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 March 31, 2017

☐ **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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer (Do not check if a smaller reporting company)	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of May 1, 2017, 7,251,729 shares of the registrant's common stock ($0.01 par value) were outstanding.

BARRETT BUSINESS SERVICES, INC.

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PART I – FINANCIAL INFORMATION

Item 1. Unaudited Interim Condensed Consolidated Financial Statements

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

	March 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,429	$ 50,768
Trade accounts receivable, net	139,277	126,484
Income taxes receivable	3,078	—
Prepaid expenses and other	6,830	3,899
Investments	973	5,675
Restricted cash and investments	51,078	48,557
Total current assets	219,665	235,383
Investments	333	642
Property, equipment and software, net	26,633	26,673
Restricted cash and investments	272,624	252,707
Goodwill	47,820	47,820
Other assets	20,958	9,293
Deferred income taxes	9,384	9,370
	$ 597,417	$ 581,888
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 4,557	$ 221
Accounts payable	3,509	4,944
Accrued payroll, payroll taxes and related benefits	173,493	153,110
Income taxes payable	—	3,041
Other accrued liabilities	6,523	7,674
Workers' compensation claims liabilities	85,481	81,339
Safety incentives liability	24,204	24,835
Total current liabilities	297,767	275,164
Long-term workers' compensation claims liabilities	240,752	231,198
Long-term debt	—	4,392
Customer deposits and other long-term liabilities	1,353	1,441
Total liabilities	539,872	512,195
Commitments and contingencies (Notes 4 and 6)		
Stockholders' equity:		
Common stock, $.01 par value; 20,500 shares authorized, 7,252 and 7,244 shares issued and outstanding	73	72
Additional paid-in capital	10,549	9,638
Accumulated other comprehensive loss	(23)	(3)
Retained earnings	46,946	59,986
	57,545	69,693
	$ 597,417	$ 581,888

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

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

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Revenues:		
Professional employer service fees	$ 172,209	$ 154,678
Staffing services	37,788	36,290
Total revenues	209,997	190,968
Cost of revenues:		
Direct payroll costs	28,710	27,427
Payroll taxes and benefits	115,400	103,760
Workers' compensation	55,437	49,394
Total cost of revenues	199,547	180,581
Gross margin	10,450	10,387
Selling, general and administrative expenses	26,610	21,904
Depreciation and amortization	942	749
Loss from operations	(17,102)	(12,266)
Other income (expense):		
Investment income	158	248
Interest expense	(83)	(260)
Other, net	—	4
Other income (expense), net	75	(8)
Loss before income taxes	(17,027)	(12,274)
Benefit from income taxes	(5,800)	(4,271)
Net loss	$ (11,227)	$ (8,003)
Basic loss per common share	$ (1.55)	$ (1.11)
Weighted average number of basic common shares outstanding	7,249	7,208
Diluted loss per common share	$ (1.55)	$ (1.11)
Weighted average number of diluted common shares outstanding	7,249	7,208
Cash dividends per common share	$ 0.25	$ 0.22

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

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

	Three Months Ended March 31,	
	2017	2016
Net loss	$ (11,227)	$ (8,003)
Unrealized (losses) gains on investments, net of tax of ($14) and $23 in 2017 and 2016, respectively	(20)	34
Comprehensive loss	$ (11,247)	$ (7,969)

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

Barrett Business Services, Inc.
Condensed Consolidated Statements of Stockholders' Equity
Three Months Ended March 31, 2017 and 2016
(Unaudited)
(In Thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
Balance, December 31, 2015	7,203	$ 72	$ 6,964	$ (31)	$ 47,546	$ 54,551
Common stock issued on exercise of options and vesting of restricted stock units	8	—	72	—	—	72
Common stock repurchased on vesting of restricted stock units	(1)	—	(40)	—	—	(40)
Share based compensation expense	—	—	359	—	—	359
Excess tax benefits from share-based compensation		—	265	—	—	265
Cash dividends on common stock	—	—	—	—	(1,586)	(1,586)
Unrealized gain on investments, net of tax	—	—	—	34	—	34
Net loss	—	—	—	—	(8,003)	(8,003)
Balance, March 31, 2016	7,210	$ 72	$ 7,620	$ 3	$ 37,957	$ 45,652
Balance, December 31, 2016	7,244	$ 72	$ 9,638	$ (3)	$ 59,986	$ 69,693
Common stock issued on exercise of options and vesting of restricted stock units	9	1	97	—	—	98
Common stock repurchased on vesting of restricted stock units	(1)	—	(68)	—	—	(68)
Share based compensation expense	—	—	882	—	—	882
Cash dividends on common stock	—	—	—	—	(1,813)	(1,813)
Unrealized loss on investments, net of tax	—	—	—	(20)	—	(20)
Net loss	—	—	—	—	(11,227)	(11,227)
Balance, March 31, 2017	7,252	$ 73	$ 10,549	$ (23)	$ 46,946	$ 57,545

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

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

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Cash flows from operating activities:		
Net loss	$ (11,227)	$ (8,003)
Reconciliations of net loss to net cash used by operating activities:		
Depreciation and amortization	942	749
Gain recognized on investments	—	(1)
Share-based compensation	882	359
Excess tax benefit from share-based compensation	—	(265)
Changes in certain operating assets and liabilities:		
Trade accounts receivable	(12,793)	(73,302)
Income taxes receivable	(3,078)	(2,969)
Prepaid expenses and other	(2,931)	(2,595)
Accounts payable	(1,435)	723
Accrued payroll, payroll taxes and related benefits	20,383	66,767
Other accrued liabilities	(1,151)	392
Income taxes payable	(3,041)	—
Workers' compensation claims liabilities	13,696	9,468
Safety incentives liability	(631)	563
Customer deposits, long-term liabilities and other assets, net	(474)	297
Net cash used by operating activities	(858)	(7,817)
Cash flows from investing activities:		
Purchase of property and equipment	(902)	(1,368)
Purchase of investments	(491)	(207)
Proceeds from sales and maturities of investments	5,502	178
Purchase of restricted cash and investments	(359,331)	(26,830)
Proceeds from sales and maturities of restricted cash and investments	325,581	55,634
Net cash provided by (used in) investing activities	(29,641)	27,407
Cash flows from financing activities:		
Proceeds from credit-line borrowings	—	11,300
Payments on credit-line borrowings	—	(11,300)
Payments on long-term debt	(56)	(55)
Common stock repurchased on vesting of restricted stock units	(68)	(40)
Dividends paid	(1,813)	(1,586)
Proceeds from exercise of stock options and vesting of restricted stock units	97	72
Excess tax benefits from share-based compensation	—	265
Net cash used in financing activities	(1,840)	(1,344)
Net increase (decrease) in cash and cash equivalents	(32,339)	18,246
Cash and cash equivalents, beginning of period	50,768	25,218
Cash and cash equivalents, end of period	$ 18,429	$ 43,464

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

Note 1 - Basis of Presentation of Interim Period Statements

The accompanying condensed consolidated financial statements are unaudited and have been prepared by Barrett Business Services, Inc. ("BBSI", the "Company", "our" or "we"), pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures typically included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results may differ from such estimates and assumptions. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's 2016 Annual Report on Form 10-K at pages F1 – F29. 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 certain of the services provided to our clients on behalf of their employees pursuant to our client services agreements. Specifically, we present revenue net of the amounts received or billed for direct payroll expenses such as salaries, wages, health insurance, and employee out-of-pocket expenses incurred incidental to employment. Safety incentive costs are also netted against PEO service revenue in our condensed consolidated statements of operations. 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 PEO services includes employer payroll-related taxes and workers' compensation costs. Our cost of revenues for staffing services includes direct payroll costs, employer payroll-related taxes, employee benefits, and workers' compensation costs. Direct payroll costs represent the gross payroll earned by staffing services employees based on salary or hourly wages. Payroll taxes and employee benefits consist of the employer's portion of Social Security and Medicare taxes, federal and state unemployment taxes, and staffing services employee reimbursements for materials, supplies and other expenses, which are paid by our customer. Workers' compensation costs consist primarily of 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, premiums for excess insurance, the fronted insurance program and costs associated with operating our two wholly owned insurance companies, AICE and Ecole.

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 March 31, 2017, the Company's investments consisted of corporate bonds and municipal bonds. We classify our investments as trading or available-for-sale. The Company had no trading securities at March 31, 2017 and December 31, 2016. The Company classifies corporate bonds and municipal 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

The Company holds restricted cash and investments primarily for the future payment of workers' compensation claims. At March 31, 2017, restricted cash and investments consisted of U.S. treasuries, money market funds, commercial paper, corporate bonds, mortgage backed securities, and municipal bonds. At March 31, 2017, 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 restricted 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 $78,000 at March 31, 2017 and December 31, 2016. 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.

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 loss development with respect to reported claims and incurred but not reported claims (together, "IBNR"). At March 31, 2017 and December 31, 2016, workers' compensation claims liabilities included case reserve estimates for reported losses, plus additional amounts for estimated 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 clai ms 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.

A basic premise in most actuarial analyses is that historical data and past patterns demonstrated in the incurred and paid historical data form a reasonable basis upon which to project future outcomes, absent a material change. Significant structural changes to the available data can materially impact the reserve estimation process. To the extent a material change affecting the ultimate claim liability becomes known, such change is quantified to the extent possible through an analysis of internal Company data and, if available and when appropriate, external data. Nonetheless, actuaries exercise a considerable degree of judgment in the evaluation of these factors and the need for such actuarial judgment is more pronounced when faced with material uncertainties.

Safety incentives liability

Safety incentives represent cash incentives paid to certain PEO client companies for maintaining safe-work practices and minimizing workplace injuries. The incentive is based on a percentage of annual payroll and is paid annually to customers who meet predetermined workers' compensation claims cost objectives. Safety incentive payments are made only after closure of all workers' compensation claims incurred during the customer's contract period. The safety incentive liability is estimated and accrued each month based upon contract year-to-date payroll and the then current amount of the customer's estimated workers' compensation claims reserves as established by us and our third party administrator and the expected payout as determined by historical incentive payment trends. The Company provided $24.2 million and $24.8 million at March 31, 2017 and December 31, 2016, respectively, as an estimate of the liability for unpaid safety incentives.

Customer deposits

We require deposits from certain PEO customers to cover a portion of our accounts receivable due from such customers in the event of default of payment.

Comprehensive income (loss)

Comprehensive income (loss) includes all changes in equity during a period except those that resulted from investments by or distributions to the Company's stockholders.

Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under U.S. GAAP are included in comprehensive income (loss), but excluded from net income (loss) as these amounts are recorded directly as an adjustment to stockholders' equity. Our other comprehensive income (loss) comprises unrealized holding gains and losses on our available for sale investments.

Statements of cash flows

Interest paid during the three months ended March 31, 2017 and 2016 did not materially differ from interest expense. Income taxes received during the three months ended March 31, 2017 and 2016 totaled $0.3 million and $1.3 million, respectively.

Basic and diluted earnings per share

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

	Three Months Ended March 31,	
	2017	2016
Weighted average number of basic shares outstanding	7,249	7,208
Effect of dilutive securities	—	—
Weighted average number of diluted shares outstanding	7,249	7,208

As a result of the net loss for the three months ended March 31, 2017 and 2016, 292,611 and 110,797 potential common shares have been excluded from the calculation of diluted loss per share because their effect would be anti-dilutive.

Reclassifications

Due to the adoption of ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, prior year amounts have been reclassified to conform to the current year presentation. Such reclassifications had no impact on the Company's financial condition, operating results, cash flows or stockholders' equity.

Accounting estimates

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

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. The core principle of the update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The update also requires disclosure of sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date. The update defers the effective date of ASU 2014-09 by one year, requiring public business entities to apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.

In March, April and May 2016, the FASB issued the following ASUs: ASU No. 2016-08, Principal versus Agent Considerations - Reporting Revenue Gross versus Net; ASU No. 2016-10, Identifying Performance Obligations and Licensing; and ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients. The amendments in these updates do not change the core principles of the guidance in ASU 2014-09. The effective date and transition requirements for these updates are the same as the effective date and transition requirements in ASU 2015-14. The Company is currently evaluating the impact on its condensed consolidated financial statements and footnote disclosures of ASU 2014-09 and all related ASUs.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes. The amendments in this update simplify the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent on the condensed consolidated balance sheets. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted this standard in the first interim period for the year ending December 31, 2017. The adoption of this standard resulted in a current to noncurrent adjustment to the Company’s current deferred tax asset balance, which was $25.3 million and $25.2 million at March 31, 2017 and December 31, 2016, respectively.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The core principle is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. Under the new guidance, a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the standard and the impact on its condensed consolidated financial statements and footnote disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation. The amendments in this update simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this update are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company adopted this standard in the first interim period for the year ending December 31, 2017. Beginning in the first interim period for the year ending December 31, 2017 an immaterial amount of excess tax benefit was recognized in income tax benefit on the condensed consolidated statement of operations, and was classified along with other income tax cash flows as an operating activity on the statement of cash flows. On a prospective basis, when applying the treasury stock method for computing diluted earnings-per-share, the assumed proceeds will not include any windfall tax benefits.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company’s balance of restricted cash, which is within restricted cash and investments under current and non-current assets on the condensed consolidated balance sheets, was $4.4 million and $4.5 million for the periods ended March 31, 2017 and December 31, 2016, respectively. The Company is currently evaluating the standard and the impact on its condensed consolidated financial statements and footnote disclosures.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other: Simplifying the Test for Goodwill Impairment. The amendments in this update simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. The amendments in this update are effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is currently evaluating the standard but does not expect it to have a material impact on its condensed consolidated financial statements or footnote disclosures.

In March 2017, the FASB issued ASU No. 2017-08, Premium Amortization on Purchased Callable Debt. The amendments in this update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. Under current GAAP, premiums and discounts on callable debt securities generally are amortized to the maturity date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. As of March 31, 2017, the amendments in this update would not have a material impact on the Company. However, the Company will continue to evaluate the standard to determine the impact.

Note 2 - Fair Value Measurement

The following table summarizes the Company's investments at March 31, 2017 and December 31, 2016 (in thousands):

	March 31, 2017			December 31, 2016		
	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	Cost	Gross Unrealized Gains (Losses)	Recorded Basis
Current:						
Cash Equivalents:						
Money Market Funds	$ 267	$ —	$ 267	$ 1,943	$ —	$ 1,943
U.S. Treasuries	500	—	500	—	—	—
Investments:						
Certificates of Deposit	—	—	—	4,737	—	4,737
Municipal Bonds	456	1	457	713	1	714
Corporate Bonds	516	—	516	225	(1)	224
Restricted cash and investments:						
Money Market Funds	51,078	—	51,078	48,557	—	48,557
Certificate of Deposit	—	—	—	—	—	—
Total Current Investments	52,817	1	52,818	56,175	-	56,175
Long term:						
Investments:						
Corporate Bonds	268	(1)	267	567	(1)	566
Municipal Bonds	66	—	66	76	—	76
Money Market Funds	—	—	—	—	—	—
Restricted cash and investments (1):						
Money Market Funds	28,352	—	28,352	236,036	—	236,036
Certificates of Deposit	—	—	—	6,047	—	6,047
U.S. Treasuries	87,743	5	87,748	834	—	834
Corporate Bonds	53,743	(45)	53,698	2,886	2	2,888
Municipal Bonds	1,615	—	1,615	2,069	(6)	2,063
Commercial Paper	56,116	—	56,116	—	—	—
Mortgage Backed Securities	40,402	1	40,403	—	—	—
Total Long Term Investments	268,305	(40)	268,265	248,515	(5)	248,510
Total Investments	$ 321,122	$ (39)	$ 321,083	$ 304,690	$ (5)	$ 304,685

(1) Included in restricted cash and investments within the balance sheet as of March 31, 2017 is restricted cash and long term workers' compensation deposits of $4.7 million, which is excluded from the table above.

The following table summarizes the Company's investments at March 31 , 2017 and December 31, 2016 measured at fair value on a recurring basis by fair value hierarchy level (in thousands):

	March 31, 2017					December 31, 2016			
	Total Recorded Basis	Level 1	Level 2	Level 3	Other (1)	Total Recorded Basis	Level 1	Level 2	Level 3
Cash Equivalents:									
Money Market Funds	$ 267	$ —	$ —	$ —	$ 267	$ 1,943	$ —	$ —	$ —
U.S. Treasuries	500	—	500	—	—	—	—	—	—
Investments:									
Certificates of Deposit	—	—	—	—	—	4,737	—	4,737	—
Municipal Bonds	523	—	523	—	—	790	—	790	—
Corporate Bonds	783	—	783	—	—	790	—	790	—
Money Market Funds	—	—	—	—	—	—	—	—	—
Restricted cash and investments:									
Money Market Funds	79,430	—	—	—	79,430	284,593	—	—	—
Certificates of Deposit	—	—	—	—	—	6,047	—	6,047	—
U.S. Treasuries	87,748	—	87,748	—	—	834	—	834	—
Corporate Bonds	53,698	—	53,698	—	—	2,888	—	2,888	—
Municipal Bonds	1,615	—	1,615	—	—	2,063	—	2,063	—
Commercial Paper	56,116	—	56,116	—	—	—	—	—	—
Mortgage Backed Securities	40,403	—	40,403	—	—	—	—	—	—
Total Investments	$ 321,083	$ —	$ 241,386	$ —	$ 79,697	$ 304,685	$ —	$ 18,149	$ —

(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.

Note 3 – Workers' Compensation Claims

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

	Three Months Ended March 31,	
	2017	2016
Beginning balance		
Workers' compensation claims liabilities	$ 312,537	$ 255,675
Add: claims expense accrual		
Current period	35,275	31,155
Prior periods	2,914	848
	38,189	32,003
Less: claim payments related to		
Current period	1,132	1,271
Prior periods	23,464	21,264
	24,596	22,535
Add: Change in claims incurred in excess of retention limits	103	—
Ending balance		
Workers' compensation claims liabilities	$ 326,233	$ 265,143
Incurred but not reported (IBNR)	$ 162,760	$ 132,879

The Company is a self-insured employer with respect to workers' compensation coverage for all of its employees (including employees co-employed through our client service agreements) working in Colorado, Maryland and Oregon, except as described below. In the state of Washington, state law allows only the Company's staffing services and internal management employees to be covered under the Company's self-insured workers' compensation program.

Effective January 1, 2015, the Company stopped maintaining a certificate to self-insure in the state of California, and it now obtains individual policies from Chubb Limited ("Chubb") for all California-based clients along with clients in Delaware, Virginia, Pennsylvania, North Carolina, New Jersey, West Virginia and the District of Columbia. The arrangement with Chubb, known as a fronted program, provides BBSI a licensed, admitted insurance carrier to issue policies on behalf of BBSI. The risk of loss up to the first $5.0 million per claim is retained by BBSI through a reinsurance agreement. Chubb assumes credit risk should BBSI be unable to satisfy its indemnification obligations.

As part of its fronted workers' compensation insurance program with Chubb, the Company makes monthly 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 $299.6 million and $277.1 million at March 31, 2017 and December 31, 2016, 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.

At March 31, 2017, the Company recorded an asset of $11.3 million related to a payment remitted to Chubb on March 24, 2017 but not deposited into the Chubb trust account until April 2017. This amount is included in other assets in the condensed consolidated balance sheet.

The states of California, Maryland, Oregon, Washington, Colorado and Delaware required us to maintain specified investment balances or other financial instruments totaling $135.0 million at March 31, 2017 and December 31, 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 March 31, 2017, we have provided surety bonds and standby letters of credit totaling $128.8 million, including a California requirement of $123.3 million.

The Company provided a total of $326.2 million and $312.5 million at March 31, 2017 and December 31, 2016, respectively, as an estimated future liability for unsettled workers' compensation claims liabilities. Of this amount, $9.2 million and $9.1 million at March 31, 2017 and December 31, 2016, respectively, represents case reserves incurred in excess of the Company's retention. The accrual for costs incurred in excess of retention limits is offset by a receivable from excess insurance carriers of $9.2 million and $9.1 million at March 31, 2017 and December 31, 2016, respectively, included in other assets in the condensed consolidated balance sheets.

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 $25.0 million revolving credit line, with a $6.0 million sublimit for standby letters of credit. Of the $6.0 million sublimit for standby letters of credit, $5.3 million was used at March 31, 2017. 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 1.75% or (b) a fixed rate of LIBOR plus 1.75%. The Agreement also provides for an unused commitment fee of 0.35% per year through December 31, 2016 and 0.375% per year thereafter 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 reserved under the line of credit and 0.95% on standalone, fully secured letters of credit. The Company had no outstanding borrowings on its revolving credit line at March 31, 2017 and December 31, 2016. The line of credit expires on July 1, 2018.

The Agreement also included $5.0 million in cash-secured letters of credit at March 31, 2017 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 $5.3 million in restricted money market funds and restricted certificates of deposit.

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

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

- EBITDA [net profit before taxes plus interest expense (net of capitalized interest expense), depreciation expense, and amortization expense] on a rolling four-quarter basis of not less than $22 million at March 31, 2017 and $25 million at the end of each fiscal quarter thereafter; and
- ratio of restricted and unrestricted cash and investments to workers' compensation and safety incentive liabilities of at least 1.0:1.0, measured quarterly on a rolling four-quarter basis.

The Agreement includes certain additional restrictions as follows:

- incurring additional indebtedness is prohibited without the prior approval of the Bank, other than purchase financing (including capital leases) for the acquisition of assets, provided that the aggregate of all purchase financing does not exceed $1,000,000 at any time; and
- the Company may not terminate or cancel any of the AICE policies without the Bank's prior written consent.

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 March 31, 2017, the Company was in compliance with all covenants.

The Company maintains a mortgage loan with the Bank with a balance of approximately $4.6 million at March 31, 2017 and December 31, 2016, secured by the Company's corporate office building in Vancouver, Washington. This loan requires monthly principal payments of $18,375 plus interest at a rate of one month LIBOR plus 2.25%, with the unpaid principal balance due February 1, 2018.

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 March 31, 2017. Based on management's analysis, no valuation allowance of deferred tax assets was recorded at March 31, 2017.

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

Note 6 – Litigation

BBSI received a subpoena from the San Francisco office of the Division of Enforcement of the Securities and Exchange Commission (the "SEC") in April 2016 in connection with the SEC's inquiry into reported errors in our financial statements. The Company previously received a subpoena from the SEC in May 2015 in connection with the SEC's investigation of the Company's accounting policies with regard to its workers' compensation reserves. BBSI was also advised by the United States Department of Justice in June 2016 that it has commenced an investigation. The Company is cooperating 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.

Note 7 – Subsequent Events

We have evaluated events and transactions occurring after the balance sheet date through our filing date and noted no events that are subject to recognition or disclosure.

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

General

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

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

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

Business Organization. We operate a decentralized delivery model using operationally-focused business teams, typically located within 50 miles of our client companies. These teams are led by senior level business generalists and comprise senior level professionals with expertise in human resources, organizational development, risk mitigation and workplace safety and various types of administration, including payroll. These teams are responsible for growth of their operations, and for providing strategic leadership, guidance and expert consultation to our client companies. The decentralized structure fosters autonomous decision-making in which business teams deliver plans that closely align with the objectives of each business owner client. This structure also provides a means of incubating talent to support increased growth and capacity. We support clients with employees located in 20 states and the District of Columbia through a network of 57 branch locations in California, Oregon, Utah, Washington, Idaho, Arizona, Colorado, Maryland, North Carolina, Delaware, Nevada, Pennsylvania and Virginia. We also have several smaller recruiting locations in our general market areas, which are under the direction of a branch office.

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

Services Overview. BBSI's core purpose is to advocate for business owners, particularly in the small and mid-sized business segment. Our evolution from an entrepreneurially run company to a professionally managed organization has helped to form our view that all businesses experience inflection points at key stages of growth. The insights gained through our own growth, along with the trends we see in working with more than 4,900 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.

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 months ended March 31, 2017 and 2016.

	Percentage of Total Net Revenues Three Months Ended March 31,			
	2017		2016	
Revenues:				
Professional employer service fees	$ 172,209	82.0 %	$ 154,678	81.0 %
Staffing services	37,788	18.0	36,290	19.0
Total revenues	209,997	100.0	190,968	100.0
Cost of revenues:				
Direct payroll costs	28,710	13.7	27,427	14.4
Payroll taxes and benefits	115,400	55.0	103,760	54.3
Workers' compensation	55,437	26.4	49,394	25.9
Total cost of revenues	199,547	95.0	180,581	94.6
Gross margin	10,450	5.0	10,387	5.4
Selling, general and administrative expenses	26,610	12.7	21,904	11.4
Depreciation and amortization	942	0.4	749	0.4
Loss from operations	(17,102)	(8.1)	(12,266)	(6.4)
Other income (expense), net	75	0.0	(8)	0.0
Loss before income taxes	(17,027)	(8.1)	(12,274)	(6.4)
Provision for income taxes	(5,800)	(2.8)	(4,271)	(2.2)
Net loss	$ (11,227)	(5.4) %	$ (8,003)	(4.2) %

We report PEO 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 months ended March 31, 2017 and 2016 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 a higher gross margin percentage. Improvement in gross margin percentage occurs because incremental client services revenue dollars are reported as revenue net of all related direct payroll and safety incentive costs.
- 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.

	(Unaudited) Three Months Ended March 31,	
Non-GAAP (in thousands)	2017	2016
Gross revenues:		
Professional employer services	$ 1,161,761	$ 1,027,599
Staffing services	37,788	36,290
Total gross revenues	1,199,549	1,063,889
Gross cost of revenues:		
Direct payroll costs	1,011,690	894,050
Payroll taxes and benefits	115,400	103,760
Workers' compensation	62,009	55,692
Total gross cost of revenues	1,189,099	1,053,502
Gross margin	$ 10,450	$ 10,387

A reconciliation of net revenue to non-GAAP gross revenues is as follows for the three months ended March 31, 2017 and 2016 (in thousands):

	(Unaudited) Three Months Ended March 31,					
	Net Revenue Reporting Method (GAAP)		Non-GAAP Adjustments		Gross Revenue Reporting Method (Non-GAAP)	
	2017	2016	2017	2016	2017	2016
Revenues:						
Professional employer services	$ 172,209	$ 154,678	$ 989,552	$ 872,921	$ 1,161,761	$ 1,027,599
Staffing services	37,788	36,290	—	—	37,788	36,290
Total revenues	$ 209,997	$ 190,968	$ 989,552	$ 872,921	$ 1,199,549	$ 1,063,889
Cost of revenues	$ 199,547	$ 180,581	$ 989,552	$ 872,921	$ 1,189,099	$ 1,053,502

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

Three months ended March 31, 2017 and 2016

Net loss for the first quarter of 2017 amounted to $11.2 million compared to net loss of $8.0 million for the first quarter of 2016. Diluted loss per share for the first quarter of 2017 was $1.55 compared to diluted loss per share of $1.11 for the first quarter of 2016.

Revenues for the first quarter of 2017 totaled $210.0 million, an increase of $19.0 million or 10.0% over the first quarter of 2016, which reflects an increase in the Company's professional employer service fee revenue of $17.5 million or 11.3% and an increase in staffing services revenue of $1.5 million or 4.1%.

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 quarter of 2017 nearly doubled business lost from former customers. Professional employer service revenue from continuing customers reflected a 3.7% increase compared to the first quarter of 2016, 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.

Gross margin for the first quarter of 2017 totaled $10.5 million or 5.0% of revenue compared to $10.4 million or 5.4% of revenue for the first quarter of 2016. The decrease in gross margin percentage was primarily due to an increase in payroll taxes and benefits and workers' compensation expense as a percentage of revenues, partially offset by a reduction of direct payroll costs as a percentage of revenues.

Direct payroll costs for the first quarter of 2017 totaled $28.7 million or 13.7% of revenue compared to $27.4 million or 14.4% of revenue for the first quarter of 2016. The decrease in direct payroll costs percentage was primarily due to the relative increase in professional employer services within the mix of our customer base compared to the first quarter of 2016.

Payroll taxes and benefits for the first quarter of 2017 totaled $115.4 million or 55.0% of revenue compared to $103.8 million or 54.3% of revenue for the first quarter of 2016. The increase in payroll taxes and benefits percentage 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 first quarter of 2017 totaled $55.4 million or 26.4% of revenue compared to $49.4 million or 25.9% of revenue for the first quarter of 2016. The increase in workers' compensation expense as a percentage of revenue was primarily due to a change in the actuarial estimate of our workers' compensation reserves of $2.9 million related to claims incurred in prior years.

Selling, general and administrative ("SG&A") expenses for the first quarter of 2017 totaled $26.6 million or 12.7% of revenue compared to $21.9 million or 11.4% of revenue for the first quarter of 2016. The increase was primarily attributable to a $2.2 million increase in management payroll expense and a $1.4 million increase in audit fees from the first quarter of 2016 to the first quarter of 2017.

Other income, net for the first quarter of 2017 was $75,000 as compared to an expense of $8,000 for the first quarter of 2016. The change was attributable to a decrease in interest expense.

Our effective income tax rate for the first quarter of 2017 was 34.1%, compared to 34.8% for the first quarter of 2016. Our income tax rate typically differs from the federal statutory tax rate of 35% primarily due to state taxes and federal and state tax credits.

Fluctuations in Quarterly Operating Results

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

Liquidity and Capital Resources

The Company's cash position of $18.4 million at March 31, 2017 decreased $32.3 million from December 31, 2016, compared to an increase of $18.2 million for the comparable period of 2016. The decrease in cash at March 31, 2017 as compared to December 31, 2016 was primarily due to increased purchases of restricted cash and investments in the quarter.

Net cash used in operating activities for the three months ended March 31, 2017 amounted to $0.9 million, compared to cash used in operating activities of $7.8 million for the comparable period of 2016. For the three months ended March 31, 2017, cash flow was primarily due to our net loss of $11.2 million, increased trade accounts receivable of $12.8 million and increased prepaid expenses and income taxes receivable of $6.1 million, offset by increases in accrued payroll, payroll taxes and related benefits of $20.4 million and workers' compensation claims liabilities of $13.7 million.

Net cash used in investing activities totaled $29.6 million for the three months ended March 31, 2017, compared to net cash provided of $27.4 million for the comparable period of 2016. For the three months ended March 31, 2017, cash used in investing activities consisted primarily of purchases of restricted cash and investments of $359.3 million, partially offset by proceeds from sales and maturities of restricted and unrestricted cash and investments of $331.1 million.

Net cash used in financing activities for the three months ended March 31, 2017 was $1.8 million, compared to net cash used in financing activities of $1.3 million for the comparable period of 2016. For the three months ended March 31, 2017, cash was primarily used for dividend payments of $1.8 million.

The states of California, Maryland, Oregon, Washington, Colorado and Delaware required us to maintain specified investment balances or other financial instruments totaling $135.0 million at March 31, 2017 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 March 31, 2017, we have provided surety bonds and standby letters of credit totaling $128.8 million, including a California requirement of $123.3 million. The collateral associated with the letters of credit was $5.3 million at March 31, 2017 and December 31, 2016. Management expects the letters of credit and related collateral to decrease over time as a result of a declining self-insured liability in California. The Company's self-insured status in California ended on December 31, 2014.

As part of its fronted workers' compensation insurance program with Chubb, the Company makes monthly 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 $299.6 million and $277.1 million at March 31, 2017 and December 31, 2016, 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.

At March 31, 2017 the Company recorded an asset of $11.3 million related to a payment remitted to Chubb on March 24, 2017 but not deposited into the Chubb trust account until April 2017. This amount is included in other assets in the condensed consolidated balance sheet.

The Company maintains a credit agreement (the "Agreement") with its principal bank, Wells Fargo Bank, National Association (the "Bank"). The Agreement provided for a $25.0 million revolving credit line, with a $6.0 million sublimit for unsecured standby letters of credit.

The Agreement also included $5.0 million in cash-secured letters of credit at March 31, 2017 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 $5.3 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 1.75% or (b) a fixed rate of LIBOR plus 1.75%. The Agreement also provides for an unused commitment fee of 0.35% per year through December 31, 2016 and 0.375% per year thereafter 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 March 31, 2017 and December 31, 2016. The revolving line of credit expires on July 1, 2018.
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:

- EBITDA [net profit before taxes plus interest expense (net of capitalized interest expense), depreciation expense, and amortization expense] on a rolling four-quarter basis of not less than $22 million at March 31, 2017 and $25 million at the end of each fiscal quarter thereafter; and
- ratio of restricted and unrestricted cash and investments to workers' compensation and safety incentive liabilities of at least 1.0:1.0, measured quarterly on a rolling four-quarter basis.

The Agreement includes certain additional restrictions as follows:

- incurring additional indebtedness is prohibited without the prior approval of the Bank, other than purchase financing (including capital leases) for the acquisition of assets, provided that the aggregate of all purchase financing does not exceed $1,000,000 at any time; and
- the Company may not terminate or cancel any of the AICE policies without the Bank's prior written consent.

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 March 31, 2017, the Company was in compliance with all covenants.

The Company maintains a mortgage loan with the Bank with a balance of approximately $4.6 million and $4.6 million at March 31, 2017 and December 31, 2016, 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 February 1, 2018.

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 include forward-looking statements which are not historical in nature. These forward-looking statements include, among others, 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 need to continue to retain customers following price increases, the adequacy of our workers' compensation reserves, the effect of changes in estimates of our future claims liabilities on our workers' compensation reserves, including the effect of changes in our reserving practices and claims management process on our actuarial estimates, our ability to generate sufficient taxable income in the future to utilize our deferred tax assets, the effect of our formation and operation of two wholly owned licensed insurance subsidiaries, the effects of becoming self-insured for certain business risks, the risks of operation and cost of our fronted insurance program with Chubb, the effects of material weaknesses in our internal control environment, our ability to pass on increased costs relating to the mandate to provide health insurance coverage to our clients, the cost of providing healthcare coverage to staffing employees, the financial viability of our excess insurance carriers, the effectiveness of our management information systems, our relationship with our primary bank lender and the availability of financing and working capital to meet our funding requirements, compliance with the continued listing requiremen ts of The Nasdaq Stock Market (“NASDAQ”), current and future shareholder litigation, 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.

All of our forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors with respect to the Company include our ability to retain current clients and attract new clients, 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 cost of defending against or settling 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 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. Additional risk factors affecting our business are discussed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the SEC on March 8, 2017. 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 and its outstanding borrowings on its line of credit and long-term debt. As of March 31, 2017, the Company’s investments consisted principally of approximately $88.2 million in U.S. Treasuries, $79.7 million in money market funds, $56.1 million in commercial paper, $54.5 million in corporate bonds, $40.4 million in mortgage backed securities, and $2.1 million in municipal bonds. The Company’s outstanding debt totaled approximately $4.6 million at March 31, 2017. Based on the Company’s overall interest exposure at March 31, 2017, a 50 basis point increase in market interest rates would have a $2.8 million effect on the fair value of the Company’s investment portfolio. A 50 basis point increase would have an immaterial effect on the Company’s outstanding borrowings because of the relative size of the outstanding borrowings.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting (“ICFR”) as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our ICFR is a process designed by, or under the supervision of, our CEO and our CFO to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our condensed consolidated financial statements for external purposes in accordance with GAAP.

We maintain “disclosure controls and procedures” that are designed with the objective of providing reasonable assurance that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our 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 o nly reasonable assurance of achieving the desired control objectives, and our management is required to apply their judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on their evaluation, the Company's CEO and CFO have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were not effective as of March 31, 2017 because of the material weaknesses in ICFR described below.

Previously Identified Material Weakness

As reported in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, management identified the following material weaknesses:

1) Management identified a material weakness in internal controls related to its information and technology systems ("IT systems"). Specifically, the Company did not maintain effective controls over user access to IT systems and changes to programs and data. While management has developed remediation plans with respect to the identified deficiencies, the remediation efforts, which include improvements to governance over IT controls are in the process of being implemented. As a result of the deficiencies identified, there is a possibility that the business process controls that are dependent on IT systems or electronic data and financial reports generated from such IT systems could be adversely affected.

2) Management identified a material weakness in internal controls 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. Management has taken a number of actions and implemented controls to remediate this deficiency, and management believes that these activities, in conjunction with other control activities that have operated effectively, will successfully remediate this material weakness. However, certain of these control activities were implemented or revised later in 2016, and management cannot conclude that the material weakness is remediated until the applicable controls have operated for a sufficient period of time to demonstrate operating effectiveness.

Remediation Status and Plans

Information and Technology Controls

Management is taking a number of actions to remediate the material weakness related to IT controls, including but not limited to the following:

- Establishing a more rigorous review process over the evaluation of user access to IT systems, including preventative reviews during employment changes and periodic detective reviews.
- Improving the structure and governance surrounding controls over IT systems.
- Implementing enhanced review procedures and analysis over the segregation of duties in IT systems.
- Improving the procedures and documentation associated with program change management, including implementing improved tools over system change logging.
- Revising policies on the documentation of IT control performance and the retention of that documentation.
- Replacing certain IT systems that have inherent control limitations.

Management believes the measures described above will remediate the identified material weakness in future periods. Certain of these remediation efforts will require more time to execute than others, specifically the implementation of new systems and tools to address existing inherent control limitations. Assessing the effectiveness of internal control requires a period of repeatable execution, and therefore the successful remediation of this material weakness will depend on management's ability to ensure timely and effective implementation of these systems and tools. In addition, management may determine it is necessary to take additional measures to address control deficiencies or to modify certain of the remediation measures described above.

Workers' Compensation Expense

Management believes that it has implemented control activities that address the material weakness related to workers' compensation expense. Remediation of the material weakness is dependent on the following revised control activities operating for a sufficient period of time to demonstrate operating effectiveness.

- Established a Workers' Compensation Committee ("WCC") consisting of the Chief Operating Officer – Corporate Operations, Chief Financial Officer, Corporate Controller, Director of Insurance and a member of the Board of Directors to oversee the Company's controls and procedures related to workers' compensation claims administration and expense and its process for developing reserve estimates, as well as to participate in substantive communications with the Company's independent actuary with regard to the Company's reserve for workers' compensation liabilities.
- Established a procedure for quarterly meetings of the WCC with the Company's independent actuary with the goal of ensuring that the actuary is fully informed and has a complete understanding of the components included in the payroll and workers' compensation claims data provided to the actuary by the Company and to review fully the quarterly actuarial report produced by the actuary. Meetings occurred in April, July, and October 2016, as well as January and April 2017.
- Enhanced our reconciliation of the data provided to the actuary, including increasing the scope of the data reconciled, improving the documentation of the reconciliation and agreeing data from the final issued actuary report to the original data sources.
- Revised controls and implemented new controls over the effective and timely reconciliation of balance sheet accounts, including enhancing the documentation and precision of reconciliations and ensuring proper review and approval of reconciliations.

Changes in Internal Control over Financial Reporting

Other than the activities described above, there have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Inherent Limitations

Control systems, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control systems' objectives are being met. Further, the design of any control systems must reflect the fact that there are resource constraints, and the benefits of all controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple errors or mistakes. Control systems can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II-OTHER INFORMATION

Item 1. Legal Proceedings

BBSI received a subpoena from the San Francisco office of the Division of Enforcement of the Securities and Exchange Commission (the "SEC") in April 2016 in connection with the SEC's inquiry into reported errors in our financial statements. The Company previously received a subpoena from the SEC in May 2015 in connection with the SEC's investigation of the Company's accounting policies with regard to its workers' compensation reserves. BBSI was also advised by the United States Department of Justice in June 2016 that it has commenced an investigation. The Company is cooperating 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. See Note 6 to the condensed consolidated financial statements included in Item 1 of Part I of this report for additional information.

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, 2016, which was filed with the SEC on March 8, 2017.

Item 6. Exhibits

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

SIGNATURES

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

		BARRETT BUSINESS SERVICES, INC. Registrant
Date: May 8, 2017	By:	/s/ Gary E. Kramer Gary E. Kramer Vice President-Finance, Treasurer and Secretary

EXHIBIT INDEX**

10.1	Death Benefit Agreement entered into by the Registrant and Gary E. Kramer effective March 15, 2017.
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.

EXHIBIT 10.1

DEATH BENEFIT AGREEMENT

Employee: Gary Kramer

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

Death Benefit: $800,000, paid in one lump sum as set forth below

Effective Date: March 15, 2017

RECITALS

A. Employee has been employed by Employer and rendered valuable services to Employer.

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

AGREEMENT

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

1. <u>Beneficiary Designation</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6. Miscellaneous.

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

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

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

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

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

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

[Signature Page Follows]

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

Employee:	Employer:
	BARRETT BUSINESS SERVICES, INC.
/s/ Gary Kramer	By: /s/ Anthony Meeker
Gary Kramer	Name: Anthony Meeker
	Title: Chairman of the Board

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Michael L. Elich, certify that:

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

Date: May 8, 2017

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

EXHIBIT 31.2

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: May 8, 2017

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

EXHIBIT 32

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

In connection with the Quarterly Report of Barrett Business Services, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2017 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	/s/ Gary E. Kramer
Michael L. Elich	Gary E. Kramer
Chief Executive Officer	Chief Financial Officer
May 8, 2017	May 8, 2017

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.