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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2015

Commission File No. 0-21886

BARRETT BUSINESS SERVICES, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

8100 NE Parkway Drive, Suite 200
Vancouver, Washington
(Address of principal executive offices)

52-0812977
(IRS Employer
Identification No.)

98662
(Zip Code)

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

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 Website, 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 such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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

Number of shares of common stock, \$.01 par value, outstanding at July 31, 2015 was 7,202,062 shares.

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Part I - Financial Information

Item 1. Financial Statements

BARRETT BUSINESS SERVICES, INC.
Consolidated Balance Sheets
(Unaudited)
(In thousands, except per share amounts)

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,439	\$ 11,544
Marketable securities	0	29,957
Trade accounts receivable, net	137,862	102,627
Income taxes receivable	8,737	11,421
Prepaid expenses and other	5,689	3,813
Restricted certificates of deposit	26,015	0
Restricted marketable securities and workers' compensation deposits	21,343	3,776
Deferred income taxes	15,774	15,791
Total current assets	<u>219,859</u>	<u>178,929</u>
Marketable securities	6,048	20,930
Property, equipment and software, net	22,648	22,675
Restricted certificates of deposit	88,320	114,335
Restricted marketable securities and workers' compensation deposits	101,828	58,533
Other assets	4,840	5,306
Goodwill	47,820	47,820
	<u>\$491,363</u>	<u>\$ 448,528</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit	\$ 3,223	\$ 0
Current portion of long-term debt	27,220	25,220
Accounts payable	2,419	2,719
Accrued payroll, payroll taxes and related benefits	144,227	120,133
Other accrued liabilities	1,896	1,917
Workers' compensation claims liabilities	60,457	54,049
Safety incentives liability	18,147	14,232
Total current liabilities	<u>257,589</u>	<u>218,270</u>
Long-term workers' compensation claims liabilities	169,154	161,933
Long-term debt	14,723	19,833
Deferred income taxes	8,159	8,159
Customer deposits and other long-term liabilities	1,487	1,675
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.01 par value; 20,500 shares authorized, 7,175 and 7,126 shares issued and outstanding	72	71
Additional paid-in capital	6,173	4,410
Accumulated other comprehensive income (loss)	4	(23)
Retained earnings	34,002	34,200
	<u>40,251</u>	<u>38,658</u>
	<u>\$491,363</u>	<u>\$ 448,528</u>

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

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BARRETT BUSINESS SERVICES, INC.
Consolidated Statements of Operations
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended June 30,	
	2015	2014
Revenues:		
Professional employer service fees	\$140,048	\$112,503
Staffing services	<u>42,347</u>	<u>38,566</u>
Total revenues	<u>182,395</u>	<u>151,069</u>
Cost of revenues:		
Direct payroll costs	32,188	29,311
Payroll taxes and benefits	72,146	61,130
Workers' compensation	<u>41,897</u>	<u>30,776</u>
Total cost of revenues	<u>146,231</u>	<u>121,217</u>
Gross margin	36,164	29,852
Selling, general and administrative expenses	21,278	17,958
Depreciation and amortization	<u>709</u>	<u>613</u>
Income from operations	<u>14,177</u>	<u>11,281</u>
Other (expense) income:		
Investment income	148	157
Interest expense	(562)	(44)
Other	<u>(65)</u>	<u>(7)</u>
Other (expense) income	<u>(479)</u>	<u>106</u>
Income before income taxes	13,698	11,387
Provision for income taxes	<u>4,952</u>	<u>4,104</u>
Net income	<u>\$ 8,746</u>	<u>\$ 7,283</u>
Basic earnings per common share	<u>\$ 1.22</u>	<u>\$ 1.02</u>
Weighted average number of basic common shares outstanding	<u>7,151</u>	<u>7,173</u>
Diluted earnings per common share	<u>\$ 1.19</u>	<u>\$ 0.98</u>
Weighted average number of diluted common shares outstanding	<u>7,327</u>	<u>7,421</u>
Cash dividends per common share	<u>\$ 0.22</u>	<u>\$ 0.18</u>

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

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BARRETT BUSINESS SERVICES, INC.
Consolidated Statements of Operations
(Unaudited)
(In thousands, except per share amounts)

	Six Months Ended June 30,	
	2015	2014
Revenues:		
Professional employer service fees	\$267,799	\$214,192
Staffing services	<u>81,513</u>	<u>72,017</u>
Total revenues	<u>349,312</u>	<u>286,209</u>
Cost of revenues:		
Direct payroll costs	61,952	54,728
Payroll taxes and benefits	160,440	133,947
Workers' compensation	<u>81,780</u>	<u>58,376</u>
Total cost of revenues	<u>304,172</u>	<u>247,051</u>
Gross margin	45,140	39,158
Selling, general and administrative expenses	38,253	32,327
Depreciation and amortization	<u>1,392</u>	<u>1,197</u>
Income from operations	<u>5,495</u>	<u>5,634</u>
Other (expense) income:		
Investment income	236	301
Interest expense	(1,082)	(88)
Other	<u>(78)</u>	<u>(17)</u>
Other (expense) income	<u>(924)</u>	<u>196</u>
Income before income taxes	4,571	5,830
Provision for income taxes	<u>1,627</u>	<u>2,130</u>
Net income	<u>\$ 2,944</u>	<u>\$ 3,700</u>
Basic earnings per common share	<u>\$ 0.41</u>	<u>\$ 0.52</u>
Weighted average number of basic common shares outstanding	<u>7,143</u>	<u>7,171</u>
Diluted earnings per common share	<u>\$ 0.40</u>	<u>\$ 0.50</u>
Weighted average number of diluted common shares outstanding	<u>7,328</u>	<u>7,444</u>
Cash dividends per common share	<u>\$ 0.44</u>	<u>\$ 0.36</u>

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

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B ARRETT BUSINESS SERVICES, INC.
Consolidated Statements of Comprehensive Income
(Unaudited)
(In thousands)

	Three Months Ended June 30,	
	2015	2014
Net Income	\$ 8,746	\$ 7,283
Unrealized losses on marketable securities, net of tax of \$(11) and \$(8) in 2015 and 2014, respectively	(17)	(13)
Comprehensive income	<u>\$ 8,729</u>	<u>\$ 7,270</u>

	Six Months Ended June 30,	
	2015	2014
Net Income	\$ 2,944	\$ 3,700
Unrealized gains (losses) on marketable securities, net of tax of \$17 and \$(15) in 2015 and 2014, respectively	27	(24)
Comprehensive income	<u>\$ 2,971</u>	<u>\$ 3,676</u>

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

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BARRETT BUSINESS SERVICES, INC.
 Consolidated Statements of Stockholders' Equity
 Six Months Ended June 30, 2015 and 2014
 (Unaudited)
 (In thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount				
Balance, December 31, 2013	7,165	\$ 72	\$ 5,781	\$ (26)	\$66,726	\$72,553
Common stock issued on exercise of options	17	0	213	0	0	213
Share based compensation expense, net of tax	0	0	671	0	0	671
Excess tax benefits from share-based compensation	0	0	124	0	0	124
Company repurchase of common stock	(20)	0	(991)	0	0	(991)
Cash dividends on common stock	0	0	0	0	(2,582)	(2,582)
Unrealized holding losses on marketable securities, net of tax	0	0	0	(24)	0	(24)
Net income	0	0	0	0	3,700	3,700
Balance, June 30, 2014	<u>7,162</u>	<u>\$ 72</u>	<u>\$ 5,798</u>	<u>\$ (50)</u>	<u>\$67,844</u>	<u>\$73,664</u>
Balance, December 31, 2014	7,126	\$ 71	\$ 4,410	\$ (23)	\$34,200	\$38,658
Common stock issued on exercise of options and vesting of restricted stock units	50	1	689	0	0	690
Common stock repurchased on vesting of restricted stock units	(1)	0	(65)	0	0	(65)
Share based compensation expense, net of tax	0	0	1,069	0	0	1,069
Excess tax benefits from share-based compensation	0	0	70	0	0	70
Cash dividends on common stock	0	0	0	0	(3,142)	(3,142)
Unrealized holding gains on marketable securities, net of tax	0	0	0	27	0	27
Net income	0	0	0	0	2,944	2,944
Balance, June 30, 2015	<u>7,175</u>	<u>\$ 72</u>	<u>\$ 6,173</u>	<u>\$ 4</u>	<u>\$34,002</u>	<u>\$40,251</u>

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

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BARRETT BUSINESS SERVICES, INC.
Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 2,944	\$ 3,700
Reconciliations of net income to net cash provided by operating activities:		
Depreciation and amortization	1,392	1,197
Losses recognized on marketable securities	1	1
Deferred income taxes	0	(395)
Share-based compensation	1,069	671
Excess tax benefit from share-based compensation	(70)	(124)
Changes in certain assets and liabilities:		
Trade accounts receivable, net	(35,235)	(18,422)
Income taxes receivable	2,754	0
Prepaid expenses and other	(1,876)	(2,257)
Accounts payable	(300)	(817)
Accrued payroll, payroll taxes and related benefits	24,094	13,194
Other accrued liabilities	(21)	768
Income taxes payable	0	1,210
Workers' compensation claims liabilities	13,629	10,062
Safety incentives liability	3,915	(368)
Customer deposits, long-term liabilities and other assets, net	278	291
Net cash provided by operating activities	<u>12,574</u>	<u>8,711</u>
Cash flows from investing activities:		
Purchase of property and equipment	(1,365)	(2,434)
Proceeds from sales and maturities of marketable securities	47,197	7,045
Purchase of marketable securities	(2,315)	(24,019)
Purchase of restricted certificates of deposit	0	(8,154)
Proceeds from maturities of restricted marketable securities	3,621	4,017
Purchase of restricted marketable securities	(64,483)	(27,508)
Net cash used in investing activities	<u>(17,345)</u>	<u>(51,053)</u>
Cash flows from financing activities:		
Proceeds from credit-line borrowings	44,934	3,731
Payments on credit-line borrowings	(41,711)	(3,731)
Payments on long-term debt	(3,110)	(110)
Repurchase of common stock	0	(991)
Common stock repurchased on vesting of restricted stock units	(65)	0
Dividends paid	(3,142)	(2,582)
Proceeds from exercise of stock options	690	213
Excess tax benefits from share-based compensation	70	124
Net cash used in financing activities	<u>(2,334)</u>	<u>(3,346)</u>
Net decrease in cash and cash equivalents	(7,105)	(45,688)
Cash and cash equivalents, beginning of period	11,544	93,557
Cash and cash equivalents, end of period	<u>\$ 4,439</u>	<u>\$ 47,869</u>

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

BARRETT BUSINESS SERVICES, INC.
Notes to Consolidated Financial Statements (Unaudited)

Note 1 - Basis of Presentation of Interim Period Statements

The accompanying consolidated financial statements are unaudited and have been prepared by Barrett Business Services, Inc. (“Barrett”, “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 consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from such estimates and assumptions. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s 2014 Annual Report on Form 10-K at pages F1 – F34. 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 revenue as services are rendered by our workforce. Professional employer (PEO) services are normally used by organizations to satisfy ongoing needs related to the management of human capital and are governed by the terms of a client services agreement with a minimum term of one year, which cover all employees at a particular work site. Our client services agreements are renewable on an annual basis and typically require 30 days’ written notice to cancel or terminate the contract by either party. Our client services agreements provide for immediate termination upon any default of the client regardless of when notice is given. We report PEO revenues on a net basis because we are not the primary obligor for the services provided by our co-employed clients to their customers pursuant to our client services agreements. Consequently, these service fee revenues represent the gross margin generated from our professional employer services after deducting the amounts invoiced to clients for direct payroll expenses such as salaries, wages, health insurance, employee out-of-pocket expenses incurred incidental to employment, and safety incentives. These amounts are also excluded from cost of revenues. Professional employer service fees also include amounts invoiced to our clients for employer payroll-related taxes and workers’ compensation coverage. Staffing services are engaged by customers to meet short-term and long-term personnel needs.

Marketable securities

As of June 30, 2015, the Company’s marketable securities consisted of tax-exempt municipal securities, corporate bonds and U.S. Treasuries. The Company classifies municipal securities, corporate bonds and U.S. Treasuries as available for sale; they are reported at fair value with unrealized gains and losses, net of taxes, shown as a component of accumulated other comprehensive income (loss) in stockholders’ equity. Management considers available evidence in evaluating potential impairment of investments, including the duration and extent to which fair value is less than cost and the Company’s ability and intent to hold the investments. In the event a loss is determined to be other-than-temporary, the loss will be recognized in the statement of operations.

BARRETT BUSINESS SERVICES, INC.
Notes to Consolidated Financial Statements (Unaudited)

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

Allowance for doubtful accounts

The Company had an allowance for doubtful accounts of \$222,000 and \$291,000 at June 30, 2015 and December 31, 2014, respectively. The Company must make estimates of the collectability of accounts receivable for services provided to customers. Management analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic conditions, 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

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 Oregon, Maryland, Delaware and Colorado, 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. Additionally, the Company operates a wholly owned fully licensed insurance company, Ecole Insurance Company ("Ecole"), in Arizona to provide workers' compensation coverage to our employees in Arizona.

Effective January 1, 2015, the Company no longer maintains a certificate to self-insure in the state of California and now maintains individual policies with ACE Group ("ACE") for all California-based clients. The arrangement, typically known as a fronted program, provides BBSI a licensed, admitted insurance carrier in California to issue policies on behalf of BBSI without the intention of transferring any of the workers' compensation risk for the first \$5.0 million per claim. The risk of loss up to the first \$5.0 million per claim is retained by BBSI through an indemnity agreement. While this portion of the risk of loss remains with BBSI, ACE assumes credit risk should BBSI be unable to satisfy its indemnification obligations to ACE. ACE also bears the economic burden for all costs in excess of \$5.0 million per claim. The agreement is effective through January 2016 with the potential for continued annual renewals thereafter.

The Company makes monthly payments into a trust account established between the Company and ACE related to the new ACE fronted insurance program to be set aside for the payment of future claims. The balance in the trust account was \$109.5 million and \$50.1 million at June 30, 2015 and December 31, 2014, respectively. The trust account balance is included as a component of the current and long-term restricted marketable securities and workers' compensation deposits in the accompanying consolidated balance sheets.

BARRETT BUSINESS SERVICES, INC.
Notes to Consolidated Financial Statements (Unaudited) (Continued)

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

Workers' compensation claims (Continued)

To manage our financial exposure, in the event of catastrophic injuries or fatalities, the Company maintains excess workers' compensation insurance through our wholly owned captive insurance company, Associated Insurance Company for Excess ("AICE"), with a per occurrence retention of \$5.0 million, except in Maryland and Colorado, where our per occurrence retention is \$1.0 million and \$2.0 million, respectively. AICE maintains excess workers' compensation insurance coverage with ACE, between \$5.0 million and \$15.0 million per occurrence, except in Maryland, where coverage with ACE is between \$1.0 million and \$25.0 million per occurrence, and in Colorado, where the coverage with ACE is between \$2.0 million and statutory limits per occurrence. The Company continues to evaluate the financial capacity of its insurers to assess the recoverability of the related insurer receivables.

The Company has provided a total of \$229.6 million and \$216.0 million at June 30, 2015 and December 31, 2014, respectively, as an estimated future liability for unsettled workers' compensation claims liabilities. The estimated liability for unsettled workers' compensation claims represents management's best estimate based upon an actuarial valuation provided by a third party actuary at June 30, 2015 and December 31, 2014. Included in the claims liabilities are case reserve estimates for reported losses, plus additional amounts based on projections for incurred but not reported claims and anticipated increases in case reserve estimates. Also included in these estimates are amounts for unallocated loss adjustment expenses, including legal costs. These estimates are continually reviewed and adjustments to liabilities are reflected in current operating results as they become known.

Our workers' compensation claims liabilities do not represent an exact calculation of liability, but instead represent management's best estimate, generally utilizing actuarial expertise and projection techniques, at a given accounting date. The process of estimating unpaid claims and claim adjustment expense involves a high degree of judgment and is subject to a number of variables. These variables can be affected by both internal and external events such as changes in claims handling procedures, changes in individuals involved in the reserve estimation process, inflation, legal trends and legislative changes.

Safety incentives liability

Safety incentives represent cash incentives paid to certain client companies under client service agreements for maintaining safe-work practices in order to minimize workplace injuries. The Company has provided \$18.1 million at June 30, 2015 and \$14.2 million at December 31, 2014 as an estimate of the liability for unpaid safety incentives. 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 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. Safety incentive expense is netted against professional employer services revenue in our consolidated statements of operations.

BARRETT BUSINESS SERVICES, INC.
Notes to Consolidated Financial Statements (Unaudited) (Continued)

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

Statements of cash flows

Interest paid during the six months ended June 30, 2015 and 2014 did not materially differ from interest expense. Income taxes received by the Company during the six months ended June 30, 2015 totaled \$1.1 million compared to income taxes paid during the six months ended June 30, 2014 of \$1.3 million.

Reclassifications

Certain prior year amounts have been reclassified to conform with the 2015 presentation. Such reclassifications had no impact on the Company's financial condition, operating results, cash, working capital or stockholders' equity.

Accounting estimates

The preparation of our 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 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 carrying values of marketable securities, allowance for doubtful accounts, deferred income taxes, carrying values for goodwill and property and equipment, accrued workers' compensation liabilities and safety incentive liabilities. Actual results may or may not differ from such estimates.

Note 2 – Recently Issued Accounting Pronouncements

Revenue recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). The amendments in ASU 2014-09 provide for a single, principles-based model for revenue recognition that replaces the existing revenue recognition guidance. In April 2015, the FASB voted for a one-year deferral of the effective date of ASU 2014-09. If approved, the new guidance will be effective for annual and interim periods beginning on or after December 15, 2017 and will replace most existing revenue recognition guidance under U.S. GAAP when it becomes effective. It permits the use of either a retrospective or cumulative effect transition method and early adoption is not permitted. We have not yet selected a transition method and are in the process of evaluating the effect this standard will have on our consolidated financial statements and related disclosures.

Presentation of debt issuance costs

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This amends the presentation of debt issuance costs on the consolidated balance sheet, such that it requires

BARRETT BUSINESS SERVICES, INC.
Notes to Consolidated Financial Statements (Unaudited) (Continued)

Note 2 – Recently Issued Accounting Pronouncements (Continued)

Presentation of debt issuance costs (Continued)

debt issuance costs to be presented on the balance sheet as a direct reduction from the carrying amount of the related debt liability. The amendments in this accounting standard update are to be applied retrospectively and are effective for interim and annual reporting periods beginning after December 15, 2015. We do not expect the adoption of this accounting standard update to have a material impact on our consolidated balance sheets.

Note 3 – 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 includes a \$40.0 million term loan maturing December 31, 2016, as well as a \$14.0 million revolving credit line, with a \$5.0 million sublimit for unsecured standby letters of credit. The outstanding balance on the term loan was \$37.0 million at June 30, 2015 and \$40.0 million at December 31, 2014. The Company had an outstanding balance of \$3.2 million on its revolving credit line at June 30, 2015. The Agreement also includes \$114.3 million in cash-secured letters of credit to satisfy collateral requirements associated with various surety deposit requirements for workers’ compensation purposes in the state of California. In conjunction with these letters of credit, the Company posted \$114.3 million of certificates of deposit with the Bank as collateral, of which \$26.0 million and \$88.3 million is included in current assets and long-term assets, respectively, on the consolidated balance sheet at June 30, 2015 and \$114.3 million was included in long-term assets on the consolidated balance sheet as of December 31, 2014.

The term loan with the Bank requires payments of \$7.0 million on September 30, 2015, \$15.0 million on December 31, 2015, \$5.0 million on June 30, 2016 and \$5.0 million on September 30, 2016, with the balance due at maturity. The term loan bears interest at the one month LIBOR plus 4.0%.

Advances under the revolving credit facility bear interest, as selected by the Company, of either (a) a daily floating rate of one month LIBOR plus 2.0% or (b) a fixed rate of LIBOR plus 2.0%. The Agreement also provides for an unused commitment fee of 0.35% per year on the average daily unused amount of the revolving credit facility, and a fee of 1.75% of the face amount of each letter of credit.

The 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:

- minimum Fixed Charge Coverage ratio of no less than 1.5:1.0, measured quarterly on a rolling four-quarter basis; and
- ratio of restricted and unrestricted cash and marketable securities to workers’ compensation and safety incentive liabilities of at least 1.0:1.0, measured quarterly.

BARRETT BUSINESS SERVICES, INC.
Notes to Consolidated Financial Statements (Unaudited) (Continued)

Note 3 – Revolving Credit Facility and Long-Term Debt (Continued)

The Agreement includes certain additional covenants as follows:

- capital expenditures may not exceed a total of \$5.0 million in 2015 and a total of \$4.0 million in 2016 without the Bank’s prior approval;
- incurring additional indebtedness is prohibited without the prior approval of the Bank, other than up to \$200,000 per year in purchase money financing so long as total purchase money indebtedness does not exceed \$400,000 at any time;
- repurchases of the Company’s common stock are prohibited; and
- quarterly cash dividends up to \$0.22 per share may be paid so long as there is no default by the Company and payment would not cause a default.

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. The Company was in compliance with all applicable financial covenants at June 30, 2015.

Additionally, the Company maintains a term loan with the Bank with a balance of approximately \$4.9 million and \$5.1 million at June 30, 2015 and December 31, 2014, respectively, secured by the Company’s corporate office building in Vancouver, Washington. The term loan requires payment of monthly installments of \$18,375, bearing interest at the one month LIBOR plus 2.25%, with the unpaid principal balance due November 1, 2017.

Note 4 - Basic and Diluted Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Weighted average number of basic shares outstanding	7,151	7,173	7,143	7,171
Effect of dilutive securities	176	248	185	273
Weighted average number of diluted shares outstanding	<u>7,327</u>	<u>7,421</u>	<u>7,328</u>	<u>7,444</u>

[Table of Contents](#)BARRETT BUSINESS SERVICES, INC.
Notes to Consolidated Financial Statements (Unaudited) (Continued)**Note 5 - Workers' Compensation**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Beginning balance				
Workers' compensation claims liabilities	\$222,265	\$120,135	\$215,982	\$112,444
Add: claims expense accrual:				
Current period	28,983	17,548	55,219	33,899
Prior periods	(4,387)	1,303	(7,573)	5,104
	<u>24,596</u>	<u>18,851</u>	<u>47,646</u>	<u>39,003</u>
Less: claim payments related to:				
Current period	2,979	2,739	3,755	3,138
Prior periods	14,271	13,741	30,262	25,803
	<u>17,250</u>	<u>16,480</u>	<u>34,017</u>	<u>28,941</u>
Ending balance				
Workers' compensation claims liabilities	<u>\$229,611</u>	<u>\$122,506</u>	<u>\$229,611</u>	<u>\$122,506</u>
Incurred but not reported (IBNR)	<u>\$118,959</u>	<u>\$ 29,871</u>	<u>\$118,959</u>	<u>\$ 29,871</u>

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BARRETT BUSINESS SERVICES, INC.
Notes to Consolidated Financial Statements (Unaudited) (Continued)

Note 6 - Fair Value Measurement

Marketable securities consist of the following investments (in thousands):

	June 30, 2015			December 31, 2014			Fair Value Category
	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	
Current:							
Available-for-sale:							
VRDN	\$ 0	\$ 0	\$ 0	\$21,670	\$ 0	\$21,670	2
Certificates of deposit	0	0	0	8,330	(43)	8,287	2
	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$30,000</u>	<u>\$ (43)</u>	<u>\$29,957</u>	
Long term:							
Available-for-sale:							
Municipal bonds	\$3,438	\$ 6	\$ 3,444	\$ 3,843	\$ 7	\$ 3,850	2
Corporate bonds	2,607	(3)	2,604	2,153	(3)	2,150	2
Certificates of deposit	0	0	0	14,944	(14)	14,930	2
	<u>\$6,045</u>	<u>\$ 3</u>	<u>\$ 6,048</u>	<u>\$20,940</u>	<u>\$ (10)</u>	<u>\$20,930</u>	

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BARRETT BUSINESS SERVICES, INC.
Notes to Consolidated Financial Statements (Unaudited) (Continued)

Note 6 - Fair Value Measurement (Continued)

The Company's restricted marketable securities component of restricted marketable securities and workers' compensation deposits consists of the following (in thousands):

	June 30, 2015			December 31, 2014			Fair Value Category
	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	
Current:							
Available-for-sale:							
Money market funds held in trust	\$ 21,343	\$ 0	\$ 21,343	\$ 3,776	\$ 0	\$ 3,776	2
	<u>\$ 21,343</u>	<u>\$ 0</u>	<u>\$ 21,343</u>	<u>\$ 3,776</u>	<u>\$ 0</u>	<u>\$ 3,776</u>	
Long term:							
Available-for-sale:							
Money market funds held in trust	\$ 88,153	\$ 0	\$ 88,153	\$46,310	\$ 0	\$46,310	2
Municipal bonds	3,952	10	3,962	4,352	21	4,373	2
Corporate bonds	4,002	(4)	3,998	3,540	(3)	3,537	2
U.S. treasuries	5,080	0	5,080	3,963	0	3,963	1
	<u>\$101,187</u>	<u>\$ 6</u>	<u>\$101,193</u>	<u>\$58,165</u>	<u>\$ 18</u>	<u>\$58,183</u>	

The Company's restricted certificates of deposit are summarized as follows (in thousands):

	June 30, 2015			December 31, 2014			Fair Value Category
	Cost	Gross Unrealized Gains	Recorded Basis	Cost	Gross Unrealized Gains	Recorded Basis	
Current:							
Restricted certificates of deposit	\$26,015	\$ 0	\$26,015	\$ 0	\$ 0	\$ 0	2
	<u>\$26,015</u>	<u>\$ 0</u>	<u>\$26,015</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	
Long term:							
Restricted certificates of deposit	\$88,320	\$ 0	\$88,320	\$114,335	\$ 0	\$114,335	2
	<u>\$88,320</u>	<u>\$ 0</u>	<u>\$88,320</u>	<u>\$114,335</u>	<u>\$ 0</u>	<u>\$114,335</u>	

BARRETT BUSINESS SERVICES, INC.
Notes to Consolidated Financial Statements (Unaudited) *(Continued)*

Note 7 – Income Taxes

Under ASC 740, “Income Taxes,” management evaluates the realizability of the deferred tax assets on a quarterly basis under a “more-likely than not” standard. As part of this evaluation, management reviews all evidence both positive and negative to determine if a valuation allowance is needed. One component of this analysis is to determine whether the Company was in a cumulative loss position for the most recent 12 quarters. The Company was in a cumulative income position for the 12 quarters ended June 30, 2015. Management’s review of positive evidence included the existence of federal and California taxable income in eligible carryback years, reversal of temporary items, and projection of future taxable income. Management concluded that no additional valuation allowance, other than those previously recorded against particular deferred tax assets, was required at June 30, 2015. Management will monitor the need for an additional valuation allowance at each quarter in the future and, if the negative evidence outweighs the positive evidence, an allowance will be recorded.

Note 8 – Litigation

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

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

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

On February 25, 2015, the court ordered consolidation of the three cases, and any new or other cases involving the same subject matter, into a single action for pretrial purposes. The court also appointed the Painters & Allied Trades District Council No. 35 Pension and Annuity Funds as the lead plaintiff.

On April 29, 2015, the plaintiffs in the class action filed a consolidated amended complaint that asserts the same legal claims as the original lawsuits. On June 12, 2015, defendants filed a motion to dismiss the consolidated amended complaint. A hearing on the motion to dismiss the lawsuits is scheduled for early September 2015. Discovery has not been undertaken as it is automatically stayed under the federal Private Securities Litigation Reform Act.

BARRETT BUSINESS SERVICES, INC.
Notes to Consolidated Financial Statements (Unaudited) *(Continued)*

Note 8 – Litigation (Continued)

BBSI received a subpoena from the San Francisco office of the Division of Enforcement of the Securities and Exchange Commission (the “SEC”) in May 2015 in connection with the SEC’s investigation of the Company’s accounting practices with regard to its workers’ compensation reserves. The Company believes that the SEC’s inquiry was precipitated by the litigation described above and is cooperating fully with the SEC staff in providing the requested information.

On June 17, 2015, Daniel Salinas (“Salinas”) filed a shareholder derivative lawsuit against BBSI and certain of its officers and directors in the Circuit Court for Baltimore City, Maryland. The complaint alleges breaches of fiduciary duty, unjust enrichment and other violations of law and seeks recovery of various damages, including the costs and expenses incurred in connection with the Company’s reserve strengthening process, reserve study and consultants, the cost of stock repurchases by BBSI in October 2014, compensation paid to the Company’s officers, and costs of negotiating the Company’s credit facility with its principal lender, as well as the proceeds of sales of stock by certain of BBSI’s officers and directors during 2013 and 2014. The derivative claim challenges substantially the same conduct as the shareholder class action lawsuits described above. The Company’s first appearance is due September 21, 2015. The derivative lawsuit follows a prior demand letter from counsel representing Salinas received by BBSI on February 27, 2015.

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

The Company 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 currently pending or threatened actions is not expected to materially affect the consolidated financial position or results of operations of the Company.

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

Overview

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 tools from the human resource outsourcing industry and a knowledge-based approach from the management consulting industry. This platform, through the effective leveraging of human capital, assists our business owner clients in more effectively running their business. We believe this platform, delivered through local teams of professionals, 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 locally based teams, typically located within 50 miles of our client companies. We recruit senior level managers to oversee, develop and expand our business at the branch-office level. Additionally, we recruit professionals with expertise in human resources, risk management and workplace safety and various types of administration, including payroll, to field our client delivery teams. This structure fosters autonomous decision-making, allowing local teams of professionals to deliver plans that most closely align with the needs of each business owner client. It also assists us by incubating talent to support increased growth and capacity. We have clients with employees located in 22 states and the District of Columbia, through a network of 54 branch locations in California, Oregon, Washington, Idaho, Arizona, Nevada, Utah, Colorado, Maryland, Delaware and North Carolina. 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.

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

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 3,000 companies each day, define our approach to guiding business owners through the challenges associated with being an employer.

BBSI's business teams align with each business owner client through a structured three-tiered progression. In doing so, business teams focus on the objectives of each business owner and deliver planning, guidance and resources in support of those objectives.

Tier 1: Tactical Alignment

The first stage focuses on the mutual setting of expectations and is essential to a successful client relationship. It begins with a process of assessment and discovery in which the business owners' 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 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 co-employed clients. We work aggressively to manage and reduce job injury claims, identify fraudulent claims and structure optimal work programs, including modified duty employees.

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

Results of Operations

The following table sets forth percentages of total revenues represented by selected items in the Company's Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2014.

	Percentage of Total Revenue			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Professional employer service fees	76.8%	74.5%	76.7%	74.8%
Staffing services	23.2	25.5	23.3	25.2
Total revenues	100.0	100.0	100.0	100.0
Cost of revenues:				
Direct payroll costs	17.6	19.4	17.7	19.1
Payroll taxes and benefits	39.6	40.4	45.9	46.8
Workers' compensation	23.0	20.4	23.5	20.4
Total cost of revenues	80.2	80.2	87.1	86.3
Gross margin	19.8	19.8	12.9	13.7
Selling, general and administrative expenses	11.6	12.0	10.9	11.4
Depreciation and amortization	0.4	0.4	0.4	0.4
Income from operations	7.8	7.4	1.6	1.9
Other (expense) income, net	(0.3)	0.1	(0.3)	0.1
Income before income taxes	7.5	7.5	1.3	2.0
Provision for income taxes	2.7	2.7	0.5	0.7
Net Income	4.8%	4.8%	0.8%	1.3%

We report professional employer services 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. 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 generally increase our gross margin percentage. Improvement in gross margin percentage occurs because incremental client services revenue dollars are reported as revenue net of all related direct costs.
- A relative increase in staffing revenues will typically decrease our gross margin percentage. Staffing revenues are presented at gross with the related direct costs reported in cost of sales. While staffing relationships typically have higher margins than co-employment relationships, an increase in staffing revenues and related costs presented at gross dilutes the impact of the net professional employer services revenue on gross margin percentage.

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

We present for comparison purposes the gross revenues and cost of revenues information set forth in the table below. Although not in accordance with GAAP, management believes this information is more informative as to the level of our business activity and more illustrative of how we manage our operations, including the preparation of our internal operating forecasts, because it presents our professional employer services on a basis comparable to our staffing services.

(in thousands)	Unaudited Three Months Ended June 30,		Unaudited Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Professional employer services	\$929,521	\$759,838	\$1,787,281	\$1,453,764
Staffing services	42,347	38,566	81,513	72,017
Total revenues	<u>971,868</u>	<u>798,404</u>	<u>1,868,794</u>	<u>1,525,781</u>
Cost of revenues:				
Direct payroll costs	815,773	672,078	1,570,208	1,285,398
Payroll taxes and benefits	72,146	61,130	160,440	133,947
Workers' compensation	47,785	35,344	93,006	67,278
Total cost of revenues	<u>935,704</u>	<u>768,552</u>	<u>1,823,654</u>	<u>1,486,623</u>
Gross margin	<u>\$ 36,164</u>	<u>\$ 29,852</u>	<u>\$ 45,140</u>	<u>\$ 39,158</u>

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

A reconciliation of non-GAAP gross professional employer services revenues to net professional employer services revenues is as follows:

(in thousands)	Unaudited Three Months Ended June 30,					
	Gross Revenue Reporting Method		Reclassification		Net Revenue Reporting Method	
	2015	2014	2015	2014	2015	2014
Revenues:						
Professional employer services	\$ 929,521	\$ 759,838	\$ (789,473)	\$ (647,335)	\$ 140,048	\$ 112,503
Staffing services	42,347	38,566	0	0	42,347	38,566
Total revenues	<u>\$ 971,868</u>	<u>\$ 798,404</u>	<u>\$ (789,473)</u>	<u>\$ (647,335)</u>	<u>\$ 182,395</u>	<u>\$ 151,069</u>
Cost of revenues	<u>\$ 935,704</u>	<u>\$ 768,552</u>	<u>\$ (789,473)</u>	<u>\$ (647,335)</u>	<u>\$ 146,231</u>	<u>\$ 121,217</u>

(in thousands)	Unaudited Six Months Ended June 30,					
	Gross Revenue Reporting Method		Reclassification		Net Revenue Reporting Method	
	2015	2014	2015	2014	2015	2014
Revenues:						
Professional employer services	\$ 1,787,281	\$ 1,453,764	\$ (1,519,482)	\$ (1,239,572)	\$ 267,799	\$ 214,192
Staffing services	81,513	72,017	0	0	81,513	72,017
Total revenues	<u>\$ 1,868,794</u>	<u>\$ 1,525,781</u>	<u>\$ (1,519,482)</u>	<u>\$ (1,239,572)</u>	<u>\$ 349,312</u>	<u>\$ 286,209</u>
Cost of revenues	<u>\$ 1,823,654</u>	<u>\$ 1,486,623</u>	<u>\$ (1,519,482)</u>	<u>\$ (1,239,572)</u>	<u>\$ 304,172</u>	<u>\$ 247,051</u>

The amount of the reclassification is comprised of direct payroll costs and safety incentives attributable to our co-employed client companies.

Three months ended June 30, 2015 and 2014

Net income for the second quarter of 2015 amounted to \$8.7 million, as compared to net income of \$7.3 million for the second quarter of 2014. Diluted income per share for the second quarter of 2015 was \$1.19 compared to diluted income per share of \$0.98 for the comparable 2014 period.

Revenues for the second quarter of 2015 totaled \$182.4 million, an increase of approximately \$31.3 million or 20.7% over the second quarter of 2014, which reflects an increase in the Company's professional employer service fee revenue of \$27.5 million or 24.5%, coupled with an increase in staffing services revenue of \$3.8 million or 9.8%.

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

Results of Operations (Continued)

Three months ended June 30, 2015 and 2014 (Continued)

Approximately 78% and 76%, respectively, of our revenue during the three months ended June 30, 2015 and 2014 was attributable to our California operations.

Our growth in professional employer service revenues continues to be primarily attributable to new customers, resulting from continued strength in our referral channels as business from new customers during the second quarter of 2015 doubled our lost business from former customers. Professional employer service revenues from continuing customers reflected a 9.2% increase compared to the second quarter of 2014, primarily resulting from increases in employee headcount and hours worked. The increase in staffing revenues was due primarily to an increase in revenue from continuing customers, coupled with an increase in revenue from the addition of new business, partially offset by lost business from former customers.

Gross margin for the second quarter of 2015 totaled approximately \$36.2 million or 19.8% of revenue compared to \$29.9 million or 19.8% of revenue for the second quarter of 2014. The constant gross margin percentage was primarily due to an increase in workers' compensation expense, as a percentage of revenues, offset by declines in direct payroll costs and payroll taxes and benefits, as a percentage of revenues.

Workers' compensation expense, in terms of dollars and as a percentage of revenues, increased from \$30.8 million or 20.4% in the second quarter of 2014 to \$41.9 million or 23.0% in the second quarter of 2015. The percentage rate increase was primarily due to completing the transition to the ACE fronted insurance program, an increase in the provision for claim costs related to current year claims, and increased costs for surety bonds and standby letters of credit. Our provision for current year claims of \$29.0 million was based on the loss rate as a percentage of payroll calculated by our independent actuary at June 30, 2015.

As described in our Annual Report on Form 10-K for the year ended December 31, 2014, we maintain reserves (recorded as accrued liabilities on our balance sheet) to cover our estimated liabilities for our self-insured workers' compensation claims. The adequacy of reserves can be affected by both internal and external events, including adverse development on existing claims, changes in medical, administrative and legal costs, and legislative or systemic changes.

The Company has provided a total of \$229.6 million and \$216.0 million at June 30, 2015 and December 31, 2014, respectively, as an estimated future liability for unsettled workers' compensation claims liabilities. The estimated liability for unsettled workers' compensation claims represents management's best estimate based upon an actuarial valuation provided by a third party actuary at June 30, 2015 and December 31, 2014. Included in the claims liabilities are case reserve estimates for reported losses, plus additional amounts based on projections for incurred but not reported claims and anticipated increases in case reserve estimates. Also included in these estimates are amounts for unallocated loss adjustment expenses, including legal costs. These estimates are continually reviewed and adjustments to liabilities are reflected in current operating results as they become known.

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

Results of Operations (Continued)

Three months ended June 30, 2015 and 2014 (Continued)

Incurred but not reported ("IBNR") is based upon an estimate of future claim payments beyond those considered in the specific case reserve estimates and claims arising from injuries that occurred during a particular time period on or prior to the balance sheet date. Therefore, IBNR is the compilation of the estimated ultimate losses for each accident year less amounts that have been paid and specific case reserves. IBNR reserves, unlike specific case reserves, do not apply to a specific claim, but rather apply to the entire body of claims arising from a specific time period. IBNR primarily provides for costs due to:

- 1) Future claim payments in excess of case reserves on recorded open claims;
- 2) Additional claim payments on closed claims; and
- 3) Claims that have been incurred but have not yet been reported to us.

Our workers' compensation claims liabilities do not represent an exact calculation of liability, but instead represent management's best estimate, generally utilizing actuarial expertise and projection techniques, at a given accounting date. The process of estimating unpaid claims and claim adjustment expense involves a high degree of judgment and is subject to a number of variables. These variables can be affected by both internal and external events such as changes in claims handling and reserve estimation procedures, changes in individuals involved in the reserve estimation process, inflation, legal trends and legislative changes.

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. To the extent a material change affecting the ultimate claim liability is known, such change is quantified to the extent possible through an analysis of internal company data and, if available and when appropriate, external data. Significant structural changes to the available data can materially impact the reserve estimation process. Actuaries exercise a considerable degree of judgment in the evaluation of these factors in their analysis of reserves. The application of actuarial judgment is unavoidable when faced with material uncertainty. Different actuaries may choose different assumptions when faced with such uncertainty, based on their individual backgrounds, professional experiences and the context in which they are reviewing the reserves. Hence, the estimates selected by different actuaries may differ materially from each other.

We use informed judgment throughout the process, derived from individual experiences and expertise applied to multiple sets of data and analysis. We consider all significant facts and circumstances known at the time loss reserves are established and as new facts and circumstances become known. Due to the inherent uncertainty underlying loss reserve estimates including, but not limited to, the future settlement environment, final resolution of our estimated liability for our workers' compensation claims will likely be higher or lower than the related loss reserves at the reporting date. Therefore, actual paid losses, as specific claims are settled in the future, may be materially different in amount from our current loss reserves.

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

Results of Operations (Continued)

Three months ended June 30, 2015 and 2014 (Continued)

Direct payroll costs, as a percentage of revenues, decreased from 19.4% for the second quarter of 2014 to 17.6% for the second quarter of 2015, primarily due to the increase in our mix of professional employer services in the Company's customer base compared to the second quarter of 2014 and the effect of each customer's unique mark-up percent.

Payroll taxes and benefits, as a percentage of revenues, for the second quarter of 2015 was 39.6% compared to 40.4% for the second quarter of 2014. The percentage rate decrease was primarily due to a decline in the overall state unemployment tax rates where the Company does business and to a small rise in the overall average wage rates which allowed the tax ceilings to be reached sooner in 2015 as compared to 2014.

Selling, general and administrative ("SG&A") expenses for the second quarter of 2015 totaled approximately \$21.3 million, an increase of \$3.3 million or 18.5% over the second quarter of 2014. The increase was primarily attributable to increases in management payroll, incentive bonus pay to field operations, and other variable expense components within SG&A to support our business growth.

Other expense for the second quarter of 2015 totaled approximately \$479,000 as compared to other income of approximately \$106,000 for the comparable 2014 period. The change was primarily attributable to an increase in interest expense from \$44,000 in the second quarter of 2014 to \$562,000 in the second quarter of 2015 resulting from the Company's new credit agreement with its principal bank as disclosed in Note 3 to the Consolidated Financial Statements in this Report.

The income tax rate for the 2015 second quarter was 36.2% compared to the 2014 second quarter rate of 36.0%. We expect the effective income tax rate for the balance of 2015 to remain at a similar rate to the 2015 second quarter income tax rate.

Six months ended June 30, 2015 and 2014

Net income for the six months ended June 30, 2015 amounted to \$2.9 million, as compared to a net income of \$3.7 million for the first six months of 2014. Diluted income per share for the first six months of 2015 was \$0.40 compared to diluted income per share of \$0.50 for the comparable 2014 period.

Revenues for the first six months of 2015 totaled \$349.3 million, an increase of approximately \$63.1 million or 22.0% over the similar period of 2014, which reflects an increase in the Company's professional employer service fee revenue of \$53.6 million or 25.0%, coupled with an increase in staffing services revenue of \$9.5 million or 13.2%.

Approximately 78% and 77%, respectively, of our revenue during the first six months ended June 30, 2015 and 2014 was attributable to our California operations.

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

Results of Operations (Continued)

Six months ended June 30, 2015 and 2014 (Continued)

Our growth in professional employer service revenues was primarily attributable to new customers, resulting from continued strength in our referral channels as business from new customers during the first six months of 2015 doubled our lost business from former customers. Professional employer service revenues from continuing customers reflected a 8.3% increase compared to the first six months of 2014, primarily resulting from increases in employee headcount and hours worked. The increase in staffing revenues was due primarily to an increase in revenue from the addition of new business, coupled with an increase in revenue from continuing customers, partially offset by lost business from former customers.

Gross margin for the first six months of 2015 totaled approximately \$45.1 million or 12.9% of revenue compared to \$39.2 million or 13.7% of revenue for the first six months of 2014. The .8% decline in gross margin percentage was primarily due to an increase in workers' compensation expense, as a percentage of revenues, partially offset by a decline in direct payroll costs and payroll taxes and benefits, as a percentage of revenues.

Workers' compensation expense, in terms of dollars and as a percentage of revenues, increased from \$58.4 million or 20.4% in the first six months of 2014 to \$81.8 million or 23.5% in the first six months of 2015. The percentage rate increase was primarily due to completing the transition to the ACE fronted insurance program, an increase in the provision for claim costs related to current year claims, and increased costs for surety bonds and standby letters of credit. Our provision for current year claims of \$55.2 million was based on the loss rate as a percentage of payroll calculated by our independent actuary at June 30, 2015.

Direct payroll costs, as a percentage of revenues, decreased from 19.1% for the first six months of 2014 to 17.7% for the first six months of 2015, primarily due to the increase in our mix of professional employer services in the Company's customer base compared to the first six months of 2014 and the effect of each customer's unique mark-up percent.

Payroll taxes and benefits, as a percentage of revenues, for the first six months of 2015 was 45.9% compared to 46.8% for the comparable period of 2014. The percentage rate decrease was primarily due to a decline in the overall state unemployment tax rates where the Company does business and to a small rise in the overall average wage rates which allowed the tax ceilings to be reached sooner in 2015 as compared to 2014.

SG&A expenses for the first six months of 2015 totaled approximately \$38.3 million, an increase of \$5.9 million or 18.3% over the first six months of 2014. The increase was primarily attributable to increases in management payroll, incentive bonus pay to field operations, information technology ("IT") expenses and other variable expense components within SG&A to support our business growth. The increased IT expenses related to projects designed to enhance access and delivery of information to the field as well as to improve efficiencies in operations.

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

Results of Operations (Continued)

Six months ended June 30, 2015 and 2014 (Continued)

Other expense for the six months ended June 30, 2015 totaled approximately \$924,000 as compared to other income of approximately \$196,000 for the comparable 2014 period. The change was primarily attributable to an increase in interest expense from \$88,000 in the first six months of 2014 to \$1.1 million in the comparable 2015 period resulting from the Company's new credit agreement with its principal bank as disclosed in Note 3 to the Consolidated Financial Statements in this Report.

The income tax rate for the first six months of 2015 was 35.6% compared to the income tax rate for the first six months of 2014 of 36.5%.

Factors Affecting Quarterly Results

The Company has historically experienced significant fluctuations in its quarterly operating results and expects such fluctuations to continue in the future. The Company's 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 the Company's services, competition, and the effect of acquisitions. The Company's revenue levels may fluctuate from quarter to quarter primarily due to the impact of seasonality on its staffing services business and on certain of its co-employed clients in the agriculture, food processing and construction-related industries. As a result, the Company may have greater revenues and net income in the third quarter of its fiscal year. Revenue levels in the fourth quarter may be affected by many customers' practice of operating on holiday-shortened schedules. Payroll taxes and benefits fluctuate with the level of direct payroll costs, but tend to represent a smaller percentage of revenues and direct payroll later in the Company's fiscal year as federal and state statutory wage limits for unemployment and Social Security taxes are exceeded on a per employee basis. 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. Adverse loss development of prior period claims during a subsequent quarter may also contribute to volatility in the Company's estimated workers' compensation expense.

We have begun offering healthcare coverage to eligible staffing employees in compliance with the employer mandate provision of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the "Acts"). The Acts represent comprehensive U.S. healthcare reform legislation that, in addition to other provisions, would subject us to potential penalties unless we offer to our employees minimum essential healthcare coverage that is affordable. While it is still early in the adoption phase of the Acts' employer mandate provision, our initial price increases appear to be sufficient to cover implementation and operating costs of offering healthcare coverage to staffing employees.

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

Liquidity and Capital Resources

The Company's cash position for the six months ended June 30, 2015 decreased \$7.1 million from December 31, 2014, compared to a decrease of \$45.7 million for the comparable period in 2014. The decrease in cash at June 30, 2015, as compared to December 31, 2014, was primarily due to the purchase of restricted marketable securities of \$64.5 million and an increase of trade accounts receivable of \$35.2 million, partially offset by net income of \$2.9 million, proceeds from sales and maturities of marketable securities of \$47.2 million, an increase in accrued payroll, payroll taxes and related benefits of \$24.1 million, and an increase in workers' compensation claims liabilities of \$13.6 million.

Net cash provided by operating activities for the six months ended June 30, 2015 amounted to \$12.6 million, compared to \$8.7 million for the comparable 2014 period. For the six months ended June 30, 2015, cash flow was primarily due to net income of \$2.9 million, increases of \$24.1 million in accrued payroll, payroll taxes and related benefits, \$13.6 million in workers' compensation claims liabilities and \$3.9 million in safety incentives liability, partially offset by \$35.2 million in increased trade accounts receivable.

Net cash used in investing activities for the six months ended June 30, 2015 was \$17.3 million, as compared to \$51.0 million for the comparable 2014 period. For the 2015 period, cash from investing activities was primarily used to purchase \$64.5 million of restricted marketable securities, partially offset by proceeds from sales and maturities of marketable securities of \$47.2 million.

Net cash used in financing activities for the six months ended June 30, 2015 was \$2.3 million as compared to \$3.3 million for the comparable 2014 period. For the 2015 period, cash was primarily used for payments of \$41.7 million on credit-line borrowings, \$3.1 million of dividends paid, and payments of \$3.1 million on long-term debt, partially offset by proceeds of \$44.9 million from credit-line borrowings.

The Company's business strategy continues to focus on growth through the expansion of operations at existing offices, together with the possibility of selective acquisition of additional personnel-related businesses, both in its existing markets and other strategic geographic markets. The Company periodically evaluates proposals for various acquisition opportunities, but there can be no assurance that any additional transactions will be consummated.

As disclosed in Note 3 to the Consolidated Financial Statements in this Report, the Company maintains a credit agreement (the "Agreement") with its principal bank, Wells Fargo Bank, National Association (the "Bank"). The Agreement includes a \$40.0 million term loan maturing December 31, 2016, as well as a \$14.0 million revolving credit line, with a \$5.0 million sublimit for unsecured standby letters of credit. The outstanding balance on the term loan was \$37.0 million and \$40.0 million at June 30, 2015 and December 31, 2014, respectively. The Company had an outstanding balance of \$3.2 million on its revolving credit line at June 30, 2015. The Agreement also includes \$114.3 million in cash-secured letters of credit to satisfy collateral requirements associated with various surety deposit requirements for workers'

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

Liquidity and Capital Resources (Continued)

compensation purposes in the state of California. In conjunction with the letters of credit, the Company posted \$114.3 million of certificates of deposit with the Bank as collateral, of which \$26.0 million and \$88.3 million are included in current assets and long-term assets, respectively, on the consolidated balance sheet at June 30, 2015 and \$114.3 million was included in long-term assets on the consolidated balance sheet as of December 31, 2014.

The term loan with the Bank requires payments of \$7.0 million on September 30, 2015, \$15.0 million on December 31, 2015, \$5.0 million on June 30, 2016, and \$5.0 million on September 30, 2016, with the balance due at maturity. The term loan bears interest at the one month LIBOR plus 4.0%.

Advances under the revolving credit facility bear interest, as selected by the Company, of either (a) a daily floating rate of one month LIBOR plus 2.0% or (b) a fixed rate of LIBOR plus 2.0%. The Agreement also provides for an unused commitment fee of 0.35% per year on the average daily unused amount of the revolving credit facility, and a fee of 1.75% of the face amount of each letter of credit.

The states of California, Oregon, Maryland, Washington, Delaware and Colorado required us to maintain specified investment balances or other financial instruments, totaling \$199.3 million at June 30, 2015, to cover potential workers' compensation claims losses related to the Company's status or former status as a self-insured employer. In partial satisfaction of these requirements, at June 30, 2015, we have provided surety bonds and standby letters of credit totaling \$194.9 million. As of June 30, 2015, the State of California required the Company to maintain a surety deposit of \$190.6 million (which is included in the total \$194.9 million of surety bonds and standby letters of credit), which the Company satisfied through the posting of third party issued surety bonds, backed by a total of \$114.3 million in letters of credit. In conjunction with these letters of credit, the Company posted \$114.3 million of restricted certificates of deposit with the Bank as collateral.

Subsequent to June 30, 2015, the State of California reduced the Company's security requirement from \$190.6 million to \$147.2 million. As a result of the reduced security requirement, the Company's cash-secured letters of credit with its principal bank of \$114.3 million will be reduced to \$88.3 million during the third quarter of 2015. Correspondingly, the certificates of deposit collateral with the Bank will be reduced from \$114.3 million to \$88.3 million. The restricted certificates of deposit are included in current assets and long-term assets at \$26.0 million and \$88.3 million, respectively, on the consolidated balance sheet at June 30, 2015. Management expects future balances of the certificates of deposit and the letters of credit to decrease over time due to a declining self-insured liability as the Company's ability to self-insure its workers' compensation liabilities in California ended December 31, 2014. Consequently, management expects the Company's working capital position to improve in future quarters as the related collateral requirements ease.

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

Liquidity and Capital Resources (Continued)

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:

- minimum Fixed Charge Coverage ratio of no less than 1.5:1.0, measured quarterly on a rolling four-quarter basis; and
- ratio of restricted and unrestricted cash and marketable securities to workers' compensation and safety incentive liabilities of at least 1.0:1.0, measured quarterly.

The Agreement includes certain additional covenants as follows:

- capital expenditures may not exceed a total of \$5.0 million in 2015 and \$4.0 million in 2016 without the Bank's prior approval;
- incurring additional indebtedness is prohibited without the prior approval of the Bank, other than up to \$200,000 per year in purchase money financing so long as total purchase money indebtedness does not exceed \$400,000 at any time;
- repurchases of the Company's common stock are prohibited; and
- quarterly cash dividends up to \$0.22 per share may be paid so long as there is no default by the Company and payment would not cause a default.

Additionally, the Company maintains a term loan with the Bank with a balance of approximately \$4.9 million at June 30, 2015, secured by the Company's corporate office building in Vancouver, Washington. The term loan requires payment of monthly installments of \$18,375, bearing interest at the one month LIBOR plus 2.25%, with the unpaid principal balance due November 1, 2017.

Management expects that the funds anticipated to be generated from operations and availability under its 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.

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

Forward-Looking Information

Statements in this report which are not historical in nature, including discussion of economic conditions in the Company's market areas and effect on revenue levels, the effect of changes in the Company's mix of services on gross margin, the adequacy of the Company's workers' compensation reserves, the effect of changes in its reserving practices and claims management process on its actuarial estimates and workers' compensation reserves, the effect of changes in the interest rate environment on the value of the Company's investment securities and long-term debt, the adequacy of the Company's allowance for doubtful accounts, the effect of the Company's formation and operation of two wholly owned, fully licensed captive insurance subsidiaries and becoming self-insured for certain business risks, the operation and cost of the Company's fronted insurance program with ACE in California, the financial viability of the Company's excess insurance carriers, the effectiveness of the Company's management information systems, payment of future dividends, the availability of working capital to meet the Company's funding requirements, and the potential for and effect of acquisitions, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such 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 the ability to retain current clients and attract new clients, difficulties associated with integrating clients into the Company's operations, economic trends in the Company's 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 the Company's primary markets, collectability of accounts receivable, the carrying values of deferred income tax assets and goodwill, which may be affected by the Company's future operating results, the impact of the Patient Protection and Affordable Care Act on our business, the effect of conditions in the global capital markets on the Company's investment portfolio, and the availability of capital, borrowing capacity on the Company's revolving credit facility, or letters of credit necessary to meet state-mandated surety deposit requirements for maintaining the Company's status as a qualified self-insured employer for workers' compensation coverage or its fronted insurance program, among others. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk for changes in interest rates primarily relates to its investment portfolio of liquid assets and its outstanding borrowings on its line of credit and long-term debt. As of June 30, 2015, the Company's investment portfolio consisted principally of approximately \$114.3 million in restricted certificates of deposit, \$109.5 million in money market funds held in trust, \$7.4 million in municipal bonds, \$6.6 million in corporate bonds, and \$5.1 million in U.S. treasuries. The Company's outstanding long-term debt totaled approximately \$41.9 million at June 30, 2015. Based on the Company's overall interest exposure at June 30, 2015, a 100 basis point increase in market interest rates would not have a material effect on the fair value of the Company's investment portfolio of liquid assets, its outstanding borrowings or its results of operations because of the predominantly short maturities of the securities within the investment portfolio and the relative size of the outstanding borrowings.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of June 30, 2015 the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on the evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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Part II – Other Information

Item 1. Legal Proceedings

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

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

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

On February 25, 2015, the court ordered consolidation of the three cases, and any new or other cases involving the same subject matter, into a single action for pretrial purposes. The court also appointed the Painters & Allied Trades District Council No. 35 Pension and Annuity Funds as the lead plaintiff.

On April 29, 2015, the plaintiffs in the class action filed a consolidated amended complaint that asserts the same legal claims as the original lawsuits. On June 12, 2015, defendants filed a motion to dismiss the consolidated amended complaint. A hearing on the motion to dismiss the lawsuits is scheduled for early September 2015. Discovery has not been undertaken as it is automatically stayed under the federal Private Securities Litigation Reform Act.

On June 17, 2015, Daniel Salinas ("Salinas") filed a shareholder derivative lawsuit against BBSI and certain of its officers and directors in the Circuit Court for Baltimore City, Maryland. The complaint alleges breaches of fiduciary duty, unjust enrichment and other violations of law and seeks recovery of various damages, including the costs and expenses incurred in connection with the Company's reserve strengthening process, reserve study and consultants, the cost of stock repurchases by BBSI in October 2014, compensation paid to the Company's officers, and costs of negotiating the Company's credit facility with its principal lender, as well as the proceeds of sales of stock by certain of BBSI's officers and directors during 2013 and 2014. The derivative claim challenges substantially the same conduct as the shareholder class action lawsuits described above. The Company's first appearance is due September 21, 2015. The derivative lawsuit follows a prior demand letter from counsel representing Salinas received by BBSI on February 27, 2015.

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Part II – Other Information (Continued)

Item 1. Legal Proceedings (Continued)

We intend to vigorously defend against the foregoing actions. We have not recorded any liabilities with respect to the claims in our consolidated balance sheets as of June 30, 2015 and December 31, 2014. We believe that the claims are covered under our directors' and officers' liability insurance, and we have notified our insurance carriers of the claims. The insurers have responded by requesting additional information and by reserving their rights under the policies, including the right to deny coverage under various policy exclusions. Subject to their reservation of rights and the satisfaction of applicable deductibles, we expect to be reimbursed for substantially all legal fees relating to our defense of the claims.

The Company 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 currently pending or threatened actions is not expected to materially affect the consolidated financial position or results of operations of the Company.

BBSI received a subpoena from the San Francisco office of the Division of Enforcement of the Securities and Exchange Commission (the "SEC") in May 2015 in connection with the SEC's investigation of the Company's accounting practices with regard to its workers' compensation reserves. The Company believes that the SEC's inquiry was precipitated by the litigation described above and is cooperating fully with the SEC staff in providing the requested information.

Item 1A. Risk Factors

In addition to the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the SEC on March 16, 2015, the following risk factor should be considered:

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the "Acts") were signed into U.S. law. The Acts represent comprehensive U.S. healthcare reform legislation that, in addition to other provisions, subjects us to potential penalties unless we offer to our employees minimum essential healthcare coverage that is affordable. In order to comply with the employer mandate provision of the Acts, we have begun offering health care coverage to all temporary and permanent employees eligible for coverage under the Acts. Designating employees as eligible is complex, and is subject to challenge by employees and the Internal Revenue Service. While we believe we have properly identified eligible employees, a later determination that we failed to offer the required health coverage to eligible employees could result in penalties that may materially harm our business. We cannot be certain that compliant insurance coverage will remain available to us on reasonable terms, and we could face additional risks arising from future changes to the Acts or changed interpretations of our obligations under the Acts. There can be no assurance that we will be able to recover all related costs through increased pricing to our customers or that such costs will be recovered in the period in which costs are incurred, and the net financial impact on our results of operations could be significant.

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Part II – Other Information (Continued)

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

There were no common stock repurchases during the quarter ended June 30, 2015. In November 2006, the Board adopted a stock repurchase program and authorized the repurchase of up to 500,000 common shares of the Company's common stock from time to time to open market purchases. In November 2007, the Board approved an increase in the authorized shares to be repurchased up to 1.0 million common shares. In October 2008, the Board approved a second increase in the authorized common shares to be repurchased up to 3.0 million shares. At June 30, 2015, 1,121,013 shares could be repurchased under the program.

Item 6. Exhibits

The exhibits filed with this report are listed in the Exhibit Index following the signature page of this report.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 7, 2015

BARRETT BUSINESS SERVICES, INC.
(Registrant)

/s/ James D. Miller
James D. Miller
Vice President-Finance, Treasurer and Secretary
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

<u>Exhibit</u>	
10.1	Form of Employee Restricted Stock Units Award Agreement for Executive Officers under the Registrant's 2015 Stock Incentive Plan (the "2015 Plan").
10.2	Form of Non-Employee Director Restricted Stock Units Award Agreement under the 2015 Plan.
10.3	Change in Control Employment Agreement between the Registrant and Gerald R. Blotz, dated June 16, 2015.
31.1	Certification of the Chief Executive Officer under Rule 13a-14(a).
31.2	Certification of the Chief Financial Officer under Rule 13a-14(a).
32.	Certification pursuant to 18 U.S.C. Section 1350.
99.1	Description of the Registrant's capital stock.
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

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

**EMPLOYEE RESTRICTED STOCK UNITS
(Executive Officer)**

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

Participant: _____

Date: _____

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

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

The parties agree as follows:

1. Defined Terms

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

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

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

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

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

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

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

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

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

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

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

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

2. **Grant of RSUs**

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

3. **Terms of RSUs**

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

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

(a) on _____ (“Restriction Period 1”);

(b) on _____ (“Restriction Period 2”);

(c) on _____ (“Restriction Period 3”); and

(d) on _____ (“Restriction Period 4”).

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

(a) 25 percent of the total RSUs will Vest on the expiration of Restriction Period 1;

(b) An additional 25 percent of the total RSUs will Vest on the expiration of Restriction Period 2;

(c) An additional 25 percent of the total RSUs will Vest on the expiration of Restriction Period 3; and

(d) The final 25 percent of the total RSUs will Vest on the expiration of Restriction Period 4.

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

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

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

(b) A Change in Control Date.

3.5 **Settlement.**

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

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

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

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

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

4. **Tax Withholding and Reimbursement**

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

5. **Conditions Precedent**

Corporation will not be required to issue any Shares upon Vesting of the RSUs, or any portion thereof, until Corporation has taken any action required to comply with all applicable laws.

6. **Successorship**

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

7. **Notices**

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

8. **Arbitration**

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

9. **Attorney Fees**

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

10. **Clawback/Recovery**

Any compensation paid to the Participant under this Award may be subject to recoupment in accordance with any clawback policy that Corporation is required to adopt pursuant to the listing standards of any national securities exchange or association on which Corporation's securities are listed or quoted or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law, including the Sarbanes-Oxley Act of 2002. Participant agrees to promptly repay any such compensation as directed by Corporation under any such clawback.

11. **Code Section 409A**

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

BARRETT BUSINESS SERVICES, INC.

Participant

By _____
Name _____
Its _____

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

NON-EMPLOYEE DIRECTOR RESTRICTED STOCK UNITS

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

Participant: _____

Date: _____

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

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

The parties agree as follows:

1. Defined Terms

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

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

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

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

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

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

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

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

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

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

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

2. **Grant of RSUs**

Subject to the terms and conditions of this Agreement and the Plan, Corporation grants to Participant 1,285 RSUs, with an initial value of approximately \$50,000 based on the closing price of a Share of Common Stock, \$38.90, on July 1, 2015. Each RSU represents a hypothetical Share of Common Stock. As a holder of RSUs, Participant will have only the rights of a general unsecured creditor of Corporation until delivery of Shares is made as specified in this Agreement.

3. **Terms of RSUs**

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

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

(a) on _____ ("Restriction Period 1");

(b) on _____ ("Restriction Period 2");

(c) on _____ ("Restriction Period 3"); and

(d) on _____ ("Restriction Period 4").

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

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

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

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

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

3.5 **Settlement.**

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

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

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

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

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

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

4. **Tax Reimbursement**

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

5. **Conditions Precedent**

Corporation will not be required to issue any Shares upon Vesting of the RSUs, or any portion thereof, until Corporation has taken any action required to comply with all applicable laws.

6. **Successorship**

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

7. **Notices**

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

8. **Arbitration**

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

9. **Attorney Fees**

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

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

10. **Clawback/Recovery**

Any compensation paid to the Participant under this Award may be subject to recoupment in accordance with any clawback policy that Corporation is required to adopt pursuant to the listing standards of any national securities exchange or association on which Corporation's securities are listed or quoted or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law, including the Sarbanes-Oxley Act of 2002. Participant agrees to promptly repay any such compensation as directed by Corporation under any such clawback.

11. **Code Section 409A**

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

BARRETT BUSINESS SERVICES, INC.

Participant

By _____
Name _____
Its _____

**CHANGE IN CONTROL
EMPLOYMENT AGREEMENT**

THIS CHANGE IN CONTROL EMPLOYMENT AGREEMENT ("Agreement"), dated June 16, 2015, is by and between BARRETT BUSINESS SERVICES, INC., a Maryland corporation ("Corporation"), and Gerald R. Blotz ("Executive").

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

Corporation and Executive agree as follows:

1. **TERM.**

This Agreement commences on the date of this Agreement and will continue in effect until December 31, 2016; provided, however, that commencing on January 1, 2016, and each subsequent January 1, the term of this Agreement will automatically be extended for one additional calendar year unless at least 90 days prior to such January 1, Corporation or Executive will have given notice that this Agreement will not be extended; and provided, further, that if a Change in Control occurs while this Agreement is in effect, this Agreement will automatically be extended for a period of one calendar year beyond the calendar year in which the Change in Control occurs.

This Agreement will terminate on the earliest of:

(a) Executive's Separation from Service other than within 12 months following a Change in Control, provided, however, that if it is reasonably demonstrated by Executive that such Separation from Service (i) was at the request of a third party who has taken steps reasonably calculated to effect a Change in Control or (ii) otherwise arose in connection with or anticipation of a Change in Control, then such Separation from Service will be deemed to have occurred immediately following a Change in Control;

(b) Corporation's satisfaction of its obligations under this Agreement; or

(c) this Agreement is otherwise terminated in accordance with the terms and conditions set forth herein.

2. **DEFINITIONS.**

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

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

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

(c) “**Change in Control**” means:

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

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

(iii) There shall be consummated (1) any consolidation or merger of Corporation in which Corporation is not the continuing or surviving corporation or pursuant to which Voting Securities would be converted into cash, securities, or other property, other than a merger of Corporation in which the holders of Voting Securities immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation

immediately after the merger, or (2) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of Corporation; or

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

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

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

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

(g) “**Good Reason**” means:

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

(ii) a material diminution of the authority, duties, or responsibilities of the individual(s) to whom Executive is required to report as in effect immediately prior to the Change in Control, including: (x) if Executive reports to Michael L. Elich, Mr. Elich’s ceasing to be President and Chief Executive Officer of the Company (or its successor) for reasons other than Cause, death or disability; or (y) if Executive reports to the Board, a requirement that Executive (A) report to a corporate officer or employee instead of reporting directly to the Board of Corporation or its successor or (B) report to a successor Board of which fewer than half of the members were directors of the Company immediately prior to the Change in Control;

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

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

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

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

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

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

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

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

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

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

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

3. **TERMS OF EMPLOYMENT.**

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

3.2 **Outside Activities.** Executive will at all times, faithfully and to the best of his ability, perform all of the duties that may be required of him pursuant to this Agreement. Executive will devote his entire working time, attention and energies to the performance of his

duties hereunder and will not, during the term of this Agreement, be engaged in any other business activity, whether or not such business activity is pursued for gain, profit or other pecuniary advantage; provided, however, that nothing in this Agreement will preclude Executive from devoting time during reasonable periods required for:

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

(b) delivering lectures and fulfilling speaking engagements;

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

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

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

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

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

4. **COMPENSATION ON SEPARATION FOLLOWING CHANGE IN CONTROL.**

4.1 **Good Reason; Other Than for Cause, Death or Disability.** If Executive Separates from Service within 12 months after a Change in Control on account of (i) involuntary Separation from Service other than for Cause, death, or Disability due to the independent exercise of the unilateral authority of Corporation, or (ii) voluntary Separation from Service by Executive for Good Reason: Corporation shall pay to Executive promptly within 30 days from

the date of Separation from Service (and in no event later than March 15 of the calendar year after the year in which the date of Separation from Service occurred), in a lump sum in cash, the amount equal to the product of (1) three and (2) the sum of (x) Executive's Annual Base Salary and (y) the Target Bonus, in each case as in effect on the date that the Change in Control occurred.

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

5. PARACHUTE PAYMENTS.

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

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

(a) No portion of the Total Payments, the receipt or enjoyment of which Executive has effectively waived in writing prior to the date of payment, will be taken into account;

(b) No portion of the Total Payments will be taken into account which, in the opinion of tax counsel selected by Corporation and reasonably acceptable to Executive ("Tax Counsel"), does not constitute a "parachute payment" within the meaning of Code Section 280G;

(c) If Executive and Corporation disagree whether any payment will result in an Excise Tax, the matter will be conclusively resolved by an opinion of Tax Counsel;

(d) The value of any noncash benefit or any deferred payment or benefit included in the Total Payments, and whether or not all or a portion of any payment or benefit is a "parachute payment" for purposes of this Section, will be determined by Corporation's independent accountants in accordance with the principles of Sections 280G(d)(3) and (4) of the Internal Revenue Code.

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

(a) Cash payments under this Agreement;

(b) Any cash payments under any Other Agreement; and

(c) The acceleration in the exercisability or vesting of any stock option or other stock related award granted by Corporation.

6. **CONFIDENTIAL INFORMATION.**

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

7. **MISCELLANEOUS.**

7.1 **Arbitration.** Any claim arising out of or related to this Agreement will be resolved exclusively by arbitration, which, unless the parties agree otherwise in writing, will be administered by and in accordance with the rules of the Arbitration Service of Portland, Inc. The place of arbitration will be Multnomah County, Oregon, unless otherwise agreed by the parties. The award rendered by the arbitrator will be final and binding, and judgment may be entered on the award in any court having jurisdiction. The parties may endeavor to resolve disputes by mediation at any time as they may agree, provided, however, that resolution of disputes by mediation is not required prior to initiating resolution of disputes by arbitration. Notwithstanding anything to the contrary in this paragraph, Corporation may seek equitable relief in any court having jurisdiction with respect to a breach of Section 6 ("Confidential Information"). Any demand for arbitration must be delivered in writing to the other party within a reasonable time after the claim or dispute has arisen; provided, however, that in no event may such demand be made after the date when institution of legal or equitable proceedings based on such claim or dispute would be barred by the applicable statute of limitations.

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

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

7.4 **Entire Agreement.** The entire agreement between the parties with respect to the subject matter hereof is contained in this Agreement, and it supersedes and replaces all other agreements pertaining to Executive's employment by Corporation; provided, however, that this

Agreement does not supersede or invalidate other agreements and understandings between the parties relating to fringe benefit plans provided to Executive, equity awards made to Executive, or noncompetition agreements. There are no promises or representations made on behalf of Corporation to induce Executive to enter into this Agreement which are not set forth herein.

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

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

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

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

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

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

7.11 Successors.

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

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

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

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

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

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

Corporation:
BARRETT BUSINESS SERVICES, INC.

Executive:

By: /s/ Michael L. Elich
Name: Michael L. Elich
Title: President and Chief Executive Officer
Date: June 16, 2015

/s/ Gerald R. Blotz
Gerald R. Blotz

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 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 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 report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most-recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 7, 2015

/s/ Michael L. Elich

Michael L. Elich
Chief Executive Officer

I, James D. Miller, 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 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 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 report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most-recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 7, 2015

/s/ James D. Miller
James D. Miller
Chief Financial Officer

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

In connection with the Quarterly Report of Barrett Business Services, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certify, pursuant to 18 U.S.C. § 1350, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael L. Elich

Michael L. Elich
Chief Executive Officer
August 7, 2015

/s/ James D. Miller

James D. Miller
Chief Financial Officer
August 7, 2015

A signed original of this written statement 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.

BARRETT BUSINESS SERVICES, INC.
DESCRIPTION OF CAPITAL STOCK

Barrett Business Services, Inc. (the “Company”), is authorized to issue 500,000 shares of Preferred Stock, \$.01 par value, issuable in series, and 20,500,000 shares of Common Stock, \$.01 par value. The Common Stock is listed on the Global Select Market of The Nasdaq Stock Market under the symbol “BBSI.”

Common Stock

Quorum and Voting Rights. The presence, in person or by proxy, of a majority of all votes entitled to be cast at a meeting of stockholders constitutes a quorum. Shares of Common Stock are entitled to one vote per share. Voting for directors is not cumulative. Directors are elected by the vote of a majority of the votes cast with respect to each director; provided that if the number of nominees exceeds the number of directors to be elected, directors shall be elected by the vote of a plurality of the shares represented in person or by proxy at such meeting and entitled to vote on the election of directors. If an incumbent director is nominated but not reelected, the director is required to tender his or her resignation to the board of directors (the “Board”). The Nominating and Governance Committee will make a recommendation to the Board as to whether to accept or reject the resignation, after which the Board will make a determination and publicly disclose its decision. The affirmative vote of a majority of the outstanding shares of the voting capital stock of the Company is required to remove a director.

Except as provided in the next sentence, if a quorum is present at a meeting of stockholders, a majority of all the votes cast at the meeting is sufficient to approve any other matters properly presented at the meeting. Under Article VIII of the Company’s Charter, certain matters requiring stockholder approval, including without limitation a merger, consolidation, share exchange, share transfer, amendment of the Charter, or dissolution, will be deemed approved upon receipt of the affirmative vote of a majority of all votes of all classes or any class of stock entitled to be cast on the matter, notwithstanding any provision of the Maryland General Corporation Law requiring a greater proportion of the votes of all classes or any class of stock on such matter.

Dividends. Holders of Common Stock are entitled to dividends when, as and if declared by the Board out of funds legally available therefor (subject to the rights of holders of any Preferred Stock).

Liquidation Rights. Upon liquidation of the Company, after payment or provision for all liabilities and payment of any preferential amount in respect of Preferred Stock, holders of Common Stock are entitled to receive liquidating distributions of any remaining assets on a pro rata basis.

Other. Common Stock is not convertible into any other class of security, is not entitled to the benefit of any sinking fund provision and does not have any preemptive or redemption rights. All outstanding shares of Common Stock are fully paid and nonassessable.

Preferred Stock

The Board of Directors of the Company is authorized to issue Preferred Stock in one or more series, and to determine the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, and terms or conditions of redemption of each series without any vote or action of the stockholders of the Company. The issuance of Preferred Stock in certain circumstances may have the effect of delaying or preventing a change in control of the Company. The issuance of Preferred Stock with voting and conversion rights may adversely affect the voting power of the holders of Common Stock.

Anti-Takeover Provisions

The Company's Charter and bylaws contain provisions that may have the effect of discouraging, delaying or preventing a change in control of the Company. Under these provisions, (i) the Board has the authority to issue up to 500,000 shares of Preferred Stock with such rights and preferences, including voting rights, as it may establish, without further approval by the Company's stockholders and (ii) the power to adopt, alter or repeal the Company's bylaws is vested solely in the Board.

Maryland Control Share and Business Combination Statutes

The Company is subject to the Maryland control share act (the "Control Share Act"). Under the Control Share Act, a person (an "Acquiring Person") who acquires voting stock in a transaction (a "Control Share Acquisition") which results in its holding voting power within specified ranges cannot vote the shares it acquires in the Control Share Acquisition ("control shares") unless voting rights are accorded to such control shares by the holders of two-thirds of the outstanding voting shares, excluding the Acquiring Person and the Company's officers and inside directors. The term Acquiring Person is broadly defined to include persons acting as a group.

An Acquiring Person may but is not required to (a) submit to the Company an "Acquiring Person Statement" which delineates certain information about the Acquiring Person and its plans for acquiring the Company's stock and (b) request the Company to call a special meeting of stockholders to act on the question of its voting rights.

If an Acquiring Person Statement is not delivered to the Company within ten days after a Control Share Acquisition or if the control shares are not accorded voting rights, the Company will have the right, subject to certain conditions, to redeem the control shares at fair value determined without regard to the absence of voting rights. If an Acquiring Person's control shares are accorded voting rights and its shares represent a majority or more of all voting power, all stockholders of the Company, other than the Acquiring Person, will have the right to receive "fair value" for their shares, which may not be less than the highest price paid per share by the Acquiring Person for its shares in the Control Share Acquisition.

The Company is also subject to the provisions of the Maryland General Corporation Law limiting the ability of certain Maryland corporations to engage in specified business

combinations (the "Business Combination Act"). Subject to certain exceptions, the Business Combination Act prohibits a Maryland corporation from engaging in a business combination with a stockholder who, with its affiliates, owns 10% or more of the corporation's voting stock (an "Interested Stockholder") unless (i) the corporation's board of directors recommends the combination, (ii) stockholders holding 80% of the voting stock approve the business combination, and (iii) stockholders holding two-thirds of the voting stock not owned by the Interested Stockholder approve the business combination. In addition, an Interested Stockholder may not engage in a business combination with the corporation for a period of five years following the date the stockholder becomes an Interested Stockholder. "Business combination" is defined to include any merger with, any transfer of assets to, the provision of financial assistance to, and certain transactions involving the issuance of shares to, the Interested Stockholder. These provisions do not apply, however, to business combinations that are approved or exempted by the corporation's board of directors before the stockholder became an Interested Stockholder.