Ajello James A
Form 4
August 08, 2011

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Ajello James A
(Last) (First) (Middle)
P. O. BOX 730
(Street)
HONOLULU, HI 96808-0730
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
HAWAIIAN ELECTRIC INDUSTRIES INC [HE]

3. Date of Earliest Transaction (Month/Day/Year)
08/04/2011

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
EVP, CFO, Treasurer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	08/04/2011		A		10,000 (1)	A	$ 22.31	40,118	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Ajello James A P. O. BOX 730 HONOLULU, HI 96808-0730			EVP, CFO, Treasurer	

Signatures

Chester A. Richardson, Attorney-in-Fact for James A. Ajello	08/08/2011
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Grant of 10,000 restricted stock units on August 4, 2011. Each restricted stock unit represents a contingent right to receive one share of HEI common stock. The restricted stock units will vest in annual installments over four years.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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72

Common stock repurchased on vesting of

restricted stock units

(11

)

—

(433

)

—

—

(433

)

Share based compensation expense,

net of tax

—

—

2,782

—

—

2,782

Excess tax benefits from share-based

compensation

—

—

253

—

—

253

Company repurchase of common stock

Explanation of Responses:

—

—

—

—

—

—

Cash dividends on common stock

Explanation of Responses:

—

—

—

—

(6,359

)

(6,359

)

Unrealized holding gains on investments,

net of tax

Explanation of Responses:

—

—

—

28

—

28

Net income

—

—

—

—

18,799

18,799

Balance, December 31, 2016

7,244

Explanation of Responses:

$

72

$

9,638

$

(3

)

$

59,986

$

69,693

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

Barrett Business Services, Inc.

Consolidated Statements of Cash Flows

Years Ended December 31, 2016, 2015 and 2014

(In Thousands)

	2016	2015	2014
Cash flows from operating activities:			
Net income (loss)	$18,799	$25,494	$(25,546)
Reconciliations of net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	3,253	2,851	2,506
(Gains) losses recognized on investments	(3)	(2)	3
Loss recognized on sale of property	31	—	—
Deferred income taxes	(1,704)	2,728	(9,792)
Share-based compensation	2,782	2,386	1,699
Excess tax from share-based compensation	(253)	68	(578)
Changes in certain assets and liabilities:			
Trade accounts receivable, net	(35,955)	12,097	(17,041)
Income taxes receivable	1,038	10,521	(11,421)
Prepaid expenses and other	(726)	640	(387)
Accounts payable	1,727	498	(533)
Accrued payroll, payroll taxes and related benefits	31,767	5,506	21,950
Other accrued liabilities	1,508	(64)	3,893
Income taxes payable	3,294	506	411
Workers' compensation claims liabilities	51,235	30,397	104,223
Safety incentives liability	3,582	7,021	1,146
Customer deposits, long-term liabilities and other assets, net	(68)	(16)	(937)
Net cash provided by operating activities	80,307	100,631	69,596
Cash flows from investing activities:			
Purchase of equipment and software	(7,106)	(2,996)	(4,632)
Proceeds from sale of property	1,459	—	—
Purchase of investments	(264)	(8,214)	(38,434)
Proceeds from sales and maturities of investments	4,796	52,996	13,241
Purchase of restricted cash and investments	(185,845)	(336,083)	(163,174)
Proceeds from sales and maturities of restricted cash and investments	153,890	238,701	10,524
Net cash used in investing activities	(33,070)	(55,596)	(182,475)
Cash flows from financing activities:			
Proceeds from credit-line borrowings	14,868	46,106	6,242
Payments on credit-line borrowings	(14,868)	(46,106)	(6,242)
Proceeds from the issuance of long-term debt	—	—	40,000
Commitment fee from the issuance of long-term debt	—	—	(400)
Payments on long-term debt	(15,220)	(25,220)	(220)
Repurchase of common stock	—	—	(3,676)

Common stock repurchased on vesting of restricted stock units	(433)	(465)	(407)
Dividends paid	(6,359)	(6,310)	(5,443)
Proceeds from the exercise of stock options	72	702	434
Excess tax benefit from share-based compensation	253	(68)	578
Net cash (used in) provided by financing activities	(21,687)	(31,361)	30,866
Net increase (decrease) in cash and cash equivalents	25,550	13,674	(82,013)
Cash and cash equivalents, beginning of year	25,218	11,544	93,557
Cash and cash equivalents, end of year	$50,768	$25,218	$11,544

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

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Barrett Business Services, Inc.

Notes to Consolidated Financial Statements

1. Summary of Operations and Significant Accounting Policies
Nature of operations

Barrett Business Services, Inc. (“BBSI” or the “Company”), is a leading provider of business management solutions for small and mid-sized companies. The Company has developed a management platform that integrates a knowledge-based approach from the management consulting industry with tools from the human resource outsourcing industry. This platform, through the effective leveraging of human capital, helps our business owner clients run their businesses more effectively.

We believe this platform, delivered through our decentralized organizational structure, differentiates BBSI from our competitors. The Company operates through a network of 57 branch offices throughout California, Oregon, Utah, Washington, Idaho, Arizona, Colorado, Maryland, North Carolina, Delaware, Nevada, Pennsylvania and Virginia. Approximately 78%, 78% and 77%, respectively, of our revenue during 2016, 2015 and 2014 was attributable to our California operations. BBSI was incorporated in Maryland in 1965.

The Company operates a wholly owned captive insurance company, Associated Insurance Company for Excess ("AICE"). AICE is a fully licensed captive insurance company holding a certificate of authority from the Arizona Department of Insurance. The purpose of AICE is twofold: (1) to provide access to more competitive and cost effective insurance markets and (2) to provide additional flexibility in cost effective risk management. AICE provides to the Company excess workers' compensation coverage up to $5.0 million per occurrence, except in Maryland and Colorado, where our retention per occurrence is $1.0 million and $2.0 million, respectively. AICE maintains excess workers’ compensation insurance coverage with Chubb Limited (“Chubb”, formerly ACE Group) between $5.0 million and $15.0 million per occurrence, except in Maryland, where coverage with Chubb is between $1.0 million and $25.0 million per occurrence, and in Colorado, where the coverage with Chubb is between $2.0 million and statutory limits per occurrence.

The Company also operates a wholly owned insurance company, Ecole Insurance Company (“Ecole”). Ecole is a fully licensed insurance company holding a certificate of authority from the Arizona Department of Insurance. Ecole provides workers’ compensation coverage to the Company’s employees working in Arizona, Utah and Nevada.

Principles of consolidation

The accompanying financial statements are prepared on a consolidated basis. All intercompany account balances and transactions between BBSI, AICE, Ecole and BBS I, LLC, the aircraft subsidiary which owns an aircraft for management’s operational travel needs, have been eliminated in consolidation.

Reportable segment

The Company has one operating and reporting segment. The chief operating decision maker (our Chief Executive Officer) regularly reviews the financial information of our business at a consolidated level in deciding how to allocate resources and in assessing performance.

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

Revenue recognition

We recognize professional employer ("PEO") service and staffing service revenue as services are rendered by our workforce. PEO services are normally used by organizations to satisfy ongoing needs related to the management of human capital and are governed by the terms of a client services agreement which covers all employees at a particular work site. Our client services agreements have a minimum term of one year, are renewable on an annual basis and typically require 30 days' written notice to cancel or terminate the contract by either party. In addition, our client services agreements provide for immediate termination upon any default of the client regardless of when notice is given.

We report PEO revenues on a net basis because we are not the primary obligor for certain of the services provided to our clients on behalf of their employees pursuant to our client services agreements. Specifically, we present revenue net of the amounts received or billed for direct payroll expenses such as salaries, wages, health insurance, and employee out-of-pocket expenses incurred incidental to employment. Safety incentive costs are also netted against PEO service revenue in our consolidated statements of operations. Safety incentives represent cash incentives paid to certain client companies for maintaining safe-work practices and minimizing workplace injuries. The safety incentive is based on a percentage of annual payroll and is paid annually to clients who meet predetermined workers' compensation claims cost objectives.

Cost of revenues

Our cost of revenues for PEO services includes employer payroll-related taxes and workers' compensation costs. Our cost of revenues for staffing services includes direct payroll costs, employer payroll-related taxes, employee benefits, and workers' compensation costs. Direct payroll costs represent the gross payroll earned by staffing services employees based on salary or hourly wages. Payroll taxes and employee benefits consist of the employer's portion of Social Security and Medicare taxes, federal and state unemployment taxes, and staffing services employee reimbursements for materials, supplies and other expenses, which are paid by our customer. Workers' compensation costs consist primarily of the costs associated with our workers' compensation program, including claims reserves, claims administration fees, legal fees, medical cost containment ("MCC") expense, state administrative agency fees, third-party broker commissions, risk manager payroll, premiums for excess insurance, the fronted insurance program and costs associated with operating our two wholly owned, fully licensed insurance companies, AICE and Ecole.

Cash and cash equivalents

We consider non-restricted short-term investments, which are highly liquid, readily convertible into cash, and have maturities at acquisition of less than three months to be cash equivalents for purposes of the consolidated statements of cash flows and consolidated balance sheets. The Company maintains cash balances in bank accounts that normally exceed FDIC insured limits. The Company has not experienced any losses related to its cash concentration.

Investments

As of December 31, 2016, the Company's investments consisted of certificates of deposit, corporate bonds and municipal bonds. We classify our investments as trading or available-for-sale. The Company had no trading securities at December 31, 2016 and 2015. The Company classifies certificates of deposit, corporate bonds, and municipal bonds as

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Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

available for sale. They are reported at fair value with unrealized gains and losses, net of taxes, shown as a component of accumulated other comprehensive income (loss) in stockholders' equity. Management considers available evidence in evaluating potential impairment of investments, including the duration and extent to which fair value is less than cost. Realized gains and losses on sales of investments are included in other income (expense) as other, net in our consolidated statements of operations. In the event a loss is determined to be other-than-temporary, the loss will be recognized in the consolidated statements of operations.

Restricted cash and investments

At December 31, 2016, restricted cash and investments consisted of restricted cash, money market funds, certificates of deposit, corporate bonds, municipal bonds with maturities generally from 180 days to two years, and U.S. Treasuries. At December 31, 2016, the approximate fair value of restricted cash and investments equaled their approximate amortized cost. Restricted investments have been categorized as available-for-sale. They are reported at fair value with unrealized gains and losses, net of taxes, shown as a component of accumulated other comprehensive income (loss) in stockholders’ equity. Management considers available evidence in evaluating potential impairment of restricted investments, including the duration and extent to which fair value is less than cost. Realized gains and losses on sales of restricted investments are included in other income (expense) as other, net in our consolidated statements of operations. In the event a loss is determined to be other-than-temporary, the loss will be recognized in the consolidated statements of operations.

Allowance for doubtful accounts

We make estimates of the collectability of our accounts receivable for services provided to our customers. Management analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customers' payment trends when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of our customers deteriorates resulting in an impairment of their ability to make payments, additional allowances may be required.

Our allowance for doubtful accounts activity is summarized as follows (in thousands):

	2016	2015	2014
Balance at January 1,			
Allowance for doubtful accounts	$268	$291	$242
Charges to expense	(115)	116	103
Write-offs of uncollectible accounts, net of recoveries	(75)	(139)	(54)
Balance at December 31,			
Allowance for doubtful accounts	$78	$268	$291

Income taxes

Our income taxes are accounted for using an asset and liability approach. This requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable tax rates. A valuation allowance is recorded against deferred tax assets if, based on the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The factors used to assess the likelihood of realization include the Company's forecast of the reversal of temporary

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

differences, future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company's effective tax rate on future earnings.

The determination of our provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items and the probability of sustaining uncertain tax positions. The Company recognizes the tax benefit from uncertain tax positions if it is more likely than not that the tax positions will be sustained on examination by the tax authorities. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. As facts and circumstances change, we reassess these probabilities and record any changes in the consolidated financial statements as appropriate. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense.

Goodwill and intangible assets

Goodwill is recorded as the difference, if any, between the aggregate consideration paid for a business combination and the fair value of the net assets acquired. Goodwill is not amortized but is evaluated for impairment annually, or more frequently if circumstances indicate that it is more likely than not that the fair value of the reporting unit is below its carrying value. The Company has one reporting unit and evaluates the carrying value of goodwill annually at December 31. No impairment has been recognized in the periods presented.

Property, equipment and software

Property, equipment and software are stated at cost. Expenditures for maintenance and repairs are charged to selling, general and administrative expenses as incurred and expenditures for additions and improvements are capitalized. The cost of assets sold or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is reflected in the consolidated statements of operations.

Depreciation of property, equipment and software is calculated using either straight-line or accelerated methods over estimated useful lives of the related assets or lease terms, as follows:

	Years
Buildings	39
Office furniture and fixtures	7
Computer hardware and software	3-10
Aircraft	20
Automobile	5
Leasehold improvements	Shorter of lease term or estimated useful life

Impairment of long-lived assets

Long-lived assets, such as property, equipment and software and acquired intangibles subject to amortization, are reviewed for impairment annually, or whenever events or changes in circumstances indicate that the remaining estimated useful life may warrant

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revision or that the carrying amount of an asset may not be recoverable. Some of the events or changes in circumstances that would trigger an impairment review include, but are not limited to, significant under-performance relative to expected and/or historical results, significant negative industry or economic trends or knowledge of transactions involving the sale of similar property at amounts below the carrying value.

Assets are grouped for measurement of impairment at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. If the carrying amount of an asset group exceeds the estimated undiscounted future cash flows expected to be generated by the asset group, then an impairment charge is recognized to the extent the carrying amount exceeds the asset group's fair value. In determining fair value, management considers current results, trends, future prospects, and other economic factors. No impairment has been recognized in the periods presented.

Leases

The Company leases office facilities and equipment under operating leases. For significant lease agreements that provide for escalating rent payments or free-rent occupancy periods, the Company recognizes rent expense on a straight-line basis over the non-cancelable lease term. Deferred rent is included in other accrued liabilities and customer deposits and other long-term liabilities in the consolidated balance sheets.

Workers' compensation claims liabilities

Our workers' compensation claims liabilities do not represent an exact calculation of liability but rather management's best estimate, utilizing actuarial expertise and projection techniques, at a given reporting date. The estimated liability for open workers' compensation claims is based on an evaluation of information provided by our internal claims adjusters and our third-party administrators for workers' compensation claims, coupled with an actuarial estimate of future adverse loss development with respect to reported claims and incurred but not reported claims (together, "IBNR"). At December 31, 2016 and December 31, 2015, workers' compensation claims liabilities included case reserve estimates for reported losses, plus additional amounts for estimated IBNR claims, MCC and legal costs, and unallocated loss adjustment expenses, including future administrative fees to be paid to third-party service providers. These estimates are reviewed at least quarterly and adjustments to estimated liabilities are reflected in current operating results as they become known.

The process of arriving at an estimate of unpaid claims and claims adjustment expense involves a high degree of judgment and is affected by both internal and external events, including changes in claims handling practices, changes in reserve estimation procedures, changes in individuals involved in the reserve estimation process, inflation, trends in the litigation and settlement of pending claims, and legislative changes.

Our estimates are based on informed judgment, derived from individual experience and expertise applied to multiple sets of data and analyses. We consider significant facts and circumstances known both at the time that loss reserves are initially established and as new facts and circumstances become known. Due to the inherent uncertainty underlying loss reserve estimates, the expenses incurred through final resolution of our liability for our workers' compensation claims will likely vary from the related loss reserves at the reporting date. Therefore, as specific claims are paid out in the future, actual paid losses may be materially different from our current loss reserves.

Explanation of Responses:

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

The Company’s independent actuary provides management with an estimate of the current and long-term portions of our total workers’ compensation claims, which is an important factor in our process for estimating workers' compensation claims liabilities. The current portion represents the independent actuary’s best estimate of payments the Company will make related to workers’ compensation claims over the ensuing twelve months.

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

Safety incentives liability

Safety incentives represent cash incentives paid to certain PEO client companies for maintaining safe-work practices and minimizing workplace injuries. The incentive is based on a percentage of annual payroll and is paid annually to customers who meet predetermined workers’ compensation claims cost objectives. Safety incentive payments are made only after closure of all workers' compensation claims incurred during the customer’s contract period. The safety incentive liability is estimated and accrued each month based upon contract year-to-date payroll and the then current amount of the customer’s estimated workers’ compensation claims reserves as established by us and our third party administrator and the expected payout as determined by historical incentive payment trends. The Company provided $24.8 million and $21.3 million at December 31, 2016 and 2015, respectively, as an estimate of the liability for unpaid safety incentives.

Customer deposits

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

Comprehensive income (loss)

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

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

Statements of cash flows

Interest paid during 2016, 2015 and 2014 did not differ materially from interest expense. Income taxes paid (received) by the Company totaled $4.2 million, ($4.1) million and $3.3 million in 2016, 2015 and 2014, respectively.

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Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

Basic and diluted earnings per share

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

	Year Ended December 31,		
	2016	2015	2014
Weighted average number of basic shares outstanding	7,226	7,173	7,160
Effect of dilutive securities	152	180	—
Weighted average number of diluted shares outstanding	7,378	7,353	7,160

As a result of the net loss for the year ended December 31, 2014, 227,000 potential common shares have been excluded from the calculation of diluted loss per share because their effect would be anti-dilutive.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. Such reclassifications had no impact on the Company’s financial condition, operating results, cash flows, 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 fair value measurement of investments, allowance for doubtful accounts, deferred income taxes, carrying values for goodwill and property and equipment, accrued workers' compensation liabilities and safety incentive liabilities. Actual results may or may not differ from such estimates.

Recent accounting pronouncements

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

In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date. The update defers the effective date of ASU

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

2014-09 by one year, requiring public business entities to apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.

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

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

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

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation. The amendments in this update simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this update are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments. The amendments in this update provide guidance on eight specific cash flow issues that are not addressed by current GAAP. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

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

2. Concentration of Credit Risk

Financial instruments that potentially subject us to concentration of credit risk consist primarily of cash equivalents, investments, restricted cash and investments, and trade accounts receivable. We limit investment of cash equivalents and investments to financial institutions with high credit ratings. Credit risk on trade accounts is minimized as a result of the large and diverse nature of our customer base.

At December 31, 2016, we had concentrations of credit risk as follows:

- $286.5 million, at fair value, in money market funds.
- $10.8 million, at fair value, in certificates of deposit.

3. Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

All of our financial instruments are recognized in our consolidated balance sheets. Carrying values approximate fair value of most financial assets and liabilities. Investments and restricted cash and investments are recorded at market value. The interest rates on our investments approximate current market rates for these types of investments.

In determining the fair value of our financial assets, the Company predominately uses the market approach. In determining the fair value of all its money market funds, certificates of deposit, municipal bonds, corporate bonds, and U.S. treasury bills, the Company utilizes non-binding quotes provided by our investment brokers.

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

Factors used in determining the fair value of our financial assets and liabilities are summarized into three levels as established in the fair value hierarchy framework. The three levels of the fair value hierarchy are described below.

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

In determining the fair value measurement of our financial assets, the fair value measurement level within the hierarchy is based on the lowest level input and is applied to each financial asset. Valuation techniques are used to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

	December 31, 2016			December 31, 2015		
	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	Cost	Gross Unrealized Gains (Losses)	Recorded Basis
Current:						
Cash equivalents:						
Money market funds	$1,943	$ —	$1,943	$21,312	$ —	$21,312
Investments:						
Certificates of deposit	$4,737	$ —	$4,737	$—	$ —	$—
Municipal bonds	713	1	714	—	—	—
Corporate bonds	225	(1)	224	—	—	—
Restricted cash and investments:						
Money market funds	$48,557	$ —	$48,557	$76,023	$ —	$76,023
Certificates of deposit	—	—	—	10,000	—	10,000
Total current investments	$56,175	$ —	$56,175	$107,335	$ —	$107,335

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Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

	December 31, 2016			December 31, 2015		
	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	Cost	Gross Unrealized Gains (Losses)	Recorded Basis
Long term:						
Investments:						
Corporate bonds	$567	$ (1)	$566	$2,970	$ (24)	$2,946
Municipal bonds	76	—	76	3,135	(3)	3,132
Money market funds	—	—	—	4	0	4
Restricted cash and investments (1)						
Money market funds	$236,036	$ —	$236,036	$175,869	$ —	$175,869
Certificates of deposit	6,047	—	6,047	496	(1)	495
Corporate bonds	2,886	2	2,888	2,996	(24)	2,972
Municipal bonds	2,069	(6)	2,063	3,613	(1)	3,612
U.S. treasuries	834	—	834	4,752	1	4,753
Total long term investments	248,515	(5)	248,510	193,835	(52)	193,783
Total investments	$304,690	$ (5)	$304,685	$301,170	$ (52)	$301,118

1. Included in restricted cash and investments within the balance sheet as of December 31, 2016 is restricted cash and long term workers' compensation deposits of $4.8 million, which is excluded from the table above.

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

The following table summarizes the Company's financial assets measured at fair value on a recurring basis by fair value hierarchy level (in thousands):

	December 31, 2016					December 31, 2015				
	Total Recorded Basis	Level 1	Level 2	Level 3	Other (1)	Total Recorded Basis	Level 1	Level 2	Level 3	Other (1)
Cash Equivalents:										
Money market funds	$1,943	$ —	$—	$ —	$ 1,943	$21,312	$—	$—	$ —	$ 21,312
Investments:										
Certificates of deposit	$4,737	$ —	$4,737	$ —	$ —	$—	$—	$—	$ —	$ —
Municipal bonds	790	—	790	—	—	3,132	241	2,891	—	—
Corporate bonds	790	—	790	—	—	2,946	2,291	655	—	—
Money market funds	—	—	—	—	—	4	—	—	—	4
Restricted Cash and Investments: (2)										
Money market funds	$284,593	$ —	$—	$ —	$ 284,593	$251,892	$—	$—	$ —	$ 251,892
Certificates of deposit	6,047	—	6,047	—	—	10,495	—	10,495	—	—
Corporate bonds	2,888	—	2,888	—	—	2,972	2,285	687	—	—
Municipal bonds	2,063	—	2,063	—	—	3,612	389	3,223	—	—
U.S. treasuries	834	—	834	—	—	4,753	4,753	—	—	—
Total Investments	$304,685	$ —	$18,149	$ —	$ 286,536	$301,118	$9,959	$17,951	$ —	$ 273,208

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

(2) Included in restricted cash and investments within the balance sheet as of December 31, 2016 is restricted cash and long term workers' compensation deposits of $4.8 million, which is excluded from the table above.

4. Property, Equipment and Software

Property, equipment and software consist of the following (in thousands):

	December 31,	
	2016	2015
Buildings	$15,250	$13,988
Office furniture and fixtures	8,693	7,808
Computer hardware and software	15,719	12,887
Aircraft and other	4,856	4,707
	44,518	39,390
Less accumulated depreciation and amortization	(19,335)	(18,060)
	25,183	21,330
Land	1,490	1,490
	$26,673	$22,820

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Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

5. Workers' Compensation Claims

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

	Year Ended December 31,		
	2016	2015	2014
Balance at January 1,			
Workers' compensation claims liabilities	$255,675	$225,278	$121,056
Add: claims expense accrual			
Current year	137,852	122,740	104,314
Prior years	(301)	(13,683)	66,719
	137,551	109,057	171,033
Less: claims payments related to			
Current year	20,180	17,517	15,243
Prior years	69,626	61,143	51,568
	89,806	78,660	66,811
Add: claims incurred in excess of retention limits	9,117	—	—
Balance at December 31,			
Workers' compensation claims liabilities	$312,537	$255,675	$225,278
Incurred but not reported (IBNR)	$158,169	$127,792	$113,984

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

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

As part of its fronted workers’ compensation insurance program with Chubb, the Company makes monthly payments into a trust account (“the Chubb trust account”) to be used for the payment of future claims. The balance in the Chubb trust account was $277.1 million and $166.6 million at December 31, 2016 and December 31, 2015, respectively. The Chubb trust account balances are included as a component of the current and long-term restricted cash and investments in the consolidated balance sheets.

The surplus of Ecole was $12.1 million and $9.5 million at December 31, 2016 and 2015, respectively, and is included in long-term restricted cash and investments in the consolidated balance sheets.

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

The states of California, Maryland, Oregon, Washington, Colorado and Delaware required us to maintain specified investment balances or other financial instruments totaling $135.0 million and $156.8 million at December 31, 2016 and 2015, respectively, to cover potential workers' compensation claims losses related to the Company's current and former status as a self-insured employer. In addition to restricted cash and investments held to satisfy these requirements, at December 31, 2016, we have provided surety bonds and standby letters of credit totaling $128.8 million, including a California requirement of $123.3 million.

The Company provided a total of $312.5 million and $255.7 million at December 31, 2016 and 2015, respectively, as an estimated future liability for unsettled workers' compensation claims liabilities. Of this amount, $9.1 million represents case reserves incurred in excess of the Company's retention limits at December 31, 2016. The accrual for costs incurred in excess of retention limits is offset by a receivable from excess insurance carriers of $9.1 million at December 31, 2016 that is included in other assets on the consolidated balance sheets. There was no workers' compensation reserve in excess of retention limits in 2015.

6. Revolving Credit Facility and Long-Term Debt

The Company maintains a credit agreement (the "Agreement") with its principal bank, Wells Fargo Bank, National Association (the "Bank"). The Agreement provided for a $40.0 million term loan maturing December 31, 2016. The term loan has been completely paid off at December 31, 2016, compared to an outstanding balance of $15.0 million at December 31, 2015.

The Agreement was amended in December 2016 to increase our revolving credit line to $25.0 million, with a $6.0 million sublimit for standby letters of credit. Of the $6.0 million sublimit for standby letters of credit, $5.3 million was used at December 31, 2016. Advances under the revolving credit facility bear interest, as selected by the Company, of either (a) a daily floating rate of one month LIBOR plus 1.75% or (b) a fixed rate of LIBOR plus 1.75%. The Agreement also provides for an unused commitment fee of 0.35% per year through December 31, 2016 and 0.375% per year thereafter on the average daily unused amount of the revolving credit facility, and a fee of 1.75% of the face amount of each letter of credit reserved under the line of credit and 0.95% on standalone, fully secured letters of credit. The Company had no outstanding borrowings on its revolving credit line at December 31, 2016 and 2015. The line of credit expires on July 1, 2018.

The Agreement includes $5.0 million in standalone, cash-secured letters of credit at December 31, 2016 to satisfy collateral requirements associated with the Company's former status as a self-insured employer in California. In conjunction with these letters of credit, the Company posted with the Bank as collateral $5.3 million in restricted certificates of deposit.

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

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

- EBITDA [net profit before taxes plus interest expense (net of capitalized interest expense), depreciation expense, and amortization expense] on a rolling four-quarter basis of not less than $22 million at March 31, 2017 and $25 million at the end of each fiscal quarter thereafter; and

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Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

- 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 on a rolling four-quarter basis.

The Agreement includes certain additional restrictions as follows:

- capital expenditures may not exceed a total of $4.0 million in 2016 without the Bank's prior approval;
- incurring additional indebtedness is prohibited without the prior approval of the Bank, other than purchase financing (including capital leases) for the acquisition of assets, provided that the aggregate of all purchase financing does not exceed $1,000,000 at any time; and
- the Company may not terminate or cancel any of the AICE policies without the Bank's prior written consent.

The Agreement also contains other 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 Credit Agreement to be immediately due and payable.

At December 31, 2016, the Company was in violation of the capital expenditure limitation. The Bank agreed to waive this covenant violation.

The Company maintains a mortgage loan with the Bank with a balance of approximately $4.6 million and $4.8 million at December 31, 2016 and 2015, respectively, secured by the Company's corporate office building in Vancouver, Washington. This loan requires payment of monthly principal payments of $18,375 plus interest at a rate of one month LIBOR plus 2.25%, with the unpaid principal balance due February 1, 2018.

7. 401(k) Savings Plan

We have a 401(k) Retirement Savings Plan for the benefit of our eligible employees. All staffing and management employees 21 years of age or older become eligible to participate in the savings plan upon completion of 1,000 hours of service in a consecutive 12-month period following the initial date of employment. Employees covered under a PEO arrangement may participate in the plan at the sole discretion of the PEO client. The determination of discretionary Company contributions to the plan, if any, is at the sole discretion of our Board of Directors. No discretionary Company contributions were made to the plan for the years ended December 31, 2016, 2015 and 2014.

We make matching contributions to the 401(k) plan under a safe harbor provision, whereby the Company matches 100% of contributions by management and staffing employees up to 3% of each participating employee's annual compensation; and 50% of the employee's contributions up to an additional 2% of annual compensation. We made $1,402,000, $1,158,000, and $885,000 of matching contributions during 2016, 2015 and 2014, respectively. Participants' interests in Company safe harbor contributions to the plan are fully vested when payments are made.

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Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

8. Commitments

We lease office space for our branch offices under operating lease agreements that require minimum annual payments as follows (in thousands):

Year Ending December 31,	
2017	$4,101
2018	3,379
2019	2,436
2020	1,651
2021	1,003
Thereafter	754
	$13,324

Rent expense was approximately $4.5 million, $4.1 million, and $3.7 million for the years ended December 31, 2016, 2015 and 2014, respectively.

9. Income Taxes

The provision (benefit) for income taxes from operations is as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Current:			
Federal	$6,442	$5,833	$(7,058)
State	2,030	921	(640)
	8,472	6,754	(7,698)
Deferred:			
Federal	85	1,854	(10,294)
State	(1,770)	1,044	894
	(1,685)	2,898	(9,400)
Total provision (benefit)	$6,787	$9,652	$(17,098)

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

Deferred income tax assets and liabilities consist of the following components (in thousands):

	December 31, 2016	2015
Deferred income tax assets:		
Workers' compensation claims liabilities	$11,477	$11,190
MCC accrual	4,561	3,532
Safety incentives payable	7,779	5,851
Allowance for doubtful accounts	31	109
Deferred compensation	—	219
Equity based compensation	991	719
Tax effect of unrealized losses, net	(17)	(3)
Alternative minimum tax credit carryforward	1,648	1,831
State credit carryforward	868	712
Other	765	436
	28,103	24,596
Less valuation allowance	216	216
	27,887	24,380
Deferred income tax liabilities:		
Tax depreciation in excess of book depreciation	(5,319)	(4,243)
Tax amortization of goodwill	(13,191)	(12,395)
Other	(7)	(57)
	(18,517)	(16,695)
Net deferred income tax assets	$9,370	$7,685

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Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

The effective tax rate for operations differed from the U.S. statutory federal tax rate due to the following:

	Year Ended December 31,		
	2016	2015	2014
Statutory federal tax rate	35.0 %	35.0 %	(35.0)%
State taxes, net of federal benefit	1.1	4.3	.6
Valuation allowance on capital loss carryforward and state tax credit carryforward	—	(2.1)	(.2)
Adjustment for final positions on filed returns	0.2	(3.5)	(.8)
Nondeductible expenses and other, net	1.8	6.1	3.6
Federal tax-exempt interest income	—	(.1)	(.2)
Federal and state tax credits	(11.6)	(14.3)	(6.9)
Other, net	—	2.1	(1.2)
	26.5 %	27.5 %	(40.1)%

The realization of a significant portion of net deferred tax assets is based in part on our estimates of the timing of reversals of certain temporary differences and on the generation of taxable income before such reversals.

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 at both December 31, 2016 and December 31, 2015.

The Company is subject to income taxes in U.S. federal and multiple state and local tax jurisdictions. The Internal Revenue Service is examining the Company’s federal tax returns for the years ended December 31, 2011, 2012, 2013 and 2014. In the major jurisdictions where it operates, the Company is generally no longer subject to income tax examinations by tax authorities for years before 2011. As of December 31, 2016 and 2015, the Company had no unrecognized tax benefits.

A portion of the consolidated income the Company generates is not subject to state income tax. Depending on the percentage of this income as compared to total consolidated income, the Company's state effective rate could fluctuate from expectations.

At December 31, 2016, the Company did not have a federal general business tax credit carry forward. The Company had an alternative minimum tax credit carry forward of approximately $1.6 million which has an indefinite life and will not expire until utilized.

At December 31, 2016, the Company had state tax credit carry forwards of approximately $868,000 which expire unless utilized in tax years on or before December 31, 2025.

10. Stock Incentive Plans

The Company's 2015 Stock Incentive Plan (the "2015 Plan"), which provides for stock-based awards to Company employees, non-employee directors and outside consultants or advisors, was approved by stockholders on May 27, 2015. The number of shares of common stock reserved for issuance under the 2015 Plan is 1,000,000, of which the

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

maximum number of shares for which incentive stock options may be granted is 900,000. The 2015 Plan replaced the Company's 2009 Stock Incentive Plan (the "2009 Plan"), and no new stock-based awards may be granted under the 2009 Plan. The number of shares available for grant at December 31, 2016 is 792,795. Outstanding option awards under all the plans generally expire ten years after the date of grant.

Stock-based compensation expense included in selling, general and administrative expenses during the years ended December 31, 2016, 2015 and 2014, was $2.8 million, $2.4 million and $1.7 million, respectively. Related income tax benefits for the years ended December 31, 2016, 2015 and 2014, were $1.1 million, $948,000 and $675,000, respectively.

Stock Options

Stock options are generally exercisable in four equal annual installments beginning one year following the date of grant.

A summary of the status of the Company's stock options at December 31, 2016, together with changes during the periods then ended, is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2015	360,100	$ 17.35		
Options granted at market price	10,000	39.80		
Options exercised	(4,400)	14.32		
Options cancelled	(62,500)	18.56		
Outstanding at December 31, 2016	303,200	17.89	4.53	14,012
Exercisable at December 31, 2016	206,950	$ 15.44	3.86	$ 10,069

The weighted average fair value of stock options granted for the years ended December 31, 2016 and 2015, was $17.10 and $10.76, respectively. There were no stock options granted with an exercise price below market price during 2016 and 2015. No stock options were granted during 2014.

The intrinsic value of stock options exercised for the years ended December 31, 2016, 2015 and 2014, was $113,000, $1.1 million and $1.0 million, respectively. The fair value of shares vested for the years ended December 31, 2016, 2015 and 2014, was $319,000, $383,000 and $534,000, respectively. As of December 31, 2016, unrecognized compensation expense related to stock options was $718,000 with a weighted average remaining amortization period of 2.5 years.

Restricted Stock Units

Restricted stock units vest in four equal annual installments beginning one year following the date of grant.

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Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

The following table presents restricted stock unit activity:

	Units	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2015	150,811	$ 42.74
Granted	150,780	41.72
Vested	(35,604)	40.67
Cancelled/Forfeited	(37,112)	42.19
Nonvested at December 31, 2016	228,875	$ 42.48

The total fair value of shares vested during the years ended December 31, 2016, 2015 and 2014, was $1.9 million, $1.7 million and $820,000, respectively. As of December 31, 2016, unrecognized compensation expense related to restricted stock units was $8.1 million with a weighted average remaining amortization period of 3.0 years.

11. Stock Repurchase Program

The Company maintains a stock repurchase program approved by the Board of Directors, which authorizes the repurchase of shares from time to time in open market purchases. The repurchase program currently allows for the repurchase of approximately 1.1 million additional shares as of December 31, 2016.

No share repurchases were made under the repurchase program during 2016 and 2015.

12. Litigation

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

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

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

On February 25, 2015, the court ordered consolidation of the three cases, and any new or other cases involving the same subject matter, into a single action for pretrial purposes. The consolidated cases were recaptioned as In re Barrett Business Services

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

Securities Litigation. The court also appointed the Painters & Allied Trades District Council No. 35 Pension and Annuity Funds as the lead plaintiff.

On March 21, 2016, before the court had ruled on the defendants' motion to dismiss the plaintiffs' first amended consolidated complaint, the plaintiffs filed a second amended consolidated complaint, naming the same defendants. The second amended consolidated complaint dropped certain allegations from the first amended complaint and added new allegations relating to disclosures in BBSI's Current Report on Form 8-K filed on March 9, 2016. The defendants filed a motion to dismiss the second amended consolidated complaint on May 23, 2016.

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

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

The Settlement called for the payment in cash of $12.0 million (the "Settlement Fund") into escrow by November 29, 2016. Of this amount, approximately $8.7 million was paid by BBSI's insurance carriers and approximately $3.3 million was paid by BBSI.

The Settlement is subject to approval by the court and to other customary terms and conditions. All potential class members were notified of the Settlement in November 2016, and no requests to opt out of the class were received by the deadline. Final approval of the settlement was received at a court hearing held on February 22, 2017. The fees of counsel for the plaintiffs will be paid out of the Settlement Fund following approval by the court.

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

On June 17, 2015, Daniel Salinas ("Salinas") filed a shareholder derivative lawsuit against BBSI and certain of its officers and directors in the Circuit Court for Baltimore City, Maryland. The complaint alleges breaches of fiduciary duty, unjust enrichment and other violations of law and seeks recovery of various damages, including the costs and expenses incurred in connection with BBSI's reserve strengthening process, reserve study and consultants, the cost of stock repurchases by BBSI in October 2014, compensation paid to BBSI's officers, and costs of negotiating BBSI's credit facility with its principal lender, as well as the proceeds of sales of stock by certain of BBSI's officers and directors during 2013 and 2014. On September 28, 2015, BBSI and the individual defendants filed motions

Barrett Business Services, Inc.

Notes to Consolidated Financial Statements (Continued)

to dismiss the derivative suit and a motion to stay pending resolution of In re Barrett Business Services Securities Litigation. On December 4, 2015, Salinas filed an opposition to each motion. On January 27, 2016, the defendants filed a reply to the opposition brief. On February 11, 2016, Judge Michel Pierson heard oral argument on the motions. A decision has not been issued.

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

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

13. Quarterly Financial Information (Unaudited)
(in thousands, except per share amounts and market price per share)

	Quarter Ended			
	March 31	June 30	September 30	December 31
Year ended December 31, 2016				
Revenues	$190,968	$203,417	$ 225,103	$ 221,098
Cost of revenues	180,581	161,164	175,544	177,761
Gross Margin	10,387	42,253	49,559	43,337
Net (loss) income	(8,003)	8,522	10,233	8,047
Basic (loss) earnings per share	(1.11)	1.18	1.41	1.11
Diluted (loss) earnings per share	(1.11)	1.16	1.38	1.08
Year ended December 31, 2015				
Revenues	$166,400	$181,959	$ 198,725	$ 193,757
Cost of revenues	157,469	145,481	155,835	152,600
Gross Margin	8,931	36,478	42,890	41,157
Net (loss) income	(5,828)	8,902	10,973	11,447
Basic (loss) earnings per share	(0.82)	1.24	1.52	1.59
Diluted (loss) earnings per share	(0.82)	1.21	1.49	1.55

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

SIGNATURES

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

BARRETT BUSINESS SERVICES, INC.
Registrant

Date: March 8, 2017 By: /s/ Gary E. Kramer
Gary E. Kramer

Vice President-Finance, Treasurer and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 8th day of March, 2017.

Principal Executive Officer and Director:

/s/ Michael L. Elich Michael L. Elich	President and Chief Executive Officer and Director

Principal Financial and Accounting Officer:

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

Majority of Directors:

/s/ Thomas J. Carley Thomas J. Carley	Director
/s/ Thomas B. Cusick Thomas B. Cusick	Director
/s/ James B. Hicks James B. Hicks, Ph.D.	Director
/s/ Roger L. Johnson Roger L. Johnson	Director
/s/ Jon L. Justesen Jon L. Justesen	Director
/s/ Anthony Meeker	Chairman of the Board and Director

Anthony Meeker

/s/ Vincent P. Price Vincent P. Price	Director

EXHIBIT INDEX**

3.1 Charter of the Registrant, as amended, through March 27, 2012. Incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012.
3.2 Bylaws of the Registrant, as amended through December 17, 2015. Incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on December 22, 2015.
4.1 Credit Agreement dated as of December 29, 2014, between the Registrant and Wells Fargo Bank, National Association ("Wells Fargo"). Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 5, 2015.
4.2 First Amendment to Credit Agreement dated as of August 27, 2015, between the Registrant and Wells Fargo. Incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 (the "2016 First Quarter 10-Q").
4.3 Second Amendment to Credit Agreement dated as of December 30, 2015, between the Registrant and Wells Fargo. Incorporated by reference to Exhibit 4.3 to the 2016 First Quarter 10-Q.

4.4 Third Amendment to Credit Agreement dated as of April 15, 2016, between the Registrant and Wells Fargo. Incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report for the quarter ended June 30, 2016 (the" 2016 Second Quarter 10-Q").

4.5 Fourth Amendment to Credit Agreement dated as of June 28, 2016, between the Registrant and Wells Fargo. Incorporated by reference to Exhibit 4.3 to the 2016 Second Quarter 10-Q.

4.7 Fifth Amendment to Credit Agreement dated as of December 28, 2016, between the Registrant and Wells Fargo.
4.8 Revolving Line of Credit Note dated December 28, 2016, of the Registrant.
4.9 Term Note dated November 1, 2012, of the Registrant. Incorporated by reference to Exhibit 4.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (the "2012 Third Quarter 10-Q").
4.10 First Modification to Term Note dated December 29, 2014, of the Registrant. Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on January 5, 2015 (the "January 2015 8-K").
4.11 Second Modification to Promissory (Term) Note dated as of December 28, 2016, of the Registrant.
4.12 Security Agreement: Specific Rights to Payment dated as of June 14, 2013, between the Registrant and Wells Fargo. Incorporated by reference to Exhibit 4.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.

4.13 Standby Letter of Credit Agreement dated as of September 18, 2012 between the Registrant and Wells Fargo. Incorporated by reference to Exhibit 4.3 to the 2012 Third Quarter 10-Q.

4.14 Second Amended and Restated Third Party Security Agreement: Specific Rights to Payment dated as of December 29, 2014, between Associated Insurance Company for Excess ("AICE") and Wells Fargo. Incorporated by reference to Exhibit 4.7 to the Registrant's Annual Report on Form 10 K for the year ended December 31, 2014.

4.15 First Amendment to Second Amended and Restated Third Party Security Agreement: Specific Rights to Payment dated as of August 27, 2015, between AICE and Wells Fargo. Incorporated by reference to Exhibit 4.2 to the 2016 First Quarter 10-Q.

4.16 Second Amendment to Second Amended and Restated Third Party Security Agreement: Specific Rights to Payment dated as of December 30, 2015, between AICE and Wells Fargo. Incorporated by reference to Exhibit 4.4 to the 2016 First Quarter 10-Q.

4.17 Third Amendment to Second Amended and Restated Third Party Security Agreement: Specific Rights to Payment dated as of April 15, 2016, between AICE and Wells Fargo. Incorporated by reference to Exhibit 4.2 to the 2016 Second Quarter 10-Q.

The Registrant has incurred additional long-term indebtedness as to which the amount involved is less than 10 percent of the Registrant's total assets. The Registrant agrees to furnish copies of the instruments relating to such indebtedness to the Commission upon request.

10.1 Second Amended and Restated 1993 Stock Incentive Plan of the Registrant. Incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001.*

10.2 2003 Stock Incentive Plan of the Registrant (the "2003 Plan"). Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.*

10.3 Form of Nonqualified Stock Option Agreement under the 2003 Plan. Incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10 K for the year ended December 31, 2003.*

10.4 Form of Incentive Stock Option Award Agreement relating to January 2009 option grants under the 2003 Plan. Incorporated by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (the "2008 10-K").*

10.5 Form of Employee Nonqualified Stock Option Award Agreement relating to January 2009 option grants under the 2003 Plan. Incorporated by reference to Exhibit 10.17 to the 2008 10-K.*

10.6 Form of Non-Employee Director Option Award Agreement relating to January 2009 option grants under the 2003 Plan. Incorporated by reference to Exhibit 10.18 to the 2008 10-K.*

10.7 2009 Stock Incentive Plan of the Registrant (the "2009 Plan"). Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.*

10.8 Form of Incentive Stock Option Award Agreement under the 2009 Plan. Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (the "2010 First Quarter 10-Q").*
10.9 Form of Employee Nonqualified Stock Option Award Agreement under the 2009 Plan. Incorporated by reference to Exhibit 10.2 to the 2010 First Quarter 10-Q.*
10.10 Form of Non-Employee Director Nonqualified Stock Option Award Agreement under the 2009 Plan. Incorporated by reference to Exhibit 10.3 to the 2010 First Quarter 10-Q.*
10.11 Form of Incentive Stock Option Award Agreement under the 2009 Plan. Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (the "2011 First Quarter 10-Q").*
10.12 Form of Employee Nonqualified Stock Option Award Agreement under the 2009 Plan. Incorporated by reference to Exhibit 10.2 to the 2011 First Quarter 10-Q.*
10.13 Form of Non-Employee Director Nonqualified Stock Option Award Agreement under the 2009 Plan. Incorporated by reference to Exhibit 10.3 to the 2011 First Quarter 10-Q.*
10.14 Form of Employee Restricted Stock Units Award Agreement under the 2009 Plan. Incorporated by reference to Exhibit 10.1 to the 2012 Third Quarter 10-Q.*
10.15 Form of Non-Employee Director Restricted Stock Units Award Agreement under the 2009 Plan. Incorporated by reference to Exhibit 10.2 to the 2012 Third Quarter 10-Q.*
10.16 Form of Incentive Stock Option Award Agreement relating to February 2, 2015, grants under the 2009 Plan. Incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (the "2015 10-K").*
10.17 2015 Stock Incentive Plan of the Registrant (the "2015 Plan"). Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8 K filed on June 2, 2015.*
10.18 Form of Employee Restricted Stock Units Award Agreement for Executive Officers under the 2015 Plan. Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10 Q for the quarter ended June 30, 2015 (the "2015 Second Quarter 10-Q").*
10.19 Form of Non-Employee Director Restricted Stock Units Award Agreement under the 2015 Plan. Incorporated by reference to Exhibit 10.2 to the 2015 Second Quarter 10 Q.*
10.20 Form of Non-Employee Director Restricted Stock Units Award Agreement for awards granted during 2016 under the 2015 Plan. Incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 (the "2016 Third Quarter 10-Q").*
10.21 Form of Employee Restricted Stock Units Award Agreement for Executive Officers for awards granted during 2016 under the 2015 Plan. Incorporated by reference to Exhibit 10.2 to the 2016 Third Quarter 10-Q.*

10.22 Form of Performance Share Award Agreement for Executive Officers for awards granted under the 2015 Plan. Incorporated by reference to Exhibit 10.4 to the 2016 Third Quarter 10-Q.*

10.23 Nonqualified Stock Option Award Agreement between the Registrant and Thomas J. Carley dated July 1, 2016. Incorporated by reference to Exhibit 10.5 to the 2016 Third Quarter 10-Q.*

10.24 Amendment to each outstanding Employee Restricted Stock Units Award Agreement for Executive Officers effective January 30, 2017.*

10.25 Summary of compensatory arrangements for non-employee directors of the Registrant.*

10.26 Employment Agreement between the Registrant and Michael L. Elich, dated September 25, 2001. Incorporated by reference to Exhibit 10.17 to the Registrant's Registration Statement on Form S-2 (Registration No. 333-126496) filed July 11, 2005.*

10.27 Change in Control Employment Agreement between the Registrant and Michael L. Elich, dated April 12, 2011. Incorporated by reference to Exhibit 10.4 to the 2011 First Quarter 10-Q.*

10.28 Change in Control Employment Agreement between the Registrant and Gregory R. Vaughn, dated April 12, 2011. Incorporated by reference to Exhibit 10.5 to the 2011 First Quarter 10-Q.*

10.29 Change in Control Employment Agreement between the Registrant and Gerald R. Blotz, dated June 16, 2015. Incorporated by reference to Exhibit 10.3 to the 2015 Second Quarter 10 Q.*

10.30 Change in Control Employment Agreement between the Registrant and Gary E. Kramer, dated August 19, 2016. Incorporated by reference to Exhibit 10.1 to the 2016 Third Quarter 10-Q.*

10.31 Death Benefit Agreement entered into by the Registrant and Michael L. Elich effective January 1, 2014. Incorporated by reference to Exhibit 10.27 to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2013 (the “2013 10-K”).*

10.32 Death Benefit Agreement entered into by the Registrant and Gregory R. Vaughn effective January 1, 2014. Incorporated by reference to Exhibit 10.28 to the 2013 10-K.*

10.33 Death Benefit Agreement entered into by the Registrant and Gerald L. Blotz effective July 17, 2015. Incorporated by reference to Exhibit 10.27 to the 2015 10-K.*

10.34 Barrett Business Services, Inc. Annual Cash Incentive Award Plan, Incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on March 13, 2014.*

10.35 Form of Indemnification Agreement with each outside director of Barrett Business Services, Inc.*

10.36 Form of Indemnification Agreement between the Registrant and each of Michael Elich, James Miller and Gregory Vaughn effective in September 2015. Incorporated by reference to Exhibit 10.30 to the 2015 10-K.*

10.37 Indemnification Agreement between the Registrant and Michael Elich dated as of November 19, 2015. Incorporated by reference to Exhibit 10.31 to the 2015 10-K.*
10.38 Indemnification Agreement between the Registrant and James D. Miller dated as of November 19, 2015. Incorporated by reference to Exhibit 10.32 to the 2015 10-K.*
21. Subsidiaries of the Registrant.
23.1 Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.
23.2 Consent of Moss Adams LLP, Independent Registered Public Accounting Firm.
31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
32. Certification pursuant to 18 U.S.C. Section 1350.
99.1 Description of the Registrant's capital stock. Incorporated by reference to Exhibit 99.1 to the 2015 Second Quarter 10 Q.*
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

*Denotes a management contract or a compensatory plan or arrangement.

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