Agreement shall be read together, as one document. This Amendment may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same Amendment. Electronic delivery of a signature to this Amendment shall constitute an original signature.

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

9. In consideration of the benefits provided to Borrower under the terms and provisions hereof, Borrower and each third party pledgor of assets securing any indebtedness and/or other obligations of Borrower to Bank (each, a "Pledgor") hereby agree as follows ("General Release"):

(a) Borrower and each Pledgor hereunder, for itself and on behalf of its respective successors and assigns, do hereby release, acquit and forever discharge Bank, all of Bank's predecessors in interest, and all of Bank's past and present officers, directors, attorneys, affiliates, employees and agents, of and from any and all claims, demands, obligations, liabilities, indebtedness, breaches of contract, breaches of duty or of any relationship, acts, omissions, misfeasance, malfeasance, causes of action, defenses, offsets, debts, sums of money, accounts, compensation, contracts, controversies, promises, damages, costs, losses and expenses, of every type, kind, nature, description or character, whether known or unknown, suspected or unsuspected, liquidated or unliquidated, each as though fully set forth herein at length (each, a "Released Claim" and collectively, the "Released Claims"), that Borrower or any Pledgor hereunder now has or may acquire as of the later of: (i) the date this Amendment becomes effective through the satisfaction (or waiver by Bank) of all conditions hereto; or (ii) the date that Borrower and each Pledgor hereunder have executed and delivered this Amendment to Bank (hereafter, the "Release Date"), including without limitation, those Released Claims in any way arising out of, connected with or related to any and all prior credit accommodations, if any, provided by Bank, or any of Bank's predecessors in interest, to Borrower or any Pledgor hereunder, and any agreements, notes or documents of any kind related thereto or the transactions contemplated thereby or hereby, or any other agreement or document referred to herein or therein.

(b) Borrower and each Pledgor hereunder hereby acknowledge, represent and warrant to Bank that they agree to assume the risk of any and all unknown, unanticipated or misunderstood defenses and Released Claims which are released by the provisions of this General Release in favor of Bank, and Borrower and each such Pledgor hereby waive and release all rights and benefits which they might otherwise have under any state or local laws or statutes with regard to the release of such unknown, unanticipated or misunderstood defenses and Released Claims.

(c) Each person signing below on behalf of Borrower or any Pledgor hereunder acknowledges that he or she has read each of the provisions of this General Release. Each such person fully understands that this General Release has important legal consequences, and each such person realizes that they are releasing any and all Released Claims that Borrower or any such Pledgor may have as of the Release Date. Borrower and each Pledgor hereunder hereby acknowledge that each of them has had an opportunity to obtain a lawyer's advice concerning the legal consequences of each of the provisions of this General Release.

(d) Borrower and each Pledgor hereunder hereby specifically acknowledge and agree that: (i) none of the provisions of this General Release shall be construed as or constitute an admission of any liability on the part of Bank; (ii) the provisions of this General Release shall constitute an absolute bar to any Released Claim of any kind, whether any such Released Claim is based on contract, tort, warranty, mistake or any other theory, whether legal, statutory or equitable; and (iii) any attempt to assert a Released Claim barred by the provisions of this General Release shall subject Borrower and each Pledgor hereunder to the provisions of applicable law setting forth the remedies for the bringing of groundless, frivolous or baseless claims or causes of action.

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

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

BARRETT BUSINESS SERVICES, INC.	WELLS FARGO BANK, NATIONAL ASSOCIATION
By: /s/ Thomas J. Carley	By: /s/ Julie R. Wilson
Name: Thomas J. Carley	Name: Julie R. Wilson
Title: Interim Chief Financial Officer	Title: Vice President

THIRD PARTY PLEDGOR'S CONSENT, REAFFIRMATION AND GENERAL RELEASE

The undersigned third party pledgor of assets to secure certain indebtedness of BARRETT BUSINESS SERVICES, INC. to WELLS FARGO BANK, NATIONAL ASSOCIATION hereby: (i) consents to the foregoing Amendment; (ii) reaffirms its grant of a security interest in certain of its assets as specified more particularly in that certain Second Amended and Restated Third Party Security Agreement: Specific Rights to Payment dated as of December 29, 2014, and that certain Security Agreement (Financial Assets) dated as of August 27, 2015 (collectively, as amended, the "Security Agreements"); (iii) reaffirms its obligations under the Security Agreements; and (iv) agrees to join in and be bound by all of the terms and provisions of the General Release contained in Section 9 thereof.

PLEDGOR:

ASSOCIATED INSURANCE COMPANY FOR EXCESS,
an Arizona corporation

By: /s/ Thomas J. Carley
Name: Thomas J. Carley
Title: Treasurer

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

THIS THIRD AMENDMENT TO SECOND AMENDED AND RESTATED THIRD PARTY SECURITY AGREEMENT: SPECIFIC RIGHTS TO PAYMENT (this "Amendment") is entered into effective as of April 15, 2016, by and between ASSOCIATED INSURANCE COMPANY FOR EXCESS, an Arizona corporation ("Owner"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

A. Barrett Business Services, Inc., a Maryland corporation ("Borrower"), is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated December 29, 2014, as amended from time to time (the "Credit Agreement").

B. Owner is a wholly-owned subsidiary of Borrower and a captive insurance company duly licensed by the Department of Insurance of the State of Arizona.

C. Pursuant to the Credit Agreement, Owner and Bank entered into that certain Second Amended and Restated Third Party Security Agreement: Specific Rights to Payment dated December 29, 2014, as may be amended from time to time (the "Security Agreement"), pursuant to which Owner granted to Bank a security interest in certain collateral, as more fully described in the Security Agreement, to secure a portion of Borrower's obligations under the Credit Agreement.

D. Owner and Bank have agreed to certain changes in the terms and conditions set forth in the Security Agreement and have agreed to amend the Security Agreement to reflect said changes.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, subject to the terms and conditions described herein, the parties hereto agree that the Security Agreement shall be amended as follows; provided, however, that nothing shall terminate any security interests, guaranties, subordinations or other documents in favor of Bank, all of which shall remain in full force and effect unless expressly amended hereby:

1. Amendment to Section 1. Section 1 of the Security Agreement is hereby deleted in its entirety, and the following substituted therefor:

"1. GRANT OF SECURITY INTEREST. As security for the payment of all Indebtedness of Borrower to Bank arising under or in connection with the Insurance Letters of Credit (as that term is defined in the Credit Agreement) and all extensions, renewals or modifications thereof, and restatements or substitutions therefor issued subject to the terms of the Credit Agreement and that certain Standby Letter of Credit Agreement (Credit Agreement/Loan Agreement Version) between Borrower and Bank, dated as of September 18, 2012, as may be amended from time to time (the "Letter of Credit Agreement"), Owner hereby grants and transfers, and reconfirms its prior grant and transfer, to Bank a security interest in the following accounts, deposit accounts, chattel paper (whether electronic or tangible), instruments, promissory notes, documents, general intangibles, payment intangibles, software, letter of credit rights, health-care insurance receivables and other rights to payment (collectively called "Collateral"):

Deposit account number 3166563936 at Bank, whether held in Owner or Borrower's name or as a Bank collateral account for the benefit of Owner or Borrower, any sub-account thereunder or consolidated therewith (the "Account" and, together with all renewals, replacements or substitutions therefore, including any account resulting from a renumbering or other administrative re-identification thereof, collectively, the "Accounts"), and all amounts from time to time on deposit the Accounts and all interest thereon;

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

2. <u>Miscellaneous.</u> Except as specifically provided herein, all terms and conditions of the Security Agreement shall remain in full force and effect, without waiver or modification. All terms defined in the Security Agreement shall have the same meaning when used in this Amendment. This Amendment and the Security Agreement shall be read together, as one document. This Amendment may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same Amendment.

3. <u>Reaffirmation.</u> Owner hereby remakes all representations and warranties contained in the Security Agreement and reaffirms all covenants set forth therein.

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

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

ASSOCIATED INSURANCE COMPANY
FOR EXCESS

By: /s/ Thomas J. Carley
Name: Thomas J. Carley
Title: Treasurer

WELLS FARG O BANK,
NATIONAL ASSOCIATION

By: /s/ Julie Wilson
Name: Julie Wilson
Title: Vice President

EXHIBIT 4.3

FOURTH AMENDMENT TO CREDIT AGREEMENT

THIS FOURTH AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into effective as of June 28, 2016, by and between BARRETT BUSINESS SERVICES, INC., a Maryland corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

A. Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of December 29, 2014, as amended from time to time (the "Credit Agreement") and that certain Standby Letter of Credit Agreement (Credit Agreement/Loan Agreement Version) between Bank and Borrower dated September 18, 2012, as amended from time to time (the "Standby Letter of Credit Agreement").

B. Pursuant to the Credit Agreement and the Standby Letter of Credit Agreement, Borrower remains indebted to Bank under the following obligations:

1. A line of credit in the maximum principal amount of Fourteen Million and 00/100 Dollars ($14,000,000), as evidenced by that certain Revolving Line of Credit Note dated as of December 29, 2014, by Borrower in favor of Bank, as amended or modified;

2. A term loan in the original principal amount of Five Million Five Hundred Twelve Thousand Five Hundred and 00/100 Dollars ($5,512,500), as evidenced by that certain Term Note dated as of November 1, 2012, by Borrower in favor of Bank, as amended or modified;

3. A term loan in the original principal amount of Forty Million and 00/100 Dollars ($40,000,000), as evidenced by that certain Term Note 2 dated as of December 29, 2014, by Borrower in favor of Bank, as amended or modified;

4. Standby Letter of Credit No. IS0133585U in the amount of Fifteen Million and 00/100 Dollars ($15,000,000.00), for the benefit of Atlantic Specialty Insurance Company dated December 19, 2013, as amended from time to time;

5. Standby Letter of Credit No. IS0133565U in the amount of Twenty-Two Million Three Hundred Nineteen Thousand Eight Hundred Thirty-Nine and 80/100 Dollars ($22,319,839.80) for the benefit of Westchester Fire Insurance Company dated December 19, 2013, as amended from time to time; and

6. Standby Letter of Credit No. IS0405794U in the amount of Five Million and 00/100 Dollars ($5,000,000.00) for the benefit of Argonaut Insurance Co. dated April 21, 2016, as amended from time to time.

C. Borrower is currently in default under the term of the Credit Agreement:

1. As outlined in that certain Notice of Default with Reservation of Rights and Forbearance letter from Bank to Borrower dated March 30, 2016, as amended by that certain letter to Borrower dated April 15, 2016, as further amended by that certain letter to Borrower dated May 6, 2016, and as further amended by that certain letter to Borrower dated May 24, 2016 (such letters collectively, the "Forbearance Letter"); and

2. As a result of Borrower's failure to maintain a Fixed Charge Coverage Rate of at least 1.50:1.0 as of March 31, 2016 as required under Section 4.9(a) of the Credit Agreement (the "Financial Covenant Default").

For purposes of this Amendment, "Existing Defaults" shall mean, collectively, (a) the Existing Defaults and the New Default as each of those terms are defined in the Forbearance Letter, and (b) the Financial Covenant Default.

D. Borrower has requested that Bank (a) increase the maximum dollar amount available under the Letter of Credit Subfeature of the Line of Credit from $5,000,000 to $6,000,000 (the "Proposed Subfeature L/C Increase"), and (b) waive the Financial Covenant Default.

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

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

1. Subsection 1.1(b) of the Credit Agreement is hereby deleted in its entirety, and the following substituted therefor:

"(b) <u>Letter of Credit Subfeature.</u> As a subfeature under the Line of Credit, Bank agrees from time to time during the term thereof to issue or cause an affiliate to issue standby letters of credit for the account of Borrower (each, a "Line of Credit Letter of Credit" and collectively, "Line of Credit Letters of Credit"); provided however, that the aggregate undrawn amount of all outstanding Line of Credit Letters of Credit (including without limitation the Existing Line of Credit Letters of Credit, as that term is defined in Section 1.1(b)(iii) below) shall not at any time exceed Six Million and 00/100 Dollars ($6,000,000.00). The form and substance of each Line of Credit Letter of Credit shall be subject to approval by Bank, in its sole discretion.

(i) Each Line of Credit Letter of Credit shall be issued for a term not to exceed three hundred eighty (380) days, as designated by Borrower; provided however, that no Line of Credit Letter of Credit shall be issued with, nor shall Bank be required to renew or (if applicable) allow automatic renewal of any Line of Credit Letter of Credit so that it will have, an expiration date that is subsequent to the maturity date of the Line of Credit (with any such Line of Credit Letter of Credit with an expiration date that is subsequent to the maturity date of the Line of Credit to be referred to as an "Extended Date Letter of Credit") unless Borrower, immediately upon demand by Bank at any time, provides Bank with cash collateral (which may be in addition to or, if agreed by Bank, may be a replacement for, such other collateral that may have been granted by Borrower to Bank, pursuant to this Agreement or otherwise), consisting of a deposit account maintained by Borrower with Bank in an amount that is not less than one hundred five percent (105%) of the undrawn amount of each such Extended Date Letter of Credit, as evidenced by and subject to the security agreements and other documents as Bank shall reasonably require, all in form and substance satisfactory to Bank; and provided further, that in no event shall any Extended Date Letter of Credit have a then current expiration date more than three hundred sixty five (365) days beyond the maturity date of the Line of Credit.

(ii) The undrawn amount of all Line of Credit Letters of Credit (including the Existing Line of Credit Letters of Credit) shall be reserved under the Line of Credit and shall not be available for borrowings thereunder. Each Line of Credit Letter of Credit shall be subject to the additional terms and conditions of the Letter of Credit Agreement (as that term is defined in

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

(iii) Bank has issued or caused an affiliate to issue the following standby letters of credit (each an "Existing Line of Credit Letter of Credit" and collectively, the "Existing Line of Credit Letters of Credit"), each of which is subject to the terms of that certain Standby Letter of Credit Agreement (Credit Agreement/Loan Agreement Version) between Bank and Borrower dated September 18, 2012, as amended (the "Letter of Credit Agreement"), together with applications and any related documents required by Bank in connection with the issuance (and any renewal) thereof, and is outstanding as of the date hereof: (A) Standby Letter of Credit No. NZS504587 in the amount of Three Million Dollars ($3,000,000.00) dated December 8, 2003, as amended from time to time, and (B) Standby Letter of Credit No. NZS401574 in the amount of One Million Six Hundred Fifty Thousand Dollars ($1,650,000.00) dated June 20, 2001, as amended from time to time."

2. Section 4.9 of the Credit Agreement is hereby deleted in its entirety, and the following substituted therefor:

"SECTION 4.9. FINANCIAL CONDITION. Maintain Borrower's consolidated financial condition as follows using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein), with compliance determined commencing with Borrower's consolidated financial statements for the period ending June 30, 2016:

(a) Fixed Charge Coverage Ratio not less than 2.25 to 1.0 as of each fiscal quarter end, determined on a rolling 4-quarter basis, with "Fixed Charge Coverage Ratio" defined as (i) EBITDA minus distributions, dividends and cash taxes paid, divided by (ii) $9,425,000, with "EBITDA" defined as net profit before taxes plus interest expense (net of capitalized interest expense), depreciation expense and amortization expense.

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

3. Borrower acknowledges and agrees that the Existing Defaults constitute material and ongoing defaults as to which it has no defenses, setoffs or counterclaims and requests that Bank waive (a) the condition precedent in Section 3.2(a) of the Credit Agreement related to the nonexistence of any Event of Default to accommodate the Proposed Subfeature L/C Increase,

and (b) the Financial Covenant Default, each of which Bank agrees to waive. The foregoing waiver applies only to the specific circumstances related to the Proposed Subfeature L/C Increase. It is not a waiver for any subsequent extension of credit or any breach of the same provisions of the Credit Agreement, nor is it a waiver of any breach of any other provision of the Credit Agreement (including, without limitation, the Existing Defaults other than the Financial Covenant Default).

4. The obligation of Bank to amend the terms and conditions of the Credit Agreement as provided herein is subject to the fulfillment to Bank's satisfaction of all of the following conditions by no later than July 6, 2016:

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

(i) This Amendment; and

(ii) Such other documents as Bank may require under or in connection with any other section of this Amendment.

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

5. Bank has not made any other funding commitments or other agreements to forbear, nor any other commitment, agreement or understanding of any other kind to or with Borrower or any affiliate of Borrower, other than as expressly set out in the Forbearance Letter or in this Amendment. Neither this Amendment (including without limitation the Proposed Subfeature L/C Increase) nor Bank's participation in any negotiations, either prior to the date hereof or hereafter shall: (i) create any obligation of Bank to modify, renew, compromise, extend, reinstate or otherwise amend the Forbearance Letter, the Credit Agreement, the Standby Letter of Credit Agreement, or any of the other Loan Documents; (ii) create any express or implied obligations on the part of Bank other than those expressly set forth in the Forbearance Letter and this Amendment; (iii) constitute an express or implied waiver of any right or remedy provided under the Forbearance Letter, the Credit Agreement, the Standby Letter of Credit Agreement, this Amendment, or any of the other Loan Documents with respect to the Existing Defaults (other than with respect to the Financial Covenant Default which the Bank has agreed to waive as provided in Section 3 above), all of which rights and remedies are expressly reserved by Bank; (iv) constitute an agreement by Bank to refrain from taking any action which it may be entitled to take pursuant to the Forbearance Letter, the Credit Agreement, the Standby Letter of Credit Agreement, this Amendment, or any of the other Loan Documents with respect to the Existing Defaults (other than with respect to the Financial Covenant Default which the Bank has agreed to waive as provided in Section 3 above); or (v) constitute a waiver or cure of any default, whether or not such default is material, now existing or hereafter arising under the Forbearance Letter, the Credit Agreement, the Standby Letter of Credit Agreement, this Amendment, or any of the other Loan Documents, or applicable law.

6. Except as expressly provided herein, nothing in this Amendment shall alter or affect any provision, condition or covenant contained in the Forbearance Letter or any of the Loan Documents, or affect or impair any rights, powers, or remedies thereunder, it being the intent of the parties hereto that the provisions of the Forbearance Letter and the Loan Documents shall continue in full force and effect except as expressly modified hereby. Except for Bank's waiver of the Financial Covenant Default as provided in Section 3 above, nothing in

this Amendment, any correspondence, any oral communications between Bank and Borrower constitutes a waiver, modification or release of any breach, default or Event of Default, whether now existing or hereafter arising, or any of Bank's rights and remedies under the Forbearance Letter, the Credit Agreement, the Standby Letter of Credit Agreement, this Amendment, any of the other Loan Documents, any other agreement, instrument or document between Bank and Borrower or by Borrower in favor of Bank and applicable law. Nothing in this Amendment obligates or commits Bank to forbear or to continue to forbear from exercising any of its rights and remedies, or to honor any advance requests. Further, forbearance, if any, by Bank does not constitute a course of dealing or a course of conduct.

7. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment (except for such terms as are amended hereby, which terms shall have the meanings set forth in this Amendment). This Amendment and the Credit Agreement shall be read together, as one document. This Amendment may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same Amendment. Electronic delivery of a signature to this Amendment shall constitute an original signature.

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

9. In consideration of the benefits provided to Borrower under the terms and provisions hereof, Borrower and each third party pledgor of assets securing any indebtedness and/or other obligations of Borrower to Bank (each, a "Pledgor") hereby agree as follows ("General Release"):

(a) Borrower and each Pledgor hereunder, for itself and on behalf of its respective successors and assigns, do hereby release, acquit and forever discharge Bank, all of Bank's predecessors in interest, and all of Bank's past and present officers, directors, attorneys, affiliates, employees and agents, of and from any and all claims, demands, obligations, liabilities, indebtedness, breaches of contract, breaches of duty or of any relationship, acts, omissions, misfeasance, malfeasance, causes of action, defenses, offsets, debts, sums of money, accounts, compensation, contracts, controversies, promises, damages, costs, losses and expenses, of every type, kind, nature, description or character, whether known or unknown, suspected or unsuspected, liquidated or unliquidated, each as though fully set forth herein at length (each, a "Released Claim" and collectively, the "Released Claims"), that Borrower or any Pledgor hereunder now has or may acquire as of the later of: (i) the date this Amendment becomes effective through the satisfaction (or waiver by Bank) of all conditions hereto; or (ii) the date that Borrower and each Pledgor hereunder have executed and delivered this Amendment to Bank (hereafter, the "Release Date"), including without limitation, those Released Claims in any way arising out of, connected with or related to any and all prior credit accommodations, if any, provided by Bank, or any of Bank's predecessors in interest, to Borrower or any Pledgor hereunder, and any agreements, notes or documents of any kind related thereto or the transactions contemplated thereby or hereby, or any other agreement or document referred to herein or therein.

(b) Borrower and each Pledgor hereunder hereby acknowledge, represent and warrant to Bank that they agree to assume the risk of any and all unknown, unanticipated or misunderstood defenses and Released Claims which are released by the provisions of this General Release in favor of Bank, and Borrower and each such Pledgor hereby waive and release all rights and benefits which they might otherwise have under any state or local laws or statutes with regard to the release of such unknown, unanticipated or misunderstood defenses and Released Claims.

(c) Each person signing below on behalf of Borrower or any Pledgor hereunder acknowledges that he or she has read each of the provisions of this General Release. Each such person fully understands that this General Release has important legal consequences, and each such person realizes that they are releasing any and all Released Claims that Borrower or any such Pledgor may have as of the Release Date. Borrower and each Pledgor hereunder hereby acknowledge that each of them has had an opportunity to obtain a lawyer's advice concerning the legal consequences of each of the provisions of this General Release.

(d) Borrower and each Pledgor hereunder hereby specifically acknowledge and agree that: (i) none of the provisions of this General Release shall be construed as or constitute an admission of any liability on the part of Bank; (ii) the provisions of this General Release shall constitute an absolute bar to any Released Claim of any kind, whether any such Released Claim is based on contract, tort, warranty, mistake or any other theory, whether legal, statutory or equitable; and (iii) any attempt to assert a Released Claim barred by the provisions of this General Release shall subject Borrower and each Pledgor hereunder to the provisions of applicable law setting forth the remedies for the bringing of groundless, frivolous or baseless claims or causes of action.

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

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

BARRETT BUSINESS SERVICES, INC.

By: /s/ Michael L. Elich
Name: Michael L. Elich
Title: President

WELLS FARGO BANK, NATIONAL ASSOCIATION

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

THIRD PARTY PLEDGOR'S CONSENT, REAFFIRMATION AND GENERAL RELEASE

The undersigned third party pledgor of assets to secure certain indebtedness of BARRETT BUSINESS SERVICES, INC. to WELLS FARGO BANK, NATIONAL ASSOCIATION hereby: (i) consents to the foregoing Amendment; (ii) reaffirms its grant of a security interest in certain of its assets as specified more particularly in that certain Second Amended and Restated Third Party Security Agreement: Specific Rights to Payment dated as of December 29, 2014, and that certain Security Agreement (Financial Assets) dated as of August 27, 2015 (collectively, as amended, the "Security Agreements"); (iii) reaffirms its obligations under each of (A) the Security Agreements, and (B) that certain Securities Account Control Agreement (WFS, LLC – Trading Prohibited) dated as of August 27, 2015 between the undersigned, Bank and Wells Fargo Securities, LLC; and (iv) agrees to join in and be bound by all of the terms and provisions of the General Release contained in Section 8 thereof.

PLEDGOR:

ASSOCIATED INSURANCE COMPANY FOR EXCESS,
an Arizona corporation

By: /s/ Michael L. Elich
Name: Michael L. Elich
Title: President

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Michael L. Elich, certify that:

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

Date: August 9, 2016

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

EXHIBIT 31.2

CERTIFICATION OF INTERIM CHIEF FINANCIAL OFFICER

I, Thomas J. Carley, certify that:

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

Date: August 9, 2016

/s/ Thomas J. Carley
Thomas J. Carley
Interim Principal Financial and Accounting 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 June 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certify, pursuant to 18 U.S.C. § 1350, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael L. Elich
Michael L. Elich
Chief Executive Officer
August 9, 2016

/s/ Thomas J. Carley
Thomas J. Carley
Interim Principal Financial and Accounting Officer
August 9, 2016

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.