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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 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 November 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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Barrett Business Services, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)
(In Thousands, Except Par Value)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 26,786	\$ 25,218
Trade accounts receivable, net	140,074	90,529
Income taxes receivable	0	1,038
Prepaid expenses and other	3,637	3,173
Investments	1,013	0
Restricted cash and investments	51,959	86,110
Deferred income taxes	20,906	20,941
Total current assets	244,375	227,009
Investments	863	6,082
Property, equipment and software, net	25,790	22,820
Restricted cash and investments	245,020	187,916
Goodwill	47,820	47,820
Other assets	15,937	5,130
	<u>\$ 579,805</u>	<u>\$ 496,777</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 221	\$ 19,833
Accounts payable	4,520	3,217
Accrued payroll, payroll taxes and related benefits	161,062	121,343
Income taxes payable	4,797	0
Other accrued liabilities	10,751	6,166
Workers' compensation claims liabilities	77,683	65,581
Safety incentives liability	24,997	21,253
Total current liabilities	284,031	237,393
Long-term workers' compensation claims liabilities	214,248	190,094
Long-term debt	4,447	0
Deferred income taxes	13,256	13,256
Customer deposits and other long-term liabilities	1,443	1,483
Total liabilities	517,425	442,226
Commitments and contingencies (Notes 4 and 6)		
Stockholders' equity:		
Common stock, \$.01 par value; 20,500 shares authorized, 7,244 and 7,203 shares issued and outstanding	72	72
Additional paid-in capital	8,749	6,964
Accumulated other comprehensive income (loss)	27	(31)
Retained earnings	53,532	47,546
	<u>62,380</u>	<u>54,551</u>
	<u>\$ 579,805</u>	<u>\$ 496,777</u>

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 September 30,	
	2016	2015
Revenues:		
Professional employer service fees	\$177,229	\$152,108
Staffing services	<u>47,874</u>	<u>46,617</u>
Total revenues	<u>225,103</u>	<u>198,725</u>
Cost of revenues:		
Direct payroll costs	37,017	35,308
Payroll taxes and benefits	82,888	75,237
Workers' compensation	<u>55,639</u>	<u>45,290</u>
Total cost of revenues	<u>175,544</u>	<u>155,835</u>
Gross margin	49,559	42,890
Selling, general and administrative expenses	30,440	25,440
Depreciation and amortization	<u>823</u>	<u>721</u>
Income from operations	<u>18,296</u>	<u>16,729</u>
Other income (expense):		
Investment income	194	254
Interest expense	(196)	(467)
Loss on litigation	(3,305)	0
Other, net	<u>27</u>	<u>(3)</u>
Other expense, net	<u>(3,280)</u>	<u>(216)</u>
Income before income taxes	15,016	16,513
Provision for income taxes	<u>4,783</u>	<u>5,540</u>
Net income	<u>\$ 10,233</u>	<u>\$ 10,973</u>
Basic earnings per common share	<u>\$ 1.41</u>	<u>\$ 1.52</u>
Weighted average number of basic common shares outstanding	<u>7,243</u>	<u>7,201</u>
Diluted earnings per common share	<u>\$ 1.38</u>	<u>\$ 1.49</u>
Weighted average number of diluted common shares outstanding	<u>7,405</u>	<u>7,362</u>
Cash dividends per common share	<u>0.22</u>	<u>\$ 0.22</u>

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)

	Nine Months Ended September 30,	
	2016	2015
Revenues:		
Professional employer service fees	\$497,682	\$418,954
Staffing services	<u>121,806</u>	<u>128,130</u>
Total revenues	<u>619,488</u>	<u>547,084</u>
Cost of revenues:		
Direct payroll costs	92,667	97,260
Payroll taxes and benefits	269,533	235,122
Workers' compensation	<u>155,089</u>	<u>126,403</u>
Total cost of revenues	<u>517,289</u>	<u>458,785</u>
Gross margin	102,199	88,299
Selling, general and administrative expenses	80,834	63,839
Depreciation and amortization	<u>2,341</u>	<u>2,113</u>
Income from operations	<u>19,024</u>	<u>22,347</u>
Other income (expense):		
Investment income	702	570
Interest expense	(704)	(1,549)
Loss on litigation	(3,305)	0
Other, net	<u>26</u>	<u>(82)</u>
Other expense, net	<u>(3,281)</u>	<u>(1,061)</u>
Income before income taxes	15,743	21,286
Provision for income taxes	<u>4,991</u>	<u>7,239</u>
Net income	<u>\$ 10,752</u>	<u>\$ 14,047</u>
Basic earnings per common share	<u>\$ 1.49</u>	<u>\$ 1.96</u>
Weighted average number of basic common shares outstanding	<u>7,220</u>	<u>7,163</u>
Diluted earnings per common share	<u>\$ 1.46</u>	<u>\$ 1.91</u>
Weighted average number of diluted common shares outstanding	<u>7,350</u>	<u>7,340</u>
Cash dividends per common share	<u>0.66</u>	<u>\$ 0.66</u>

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 September 30,	
	2016	2015
Net income	\$10,233	\$10,973
Unrealized gains on investments, net of tax of \$2 and \$4 in 2016 and 2015, respectively	4	6
Comprehensive income	<u>\$10,237</u>	<u>\$10,979</u>

	Nine Months Ended September 30,	
	2016	2015
Net income	\$10,752	\$14,047
Unrealized gains on investments, net of tax of \$35 and \$21 in 2016 and 2015, respectively	58	33
Comprehensive income	<u>\$10,810</u>	<u>\$14,080</u>

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
Nine Months Ended September 30, 2016 and 2015
(Unaudited)
(In Thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
	Shares	Amount				
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	88	1	688	0	0	689
Common stock repurchased on vesting of restricted stock units	(12)	0	(465)	0	0	(465)
Share based compensation expense	0	0	1,727	0	0	1,727
Excess tax benefits from share-based compensation	0	0	56	0	0	56
Cash dividends on common stock	0	0	0	0	(4,726)	(4,726)
Unrealized gain on investments, net of tax	0	0	0	33	0	33
Net Income	0	0	0	0	14,047	14,047
Balance, September 30, 2015	<u>7,202</u>	<u>\$ 72</u>	<u>\$ 6,416</u>	<u>\$ 10</u>	<u>\$37,683</u>	<u>\$44,181</u>
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	52	0	72	0	0	72
Common stock repurchased on vesting of restricted stock units	(11)	0	(433)	0	0	(433)
Share based compensation expense	0	0	1,881	0	0	1,881
Excess tax benefits from share-based compensation	0	0	265	0	0	265
Cash dividends on common stock	0	0	0	0	(4,766)	(4,766)
Unrealized gain on investments, net of tax	0	0	0	58	0	58
Net Income	0	0	0	0	10,752	10,752
Balance, September 30, 2016	<u>7,244</u>	<u>\$ 72</u>	<u>\$ 8,749</u>	<u>\$ 27</u>	<u>\$53,532</u>	<u>\$62,380</u>

(1) See restatement disclosure in 2015 Form 10-K

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)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 10,752	\$ 14,047
Reconciliations of net income to net cash provided by operating activities:		
Depreciation and amortization	2,341	2,113
Losses (gains) recognized on investments	3	(2)
Losses recognized on sale of property and equipment	31	0
Deferred income taxes	0	9
Share-based compensation	1,881	1,727
Excess tax benefit from share-based compensation	(265)	(56)
Changes in certain operating assets and liabilities:		
Trade accounts receivable	(49,545)	(53,079)
Income taxes receivable	1,038	12,003
Prepaid expenses and other	(464)	(455)
Accounts payable	1,303	463
Accrued payroll, payroll taxes and related benefits	39,719	45,290
Other accrued liabilities	4,585	(3,847)
Income taxes payable	5,062	4,478
Workers' compensation claims liabilities	36,256	22,493
Safety incentives liability	3,744	5,728
Customer deposits, long-term liabilities and other assets, net	851	378
Net cash provided by operating activities	<u>57,292</u>	<u>51,290</u>
Cash flows used in investing activities:		
Purchase of property and equipment	(5,311)	(1,903)
Proceeds from sale of property and equipment	1,478	0
Purchase of investments	(274)	(2,943)
Proceeds from sales and maturities of investments	4,504	47,797
Purchase of restricted cash and investments	(127,207)	(99,482)
Proceeds from sales and maturities of restricted cash and investments	91,113	25,190
Net cash used in investing activities	<u>(35,697)</u>	<u>(31,341)</u>
Cash flows used in financing activities:		
Proceeds from credit-line borrowings	14,868	46,106
Payments on credit-line borrowings	(14,868)	(46,106)
Payments on long-term debt	(15,165)	(10,166)
Common stock repurchased on vesting of restricted stock units	(433)	(465)
Dividends paid	(4,766)	(4,726)
Proceeds from exercise of stock options and vesting of restricted stock units	72	689
Excess tax benefits from share-based compensation	265	56
Net cash used in financing activities	<u>(20,027)</u>	<u>(14,612)</u>
Net increase in cash and cash equivalents	1,568	5,337
Cash and cash equivalents, beginning of period	25,218	11,544
Cash and cash equivalents, end of period	<u>\$ 26,786</u>	<u>\$ 16,881</u>

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

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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

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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 condensed consolidated statements of cash flows and condensed consolidated balance sheets. The Company maintains cash balances in bank accounts that normally exceed FDIC insured limits. The Company has not experienced any losses related to its cash concentration.

Investments

As of September 30, 2016, the Company's investments consisted of municipal bonds and corporate bonds. We classify our investments as trading or available-for-sale. The Company had no trading securities at September 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. Realized gains and losses on sales of investments 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 cash and investments

At September 30, 2016, restricted cash and investments 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 September 30, 2016, the approximate fair value of restricted cash and investments equaled their approximate amortized cost. Restricted investments 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. Management considers available evidence in evaluating potential impairment of investments, including the duration and extent to which fair value is less than cost. Realized gains and losses on sales of restricted investments 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 \$195,000 and \$268,000 at September 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 September 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.

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

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 \$25.0 million and \$21.3 million at September 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 nine months ended September 30, 2016 and 2015 did not materially differ from interest expense. Income taxes received during the nine months ended September 30, 2016 and 2015 totaled \$1.1 million and \$9.2 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 stock options and the payment of stock awards from other share-based compensation plans that are outstanding at the end of each period presented. Basic and diluted shares outstanding are summarized as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Weighted average number of basic shares outstanding	7,243	7,201	7,220	7,163
Effect of dilutive securities	162	161	130	177
Weighted average number of diluted shares outstanding	<u>7,405</u>	<u>7,362</u>	<u>7,350</u>	<u>7,340</u>

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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 investments, 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, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). The amendments in ASU 2014-09 provide for a single, principles-based model for revenue recognition that replaces the existing revenue recognition guidance. 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. 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 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 plans to adopt this ASU on January 1, 2018 and is in the process of evaluating its planned transition method and the impact to its consolidated financial statements and disclosures of the adoption of ASU 2014-09.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Interest—Imputation of Interest ("ASU 2015-03") to simplify the presentation of debt issuance costs. ASU 2015-03 requires debt issuance costs be presented on the balance sheet as a direct reduction from the carrying amount of the related debt liability. The amendments in this accounting standard update are to be applied retrospectively and are effective for interim and annual reporting periods beginning after December 15, 2015. We do not expect the adoption of this accounting standard update to have a material impact on our consolidated financial statements and disclosures.

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

In May 2015, the FASB issued ASU 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (“ASU 2015-07”). ASU 2015-07 provides that investments for which the practical expedient is used to measure fair value at net asset value per share (“NAV”) must be removed from the fair value hierarchy. Instead, those investments must be included as a reconciling line item so that the total fair value amount of investments in the disclosure is consistent with the amount on the balance sheet. ASU 2015-07 also includes disclosure requirements for investments for which the NAV practical expedient was used to determine fair value. The adoption of this guidance in the third quarter of 2016 did not impact our financial condition or results of operations.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, Balance Sheet Classification of Deferred Taxes (“ASU 2015-17”). ASU 2015-17 requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The guidance becomes effective for the Company beginning with our annual report for the year ending December 31, 2017 with early adoption permitted. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (“ASU 2016-02”). ASU 2016-02 requires a lessee to record a right of use asset and a corresponding lease liability on the balance sheet for all leases with terms longer than 12 months. ASU 2016-02 is effective for all interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is in the process of evaluating the impact of ASU 2016-02 on the Company’s consolidated financial statements and disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (“ASU 2016-09”). ASU 2016-09 simplifies the accounting for the taxes related to stock-based compensation, including adjustments to how excess tax benefits and a company’s payments for tax withholdings should be classified. This guidance will be effective for fiscal years beginning after December 15, 2016. The Company is currently evaluating the impact that ASU 2016-09 will have on its consolidated financial statements and disclosures.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments.” ASU No. 2016-15 clarifies and provides specific guidance on eight cash flow classification issues that are not currently addressed by current GAAP, thereby reducing the current diversity in practice. ASU No. 2016-15 is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2017, with early application permitted. This guidance is applicable to the Company’s fiscal year beginning January 1, 2018. The Company is in the process of evaluating the impact of adoption of ASU 2016-15 to the presentation of consolidated cash flows.

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Note 2 - Fair Value Measurement

The following table summarizes the Company's investments at September 30, 2016 and December 31, 2015 (in thousands):

	September 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	\$ 176	\$ 0	\$ 176	\$ 21,312	\$ 0	\$ 21,312
Investments:						
Municipal Bonds	838	0	838	0	0	0
Corporate Bonds	175	0	175	0	0	0
Restricted cash and investments:						
Money Market Funds	51,959	0	51,959	76,023	0	76,023
Certificate of Deposit	0	0	0	10,000	0	10,000
Total Current Investments	<u>53,148</u>	<u>0</u>	<u>53,148</u>	<u>107,335</u>	<u>0</u>	<u>107,335</u>
Long term:						
Investments:						
Corporate Bonds	624	1	625	2,970	(24)	2,946
Municipal Bonds	238	0	238	3,135	(3)	3,132
Money Market Funds	0	0	0	4	0	4
Restricted cash and investments (1):						
Money Market Funds	221,901	0	221,901	175,869	0	175,869
Certificates of Deposit	11,776	0	11,776	496	(1)	495
U.S. Treasuries	5,258	23	5,281	4,752	1	4,753
Corporate Bonds	3,191	14	3,205	2,996	(24)	2,972
Municipal Bonds	2,547	4	2,551	3,613	(1)	3,612
Total Long Term Investments	<u>245,535</u>	<u>42</u>	<u>245,577</u>	<u>193,835</u>	<u>(52)</u>	<u>193,783</u>
Total Investments	<u>\$298,683</u>	<u>\$ 42</u>	<u>\$298,725</u>	<u>\$301,170</u>	<u>\$ (52)</u>	<u>\$301,118</u>

(1) Restricted cash and investments also includes \$306,000 of workers' compensation deposits.

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Note 2 - Fair Value Measurement (Continued)

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

	September 30, 2016					December 31, 2015				
	Total Recorded Basis	Level 1	Level 2	Level 3	Other (1)	Total Recorded Basis	Level 1	Level 2	Level 3	Other (1)
Cash Equivalents:										
Money Market Funds	\$ 176	\$ 0	\$ 0	\$ 0	\$ 176	\$ 21,312	\$ 0	\$ 0	\$ 0	\$ 21,312
Investments:										
Municipal Bonds	1,076	50	1,026	0	0	3,132	241	2,891	0	0
Corporate Bonds	800	502	298	0	0	2,946	2,291	655	0	0
Money Market Funds	0	0	0	0	0	4	0	0	0	4
Restricted cash and investments:										
Money Market Funds	273,860	0	0	0	273,860	251,892	0	0	0	251,892
Certificates of Deposit	11,776	0	11,776	0	0	10,495	0	10,495	0	0
U.S. Treasuries	5,281	5,281	0	0	0	4,753	4,753	0	0	0
Corporate Bonds	3,205	2,163	1,042	0	0	2,972	2,285	687	0	0
Municipal Bonds	2,551	214	2,337	0	0	3,612	389	3,223	0	0
Total Investments	\$298,725	\$8,210	\$16,479	\$ 0	\$274,036	\$301,118	\$9,959	\$17,951	\$ 0	\$273,208

- (1) In accordance with ASU 2015-07 (see Note 1), investments in money market funds measured at fair value using the NAV per share practical expedient are not subject to hierarchy level classification disclosure. The Company invests in money market funds that seek to maintain a stable net asset value. These investments include commingled funds that comprise high-quality short-term securities representing liquid debt and monetary instruments where the redemption value is likely to be the fair value. Redemption is permitted daily without written notice.

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Note 3 - Workers' Compensation Claims

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Beginning balance				
Workers' compensation claims liabilities	\$277,050	\$239,245	\$255,675	\$225,278
Add: claims expense accrual:				
Current period	38,094	29,723	103,875	84,943
Prior periods	(999)	(2,424)	(1,547)	(9,659)
	<u>37,095</u>	<u>27,299</u>	<u>102,328</u>	<u>75,284</u>
Less: claim payments related to:				
Current period	5,596	4,974	10,565	8,730
Prior periods	16,618	13,799	55,507	44,061
	<u>22,214</u>	<u>18,773</u>	<u>66,072</u>	<u>52,791</u>
Ending balance				
Workers' compensation claims liabilities	<u>\$291,931</u>	<u>\$247,771</u>	<u>\$291,931</u>	<u>\$247,771</u>
Incurred but not reported (IBNR)	<u>\$145,722</u>	<u>\$125,574</u>	<u>\$145,722</u>	<u>\$125,574</u>

The states of California, Maryland, Oregon, Washington, Colorado and Delaware required us to maintain specified investment balances or other financial instruments totaling \$159.0 million at September 30, 2016 to cover potential workers' compensation claims losses related to the Company's current and former status as a self-insured employer. In addition to restricted cash and investments held to satisfy these requirements at September 30, 2016, we have provided surety bonds and standby letters of credit totaling \$152.9 million, including a California requirement of \$147.2 million.

The Company also operates a wholly owned insurance company, Ecole Insurance Company ("Ecole"). Ecole is a fully licensed insurance company holding a certificate of authority from the Arizona Department of Insurance. Ecole provides workers' compensation coverage to the Company's employees working in Arizona, Utah and Nevada. The surplus of Ecole was \$10.8 million and \$9.5 million at September 30, 2016 and December 31, 2015, respectively, and is included in long-term restricted cash and investments in our condensed consolidated balance sheets.

As part of its fronted workers' compensation insurance program with Chubb Limited ("Chubb", formerly ACE Group) in the states of California, Delaware, Virginia, Pennsylvania, North Carolina, New Jersey, West Virginia and the District of Columbia, the Company makes payments into a trust account ("the Chubb trust account") to be used for the payment of future claims. The balance in the Chubb trust account was \$235.2 million and \$166.6 million at September 30, 2016 and December 31, 2015, respectively. The Chubb trust account balances are included as a component of the current and long-term restricted cash and investments in the Company's condensed consolidated balance sheets.

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Note 3 - Workers' Compensation Claims (Continued)

At September 30, 2016 the Company recorded an asset of \$13.2 million related to a payment remitted to Chubb on September 29, 2016 but not deposited into the Chubb trust account until October 2016. This amount is included in other assets in the condensed consolidated balance sheet.

Note 4 - 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. As of September 30, 2016, the term loan has been paid off completely, compared to an outstanding balance of \$15.0 million at December 31, 2015.

The Agreement also included \$42.3 million in cash-secured letters of credit at September 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 \$44.1 million in restricted money market funds and restricted certificates of deposit.

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 September 30, 2016 and December 31, 2015. The revolving credit line 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 September 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 investments to workers' compensation and safety incentive liabilities of at least 1.0:1.0, measured quarterly.

The Agreement includes certain additional restrictions as follows:

- capital expenditures may not exceed a total of \$4.0 million in 2016 without the Bank's prior approval;

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Note 4 - Revolving Credit Facility and Long-Term Debt (Continued)

- 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 September 30, 2016, the Company was in violation of the capital expenditure restriction. 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 September 30, 2016 and December 31, 2015, respectively, secured by the Company's corporate office building in Vancouver, Washington. This loan requires payment of monthly principal payments of \$18,375 plus interest at a rate of one month LIBOR plus 2.25%, with the unpaid principal balance due November 1, 2017.

Note 5 - Income Taxes

Under ASC 740, "Income Taxes," management evaluates the realizability of the deferred tax assets on a quarterly basis under a "more-likely than not" standard. As part of this evaluation, management reviews all evidence both positive and negative to determine if a valuation allowance is needed. One component of this analysis is to determine whether the Company was in a cumulative loss position for the most recent 12 quarters. The Company was in a cumulative income position for the 12 quarters ended September 30, 2016. Based on management's analysis, no valuation allowance of deferred tax assets was recorded at September 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.

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Note 6 - 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 BBSI 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, 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.

On March 21, 2016, before the court had ruled on the defendants' motion to dismiss the plaintiffs' first amended consolidated complaint, the 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. The defendants filed a motion to dismiss the second amended consolidated complaint on May 23, 2016.

On October 26, 2016, before the court ruled on the motion to dismiss, the parties entered into a Stipulation and Agreement of Settlement dated as of October 26, 2016 (the "Settlement"), to settle the litigation. The settlement class includes all persons and entities who purchased or otherwise acquired BBSI common stock in the period beginning February 12, 2013, through March 9, 2016, and were damaged thereby, with certain exclusions.

The Settlement is intended to fully, finally and forever compromise, settle, release, resolve, and dismiss with prejudice the purported class action and all claims asserted therein against the named defendants. In the Settlement, the defendants have denied all allegations of wrongdoing and the plaintiffs have not conceded any infirmities in their positions.

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Note 6 – Litigation (Continued)

The Settlement calls for the payment in cash of \$12.0 million (the “Settlement Fund”) into escrow by November 29, 2016, which is 15 business days after the court entered an order preliminarily approving the Settlement. Of this amount, approximately \$8.7 million will be paid by BBSI’s insurance carriers and approximately \$3.3 million will be paid by BBSI. The amount to be paid by BBSI has been accrued at September 30, 2016 and is included in other accrued liabilities in our condensed consolidated balance sheet. The fees of counsel for the plaintiffs will be paid out of the Settlement Fund following approval by the court.

The Settlement is subject to approval by the court and to other customary terms and conditions, including the right of BBSI to terminate the Settlement under specified circumstances. All potential class members will be notified of the Settlement in November 2016. The court has scheduled a hearing for February 22, 2017, to consider final approval of the Settlement. If the Settlement is not approved by the court, or is otherwise terminated before it is finalized, BBSI is unable to predict the final outcome of the litigation or to estimate its effect on BBSI, which may be material and adverse.

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 BBSI’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 BBSI following Mr. Miller’s termination. BBSI 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 BBSI’s reserve strengthening process, reserve study and consultants, the cost of stock repurchases by BBSI in October 2014, compensation paid to BBSI’s officers, and costs of negotiating BBSI’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, BBSI 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 BBSI’s consolidated financial position or results of operations.

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

General

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

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

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

Business Organization. We operate a decentralized delivery model using operationally-focused business teams, typically located within 50 miles of our client companies. These teams are led by senior level business generalists and comprise senior level professionals with expertise in human resources, organizational development, risk mitigation and workplace safety and various types of administration, including payroll. These teams are responsible for growth of their operations and for providing strategic leadership, guidance and expert consultation to our client companies. The decentralized structure fosters autonomous decision-making in which business teams deliver plans that closely align with the objectives of each business owner client. This structure also provides a means of incubating talent to support increased growth and capacity. We support clients with employees located in 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.

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

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 4,100 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.

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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 nine months ended September 30, 2016 and 2015.

	Percentage of Total Revenue			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Professional employer service fees	78.7%	76.5%	80.3%	76.6%
Staffing services	21.3	23.5	19.7	23.4
Total revenues	100.0	100.0	100.0	100.0
Cost of revenues:				
Direct payroll costs	16.4	17.8	15.0	17.8
Payroll taxes and benefits	36.8	37.8	43.5	43.0
Workers' compensation	24.7	22.8	25.0	23.1
Total cost of revenues	77.9	78.4	83.5	83.9
Gross margin	22.1	21.6	16.5	16.1
Selling, general and administrative expenses	13.5	12.8	13.0	11.7
Depreciation and amortization	0.4	0.4	0.4	0.4
Income from operations	8.2	8.4	3.1	4.0
Other income (expense), net	(1.6)	(0.1)	(0.6)	(0.1)
Income before income taxes	6.6	8.3	2.5	3.9
Provision for income taxes	2.1	2.8	0.8	1.3
Net income	4.5%	5.5%	1.7%	2.6%

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 nine months ended September 30, 2016 and 2015 in the table below. Although not in accordance with GAAP, management believes this information is informative as to the level of our business activity and 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 increase in staffing revenues will typically result in a lower 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 September 30,		(Unaudited) Nine Months Ended September 30,	
	2016	2015	2016	2015
Gross revenues:				
Professional employer services	\$ 1,184,159	\$ 1,010,757	\$ 3,314,641	\$ 2,798,039
Staffing services	47,874	46,617	121,806	128,130
Total gross revenues	1,232,033	1,057,374	3,436,447	2,926,169
Gross cost of revenues:				
Direct payroll costs	1,036,769	886,984	2,889,278	2,457,193
Payroll taxes and benefits	82,888	75,237	269,533	235,122
Workers’ compensation	62,817	52,263	175,437	145,555
Total gross cost of revenues	1,182,474	1,014,484	3,334,248	2,837,870
Gross margin	\$ 49,559	\$ 42,890	\$ 102,199	\$ 88,299

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

	(Unaudited) Three Months Ended September 30,					
	Net Revenue Reporting Method (GAAP)		Non-GAAP Adjustments		Gross Revenue Reporting Method (Non-GAAP)	
	2016	2015	2016	2015	2016	2015
Revenues:						
Professional employer services	\$177,229	\$152,108	\$1,006,930	\$858,649	\$1,184,159	\$1,010,757
Staffing services	47,874	46,617	0	0	47,874	46,617
Total revenues	\$225,103	\$198,725	\$1,006,930	\$858,649	\$1,232,033	\$1,057,374
Cost of revenues	\$175,544	\$155,835	\$1,006,930	\$858,649	\$1,182,474	\$1,014,484

[Table of Contents](#)**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

	(Unaudited)					
	Nine Months Ended September 30,					
	Net Revenue Reporting Method (GAAP)		Non-GAAP Adjustments		Gross Revenue Reporting Method (Non-GAAP)	
	2016	2015	2016	2015	2016	2015
Revenues:						
Professional employer services	\$497,682	\$418,954	\$2,816,959	\$2,379,085	\$3,314,641	\$2,798,039
Staffing services	121,806	128,130	0	0	121,806	128,130
Total revenues	<u>\$619,488</u>	<u>\$547,084</u>	<u>\$2,816,959</u>	<u>\$2,379,085</u>	<u>\$3,436,447</u>	<u>\$2,926,169</u>
Cost of revenues	<u>\$517,289</u>	<u>\$458,785</u>	<u>\$2,816,959</u>	<u>\$2,379,085</u>	<u>\$3,334,248</u>	<u>\$2,837,870</u>

The non-GAAP adjustments comprise direct payroll costs and safety incentives attributable to our professional employer services client companies.

Three months ended September 30, 2016 and 2015

Net income for the third quarter of 2016 amounted to \$10.2 million compared to net income of \$11.0 million for the third quarter of 2015. Diluted income per share for the third quarter of 2016 was \$1.38 compared to diluted income per share of \$1.49 for 2015.

Revenues for the third quarter of 2016 totaled \$225.1 million, an increase of approximately \$26.4 million or 13.3% over the third quarter of 2015, which reflects an increase in the Company's professional employer service fee revenue of \$25.1 million or 16.5%, and an increase in staffing services revenue of \$1.3 million or 2.7%.

Approximately 78% and 77%, respectively, of our total net revenues during the third quarter of 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 third quarter of 2016 nearly doubled business lost from former customers. Professional employer service revenue from continuing customers reflected a 9.1% increase compared to the third quarter of 2015, primarily resulting from increases in employee headcount and hours worked. The increase in staffing services revenue was due primarily to an increase in new staffing business.

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

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

Gross margin for the third quarter of 2016 totaled approximately \$49.6 million or 22.0% of revenue compared to \$42.9 million or 21.6% of revenue for the third quarter of 2015. The increase in gross margin percentage was primarily due to a decrease in direct payroll costs along with payroll taxes and benefits, as a percentage of revenues, partially offset by an increase in workers' compensation expense, as a percentage of revenues.

Direct payroll costs for the third quarter of 2016 totaled approximately \$37.0 million or 16.4% of revenue compared to \$35.3 million or 17.8% of revenue for the third quarter of 2015. The decrease in direct payroll costs percentage was primarily due to the increase in professional employer services and the decrease of staffing services within the mix of our customer base compared to the third quarter of 2015.

Payroll taxes and benefits for the third quarter of 2016 totaled approximately \$82.9 million or 36.8% of revenue compared to \$75.2 million or 37.8% of revenue for the third quarter of 2015. The decrease in payroll taxes and benefits percentage was due to a \$3.8 million federal unemployment tax credit recognized in the third quarter of 2016. This included \$2.9 million for tax years 2013, 2014 and 2015. Adjusting for this credit, payroll taxes and benefits as a percentage of revenues was 38.5% in the third quarter of 2016. This increase is in line with the growth in professional employer services where payroll taxes and benefits are presented at gross cost.

Workers' compensation expense for the third quarter of 2016 totaled approximately \$55.6 million or 24.7% of revenue compared to \$45.3 million or 22.8% of revenue for the third quarter of 2015. The increase in workers' compensation expense percentage was primarily due to an increase in current period claims expense from \$29.7 million in the third quarter of 2015 to \$38.1 million in the third quarter of 2016, coupled with a reduction in prior periods claims expense of \$2.4 million in the third quarter of 2015 compared to a reduction of \$1.0 million in the third quarter of 2016.

Selling, general and administrative ("SG&A") expenses for the third quarter of 2016 totaled approximately \$30.4 million or 13.5% of revenue compared to \$25.4 million or 12.8% of revenue for the third quarter of 2015. The increase as a percentage of revenue was primarily due to \$1.7 million in legal and accounting costs associated with financial restatements, outside investigations and legal proceedings related to securities law issues.

Other expense, net for the third quarter of 2016 totaled approximately \$3.3 million as compared to an expense of \$216,000 for the third quarter of 2015. The change was attributable to a \$3.3 million litigation settlement.

Our effective income tax rate for the third quarter of 2016 was 31.9%, compared to 33.5% for the third 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.

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

Nine months ended September 30, 2016 and 2015

Net income for the nine months ended September 30, 2016 amounted to \$10.8 million compared to a net income of \$14.0 million for the first nine months of 2015. Diluted income per share for the first nine months of 2016 was \$1.46 compared to diluted income per share of \$1.91 for 2015.

Revenues for the first nine months of 2016 totaled \$619.5 million, an increase of approximately \$72.4 million or 13.2% over the similar period of 2015, which reflects an increase in the Company's professional employer service fee revenue of \$78.7 million or 18.8%, offset by a decrease in staffing services revenue of \$6.3 million or 4.9%.

Approximately 78% of our total net revenues during the first nine months ended September 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 nine months of 2016 nearly doubled business lost from former customers. Professional employer service revenue from continuing customers reflected an 8.1% increase compared to the first nine 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 nine months of 2016 totaled approximately \$102.2 million or 16.5% of revenue compared to \$88.3 million or 16.1% of revenue for the first nine months of 2015. The increase in gross margin percentage was primarily due to a decrease in direct payroll costs as a percentage of revenues, partially offset by increases in workers' compensation expense and payroll taxes and benefits as a percentage of revenues.

Direct payroll costs for the first nine months of 2016 totaled approximately \$92.7 million or 15.0% of revenue compared to \$97.3 million or 17.8% of revenue for the first nine months of 2015. The decrease in direct payroll costs percentage was primarily due to the increase in professional employer services and the decrease of staffing services within the mix of our customer base compared to the first nine months of 2015.

Payroll taxes and benefits for the first nine months of 2016 totaled approximately \$269.5 million or 43.5% of revenue compared to \$235.1 million or 43.0% of revenue for the first nine months of 2015. The increase in payroll taxes and benefits percentage 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 \$3.8 million federal unemployment tax credit recognized in the third quarter of 2016.

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

Nine months ended September 30, 2016 and 2015 (Continued)

Workers' compensation expense for the first nine months of 2016 totaled approximately \$155.1 million or 25.0% of revenue compared to \$126.4 million or 23.1% of revenue for the first nine months of 2015. The increase in workers' compensation expense percentage was primarily due to the reduction in prior periods' claims expense of \$9.7 million in the first nine months of 2015 compared to a reduction of \$1.5 million in the first nine months of 2016, coupled with an increase in current period claims expense from \$84.9 million in the first nine months of 2015 to \$103.9 million in the first nine months of 2016.

SG&A expenses for the first nine months of 2016 totaled \$80.8 million, or 13.0% of revenue compared to \$63.8 million or 11.7% of revenue for the first nine months of 2015. A portion of the increase was due to \$6.1 million in legal and accounting costs associated with financial restatements, outside investigations and legal proceedings related to securities law issues.

Other expense, net for the nine months ended September 30, 2016 totaled approximately \$3.3 million as compared to \$1.1 million for the first nine months of 2015. The change was attributable to a \$3.3 million litigation settlement recognized in the third quarter of 2016, partially offset by a decline in interest expense and an increase in investment income.

Our effective income tax rate for the first nine months of 2016 was 31.7%, compared to 34.0% for the first nine months of 2015. Our income tax rate typically differs from the federal statutory tax rate of 35% primarily due to federal and state tax credits.

Fluctuations in Quarterly Operating Results

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

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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 \$26.8 million at September 30, 2016 increased \$1.6 million from December 31, 2015, compared to an increase of \$5.3 million for the comparable period of 2015. The increase in cash at September 30, 2016, as compared to December 31, 2015, was primarily due to net income of \$10.8 million, proceeds from securities of \$95.6 million, an increase in accrued payroll, payroll taxes and related benefits of \$39.7 million and an increase in workers' compensation claims liabilities of \$36.3 million, partially offset by purchases of securities of \$127.5 million and an increase in trade accounts receivable of \$49.5 million.

Net cash provided by operating activities for the nine months ended September 30, 2016 amounted to \$57.3 million, compared to cash provided by operating activities of \$51.3 million for the comparable period of 2015. For the nine months ended September 30, 2016, cash flow was primarily due to net income of \$10.8 million, an increase in accrued payroll, payroll taxes and related benefits of \$39.7 million and an increase in workers' compensation claims liabilities of \$36.3 million, partially offset by an increase in trade accounts receivable of \$49.5 million.

Net cash used in investing activities totaled \$35.7 million for the nine months ended September 30, 2016, compared to net cash used of \$31.3 million for the comparable period of 2015. For the nine months ended September 30, 2016, cash used in investing activities consisted primarily of purchases of restricted cash and investments of \$127.2 million, partially offset by proceeds from sales and maturities of restricted cash and investments of \$91.1 million.

Net cash used in financing activities for the nine months ended September 30, 2016 was \$20.0 million, compared to net cash used in financing activities of \$14.6 million for the comparable period of 2015. For the nine months ended September 30, 2016, cash was primarily used for debt payments of \$15.2 million and dividend payments of \$4.8 million.

The states of California, Maryland, Oregon, Washington, Colorado and Delaware required us to maintain specified investment balances or other financial instruments totaling \$159.0 million at September 30, 2016 to cover potential workers' compensation claims losses related to the Company's current and former status as a self-insured employer. In addition to restricted cash and investments held to satisfy these requirements at September 30, 2016, we have provided surety bonds and standby letters of credit totaling \$152.9 million, including a California requirement of \$147.2 million.

Due to a decrease in our California workers' compensation claims liability during the first nine months of 2016, the surety insurers decreased their letter of credit requirement to \$42.3 million at September 30, 2016 from \$88.3 million at December 31, 2015. The collateral associated with the letters of credit decreased to \$44.1 million at September 30, 2016 from \$92.4 million at December 31, 2015.

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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.

Ecole, our wholly owned insurance company, provides workers' compensation coverage to the Company's employees working in Arizona, Utah and Nevada. The surplus of Ecole was \$10.8 million and \$9.5 million at September 30, 2016 and December 31, 2015, respectively, and is included in long-term restricted cash and investments in our condensed consolidated balance sheets.

As part of the Chubb fronted workers' compensation insurance program, the Company makes monthly payments into the Chubb trust account, to be used for the payment of future claims. The balance in the Chubb trust account was \$235.2 million and \$166.6 million at September 30, 2016 and December 31, 2015, respectively. The Chubb trust account balance is made up of money market funds, included as a component of the current and long-term restricted cash and investments in the Company's consolidated balance sheets.

At September 30, 2016 the Company recorded an asset of \$13.2 million related to a payment remitted to Chubb on September 29, 2016 but not deposited into the Chubb trust account until October 2016. This amount is included in other assets in the condensed consolidated balance sheet and is included in cash used in investing activities in the condensed consolidated statement of cash flows.

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. As of September 30, 2016, the term loan has been paid off completely, compared to an outstanding balance of \$15.0 million at December 31, 2015.

The Agreement also included \$42.3 million in cash-secured letters of credit at September 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 \$44.1 million in restricted money market funds and restricted certificates of deposit.

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 September 30, 2016 and December 31, 2015. The revolving line of credit expires on October 1, 2017.

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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 investments to workers' compensation and safety incentive liabilities of at least 1.0:1.0, measured quarterly.

The Agreement includes certain additional restrictions as follows:

- 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 September 30, 2016, the Company was in violation of the capital expenditure restriction. 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 September 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.

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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 Chubb, 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

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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, 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 September 30, 2016, the Company’s investments consisted principally of approximately \$274.0 million in money market funds, \$11.8 million in certificates of deposit, \$5.3 million in U.S. Treasuries, \$4.0 million in corporate bonds, and \$3.6 million in municipal bonds. The Company’s outstanding long-term debt totaled approximately \$4.4 million at September 30, 2016. Based on the Company’s overall interest exposure at September 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.

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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 September 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.

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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 and Changes in Internal Control over Financial Reporting

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. The following actions have been taken 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 and new Controller and Assistant Controller with meaningful industry, public company accounting and financial experience.
- The Board of Directors increased the number of positions on the Board from six to seven and appointed an individual with extensive financial management and public company experience to fill the new vacancy. Having met all applicable financial literacy and independence requirements, this individual was appointed to serve as a member of the Audit Committee and as the Audit Committee financial expert. The Board of Directors is continuing their search for an additional individual to add in the ensuing months.
- 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.

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Item 4. Controls and Procedures (Continued)

- 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 examine fully the quarterly actuarial report produced by the actuary. Meetings occurred in April, July, and October 2016.
- Directed the Company's 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.
- 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.
- Retained an outside third-party expert to provide an in-depth education and training 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, and the requirements and significance of the Company's Code of Ethics for Senior Financial Officers.
- Engaged a Big 4 public accounting firm to conduct training for all BBSI accounting staff and other relevant personnel on the requirements and importance of ICFR, including risk assessment, internal control design and control performer responsibilities.
- Implemented 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. The Company's new permanent CFO distributed an additional written communication companywide after his arrival reiterating these themes and also reminding employees of the Company's whistleblower hotline.
- Increased and enhanced 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.
- Engaged a Big 4 public accounting firm to assist management with assessing and enhancing the Company's control environment. The engagement is currently in progress and includes performing a risk assessment and evaluating the design of controls related 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.

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Item 4. Controls and Procedures (Continued)

- 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.
- Effective and timely reconciliations of balance sheet accounts.
- Restrictions on access to and segregation of duties within the Company's information and technology systems.
- Implementation of improvements to the Company's information and technology systems.

Management believes the measures described above will remediate the identified material weaknesses in future periods. As it continues to evaluate and improve ICFR, management may determine to take additional measures to address control deficiencies or to modify certain of the remediation measures described above.

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.

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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 BBSI 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, 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.

On March 21, 2016, before the court had ruled on the defendants' motion to dismiss the plaintiffs' first amended consolidated complaint, the 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. The defendants filed a motion to dismiss the second amended consolidated complaint on May 23, 2016.

On October 26, 2016, before the court ruled on the motion to dismiss, the parties entered into a Stipulation and Agreement of Settlement dated as of October 26, 2016 (the "Settlement"), to settle the litigation. The settlement class includes all persons and entities who purchased or otherwise acquired BBSI common stock in the period beginning February 12, 2013, through March 9, 2016, and were damaged thereby, with certain exclusions.

The Settlement is intended to fully, finally and forever compromise, settle, release, resolve, and dismiss with prejudice the purported class action and all claims asserted therein against the named defendants. In the Settlement, the defendants have denied all allegations of wrongdoing and the plaintiffs have not conceded any infirmities in their positions.

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Item 1. Legal Proceedings (Continued)

The Settlement calls for the payment in cash of \$12.0 million (the “Settlement Fund”) into escrow by November 29, 2016, which is 15 business days after the court entered an order preliminarily approving the Settlement. Of this amount, approximately \$8.7 million will be paid by BBSI’s insurance carriers and approximately \$3.3 million will be paid by BBSI. The amount to be paid by BBSI has been accrued at September 30, 2016 and is included in other accrued liabilities in our condensed consolidated balance sheet. The fees of counsel for the plaintiffs will be paid out of the Settlement Fund following approval by the court.

The Settlement is subject to approval by the court and to other customary terms and conditions, including the right of BBSI to terminate the Settlement under specified circumstances. All potential class members will be notified of the Settlement in November 2016. The court has scheduled a hearing for February 22, 2017, to consider final approval of the Settlement. If the Settlement is not approved by the court, or is otherwise terminated before it is finalized, BBSI is unable to predict the final outcome of the litigation or to estimate its effect on BBSI, which may be material and adverse.

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 BBSI’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 BBSI following Mr. Miller’s termination. BBSI 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 BBSI’s reserve strengthening process, reserve study and consultants, the cost of stock repurchases by BBSI in October 2014, compensation paid to BBSI’s officers, and costs of negotiating BBSI’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, BBSI 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 BBSI’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.

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

Effective September 23, 2016, the Company granted a Company employee restricted stock units (“RSUs”) relating to a total of 2,000 shares of Company common stock. Each RSU represents a contingent right to receive one share of Company common stock. The award vests in four equal annual installments, commencing September 23, 2017, and is subject to continued service as an employee of the Company.

The award described above was granted pursuant to the Company’s stockholder-approved 2015 Stock Incentive Plan and issued as consideration for services rendered by the recipient. The Company did not receive any cash consideration in connection with the award.

The securities described above were issued in reliance on the exemption from registration afforded by Section 4(a)(2) of the Securities Act of 1933.

The Company maintains a Board-approved stock repurchase program, which in October 2008 authorized up to 3.0 million shares of the Company’s common stock to be repurchased from time to time in open market purchases. The repurchase program allows for the repurchase of approximately 1.1 million shares as of September 30, 2016. The Company’s credit agreement with its primary bank currently prohibits the repurchase of any Company common stock.

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.

Date: November 9, 2016

BARRETT BUSINESS SERVICES, INC.
Registrant

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

EXHIBIT INDEX**

10.1	Change in Control Employment Agreement between the Registrant and Gary Kramer, dated August 19, 2016.
10.2	Form of Employee Restricted Stock Units Award Agreement for Executive Officers for awards granted during 2016 under the 2015 Stock Incentive Plan of the Registrant (the "2015 Plan").
10.3	Form of Non-Employee Director Restricted Stock Units Award Agreement for awards granted during 2016 under the 2015 Plan.
10.4	Form of Performance Share Award Agreement for Executive Officers for awards granted under the 2015 Plan.
10.5	Nonqualified Stock Option Award Agreement between the Registrant and Thomas J. Carley dated July 1, 2016.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
32.	Certification pursuant to 18 U.S.C. Section 1350.
101.	INS 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.

**CHANGE IN CONTROL
EMPLOYMENT AGREEMENT**

THIS CHANGE IN CONTROL EMPLOYMENT AGREEMENT ("Agreement"), dated August 19, 2016, is by and between BARRETT BUSINESS SERVICES, INC., a Maryland corporation ("Corporation"), and Gary Kramer ("Executive").

The Board of Directors of Corporation (the "Board"), has determined that it is in the best interests of Corporation and its stockholders to assure that Corporation will have the continued dedication of Executive, notwithstanding the possibility, threat or occurrence of a Change in Control (as defined below) of Corporation. The Board believes it is imperative to diminish the inevitable distraction of Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change in Control and to encourage Executive's full attention and dedication to Corporation currently and in the event of any threatened or pending Change in Control, and to provide Executive with compensation and benefits arrangements upon a Change in Control which ensure that the compensation and benefits expectations of Executive will be satisfied and which are competitive with those of other corporations. Therefore, in order to accomplish these objectives, the Board has caused Corporation to enter into this Agreement.

Corporation and Executive agree as follows:

1. TERM.

This Agreement commences on the date of this Agreement and will continue in effect until December 31, 2017; provided, however, that commencing on January 1, 2017, and each subsequent January 1, the term of this Agreement will automatically be extended for one additional calendar year unless at least 90 days prior to such January 1, Corporation or Executive will have given notice that this Agreement will not be extended; and provided, further, that if a Change in Control occurs while this Agreement is in effect, this Agreement will automatically be extended for a period of one calendar year beyond the calendar year in which the Change in Control occurs.

This Agreement will terminate on the earliest of:

- (a) Executive's Separation from Service other than within 12 months following a Change in Control, provided, however, that if it is reasonably demonstrated by Executive that such Separation from Service (i) was at the request of a third party who has taken steps reasonably calculated to effect a Change in Control or (ii) otherwise arose in connection with or anticipation of a Change in Control, then such Separation from Service will be deemed to have occurred immediately following a Change in Control;
- (b) Corporation's satisfaction of its obligations under this Agreement; or
- (c) this Agreement is otherwise terminated in accordance with the terms and conditions set forth herein.

2. **DEFINITIONS.**

2.1 **Defined Terms.** For purposes of this Agreement, the following terms have the meanings set forth below:

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

(b) “**Cause**” means: (i) Executive’s willful failure to comply with any of the material and lawful policies or standards of Corporation; (ii) Executive’s material breach of Section 6 (“Confidential Information”) of this Agreement; (iii) Executive’s willful and material failure to perform the duties of his position with Corporation; (iv) embezzlement, theft, larceny, fraud, or other material acts of dishonesty by Executive; or (v) Executive’s conviction of or entry of a plea of guilty or nolo contendere to a felony; provided that Cause will not include any actions or circumstances constituting Cause under (i) or (iii) above if Executive cures such actions or circumstances within 30 days of written notice from Corporation setting forth the actions or circumstances constituting Cause.

(c) “**Change in Control**” means:

(i) A change in control of Corporation of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A as in effect on the date of this Agreement pursuant to the Exchange Act; provided that, without limitation, such a change in control shall be deemed to have occurred at such time as any Acquiring Person hereafter becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 30 percent or more of the combined voting power of Voting Securities; or

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

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

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

(d) “**Code**” means the Internal Revenue Code of 1986, as amended and in effect from time to time, or any successor thereto, together with rules, regulations, and interpretations promulgated thereunder. Where the context so requires, any reference to a particular Code section will be construed to refer to the successor provision to such Code section.

(e) “**Disability**” means the condition of being permanently “disabled” within the meaning of Code Section 22(e)(3), namely, being unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

(f) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended and in effect from time to time, or any successor statute. Where the context so requires, any reference to a particular section of the Exchange Act, or to any rule promulgated under the Exchange Act, will be construed to refer to successor provisions to such section or rule.

(g) “**Good Reason**” means:

(i) a material adverse change in the nature or scope of Executive’s authority, duties, or responsibilities as an executive of Corporation, so as to be inconsistent with Executive’s circumstances immediately prior to the Change in Control;

(ii) a material diminution of the authority, duties, or responsibilities of the individual(s) to whom Executive is required to report as in effect immediately prior to the Change in Control, including, if Executive reports to the Board, a requirement that Executive (A) report to a corporate officer or employee instead of reporting directly to the Board of Corporation or its successor or (B) report to a successor Board of which fewer than half of the members were directors of the Company immediately prior to the Change in Control;

(iii) a material diminution in Executive’s base compensation (Annual Base Salary or Target Bonus) as in effect immediately prior to the Change in Control;

(iv) a material change in the location of Executive’s principal place of employment by more than 50 miles from Executive’s principal place of employment immediately prior to the Change in Control;

(v) failure by Corporation to obtain from any successor the assent to this Agreement contemplated by Section 7.11(c) of this Agreement; or

(vi) significant violation of any of Corporation’s material duties or obligations under this Agreement.

Good Reason will only be deemed to have occurred if: (i) within 90 days after the initial existence of the circumstances constituting Good Reason, Executive provides Corporation with a written notice describing such circumstances, (ii) Corporation fails to cure the circumstances within 30 days after Corporation receives Executive’s notice, and (iii) Executive Separates from Service with Corporation and all the members of Corporation’s controlled group within 90 days of the date of Executive’s written notice.

(h) "**Other Payment**" means any payment or benefit payable to Executive in connection with a Change in Control pursuant to any plan, arrangement, or agreement (other than this Agreement) with Corporation, a person whose actions result in such Change in Control, or any person affiliated with Corporation or such person.

(i) "**Separation from Service**" or "**Separate(s) from Service**" means "separation from service" as defined and interpreted in Treasury Regulation 1.409A-1(h) or in subsequent regulations or other guidance issued by the Internal Revenue Service.

(j) "**Subsidiary**" means a "subsidiary corporation" of Corporation, within the meaning of Section 425 of the Code, namely any corporation in which Corporation directly or indirectly controls 50 percent or more of the total combined voting power of all classes of stock having voting power.

(k) "**Total Payments**" means all payments or benefits payable to Executive in connection with a Change in Control, including payments pursuant to this Agreement and any Other Payments pursuant to any other plan, agreement, or arrangement with Corporation, a person whose actions result in the Change in Control, or any person affiliated with Corporation or such person.

(l) "**Voting Securities**" means Corporation's issued and outstanding securities ordinarily having the right to vote at elections for director.

2.2 **Gender and Number.** Except where otherwise indicated by the context, any masculine or feminine terminology used in this Agreement also includes the opposite gender; and the definition of any term in the singular also includes the plural, and vice versa.

3. TERMS OF EMPLOYMENT.

3.1 **Position and Duties.** Corporation will continue to employ Executive in the position of Vice President – Finance and Chief Financial Officer, and Executive agrees to be employed by Corporation in such position, in accordance with the terms and conditions of this Agreement. Executive will have such duties as are customarily associated with such position, and such other duties as may be assigned to him from time to time by the Board.

3.2 **Outside Activities.** Executive will at all times, faithfully and to the best of his ability, perform all of the duties that may be required of him pursuant to this Agreement. Executive will devote his entire working time, attention and energies to the performance of his duties hereunder and will not, during the term of this Agreement, be engaged in any other business activity, whether or not such business activity is pursued for gain, profit or other pecuniary advantage; provided, however, that nothing in this Agreement will preclude Executive from devoting time during reasonable periods required for:

(a) serving, in accordance with Corporation's policies and with the prior approval of the Board, as a director or member of a committee of any company or organization involving no actual or potential conflict of interest with Corporation;

(b) delivering lectures and fulfilling speaking engagements;

(c) investing his personal assets in businesses in which his participation is solely that of an investor; provided, however, that such activities do not materially affect or interfere with the performance of Executive's duties and obligations to Corporation.

It is expressly understood and agreed that to the extent that any such activities have been conducted by Executive prior to the date of this Agreement, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the date of this Agreement will not be deemed to interfere with the performance of Executive's responsibilities to Corporation.

3.3 **Salary.** As compensation for services under this Agreement, Corporation will pay to Executive a base salary of \$400,000 per year ("Annual Base Salary"), in accordance with Corporation's standard payroll practices for its executive management employees as such practices may be revised from time to time, less all amounts required by law or authorized by Executive to be withheld or deducted. Executive's Annual Base Salary may be adjusted by the Board or its Compensation Committee from time to time.

3.4 **Bonus.** In addition to Annual Base Salary, Executive will be awarded a target annual cash bonus ("Target Bonus").

3.5 **Benefits.** To the extent otherwise eligible, Executive will be entitled to receive or participate in any additional benefits, including without limitation group health insurance plans, retirement plans, and medical reimbursement plans, which Corporation may from time to time make available to its executive management employees, in accordance with the terms of the applicable plan or policy. Corporation will reimburse Executive for reasonable out-of-pocket expenses that Executive incurs in connection with the performance of his duties in accordance with the same reimbursement policies that generally apply to Corporation's executive management employees. Corporation may change or discontinue such additional benefits at any time in its sole discretion.

4. COMPENSATION ON SEPARATION FOLLOWING CHANGE IN CONTROL.

4.1 **Good Reason; Other Than for Cause, Death or Disability.** If Executive Separates from Service within 12 months after a Change in Control on account of (i) involuntary Separation from Service other than for Cause, death, or Disability due to the independent exercise of the unilateral authority of Corporation, or (ii) voluntary Separation from Service by Executive for Good Reason: Corporation shall pay to Executive promptly within 30 days from the date of Separation from Service (and in no event later than March 15 of the calendar year after the year in which the date of Separation from Service occurred), in a lump sum in cash, the amount equal to the product of (1) three and (2) the sum of (x) Executive's Annual Base Salary and (y) the Target Bonus, in each case as in effect on the date that the Change in Control occurred.

4.2 **No Obligation.** Corporation will have no obligation to make any payment or offer any benefits to Executive on Separation from Service under this Agreement except as explicitly set forth in Section 4.1.

5. PARACHUTE PAYMENTS.

5.1 **Reduction for Excess Parachute Payments.** In the event that any portion of the Total Payments payable to Executive in connection with his Separation from Service would constitute an "excess parachute payment" within the meaning of Code Section 280G(b) that, but for this Section, would be subject to the excise tax imposed on so-called excess parachute payments pursuant to Code Section 4999 (an "Excise Tax"), then the payments otherwise payable under this Agreement will be reduced to the largest amount payable to Executive which would result in no portion of the Total Payments being subject to the Excise Tax.

5.2 **Application.** For purposes of this Section:

- (a) No portion of the Total Payments, the receipt or enjoyment of which Executive has effectively waived in writing prior to the date of payment, will be taken into account;
- (b) No portion of the Total Payments will be taken into account which, in the opinion of tax counsel selected by Corporation and reasonably acceptable to Executive (“Tax Counsel”), does not constitute a “parachute payment” within the meaning of Code Section 280G;
- (c) If Executive and Corporation disagree whether any payment will result in an Excise Tax, the matter will be conclusively resolved by an opinion of Tax Counsel;
- (d) The value of any noncash benefit or any deferred payment or benefit included in the Total Payments, and whether or not all or a portion of any payment or benefit is a “parachute payment” for purposes of this Section, will be determined by Corporation’s independent accountants in accordance with the principles of Sections 280G(d)(3) and (4) of the Internal Revenue Code.

5.3 **Effect on Other Agreements.** In the event that any other agreement, plan, or arrangement provides for Other Payments (an “Other Agreement”), Corporation and Executive agree that the Other Payment governed by such Other Agreement will be subject to the reduction in payments under Section 5.1. To the extent possible, Corporation and Executive agree that reductions in benefits under any plan, program, or arrangement of Corporation will be reduced (only to the extent described in Section 5.1) in the following order of priority:

- (a) Cash payments under this Agreement;
- (b) Any cash payments under any Other Agreement; and
- (c) The acceleration in the exercisability or vesting of any stock option or other stock related award granted by Corporation.

6. CONFIDENTIAL INFORMATION.

Executive shall hold in a fiduciary capacity for the benefit of Corporation all secret or confidential information, knowledge or data relating to Corporation or any of its affiliated companies, and their respective businesses, which shall have been obtained by Executive during Executive’s employment by Corporation or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by Executive or representatives of Executive in violation of this Agreement). After termination of Executive’s employment with Corporation, Executive shall not, without the prior written consent of Corporation or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than Corporation and those designated by it. In no event shall an asserted violation of the provisions of this Section 6 constitute a basis for deferring or withholding any amounts otherwise payable to Executive under this Agreement.

7. MISCELLANEOUS.

7.1 **Arbitration.** Any claim arising out of or related to this Agreement will be resolved exclusively by arbitration, which, unless the parties agree otherwise in writing, will be administered by and in accordance with the rules of the Arbitration Service of Portland, Inc. The place of arbitration will be Multnomah County, Oregon, unless otherwise agreed by the parties.

The award rendered by the arbitrator will be final and binding, and judgment may be entered on the award in any court having jurisdiction. The parties may endeavor to resolve disputes by mediation at any time as they may agree, provided, however, that resolution of disputes by mediation is not required prior to initiating resolution of disputes by arbitration. Notwithstanding anything to the contrary in this paragraph, Corporation may seek equitable relief in any court having jurisdiction with respect to a breach of Section 6 (“Confidential Information”). Any demand for arbitration must be delivered in writing to the other party within a reasonable time after the claim or dispute has arisen; provided, however, that in no event may such demand be made after the date when institution of legal or equitable proceedings based on such claim or dispute would be barred by the applicable statute of limitations.

7.2 **At-Will Employment.** Executive and Corporation acknowledge that Executive is and will be an at-will employee of Corporation and nothing in this Agreement will limit the right of Corporation or Executive to terminate Executive’s employment at any time for any reason or for no reason, subject to the provisions of this Agreement describing the compensation payable, if any, in connection with such a termination of employment.

7.3 **Captions.** All captions are solely for convenience of the parties and will not affect the meaning or interpretation of this Agreement.

7.4 **Entire Agreement.** The entire agreement between the parties with respect to the subject matter hereof is contained in this Agreement, and it supersedes and replaces all other agreements pertaining to Executive’s employment by Corporation; provided, however, that this Agreement does not supersede or invalidate other agreements and understandings between the parties relating to benefit plans and other personal benefits provided to Executive, equity awards made to Executive, or noncompetition agreements. There are no promises or representations made on behalf of Corporation to induce Executive to enter into this Agreement which are not set forth herein.

7.5 **Exemption from Code Section 409A.** This Agreement is intended to be exempt from the requirements of Section 409A of the Code by reason of all payments under this Agreement being “short-term deferrals” within the meaning of Treasury Regulation Section 1.409A-1(b)(4). All provisions of this Agreement shall be interpreted in a manner consistent with preserving this exemption. Notwithstanding the foregoing, to the extent the “short-term deferral” exemption is not available, if Executive is a “specified employee” as such term is defined in Treasury Regulation Section 1.409A-1(i), payments under this Agreement that are subject to Code Section 409A will not be made, or commenced, until the expiration of six months following the date of Executive’s Separation from Service. In no event will Corporation be liable for any tax, interest, or penalties that may be imposed on Executive by Code Section 409A or any damages for failing to comply with Code Section 409A.

7.6 **Governing Law.** This Agreement will be governed, construed, and enforced in accordance with the laws of the State of Washington, without reference to principles of conflicts of law.

7.7 **Modification.** No amendment, modification or discharge of this Agreement will be valid or enforceable unless it is in writing and signed by Corporation and Executive or their respective successors and legal representatives.

7.8 **Notices.** Notices under this Agreement must be in writing and will be deemed given when delivered in person, one business day after being sent by overnight courier, or four business days after being mailed by certified mail. Notices to Corporation must be addressed to Barrett Business Services, Inc., Attention: Chairman of the Board, at Corporation's headquarters address. Notices to Executive are to be sent to the last address Executive has provided from time to time to Corporation's human resources department. Either party may change its address for notices by giving notice of the change to the other party.

7.9 **Severability.** The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

7.10 **Source of Payments.** This Agreement will be unfunded. Any payments provided for under this Agreement will be made from the general assets of Corporation.

7.11 **Successors.**

(a) This Agreement is personal to Executive and without the prior written consent of Corporation shall not be assignable by Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon Corporation and its successors and assigns.

(c) Corporation will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of Corporation to assume expressly and agree to perform this Agreement in the same manner and to the same extent that Corporation would be required to perform it if no such succession had taken place. As used in this Agreement, "Corporation" shall mean Corporation as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

7.12 **Waiver.** Executive's or Corporation's failure to insist upon strict compliance with any provision of this Agreement, or the failure to assert any right Executive or Corporation may have hereunder, will not be deemed to be a waiver of such provision or right or any other provision of or right under this Agreement.

7.13 **Withholding.** Corporation may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

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

Corporation:
BARRETT BUSINESS SERVICES, INC.

By: /s/ Michael L. Elich
Name: Michael L. Elich
Title: President and Chief Executive Officer
Date: August 19, 2016

Executive:
/s/ Gary Kramer
Date: August 19, 2016

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

EMPLOYEE RESTRICTED STOCK UNITS
(Executive Officer)

Corporation: **BARRETT BUSINESS SERVICES, INC.**
8100 N.E. Parkway Drive, Suite 200
Vancouver, Washington 98662

Participant: _____

Date: Corporation maintains the Barrett Business Services, Inc., 2015 Stock Incentive Plan (the "Plan").

This Employee Restricted Stock Units Award Agreement (this "Agreement") evidences the grant of Restricted Units ("RSUs") to Participant under Article 9 of the Plan.

The parties agree as follows:

1. Defined Terms

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

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

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

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

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

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

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

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

(d) “**Employer**” means Corporation or a Subsidiary of Corporation.

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

(f) “**Voting Securities**” means Corporation’s issued and outstanding securities ordinarily having the right to vote at elections for director.

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

2. Grant of RSUs

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

3. Terms of RSUs

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

3.1 **Restriction Periods.** Each Restriction Period commences on the Grant Date and ends as follows:

(a) On _____, 20____ (“Restriction Period 1”);

(b) On _____, 20____ (“Restriction Period 2”);

(c) On _____, 20____ (“Restriction Period 3”); and

(d) on _____, 20____ (“Restriction Period 4”).

3.2 **Vesting.** Subject to the accelerated Vesting provisions of Section 3.4, the designated percentage of RSUs will Vest as follows:

- (a) 25 percent of the total RSUs will Vest on the expiration of Restriction Period 1;
- (b) An additional 25 percent of the total RSUs will Vest on the expiration of Restriction Period 2;
- (c) An additional 25 percent of the total RSUs will Vest on the expiration of Restriction Period 3; and
- (d) The final 25 percent of the total RSUs will Vest on the expiration of Restriction Period 4.

3.3 **Employment Requirement.** Except as otherwise provided in this Agreement, in the event that Participant ceases to be an employee of Corporation or a Subsidiary during the Restriction Period for any reason, all unvested RSUs will be forfeited immediately. For purposes of this Agreement, “employment” includes periods of illness or other leaves of absence authorized by the Employer.

3.4 **Acceleration of Vesting.** Notwithstanding Section 3.3 or the schedule provided in Section 3.2, the RSUs will become fully Vested upon the occurrence of either:

- (a) Participant’s death or termination of employment by reason of Disability; or
- (b) A Change in Control Date.

3.5 **Settlement.**

(a) **Generally.** Unless previously forfeited pursuant to Section 3.3 or otherwise provided by this Agreement, each designated percentage of RSUs will be settled on the last day of the applicable Restriction Period or, if not a business day, on the first business day thereafter (the “Settlement Date”), by the delivery to Participant of an unrestricted certificate for a number of Shares of Common Stock equal to the number of RSUs that became Vested on that Settlement Date. Shares issued upon settlement of RSUs may be subject to additional transfer restrictions as provided in this Agreement.

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

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

3.7 **RSUs Not Transferable.** Neither the RSUs, nor this Agreement, nor any interest or right in the RSUs or this Agreement, may be sold, pledged, assigned, or transferred in any manner other than by will or the laws of descent and distribution, unless and until the RSUs have been settled as provided in this Agreement. Neither the RSUs nor any interest or right in the RSUs will be liable for the debts, obligations, contracts or engagements of Participant or his

or her successors in interest or will be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition will be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence.

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

4. Tax Withholding and Reimbursement

Participant will be responsible for payment of all federal, state and local withholding taxes and Participant's portion of any applicable payroll taxes imposed in connection with the settlement of the RSUs and the issuance of Shares (collectively, the "Applicable Taxes"). Corporation's obligation to issue Shares of Common Stock in settlement of the RSUs is expressly conditioned on Participant's making arrangements satisfactory to Corporation, in its sole and absolute discretion, for the payment of all Applicable Taxes. Participant may satisfy his or her obligation to pay the Applicable Taxes by electing in Participant's sole discretion (a) to pay to Corporation (in cash or by check) an amount equal to the Applicable Taxes, (b) to authorize Corporation to withhold a number of unrestricted Shares (thus reducing the number of unrestricted Shares to be issued to Participant) having a Fair Market Value (as of the Settlement Date) equal to the remaining balance of the Applicable Taxes, or (c) to authorize Corporation to withhold an amount equal to the Applicable Taxes from Participant's payroll check or deposit to be made on or about the Settlement Date, provided such withholding is permissible under applicable state law. In no event will the amount withheld exceed the minimum amount of tax required to be withheld by law in connection with settlement of the Award.

5. Conditions Precedent

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

6. Successorship

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

7. Notices

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

8. Arbitration

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

9. Attorney Fees

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

10. Clawback/Recovery

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

11. Code Section 409A

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

BARRETT BUSINESS SERVICES, INC.

Participant

By _____
Name _____
Its _____

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

NON-EMPLOYEE DIRECTOR RESTRICTED STOCK UNITS

Corporation: **BARRETT BUSINESS SERVICES, INC.**
8100 N.E. Parkway Drive, Suite 200
Vancouver, Washington 98662

Participant: _____

Date:

Corporation maintains the Barrett Business Services, Inc., 2015 Stock Incentive Plan (the "Plan").

This Non-Employee Director Restricted Stock Units Award Agreement (this "Agreement") evidences the grant of Restricted Units ("RSUs") to Participant under Article 9 of the Plan.

The parties agree as follows:

1. Defined Terms

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

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

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

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

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

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

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

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

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

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

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

2. Grant of RSUs

Subject to the terms and conditions of this Agreement and the Plan, Corporation grants to Participant _____ RSUs, with an initial value of approximately \$ _____, based on the closing price of a Share of Common Stock, \$ _____, on _____, 20____. Each RSU represents a hypothetical Share of Common Stock. As a holder of RSUs, Participant will have only the rights of a general unsecured creditor of Corporation until delivery of Shares is made as specified in this Agreement.

3. Terms of RSUs

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

3.1 **Restriction Periods.** Each Restriction Period commences on the Grant Date and ends as follows:

(a) on _____, 20____ ("Restriction Period 1");

(b) on _____, 20____ ("Restriction Period 2");

(c) on _____, 20____ ("Restriction Period 3"); and

(d) on _____, 20____ ("Restriction Period 4").

3.2 **Vesting.** Subject to the accelerated Vesting provisions of Section 3.4, the designated percentage of RSUs will Vest as follows:

- (a) 25 percent of the total RSUs will Vest on the expiration of Restriction Period 1;
- (b) An additional 25 percent of the total RSUs will Vest on the expiration of Restriction Period 2;
- (c) An additional 25 percent of the total RSUs will Vest on the expiration of Restriction Period 3; and
- (d) The final 25 percent of the total RSUs will Vest on the expiration of Restriction Period 4.

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

3.4 **Acceleration of Vesting.** Notwithstanding Section 3.3 or the schedule provided in Section 3.2, the RSUs will become fully Vested upon the occurrence of either:

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

3.5 **Settlement.**

(a) **Generally.** Unless previously forfeited pursuant to Section 3.3 or otherwise provided by this Agreement, each designated percentage of RSUs will be settled on the last day of the applicable Restriction Period or, if not a business day, on the first business day thereafter (the "Settlement Date"), by the delivery to Participant of an unrestricted certificate for a number of Shares of Common Stock equal to the number of RSUs that became Vested on that Settlement Date. Shares issued upon settlement of RSUs may be subject to additional transfer restrictions as provided in this Agreement.

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

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

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

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

4. Tax Reimbursement

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

5. Conditions Precedent

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

6. Successorship

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

7. Notices

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

8. Arbitration

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

9. Attorney Fees

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

the matter is tried, heard, or decided, including the court which hears any exceptions made to an arbitration award submitted to it for confirmation as a judgment (with respect to attorney fees incurred in such confirmation proceedings).

10. Clawback/Recovery

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

11. Code Section 409A

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

BARRETT BUSINESS SERVICES, INC.

Participant

By _____
Name _____
Its _____

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

**PERFORMANCE SHARE AWARD
(Executive Officer)**

Corporation: **BARRETT BUSINESS SERVICES, INC.**
8100 N.E. Parkway Drive, Suite 200
Vancouver, Washington 98662

Participant: _____

Grant Date:

Corporation maintains the Barrett Business Services, Inc., 2015 Stock Incentive Plan (the "Plan").

This Performance Share Award Agreement (this "Agreement") evidences the grant of Performance Shares ("Performance Shares") to Participant under Article 10 of the Plan.

The parties agree as follows:

1. Defined Terms

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

2. Grant of Performance Shares

Subject to the terms and conditions of this Agreement and the Plan, Corporation grants to Participant an Award (the "Award") of Shares with a total target value of \$ _____ based on the Fair Market Value of a Share as of the Vesting Date (the "Performance Shares"). The actual number of Shares that will be issued to the Participant pursuant to this Agreement will be determined as described in Section 3 below, based on the attainment of Performance Goals specified in Section 3.2 below. As a grantee of Performance Shares, Participant will have only the rights of a general unsecured creditor of Corporation until delivery of Shares is made under this Agreement.

3. Terms of Performance Shares

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

3.1 **Vesting.** The Performance Shares earned pursuant to the Award will Vest on the date on which the Committee issues its written certification of the achievement of the Performance Goals set forth below (the "Vesting Date"), subject to the Participant's continued employment through the Vesting Date. Such certification will be made by the Committee no later than 30 days following the date on which the Corporation's independent auditors issue their opinion on the Corporation's financial statements for the year ended December 31, 20____. On the Vesting Date, any Performance Shares subject to the Award that have not Vested will be forfeited.

3.2 **Performance Goals.** The number of Performance Shares, if any, that may be earned based on achievement of the Performance Goals will be as set forth below, subject to the Flex set forth in Section 3.3 for performance above or below 100% of the respective Performance Goal. The target amount of each Performance Goal listed below relates to the financial results of the Corporation for the fiscal year ending December 31, 20 , as such target amount will be adjusted to exclude the impact (i) on revenues of the acquisition of a business and (ii) on EBITDA and net income of the payment of damages in connection with the negotiated settlement of private litigation outside the ordinary course of business.

Portion of Award Earned Relative to Each Performance Goal:

<u>Performance Goal</u>	<u>Award Earned</u>
Gross Revenues	1/3
EBITDA	1/3
Net Income	1/3

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

(a) To the extent that achievement of a given Performance Goal is below 100% of the target level shown in Section 3.2 above, the number of Performance Shares to be Vested and issued will be reduced ratably by 2.5% for each 1% of shortfall up to a maximum downward adjustment of 80% of the target performance level specified in Section 3.2 above. At 80% of the target performance level, 50% of the applicable portion of the target amount specified in Section 2 above would be paid. If achievement of a given Performance Goal is below 80% of the target performance level specified in Section 3.2 above, no Performance Shares will Vest with respect to that goal.

(b) To the extent that achievement of a given Performance Goal is above 100% of the target level shown in Section 3.2 above, the number of Performance Shares to be Vested and issued will be increased ratably by 2.5% for each 1% of overachievement, with a maximum upward adjustment of 140% of the target performance level specified in Section 3.2 above. In no event will the total number of Performance Shares issued under the Award exceed 200% of the target amount specified in Section 2 above.

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

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

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

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

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

4. Tax Withholding and Reimbursement

Participant will be responsible for payment of all federal, state and local withholding taxes and Participant's portion of any applicable payroll taxes imposed in connection with the settlement of the Performance Shares and the issuance of Shares (collectively, the "Applicable Taxes"). Corporation's obligation to issue Shares of Common Stock in settlement of the Performance Shares is expressly conditioned on Participant's making arrangements satisfactory to Corporation, in its sole and absolute discretion, for the payment of all Applicable Taxes. Participant may satisfy his or her obligation to pay the Applicable Taxes by electing in Participant's sole discretion (a) to pay to Corporation (in cash or by check) an amount equal to the Applicable Taxes, (b) to authorize Corporation to withhold a number of unrestricted Shares (thus reducing the number of unrestricted Shares to be issued to Participant) having a Fair Market Value (as of the Settlement Date) equal to the remaining balance of the Applicable Taxes, or (c) to authorize Corporation to withhold an amount equal to the Applicable Taxes from Participant's payroll check or deposit to be made on or about the Settlement Date, provided such withholding is permissible under applicable state law. In no event will the amount withheld exceed the minimum amount of tax required to be withheld by law in connection with settlement of the Award.

5. Conditions Precedent

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

6. Successorship

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

7. Notices

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

8. Arbitration

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

9. Attorney Fees

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

10. Clawback/Recovery

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

11. Code Section 409A

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

The parties hereby execute this agreement as of _____, 20__ .

BARRETT BUSINESS SERVICES, INC.

Participant

By _____
Name _____
Its _____

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

NONQUALIFIED STOCK OPTION

Corporation: **BARRETT BUSINESS SERVICES, INC.**
8100 N.E. Parkway Drive, Suite 200
Vancouver, Washington 98662

Participant: **Tom Carley**
10810 S.W. Tualatin-Sherwood Hwy.
Building 1, Unit 2
Tualatin, Oregon 97062

Date: **July 1, 2016**

Corporation maintains the Barrett Business Services, Inc., 2015 Stock Incentive Plan (the "Plan").

This Award Agreement evidences the grant of a Nonqualified Option (the "Option") to Participant under Article 7 of the Plan.

The parties agree as follows:

1. Defined Terms

When used in this Agreement, the following terms have the meaning specified below:

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

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

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

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

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

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

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

(d) “**Employer**” means Corporation or a Subsidiary of Corporation.

(e) “**Grant Date**” means the date the Option is granted, which is reflected as the date of this Agreement.

(f) “**Voting Securities**” means Corporation’s issued and outstanding securities ordinarily having the right to vote at elections for director.

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

2. Grant of Option

Subject to the terms and conditions of this Agreement and the Plan, Corporation grants to Participant the Option to purchase 10,000 Shares of Corporation’s common stock at \$39.80 per share.

3. Terms of Option

The Option is subject to all the provisions of the Plan and to the following terms and conditions:

3.1 Term. The term of the Option is ten years from the Grant Date and will automatically terminate on July 1, 2026, to the extent not exercised, unless terminated earlier in accordance with this Agreement.

3.2 Time of Exercise. Unless the Option is otherwise terminated or the time of its exercisability is accelerated in accordance with this Agreement, the Option may be exercised from time to time to purchase Shares up to the following limits (based on years after the Grant Date and including any Shares previously purchased pursuant to the Option):

(a) During the first year - none;

- (b) During the second year - up to 25 percent of the total Shares;
- (c) During the third year - up to 50 percent of the total Shares;
- (d) During the fourth year - up to 75 percent of the total Shares; and
- (e) After the fourth year - 100 percent.

3.3 Service Requirement. Except as otherwise provided in subsection 3.4 of this Agreement, the Option may not be exercised unless Participant is employed by or serves as a Non-Employee Board Director or Non-Employee Subsidiary Director for an Employer continuously for at least one year following the Grant Date, unless employment or service is terminated by death, Disability, or Retirement. For purposes of this Agreement, "employment" and "service" include periods of illness or other leaves of absence authorized by the Employer and any transfer(s) between employee and director status (whether as a Non-Employee Board Director or Non-Employee Subsidiary Director). If Participant ceases to be an active employee or active Non-Employee Board Director or Non-Employee Subsidiary Director, the right to exercise the Option, to the extent the Option had become exercisable on or before the date of termination of service, will expire at the end of the following periods:

<u>After Termination On Account Of</u>	<u>Period</u>
Death	1 year
Retirement	3 months
Disability	1 year
Any other reason	3 months

3.4 Acceleration of Exercisability. Notwithstanding the schedule provided in subsection 3.2, the Option will become fully exercisable (unless Participant chooses to decline accelerated Vesting of all or any portion of the Option) upon the occurrence of either:

- (a) Participant's death or termination of employment or service by reason of Disability or Retirement; or
- (b) A Change in Control Date.

3.5 Method of Exercise. The Option, or any portion thereof, may be exercised, to the extent it has become exercisable pursuant to this Agreement, by delivery of written notice to Corporation stating the number of Shares, form of payment, and proposed date of closing.

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

3.7 Payment. The exercise price for the Shares purchased upon exercise of the Option must be paid in full at or before closing by one or a combination of the following:

- (a) Payment in cash;
- (b) Delivery of previously acquired Shares having a Fair Market Value equal to the exercise price;

(c) Withholding of Shares issuable to Participant upon exercise of the Option, with a Fair Market Value on the date of delivery equal to the aggregate purchase price of the Shares as to which the Option is exercised; or

(d) Delivery (in a form approved by the Committee) of an irrevocable direction to a securities broker acceptable to the Committee:

(i) To sell Shares subject to the Option and to deliver all or a part of the sales proceeds to Corporation in payment of all or a part of the exercise price, as well as withholding taxes due, if any; or

(ii) To pledge Shares subject to the Option to the broker as security for a loan and to deliver all or a part of the loan proceeds to Corporation in payment of all or a part of the exercise price, as well as withholding taxes due, if any.

3.8 Previously Acquired Shares. Delivery of previously acquired Shares in full or partial payment for the exercise of the Option will be subject to the following conditions:

(a) The Shares tendered must be in good delivery form;

(b) The Fair Market Value of the Shares tendered, together with the amount of cash, if any, tendered must equal or exceed the exercise price of the Option;

(c) Any Shares remaining after satisfying the payment for the Option will be reissued in the same manner as the Shares tendered; and

(d) No fractional Shares will be issued and cash will not be paid to the Participant for any fractional Share value not used to satisfy the Option exercise price.

4. Tax Withholding and Reimbursement

Participant will be responsible for payment of federal, state and local withholding taxes and Participant's portion of applicable payroll taxes, if any, imposed in connection with the exercise of the Option and the issuance of Shares (collectively, the "Applicable Taxes"). Corporation's obligation to issue Shares is expressly conditioned on Participant's making arrangements satisfactory to Corporation, in its sole and absolute discretion, for the payment of all Applicable Taxes. Participant may satisfy his or her obligation to pay the Applicable Taxes by electing in Participant's sole discretion (a) to pay to Corporation (in cash or by check) an amount equal to the Applicable Taxes, (b) to authorize Corporation to withhold a number of unrestricted Shares (thus reducing the number of unrestricted Shares to be issued to Participant) having a Fair Market Value (as of the Settlement Date) equal to the remaining balance of the Applicable Taxes, or (c) to authorize Corporation to withhold an amount equal to the Applicable Taxes from Participant's payroll check or deposit to be made on or about the Settlement Date, provided such withholding is permissible under applicable state law. In no event will the amount withheld exceed the minimum amount of tax required to be withheld by law in connection with settlement of the Award.

5. Conditions Precedent

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

6. Successorship

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

7. Notices

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

8. Arbitration

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

9. Attorney Fees

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

10. Clawback/Recovery

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

BARRETT BUSINESS SERVICES, INC.

By /s/ Michael L. Elich
Name Michael L. Elich
Its President and Chief Executive Officer

/s/ Thomas J. Carley
Participant

NOTICE OF STOCK OPTION EXERCISE

**BARRETT BUSINESS SERVICES, INC.
2015 STOCK INCENTIVE PLAN**

To: Barrett Business Services, Inc.
8100 N.E. Parkway Drive, Suite 200
Vancouver, Washington 98662
Attention: _____

Participant: _____
Print Name

Mailing Address: _____

Telephone Number: _____

Option: The option evidenced by an Award Agreement dated _____, _____.

OPTION EXERCISE

I hereby elect to exercise the Option to purchase shares of common stock ("Shares") of Barrett Business Services, Inc. ("BBSI") covered by the Option as follows:

Number of Shares Purchased (a)	
Per-Share Option Price (b)	\$
Aggregate Purchase Price (a times b)	\$
Closing Date of Purchase	

Form of Payment [Check One]:

- My check in the full amount of the Aggregate Purchase Price (as well as a check for any withholding taxes, if this box is checked). See "Instructions" below.
- Delivery of previously owned shares of BBSI common stock with a fair market value equal to the Aggregate Purchase Price (as well as any withholding taxes, if this box is checked). See "Instructions" below. Note that restricted shares acquired from BBSI under one of its stock plans may be used for this purpose only if such shares have become vested.
- Withholding of that number of shares of BBSI common stock otherwise issuable to me upon exercise of the Option, with a fair market value on the date of exercise equal to the Aggregate Purchase Price (as well as any withholding taxes, if this box is checked). See "Instructions" below. **Note: This alternative is not available for incentive stock options.**

-
- My irrevocable direction to my securities broker (see below) to sell Shares subject to the Option and deliver a portion of the sales proceeds to BBSI in full payment of the Aggregate Purchase Price (as well as any withholding taxes, if this box is checked). See "Instructions" below. I hereby confirm that any sale of Shares will be in compliance with BBSI's policies on insider trading and Rule 144, if applicable. I HEREBY IRREVOCABLY AUTHORIZE _____ to transfer funds to BBSI from my
(name of broker)
account in payment of the Aggregate Purchase Price (and withholding taxes, if applicable) and BBSI is hereby directed to issue the Shares for my account with such broker and to transmit the Shares to the broker indicated above.

Instructions:

- (1) If payment is to be by check, a check for the amount of the Aggregate Purchase Price payable to Barrett Business Services, Inc., should be submitted with this Notice.
- (2) If payment is to be by surrender of previously owned shares or by attestation of ownership (see Attestation Form below), either a certificate for the shares accompanied by a stock power endorsed in blank or the completed Attestation Form should be submitted with this Notice. If applicable, a certificate for any shares in excess of those needed to satisfy the Aggregate Purchase Price and withholding taxes, if applicable, will be returned to you with the certificate for your option shares. Any change in registration between the payment shares and the new shares will require a properly executed stock power that is guaranteed by an institution participating in a recognized medallion signature guarantee program.
- (3) No withholding tax is due upon exercise of an incentive stock option. Withholding tax is due immediately upon exercise of a nonqualified option by an employee. If withholding tax is due at the time of exercise, you will be notified of the amount and satisfactory arrangements must be made for payment before a stock certificate for your option shares will be delivered to you (or your broker, if applicable). Among other alternatives, amounts necessary to satisfy withholding obligations may be deducted from compensation otherwise payable to you.

ISSUANCE INSTRUCTIONS FOR STOCK CERTIFICATES

Please register the stock certificate(s) in the following name(s):

If applicable, please check one: JT TEN TEN COM Other

Please deliver the stock certificate(s) to (check one):

My brokerage account

Attn: _____

Account No.: _____ ; or

My mailing address set forth above.

Date

Signature of Participant

ATTESTATION FORM

As indicated above, I have elected to use shares of BBSI common stock that I already own to pay the Aggregate Purchase Price of the Option (and withholding taxes, if applicable).

I attest to the ownership of the shares represented by the certificate(s) listed below or to the beneficial ownership of the shares held in the name of my broker, as indicated in the attached copy of my brokerage statement. I will be deemed to have delivered such shares to BBSI in connection with the exercise of my Option.

I understand that, because I (and any joint owner) will retain ownership of the shares (the "Payment Shares") deemed delivered to pay the Aggregate Purchase Price (and withholding taxes, if applicable), the number of shares to be issued to me upon exercise of my Option will be reduced by the number of Payment Shares. I represent that I have full power to deliver and convey certificates representing the Payment Shares to BBSI and by such delivery and conveyance could have caused BBSI to become sole owner of the Payment Shares. The joint owner of the Payment Shares, if any, by signing this Form, consents to these representations and to the exercise of the Option by this attestation.

I certify that any Payment Shares originally issued to me as restricted shares are now fully vested.

List certificate(s) and number of shares covered, or attach a copy of your brokerage statement:

<u>Common Stock Certificate Number</u>	<u>Number of Shares Covered</u>

Date: _____

Print Name of Option Holder: _____

Signature of Option Holder: _____

Print Name of Joint Owner: _____

Signature of Joint Owner: _____

If you are attaching a copy of your brokerage statement, you must have your securities broker complete the following:

The undersigned hereby certifies that the foregoing attestation is correct.

Date: _____
Telephone No.: _____

Name of Brokerage Firm

By: _____

Print Name of Signing Broker

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: November 9, 2016

/s/ Michael L. Elich

Michael L. Elich
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Gary E. Kramer, certify that:

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

Date: November 9, 2016

/s/ Gary E. Kramer

Gary E. Kramer
Chief Financial Officer

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

In connection with the Quarterly Report of Barrett Business Services, Inc. (the "Company") on Form 10-Q for the period ended September 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
November 9, 2016

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