

REFINITIV

DELTA REPORT

10-Q

BBSI - BARRETT BUSINESS SERVICES

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	635
--------------	-----

 CHANGES	244
---	-----

 DELETIONS	335
---	-----

 ADDITIONS	56
---	----

**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** **September** 30, 2023

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

For the Transition Period From to
Commission File Number 0-21886

BARRETT BUSINESS SERVICES, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
Incorporation or organization)

52-0812977
(IRS Employer
Identification No.)

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

98662
(Zip Code)

(360) 828-0700

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
---------------------	-------------------	---

Common Stock, Par Value \$0.01 Per Share	BBSI	The NASDAQ Stock Market LLC
---	------	-----------------------------

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☐ No ☐

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of July 19, 2023 October 18, 2023, 6,729,644 6,616,653 shares of the registrant’s common stock (\$0.01 par value) were outstanding.

BARRETT BUSINESS SERVICES, INC. INDEX TO FORM 10-Q

Part I - Financial Information (Unaudited)

	Page
Item 1. <u>Unaudited Interim Condensed Consolidated Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets - June 30, 2023 September 30, 2023 and December 31, 2022</u>	3

Condensed Consolidated Statements of Operations - Three and Six Nine Months Ended June 30, 2023 September 30, 2023 and 2022	4
Condensed Consolidated Statements of Comprehensive Income (Loss) - Three and Six Nine Months Ended June 30, 2023 September 30, 2023 and 2022	5
Condensed Consolidated Statements of Stockholders' Equity - Three and Six Nine Months Ended June 30, 2023 September 30, 2023	6
Condensed Consolidated Statements of Stockholders' Equity - Three and Six Nine Months Ended June 30, 2022 September 30, 2022	7
Condensed Consolidated Statements of Cash Flows - Six Nine Months Ended June 30, 2023 September 30, 2023 and 2022	8
Notes to Condensed Consolidated Financial Statements	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	21 20
Item 3. Quantitative and Qualitative Disclosures About Market Risk	28 27
Item 4. Controls and Procedures	28 27
Part II - Other Information	
Item 1. Legal Proceedings	29 28
Item 1A. Risk Factors	29 28
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	30
Item 5. Other Information	30 29
Item 6. Exhibits	31 30
Signatures	31 30

PART I – FINANCIAL INFORMATION

Item 1. Unaudited Interim Condensed Consolidated Financial Statements

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

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 48,347	\$ 91,423	\$ 41,579	\$ 91,423
Investments	84,658	68,325	87,653	68,325
Trade accounts receivable, net	198,055	163,838	205,217	163,838
Prepaid expenses and other	17,625	19,787	17,136	19,787
Restricted cash and investments	68,970	110,989	75,876	110,989
Total current assets	417,655	454,362	427,461	454,362
Property, equipment and software, net	48,354	45,954	48,679	45,954
Operating lease right-of-use assets	19,818	19,804	18,428	19,804
Restricted cash and investments	123,443	104,277	131,619	104,277
Goodwill	47,820	47,820	47,820	47,820
Other assets	3,995	3,281	3,765	3,281
Deferred income taxes	10,819	11,440	12,236	11,440
Total assets	\$ 671,904	\$ 686,938	\$ 690,008	\$ 686,938
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	\$ 5,701	\$ 8,264	\$ 5,268	\$ 8,264
Accrued payroll, payroll taxes and related benefits	238,388	222,331	247,454	222,331
Income taxes payable	4,491	610	786	610

Current operating lease liabilities	6,882	6,957	6,753	6,957
Current premium payable			18,853	18,920
Other accrued liabilities	22,785	31,603	6,904	12,683
Workers' compensation claims liabilities	55,941	62,917	53,622	62,917
Safety incentives liability	1,630	2,049	1,469	2,049
Total current liabilities	335,818	334,731	341,109	334,731
Long-term workers' compensation claims liabilities	135,881	153,070	124,180	153,070
Long-term premium payable			23,301	-
Long-term operating lease liabilities	14,236	14,225	13,049	14,225
Customer deposits and other long-term liabilities	8,000	7,070	7,923	7,070
Total liabilities	493,935	509,096	509,562	509,096
Commitments and contingencies (Notes 4 and 6)				
Commitments and contingencies (Notes 4 and 6)				
Stockholders' equity:				
Common stock, \$.01 par value; 20,500 shares authorized, 6,686 and 6,871 shares issued and outstanding	67	69		
Common stock, \$.01 par value; 20,500 shares authorized, 6,617 and 6,871 shares issued and outstanding			66	69
Additional paid-in capital	34,576	32,744	34,847	32,744
Accumulated other comprehensive loss	(25,970)	(27,594)	(29,677)	(27,594)
Retained earnings	169,296	172,623	175,210	172,623
Total stockholders' equity	177,969	177,842	180,446	177,842
Total liabilities and stockholders' equity	\$ 671,904	\$ 686,938	\$ 690,008	\$ 686,938

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

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

	Three Months Ended		Six Months Ended		Three Months Ended		Nine Months Ended	
	June 30,		June 30,		September 30,		September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Revenues:								
Professional employer services	244,2	232,1	476,5	449,6	251,	244,5	727,	694,
	\$ 56	\$ 74	\$ 63	\$ 07	\$ 423	\$ 67	\$ 986	\$ 174
Staffing services	20,37	30,00	42,73	58,94	21,9	29,25	64,6	88,2
	4	5	4	7	05	5	39	02
Total revenues	264,6	262,1	519,2	508,5	273,	273,8	792,	782,
	30	79	97	54	328	22	625	376
Cost of revenues:								
Direct payroll costs	15,11	22,45	31,98	44,37	16,3	22,11	48,2	66,4
	0	8	1	9	18	2	99	91
Payroll taxes and benefits	134,1	126,3	278,6	262,2	135,	128,4	414,	390,
	09	53	91	18	704	59	395	677
Workers' compensation	48,36	46,48	100,0	94,71	52,9	56,35	153,	151,
	5	3	35	9	77	0	012	069
Total cost of revenues	197,5	195,2	410,7	401,3	204,	206,9	615,	608,
	84	94	07	16	999	21	706	237
Gross margin	67,04	66,88	108,5	107,2	68,3	66,90	176,	174,
	6	5	90	38	29	1	919	139
Selling, general and administrative expenses	43,80	42,27	85,03	82,43	44,1	43,00	129,	125,
	8	2	4	7	60	1	194	438
Depreciation and amortization					1,86		5,27	4,58
	1,729	1,523	3,406	3,031	7	1,554	3	5
Income from operations	21,50	23,09	20,15	21,77	22,3	22,34	42,4	44,1
	9	0	0	0	02	6	52	16
Other income (expense):								
Investment income, net					2,41		6,85	4,79
	2,129	1,568	4,444	3,206	2	1,584	6	0
Interest expense	-	(33)	(38)	(67)	(80)	(35)	(118)	(102)
Other, net	19	19	55	51	38	19	93	70
Other income, net					2,37		6,83	4,75
	2,148	1,554	4,461	3,190	0	1,568	1	8

Income before income taxes	23,65	24,64	24,61	24,96	24,6	23,91	49,2	48,8
	7	4	1	0	72	4	83	74
Provision for income taxes					6,45		13,2	13,1
	6,641	6,630	6,776	6,658	3	6,476	29	34
Net income	17,01	18,01	17,83	18,30	18,2	17,43	36,0	35,7
	\$ 6	\$ 4	\$ 5	\$ 2	\$ 19	\$ 8	\$ 54	\$ 40
Basic income per common share	\$ 2.52	\$ 2.52	\$ 2.62	\$ 2.51	\$ 2.72	\$ 2.48	\$ 5.32	\$ 4.96
Weighted average number of basic common shares outstanding	6,751	7,162	6,809	7,284	6,69	7,036	6,77	7,20
	9				2			1
Diluted income per common share	\$ 2.47	\$ 2.48	\$ 2.57	\$ 2.48	\$ 2.68	\$ 2.45	\$ 5.24	\$ 4.91
Weighted average number of diluted common shares outstanding	6,875	7,257	6,931	7,365	6,79	7,127	6,88	7,28
	5				5			6

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

Barrett Business Services, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(In Thousands)

	Three Months Ended June 30,		Three Months Ended September 30,	
	2023	2022	2023	2022
Net income	17,01		18,21	
	\$ 6	\$ 18,014	\$ 9	\$ 17,438
Unrealized losses on investments, net of tax of (\$775) and (\$3,296) in 2023 and 2022, respectively	(2,02			
	8)	(8,624)		

Unrealized losses on investments, net of tax of (\$1,417) and (\$3,401) in 2023 and 2022, respectively			(3,707)	(8,900)
Comprehensive income	14,98		14,51	
	\$ 8	\$ 9,390	\$ 2	\$ 8,538
	Six Months Ended June 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	17,83		36,05	
	\$ 5	\$ 18,302	\$ 4	\$ 35,740
Unrealized gains (losses) on investments, net of tax of \$620 and (\$8,783) in 2023 and 2022, respectively	1,624	(22,982)		
Comprehensive income (loss)	19,45			
	\$ 9	\$ (4,680)		
Unrealized losses on investments, net of tax of (\$796) and (\$12,184) in 2023 and 2022, respectively			(2,083)	(31,882)
Comprehensive income			33,97	
			\$ 1	\$ 3,858

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

Barrett Business Services, Inc.
Condensed Consolidated Statements of Stockholders' Equity
Three and Six Nine Months Ended June 30, 2023 September 30, 2023
(Unaudited)
(In Thousands)

Accumulated	
Other	Accumulated
Comprehensive	
Additive	Additive
Other	Other

							Comprehensive					
	Common Stock		Paid-in	(Loss)	Retained		Common Stock		Paid-in	Comprehensive	Retained	
	Shares	Amount	Capital	Income	Earnings	Total	Shares	Amount	Capital	Loss	Earnings	Total
Balance, December 31, 2022	6,871	\$ 96	\$ 474	\$ 594)	\$ 23	\$ 42	6,871	\$ 96	\$ 474	\$ 594)	\$ 23	\$ 42
Common stock issued on exercise of options, purchase of ESPP shares and vesting of restricted stock units and performance awards	31	-	339	-	-	339	31	-	339	-	-	339
Common stock repurchased on vesting of restricted stock units and performance awards	(11)	-	(1005)	-	-	(1005)	(11)	-	(1005)	-	-	(1005)
Share-based compensation expense	-	-	1,928	-	-	1,928	-	-	1,928	-	-	1,928
Company repurchases of common stock	(91)	(1)	(447)	-	(72)	(8,030)	(91)	(1)	(447)	-	(72)	(8,030)
Cash dividends on common stock (\$0.30 per share)	-	-	-	-	(2067)	(2,067)	-	-	-	-	(2067)	(2,067)

Unrealized gain on investments, net of tax	-	-	-	3,652	-	3,652	-	-	-	3,652	-	3,652
Net income	-	-	-	-	819	819	-	-	-	-	819	819
Balance, March 31, 2023	6,800	66	33,559	16,942	17,379	17,379	6,800	66	33,559	16,942	17,379	17,379
Common stock issued on exercise of options and vesting of restricted stock units	13	-	2	-	-	2	3	-	2	-	-	2
Common stock repurchased on vesting of restricted stock units	(3)	-	(4)	-	-	(4)	(3)	-	(4)	-	-	(4)
Share-based compensation expense	-	-	1,963	-	-	1,963	-	-	1,963	-	-	1,963
Company repurchases of common stock	(123)	(1)	(644)	-	(9,500)	(10,145)	(123)	(1)	(644)	-	(9,500)	(10,145)
Cash dividends on common stock (\$0.30 per share)	-	-	-	-	(2,013)	(2,013)	-	-	-	-	(2,013)	(2,013)
Unrealized loss on investments, net of tax	-	-	-	(2,028)	-	(2,028)	-	-	-	(2,028)	-	(2,028)
Net income	-	-	-	-	17,016	17,016	-	-	-	-	17,016	17,016

Balance, June 30, 2023	6,687	6	34,576	16(25,970)	179,296	177,969	6,687	6	34,576	16(25,970)	179,296	180,410
Common stock issued on exercise of options, purchase of ESPP shares and vesting of restricted stock units		64	36			36	64	1	0	-	-	1
Common stock repurchased on vesting of restricted stock units			(1,598)			(1,598)			(1,598)			(1,598)
Share-based compensation expense			2,136			2,136						2,136
Company repurchases of common stock		(1,575)				(1,575)						(1,575)
Cash dividends on common stock (\$0.30 per share)												
Unrealized loss on investments, net of tax												
Net income												
Balance, September 30, 2023		6,687	34,576	16(25,970)	179,296	180,410	6,687	6	34,576	16(25,970)	179,296	180,410

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

Barrett Business Services, Inc.
Condensed Consolidated Statements of Stockholders' Equity
Three and Six Months Ended June 30, 2022 September 30, 2022
(Unaudited)
(In Thousands)

	June 30, 2022						September 30, 2022					
	Common Stock		Addi- tional Paid- in Capit- al	Accum- ulated Other Compr- ehensi- ve Income (Loss)	Retai- ned Earni- ngs	Total	Common Stock		Addi- tional Paid- in Capit- al	Accum- ulated Other Compr- ehensi- ve Income (Loss)	Retai- ned Earni- ngs	Total
	Shar- es	Amo- unt					Shar- es	Amo- unt				
Balance, December 31, 2021	7,415	\$ 47	\$ 29,054	\$ 1,079	\$ 8,323	\$ 308,530	7,415	\$ 47	\$ 29,054	\$ 1,079	\$ 8,323	\$ 308,530
Common stock issued on exercise of options, purchase of ESPP shares and vesting of restricted stock units and performance awards	18	-	41	-	-	41	8	-	41	-	-	41

Common stock repurchased on vesting of restricted stock units and performance awards	(4)	-	(185)	-	-	(185)	(4)	-	(185)	-	-	(185)
Share-based compensation expense	-	-	1,830	-	-	1,830	-	-	1,830	-	-	1,830
Company repurchases of common stock	(115)	(1)	(484)	-	(90)	(575)	(115)	(1)	(484)	-	(90)	(575)
Cash dividends on common stock (\$0.30 per share)	-	-	-	-	(229)	(229)	-	-	-	-	(229)	(229)
Unrealized loss on investments, net of tax	-	-	-	(14,358)	-	(14,358)	-	-	-	(14,358)	-	(14,358)
Net income	-	-	-	-	288	288	-	-	-	-	288	288
Balance, March 31, 2022	7,314	7	30,626	(13,279)	16,829	18,557	7,314	7	30,626	(13,279)	16,829	18,557
Common stock issued on exercise of options and vesting of restricted stock units	12	-	-	-	-	-	12	-	-	-	-	-

Common stock repurchased on vesting of restricted stock units	(3)	-	58)	-	-	(25 8)	(3)	-	58)	-	-	(25 8)
Share-based compensation expense	-	-	1,7 66	-	-	1,7 66	-	-	1,7 66	-	-	1,7 66
Company repurchases of common stock	(2 70)	(2)	(1, 19 3)	-	(18, 72 2)	(19, 91 7)	(2 7)	(2)	(1, 19 3)	-	(18, 72 2)	(19, 91 7)
Cash dividends on common stock (\$0.30 per share)	-	-	-	-	(2, 19 5)	(2, 19 5)	-	-	-	-	(2, 19 5)	(2, 19 5)
Unrealized loss on investments, net of tax	-	-	-	(8,6 24)	-	(8, 62 4)	-	-	-	(8,6 24)	-	(8, 62 4)
Net income	-	-	-	-	18, 01 4	18, 01 4	-	-	-	-	18, 01 4	18, 01 4
Balance, June 30, 2022	7, 05 3	7	30, 94 1	(21, 903)	16, 5,3 89	17, 4,4 98	7, 0 5	30, 7 94	16, (21, 903)	17, 5,3 89	17, 4,4 98	17, 4,4 98
Common stock issued on exercise of options, purchase of ESPP shares and vesting of restricted stock units							5 4	29 1			30 -	0

Common stock repurchased on vesting of restricted stock units	(1,176)	(1,178)	(1,178)	(1,178)	(1,178)	(1,178)
Share-based compensation expense	-	-	1,893	-	-	1,893
Company repurchases of common stock	(129)	(204)	(954)	-	(954)	(1,077)
Cash dividends on common stock (\$0.30 per share)	-	-	-	-	(212)	(212)
Unrealized loss on investments, net of tax	-	-	-	(8,900)	-	(8,900)
Net income	-	-	-	-	17,438	17,438
	-	-	-	-	8	8
Balance, September 30, 2022	6,962	31,357	17,350	17,350	1,307	1,307
	2	\$ 0	\$ 1	\$ 803	\$ 45	\$ 63

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

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

Six Months Ended

	June 30,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 17,835	\$ 18,302
Reconciliations of net income to net cash used in operating activities:		
Depreciation and amortization	3,406	3,031
Non-cash lease expense	3,514	3,499
Investment amortization and losses recognized	468	600
Share-based compensation	3,891	3,596
Changes in certain operating assets and liabilities:		
Trade accounts receivable	(34,217)	(111,163)
Income taxes	3,881	3,541
Prepaid expenses and other	2,162	(2,752)
Accounts payable	(2,563)	(164)
Accrued payroll, payroll taxes and related benefits	16,507	83,795
Other accrued liabilities	(8,936)	3,080
Workers' compensation claims liabilities	(24,902)	(37,871)
Safety incentives liability	(419)	(1,562)
Operating lease liabilities	(3,592)	(3,280)
Other assets and liabilities, net	(232)	(68)
Net cash used in operating activities	(23,197)	(37,416)
Cash flows from investing activities:		
Purchase of property, equipment and software	(5,806)	(8,408)
Purchase of investments	(188)	-
Proceeds from sales and maturities of investments	514	11,363
Purchase of restricted investments	(11,454)	(3,062)
Proceeds from sales and maturities of restricted investments	10,571	39,490
Net cash (used in) provided by investing activities	(6,363)	39,383
Cash flows from financing activities:		
Payments on long-term debt	-	(3,510)
Repurchases of common stock	(18,175)	(28,492)
Common stock repurchased on vesting of stock awards	(1,309)	(443)
Dividends paid	(4,080)	(4,424)
Proceeds from exercise of stock options	341	411

Net cash used in financing activities	(23,223)	(36,458)
Net decrease in cash, cash equivalents and restricted cash	(52,783)	(34,491)
Cash, cash equivalents and restricted cash, beginning of period	107,378	78,629
Cash, cash equivalents and restricted cash, end of period	\$ 54,595	\$ 44,138
Nine Months Ended		
September 30,		
	2023	2022
Cash flows from operating activities:		
Net income	\$ 36,054	\$ 35,740
Reconciliations of net income to net cash used in operating activities:		
Depreciation and amortization	5,273	4,585
Non-cash lease expense	5,270	5,236
Investment amortization and losses recognized	543	915
Share-based compensation	6,027	5,489
Changes in certain operating assets and liabilities:		
Trade accounts receivable	(41,379)	(38,830)
Income taxes	176	899
Prepaid expenses and other	2,651	(2,561)
Accounts payable	(2,996)	68
Accrued payroll, payroll taxes and related benefits	25,801	33,093
Other accrued liabilities	(5,867)	1,769
Premium payable	23,234	9,978
Workers' compensation claims liabilities	(38,693)	(52,937)
Safety incentives liability	(580)	(1,817)
Operating lease liabilities	(5,274)	(5,005)
Other assets and liabilities, net	(241)	319
Net cash provided by (used in) operating activities	9,999	(3,059)
Cash flows from investing activities:		
Purchase of property, equipment and software	(8,115)	(11,458)
Proceeds from sale of property	117	-
Purchase of investments	(4,386)	-
Proceeds from sales and maturities of investments	805	12,828
Purchase of restricted investments	(20,943)	(3,644)
Proceeds from sales and maturities of restricted investments	14,975	44,746

Net cash (used in) provided by investing activities	(17,547)	42,472
Cash flows from financing activities:		
Payments on long-term debt	-	(3,510)
Repurchases of common stock	(29,092)	(39,052)
Common stock repurchased on vesting of stock awards	(2,899)	(1,621)
Dividends paid	(6,105)	(6,552)
Proceeds from exercise of stock options and purchase of ESPP	702	711
Net cash used in financing activities	(37,394)	(50,024)
Net decrease in cash, cash equivalents and restricted cash	(44,942)	(10,611)
Cash, cash equivalents and restricted cash, beginning of period	107,378	78,629
Cash, cash equivalents and restricted cash, end of period	\$ 62,436	\$ 68,018

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

Barrett Business Services, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 - Basis of Presentation of Interim Period Statements

The accompanying condensed consolidated financial statements are unaudited and have been prepared by Barrett Business Services, Inc. ("BBSI", the "Company", "our" or "we"), pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures typically included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. The accompanying condensed financial statements are prepared on a consolidated basis. All intercompany account balances and transactions have been eliminated in consolidation. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results may differ from such estimates and assumptions. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's 2022 Annual Report on Form 10-K at pages 31 - 58. The results of operations for an interim period are not necessarily indicative of the results of operations for a full year.

Revenue recognition

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 which covers all employees at a particular work site. Staffing revenues relate primarily to short-term staffing, contract staffing and on-site management services. The Company’s performance obligations for PEO and staffing services are satisfied, and the related revenue is recognized, as services are rendered by our workforce.

Our PEO client service 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 service agreements provide for immediate termination upon any payment default of the client regardless of when notice is given. PEO customers are invoiced following the end of each payroll processing cycle, with payment generally due on the invoice date. Staffing customers are generally invoiced weekly based on agreed rates per employee and actual hours worked, typically with payment terms of 30 days. The amount of earned but unbilled revenue is classified as a receivable on the condensed consolidated balance sheets.

We report PEO revenues net of direct payroll costs because we are not the primary obligor for these payments to our clients’ employees. Direct payroll costs include salaries, wages, health insurance, and employee out-of-pocket expenses incurred incidental to employment. We also present revenue net of safety incentives, because these incentives represent consideration payable to customers.

Cost of revenues

Our cost of revenues for PEO services includes employer payroll-related taxes, workers’ compensation costs and employee benefits costs. Our cost of revenues for staffing services includes direct payroll costs, employer payroll-related taxes, and workers’ compensation costs. Direct payroll costs represent the gross payroll earned by staffing services employees based on salary or hourly wages. Payroll taxes and benefits consist of the employer’s portion of Social Security and Medicare taxes, federal and state unemployment taxes, and employee benefit costs, which primarily comprises health insurance premiums paid to third-party insurers and direct support payroll. Workers’ compensation costs consist primarily of premiums paid to third-party insurers, claims reserves, claims administration fees, legal fees, medical cost containment (“MCC”) expense, state administrative agency fees, third-party broker commissions, and risk manager payroll, as well as costs associated with operating our two wholly owned insurance companies, Associated Insurance Company for Excess (“AICE”) and Ecole Insurance Company (“Ecole”).

Cash and cash equivalents

We consider non-restricted short-term investments that are highly liquid, readily convertible into cash, with maturities at acquisition of less than three months to be cash equivalents for purposes of the condensed consolidated statements of

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

Investments

The Company classifies investments as available-for-sale. The Company's investments 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. Investments are recorded as current on the condensed consolidated balance sheets as the invested funds are available for current operations. Management considers available evidence in evaluating potential impairment of investments, including the extent to which fair value is less than cost and adverse conditions related to the security. In the event of a credit loss, an allowance would be recognized to the extent that the fair value of the security is less than the present value of the expected future cash flows. Realized gains and losses on sales of investments are included in investment income in our condensed consolidated statements of operations.

Restricted cash and investments

The Company holds restricted cash and investments primarily for the future payment of insurance premiums and workers' compensation claims. These investments are 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. Restricted cash and investments are classified as current and noncurrent on the condensed consolidated balance sheets based on the nature of the restriction. Management considers available evidence in evaluating potential impairment of restricted investments, including the extent to which fair value is less than cost and adverse conditions related to the security. In the event of a credit loss, an allowance would be recognized to the extent that the fair value of the security is less than the present value of the expected future cash flows. Realized gains and losses on sales of restricted investments are included in investment income in our condensed consolidated statements of operations.

Restricted cash and investments also includes investments held as part of the Company's deferred compensation plan. These investments are classified as trading securities and are recorded at fair value with unrealized gains and losses reported as a component of income (loss) from operations.

Allowance for doubtful accounts

The Company had an allowance for doubtful accounts of \$885,000 and \$893,000 at **June 30, 2023** **September 30, 2023** and December 31, 2022, respectively. We make estimates of the collectability of our accounts receivable for services provided to our customers based on future expected credit losses. Management analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customers' payment trends when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of our customers deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required.

Workers' compensation claims liabilities

Our workers' compensation claims liabilities do not represent an exact calculation of liability but rather management's best estimate, utilizing actuarial expertise and projection techniques, at a given reporting date. The estimated liability for open workers' compensation claims is based on an evaluation of information provided by our third-party administrator for workers' compensation claims, coupled with an actuarial estimate of future loss development with respect to reported claims and incurred but not reported claims (together, "IBNR"). Workers' compensation claims liabilities include case reserve estimates for reported losses, plus additional amounts for estimated IBNR claims, MCC and legal costs, unallocated loss adjustment expenses and estimated future recoveries. The estimate of incurred costs expected to be paid within one year is included in current liabilities, while the estimate of incurred costs expected to be paid beyond one year is included in long-term liabilities on our condensed consolidated balance sheets. 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, inflation, trends in the litigation and settlement of pending claims, and legislative changes.

Our estimates are based on actuarial analysis and 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.

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

We accrue for and present expected safety incentives as a reduction of revenue. 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. In July 2020, the Company began limiting its safety incentive offering in certain markets. The Company provided \$1.6 1.5 million and \$2.0 million at June 30, 2023 September 30, 2023 and December 31, 2022, 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.

11

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 the six nine months ended June 30, 2023 September 30, 2023 and 2022 did not materially differ from interest expense. Income taxes paid by the Company during the six nine months ended June 30, 2023 September 30, 2023 and 2022 totaled \$2.84 13.0 million and \$3.10 12.2 million, respectively.

Bank deposits and other cash equivalents that are restricted for use are classified as restricted cash. The table below reconciles the cash, cash equivalents and restricted cash balances from our condensed consolidated balance sheets to the amounts reported on the condensed consolidated statements of cash flows (in thousands):

	June 30, 2023	Decemb er 31, 2022	June 30, 2022	Decemb er 31, 2021	Septemb er 30, 2023	Decemb er 31, 2022	Septem ber 30, 2022	Decemb er 31, 2021
Cash and cash equivalents	48, \$ 347	91,42 \$ 3	34, \$ 098	69,4 \$ 05	41,57 \$ 9	91,42 \$ 3	58,9 \$ 51	69,4 \$ 05
Restricted cash, included in restricted cash and investments	6,2 48	15,95 5	10, 040	9,22 4	20,85 7	15,95 5	9,06 7	9,22 4

Total cash, cash equivalents and restricted cash shown in the statements of cash flows	54, \$ 595	107,3 \$ 78	44, \$ 138	78,6 \$ 29	62,43 \$ 6	107,3 \$ 78	68,0 \$ 18	78,6 \$ 29
--	---------------	----------------	---------------	---------------	---------------	----------------	---------------	---------------

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 issuance of shares in connection with the exercise of outstanding stock options, vesting of outstanding restricted stock units and performance share units, and the Company's employee stock purchase plan. Basic and diluted shares outstanding are summarized as follows (in thousands):

	<div> <div>Three Months Ended</div> <div>Six Months Ended</div> </div>				Three Months Ended		Nine Months Ended	
	June 30,		June 30,		September 30,		September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Weighted average number of basic shares outstanding	6,75	7,16	6,80	7,28	6,69	7,03	6,77	7,20
Effect of dilutive securities	1	2	9	4	9	6	2	1
Weighted average number of diluted shares outstanding	124	95	122	81	96	91	113	85
	6,87	7,25	6,93	7,36	6,79	7,12	6,88	7,28
	5	7	1	5	5	7	5	6

Accounting estimates

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

Reclassifications

To conform to the current period's presentation, premiums payable to third party insurance carriers of \$18.9 million were reclassified from other accrued liabilities to current premium payable in the prior period condensed consolidated balance sheets and premiums payable to third party insurance carriers of \$10.0 million were reclassified from other accrued liabilities to premium payable in the prior period condensed consolidated statements of cash flows.

Note 2 - Fair Value Measurement

The following table summarizes the Company's investments at **June 30, 2023** September 30, 2023 and December 31, 2022 measured at fair value on a recurring basis (in thousands):

	June 30, 2023						December 31, 2022						September 30, 2023						December 31, 2022					
	Gross						Gross						Gross						Gross					
	Unrealized			Recorded			Unrealized			Recorded			Unrealized			Recorded			Unrealized			Recorded		
	Losses			Losses			Losses			Losses			Losses			Losses			Losses					
	Cost		Basis	Cost		Basis	Cost		Basis	Cost		Basis	Cost		Basis	Cost		Basis	Cost		Basis			
Current:																								
Cash equivalents:																								
U.S. treasuries													8,3						8,3					
													\$ 98						\$ -					
Money market funds	11,66						11,66						40,29						40,29					
	\$ 4						\$ -						\$ 4						\$ 6					
Total cash equivalents:	11,66						11,66						40,29						40,29					
	4						-						4						6					
Investments:																								
Corporate bonds	38,592						(4,891)						33,701						38,489					
													(5,181)						(5,181)					
													33,308						33,308					
	2						1)						9						1)					

U.S. treasuries							16,690	(1,683)	15,007	-	-	-
Asset backed securities	13,684	(494)	13,190	13,709	(737)	12,972	13,672	(341)	13,331	13,709	(737)	12,972
U.S. government agency securities							12,853	(635)	12,218	13,736	(302)	12,706
Mortgage backed securities	15,622	(3,089)	12,533	16,135	(3,139)	12,996	15,351	(3,676)	11,675	16,135	(3,139)	12,996
U.S. government agency securities	12,876	(543)	12,333	13,736	(302)	12,706						
U.S. treasuries	12,442	(1,522)	10,920									
Emerging markets	2,024	(43)	1,981	2,044	(62)	1,982	2,014	(29)	1,985	2,044	(62)	1,982
Total current investments	95,240	(10,582)	84,658	77,746	(9,421)	68,325	99,105	(11,452)	87,653	77,746	(9,421)	68,325

Restricted cash and investments (1):												
U.S. treasuries							83,064	(8,532)	74,532	66,479	(9,222)	57,257
Corporate bonds	82,628	(10,591)	72,037	81,993	(11,296)	70,697	82,708	(11,823)	70,885	81,993	(11,296)	70,697
U.S. treasuries	56,925	(7,398)	49,527	66,479	(9,222)	57,257						
Mortgage backed securities	44,462	(5,897)	38,565	46,138	(6,045)	40,093	43,389	(7,574)	35,815	46,138	(6,045)	40,093
U.S. government agency securities	18,432	(1,422)	17,010	26,479	(2,156)	24,323	16,872	(1,629)	15,243	26,479	(2,156)	24,323
Mutual funds	8,007	-	8,007	6,301	-	6,301	7,857	-	7,857	6,301	-	6,301
Asset backed securities	798	(6)	792	9	-	9	799	(9)	790	9	-	9
Money market funds	28	-	28	64	-	64	173	-	173	64	-	64

Total restricted cash and invest ments	21	(25	18	22	(28	19	23	(29	20	22	(28	19
	1,2	,31	5,9	8,0	,71	9,3	4,8	,56	5,2	8,0	,71	9,3
	80	4)	66	45	9)	26	62	7)	95	45	9)	26
Total	31	(35	28	34	(38	30	34	(41	30	34	(38	30
invest	8,1	,89	2,2	6,0	,14	7,9	3,8	,01	2,8	6,0	,14	7,9
ments	\$ 84	\$ 6)	\$ 88	\$ 87	\$ 0)	\$ 47	\$ 67	\$ 9)	\$ 48	\$ 87	\$ 0)	\$ 47

⁽¹⁾ Included in restricted cash and investments within the condensed consolidated balance sheets is restricted cash of \$6.42.1 million and \$15.9 million as of June 30, 2023, September 30, 2023 and December 31, 2022, respectively, which is excluded from the table above. Restricted cash and investments are classified as current and noncurrent on the balance sheet based on the nature of the restriction.

13

The following table summarizes the Company's investments at June 30, 2023, September 30, 2023 and December 31, 2022 measured at fair value on a recurring basis by fair value hierarchy level (in thousands):

	June 30, 2023				December 31, 2022				September 30, 2023				December 31, 2022			
	Tota				Tota				Tota				Tota			
	l				l				l				l			
	Reco				Reco				Reco				Reco			
	rded				rded				rded				rded			
Cash equi vale nts:	Basi	Lev	Leve	Othe	Basi	Leve	Leve	Othe	Basi	Lev	Leve	Oth	Basi	Lev	Leve	Oth
	s	el 1	l 2	r (1)	s	l 1	l 2	r (1)	s	el 1	l 2	er (1)	s	el 1	l 2	er (1)

[illegible]

C																
or																
p																
or																
at																
e																
b	3		3		3		3		3		3		3		3	
o	3,		3,		3,		3,		3,		3,		3,		3,	
n	7		7		3		3		4		4		3		3	
d	0		0		0		0		3		3		0		0	
s	1	-	1	-	8	-	8	-	7	-	7	-	8	-	8	-
U.																
S.																
tr																
e																
a									1		1					
s									5,		5,					
ur									0		0					
ie									0		0					
s									7	-	7	-	-	-	-	-
A																
ss																
et																
b																
a																
ck																
e																
d																
s																
e																
c	1		1		1		1		1		1		1		1	
ur	3,		3,		2,		2,		3,		3,		2,		2,	
iti	1		1		9		9		3		3		9		9	
e	9		9		7		7		3		3		7		7	
s	0	-	0	-	2	-	2	-	1	-	1	-	2	-	2	-

curities

1		1					
2,		2,		7,		7,	
2		2		0		0	
1		1		6		6	
8	-	8	-	7	-	7	

M																
or																
tg																
a																
g																
e																
b																
a																
ck																
e																
d																
s																
e																
c	1		1		1		1		1		1		1		1	
ur	2,		2,		2,		2,		1,		1,		2,		2,	
iti	5		5		9		9		6		6		9		9	
e	3		3		9		9		7		7		9		9	
s	3	-	3	-	6	-	6	-	5	-	5	-	6	-	6	-

U.
S.
g
o
v
er
n
m
e
nt

a
g
e
n
cy

s
e

c

1

1

ur

2,

2,

7,

7,

iti

3

3

0

0

e

3

3

6

6

s

3

-

3

-

7

-

7

-

U.

S.

tr

e

a

1

1

s

0,

0,

ur

9

9

ie

2

2

s

0

-

0

-

-

-

-

-

E																
m																
er																
gi																
n																
g																
m																
ar	1,		1,		1,		1,		1,		1,		1,		1,	
k	9		9		9		9		9		9		9		9	
et	8		8		8		8		8		8		8		8	
s	1	-	1	-	2	-	2	-	5	-	5	-	2	-	2	-
Rest																
ricte																
d																
cash																
and																
inve																
stm																
ents																
:																
U.																
S.																
tr																
e																
a									7		7		5		5	
s									4,		4,		7,		7,	
ur									5		5		2		2	
ie									3		3		5		5	
s									2	-	2	-	7	-	7	-

C																
or																
p																
or																
at																
e																
b	7		7		7		7		7		7		7		7	
o	2,		2,		0,		0,		0,		0,		0,		0,	
n	0		0		6		6		8		8		6		6	
d	3		3		9		9		8		8		9		9	
s	7	-	7	-	7	-	7	-	5	-	5	-	7	-	7	-
U.																
S.																
tr																
e																
a	4		4		5		5									
s	9,		9,		7,		7,									
ur	5		5		2		2									
ie	2		2		5		5									
s	7	-	7	-	7	-	7	-								

M																
or																
tg																
a																
g																
e																
b																
a																
ck																
e																
d																
s																
e																
c	3		3		4		4		3		3		4		4	
ur	8,		8,		0,		0,		5,		5,		0,		0,	
iti	5		5		0		0		8		8		0		0	
e	6		6		9		9		1		1		9		9	
s	5	-	5	-	3	-	3	-	5	-	5	-	3	-	3	-

U.S. government securities																
at year-end																
agencies																
securities	1		1		2		2		1		1		2		2	
currency	7,		7,		4,		4,		5,		5,		4,		4,	
interest	0		0		3		3		2		2		3		3	
expenses	1		1		2		2		4		4		2		2	
	0	-	0	-	3	-	3	-	3	-	3	-	3	-	3	-
Mutual funds																
at year-end																
equities	8,	8,			6,	6,			7,	7,			6,	6,		
	0	0			3	3			8	8			3	3		
	0	0			0	0			5	5			0	0		
	7	7	-	-	1	1	-	-	7	7	-	-	1	1	-	-

A																
ss																
et																
b																
a																
ck																
e																
d																
s																
e																
c																
ur																
iti	7		7						7		7					
e	9		9						9		9					
s	2	-	2	-	9	-	9	-	0	-	0	-	9	-	9	-
M																
o																
n																
e																
y																
m																
ar																
k																
et																
fu																
n					6		6		1		1	6			6	
d	2			2	4		4		7		7	4			4	
s	8	-	-	8	6	-	-	6	3	-	-	3	6	-	-	6

T ot al in v e st m e n ts																
	2		2		3		2		3		2		3		2	
	8		6	1	0		6	4	0		9		0		6	4
	2,	8,	2,	1,	7,	6,	0,	0,	2,	7,	3,	1,	7,	6,	0,	0,
	2	0	5	6	9	3	7	9	8	8	3	6	9	3	7	9
	8	0	8	9	4	0	0	4	4	5	1	7	4	0	0	4
	\$ 8	\$ 7	\$ 9	\$ 2	\$ 7	\$ 1	\$ 4	\$ 2	\$ 8	\$ 7	\$ 6	\$ 5	\$ 7	\$ 1	\$ 4	\$ 2

⁽¹⁾Investments in money market funds measured at fair value using the net asset value 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.

The following table summarizes the contractual maturities of the Company's available-for-sale securities at **June 30, 2023**, **September 30, 2023** and December 31, 2022. Actual maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties. The table also includes money market funds, which are classified as cash and cash equivalents on the Company's consolidated balance sheets.

(In thousand s)	June 30, 2023					September 30, 2023				
	Between					Between				
	Less than 1 Year	Between 1 to 5 Years	Between 5 to 10 Years	After 10 Years	Total	Less than 1 Year	Between 1 to 5 Years	Between 5 to 10 Years	After 10 Years	Total
					105					104
Corporate	3,0	63,6	38,8		,73	3,2	65,7	35,1		,32
bonds	\$ 49	\$ 67	\$ 47	\$ 175	\$ 8	\$ 09	\$ 49	\$ 97	\$ 167	\$ 2
U.S.	3,7	27,0	29,6		60,	42,	26,8	28,5		97,
treasuries	75	07	65	-	447	587	39	11	-	937

U.S. government securities	1,539	24,269	3,535	-	29,343	38	25,448	1,975	-	27,461
Asset backed securities	-	792	11,921	1,269	13,982	-	790	12,073	1,258	14,121
Emerging markets						1,985				1,985
Money market funds	11,692	-	-	-	11,692	1,675	-	-	-	1,675
Emerging markets	1,981	-	-	-	1,981					
					223					247
Total	22,036	115,735	83,968	1,444	118,183	49,494	118,826	77,756	1,425	150,150
	December 31, 2022					December 31, 2022				
(In thousands)	Less than 1 Year	Between 1 to 5 Years	Between 5 to 10 Years	After 10 Years	Total	Less than 1 Year	Between 1 to 5 Years	Between 5 to 10 Years	After 10 Years	Total
					104					104
Corporate bonds	\$ 646	\$ 39	\$ 20	\$ -	\$ 5	\$ 646	\$ 39	\$ 20	\$ -	\$ 5
U.S. treasuries	440	3,405	53,412	-	57,257	440	3,405	53,412	-	57,257
Money market funds	40,539	-	-	-	40,539	40,539	-	-	-	40,539
U.S. government securities	3,943	24,025	3,422	-	31,390	3,943	24,025	3,422	-	31,390

Asset										
backed			2,11	10,8	12,			2,11	10,8	12,
securities	-	9	3	59	981	-	9	3	59	981
Emerging		1,98			1,9		1,98			1,9
markets	-	2	-	-	82	-	2	-	-	82
					248					248
	45,	79,8	111,	10,8	,15	45,	79,8	111,	10,8	,15
Total	\$ 568	\$ 60	\$ 867	\$ 59	\$ 4	\$ 568	\$ 60	\$ 867	\$ 59	\$ 4

The average contractual maturity of mortgage backed securities, which are excluded from the table above, was 23 years and 24 years as of **June 30, 2023** **September 30, 2023** and December 31, 2022, respectively.

Note 3 – Workers’ Compensation Claims

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

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Beginning balance								
Workers'					191	241	215	279
compensation	201,	262,	215,	279,	,82	,51	,98	,40
claims liabilities	\$ 641	\$ 646	\$ 987	\$ 407	\$ 3	\$ 0	\$ 7	\$ 7
Add: claims expense accrual								
Current period	3,48	4,54	7,84	8,82	3,7	4,8	11,	13,
	2	1	4	5	92	54	636	678
Prior periods	(1,5	(6,4	(2,6	(9,3	(4,0	(1,3	(6,7	(10,
	80)	58)	94)	77)	98)	60)	92)	737)
	1,90	(1,9	5,15	(55	(30	3,4	4,8	2,9
	2	17)	0	2)	6)	94	44	41
Less: claim payments related to								
Current period				1,02	1,2	1,7	2,0	2,7
	585	803	765	8	40	14	05	42

Prior periods	11,807	18,257	29,287	36,291	12,244	16,846	41,532	53,136
	12,392	19,060	30,052	37,319	13,484	18,560	43,537	55,878
Change in claims incurred in excess of retention limits	671	(159)	737	(26)	(231)	899	508	873
Ending balance								
Workers' compensation claims liabilities	191,822	241,510	191,822	241,510	177,802	227,343	177,802	227,343
Incurred but not reported (IBNR)	90,053	124,320	90,053	124,320	82,076	117,587	82,076	117,587
Ratio of IBNR to workers' compensation claims liabilities	47 %	51 %	47 %	51 %	46 %	52 %	46 %	52 %

Insured program

The Company provides workers' compensation coverage for client employees primarily through arrangements with fully licensed, third-party insurers (the "insured program"). Under this program, carriers issue policies or afford coverage to the Company's clients under a program maintained by the Company. Approximately 84% of the Company's workers' compensation exposure is covered through the insured program.

Effective July 1, 2021, the Company entered into a new arrangement for its insured program, whereby third-party insurers assumed all risk of loss for claims incurred from July 1, 2021 to June 30, 2022 (the "2021-2022 Policy"). The arrangement for the insured program was renewed for claims incurred from July 1, 2022 to June 30, 2023 (the "2022-2023 Policy") and for claims incurred from July 1, 2023 to June 30, 2024 (the "2023-2024 Policy").

The 2021-2022 Policy, 2022-2023 Policy, and 2023-2024 Policy allow for premium adjustments depending on overall policy performance. If claims develop favorably, BBSI can participate in savings up to \$20.0 million, \$22.5 million, and \$28.5 million

for the 2021-2022 Policy, 2022-2023 Policy, and 2023-2024 Policy, respectively. If claims develop adversely, additional premium may be charged up to \$7.5 million under the 2021-2022 Policy. No additional premiums may be charged if claims develop adversely under the 2022-2023 Policy and the 2023-2024 Policy.

For claims incurred under the insured program prior to July 1, 2021, the Company retains risk of loss up to the first \$3.0 million per occurrence on policies issued after June 30, 2020 and \$5.0 million per occurrence on policies issued before that date.

On June 29, 2020, the Company entered into a loss portfolio transfer agreement ("LPT 1") to remove all outstanding workers' compensation claims obligations for claims incurred under its insured program between February 1, 2014 and December 31, 2017. This transaction reduced the Company's outstanding workers' compensation liabilities and trust account balances by \$115.7 million.

On June 30, 2021, the Company entered into a loss portfolio transfer agreement ("LPT 2") to remove all remaining outstanding workers' compensation claims obligations for client policies issued under its insured program up to June 30, 2018. This transaction reduced the Company's outstanding workers' compensation liabilities by \$53.1 million.

The following is a summary of the risk retained by the Company under its insured program after considering the effects of the loss portfolio transfers and current insurance arrangements:

Year	Claims risk retained
2014	No
2015	No
2016	No
2017	No
2018 ⁽¹⁾	No
2019 ⁽¹⁾	Yes
2020	Yes
2021 - Through June 30	Yes
2021 - July 1 and after	No
2022	No
2023	No

⁽¹⁾ LPT 2 excluded approximately 10% of claims from 2018 and included an approximately offsetting amount of claims from 2019.

The Company is required to maintain minimum collateral levels for certain policies issued under the insured program, which is held in a trust account (the "trust account"). The balance in the trust account was \$163.4178.7 million and \$188.2 million at June 30, 2023, September 30, 2023 and December 31, 2022, respectively. The trust account balance is included as a component of the current and long-term restricted cash and investments in the Company's condensed consolidated balance sheets.

Self-insured programs

The Company is a self-insured employer with respect to workers' compensation coverage for all employees, including employees of PEO clients that elect to participate in our workers' compensation program, working in Colorado, Maryland and Oregon. 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. The Company also operates a wholly owned, fully licensed insurance company, Ecole, which provides workers' compensation coverage to client employees working in Arizona and Utah. Approximately 16% of the Company's workers' compensation exposure is covered through self-insurance or Ecole (the "self-insured programs").

For all claims incurred under the Company's self-insured programs, the Company retains risk of loss up to the first \$3.0 million per occurrence, except in Maryland and Colorado, where the Company's retention per occurrence is \$1.0 million and \$2.0 million, respectively. For claims incurred under the Company's self-insured programs prior to July 1, 2020, the Company retains risk of loss up to the first \$5.0 million per occurrence, except in Maryland and Colorado, where the retention per occurrence is \$1.0 million and \$2.0 million, respectively.

The states of California, Maryland, Oregon, Washington, Colorado and Delaware required the Company to maintain collateral totaling \$48.1 million and \$54.5 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively, to cover potential workers' compensation claims losses related to the Company's current and former status as a self-insured employer. At June 30, 2023 September 30, 2023, the Company provided surety bonds totaling \$48.1 million, including a California requirement of \$17.2 million.

Claims liabilities

The Company provided a total of \$191.8 177.8 million and \$216.0 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively, as an estimated future liability for unsettled workers' compensation claims liabilities. Of this amount, \$3.7 3.5 million and \$3.0 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively, represent case reserves incurred in excess of the Company's retention. The accrual for costs incurred in excess of retention limits is offset by a receivable from insurance carriers of \$3.7 3.5 million and \$3.0 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively, included in other assets in the condensed consolidated balance sheets.

Note 4 - Revolving Credit Facility and Long-Term Debt

At June 30, 2023, the The Company maintained a credit maintains an agreement (the "Agreement" "Agreement") with Wells Fargo Bank, N.A. (the "Bank"). Under the Agreement prior to the Amendment (defined below), the Company maintained

for a revolving credit line of \$50.0 million and a sublimit for standby letters of credit of \$8.0 to \$25.0 million. Advances under the revolving credit line bear interest, as selected by the Company, of (a) the daily Simple Secured Overnight Financing Rate ("SOFR") plus 1.75% or (b) one-month Term SOFR plus 1.75%. The Agreement also provides for an unused commitment fee of 0.30% to 0.35% per year on the average daily unused amount of the revolving credit line, as well as a fee of 1.75% of the face amount of each letter of credit reserved under the line of credit. The Company had no outstanding borrowings on its revolving credit line at June 30, 2023, September 30, 2023, and December 31, 2022. The credit facility is collateralized by the Company's accounts receivable and other rights to receive payment.

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

- adjusted free cash flow [net profit after taxes plus interest expense (net of capitalized interest), depreciation expense, and amortization expense, less dividends/distributions] not less than \$10 million as of each fiscal quarter end, determined on a rolling 4-quarter basis; and basis
- tangible net worth [aggregate of total stockholders' equity plus subordinated debt less any intangible assets and less any loans or advances to, or investments in, any related entities or individuals] not less than \$100 to \$50 million at each fiscal quarter end; end; and

The Agreement imposes certain additional restrictions unless the Bank provides its prior written consent as follows:

- incurring additional indebtedness is prohibited, other than purchase financing for the acquisition of assets, provided that the aggregate of all purchase financing does not exceed \$1 million at any time;

17

- the Company may not terminate or cancel any of the AICE policies; and
- if an event of default would occur, and is continuing, including on a pro forma basis, no dividends or distributions would be permitted to be paid and redemptions and repurchases of the Company's stock would be permitted only up to \$15 million in any rolling 12-month period.

The Agreement also contains customary events of default and specified cross-defaults under the Company's workers' compensation insurance arrangements. If an event of default under the Agreement occurs and is continuing, the Bank may declare any outstanding obligations under the Agreement to be immediately due and payable. At June 30, 2023, September 30, 2023, the Company was in compliance with all covenants.

On July 31, 2023 the Company entered into an amendment (the "Amendment") to the Agreement with the Bank. Under the Amendment, the Company's revolving credit line of \$50.0 million was extended from July 1, 2024 to July 1, 2026. The Amendment increased the sublimit for standby letters of credit from \$8.0 million to \$25.0 million and increased the unused commitment fee from 0.30% per year to 0.35% per year on the average daily unused amount of the revolving credit line.

The Amendment modified certain financial covenants and additional restrictions as follows:

- the financial covenant relating to minimum tangible net worth [aggregate total of stockholder's equity plus subordinated debt less any intangible assets and less any loans or advances to, or investments in, any related entities or individuals] is decreased from \$100 million to \$50 million at each fiscal quarter end; and

- the limitation for investments in existing and future subsidiaries or in connection with an acquisition was increased from \$10 million to \$25 million per acquisition and \$25 million in any fiscal year.

Other than as described above, all material terms and conditions of the Agreement are substantially unchanged.

Note 5 – Income Taxes

Under ASC 740, "Income Taxes," management evaluates the realizability of the deferred tax assets on a quarterly basis under a "more likely than not" standard. As part of this evaluation, management reviews all evidence, both positive and negative, to determine if a valuation allowance is needed. One component of this analysis is to determine whether the Company was in a cumulative loss position for the most recent 12 quarters. The Company was in a cumulative income position for the 12 quarters ended June 30, 2023 September 30, 2023.

The Company's realization of a 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.

The Company is subject to income taxes in U.S. federal and multiple state and local tax jurisdictions. The Internal Revenue Service (the "IRS") is examining the Company's federal tax returns for the years ended December 31, 2017 through 2021. BBSI received notice that the IRS intends to disallow certain wage-based tax credits claimed for the years 2017 through 2020, which could result in estimated total additional taxes of \$7.4 million and penalties of \$1.7 million. Tax year 2021 remains under audit; disallowance of similar wage-based credits would result in additional estimated tax due of \$0.6 million. The Company disagrees with the IRS determination to disallow certain wage-based credits taken by the Company and believes that the Company has the technical merits to defend its position. Based on management's more-likely-than-not assessment that the position is sustainable, no reserve for the aforementioned IRS notices of disallowance of wage-based tax credits or underpayment penalties has been recorded in the financial statements.

In the major jurisdictions where it operates, the Company is generally no longer subject to income tax examinations by tax authorities for tax years before 2016. As of June 30, 2023 September 30, 2023 and December 31, 2022, total gross unrecognized tax benefits, excluding interest and penalties, of \$0.6 million would affect the Company's effective tax rate if recognized in future periods. The Company does not anticipate any material changes to the reserve in the next 12 months.

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 tax rate could fluctuate from expectations.

At June 30, 2023 September 30, 2023, the Company had no state operating loss carryforwards. At June 30, 2023 September 30, 2023, the Company did not have a federal general business tax credit carryforward or an alternative minimum tax credit carryforward.

Note 6 – Litigation

On November 21, 2012, David Kaanaana ("Kaanaana"), a former staffing employee, filed a class action wage and hour lawsuit against BBSI in the California Superior Court on behalf of himself and certain other employees who worked at County Sanitation District No. 2 of Los Angeles County ("the District"). The trial court ruled in plaintiffs' favor regarding certain alleged meal break violations but ruled in favor of BBSI with respect to the application of the California prevailing wage law to the District and other claims. These latter rulings were appealed by the plaintiffs to the California Court of Appeal. On November 30, 2018, the California Court of Appeal for the Second Appellate District returned its decision in *Kaanaana v. Barrett Business Services, Inc.*, overruling the trial court's decision to dismiss the prevailing wage claim, ruling that the work in question at the District constituted "public works" under the applicable law, and also ruling that plaintiffs' were entitled to additional remedies with regard to the meal break violations under California law. On January 9, 2019, BBSI filed a petition of review to the California Supreme Court.

On February 27, 2019, the California Supreme Court granted the petition to review the Court of Appeal's decision with respect to the prevailing wage issue. A decision from the California Supreme Court was issued March 29, 2021 affirming the Court of Appeal decision and concluding that the recycling sorting work performed by the staffing employees in question was a "public work" and therefore would be subject to prevailing wage requirements. No damages were awarded in the appeals process. The case was remanded to Superior Court for any such determination with respect to both the prevailing wage issue and any additional remedies for the meal break violations. On December 7, 2021 the parties engaged in a

19

mediation effort which resulted in a settlement agreement on December 22, 2021. The settlement has received court approval and is now final.

On April 5, 2011, several individual plaintiffs filed a wage and hour class action in the California Superior Court, County of Fresno, naming as defendants their employer, a Merry Maids franchisee; BBSI, which was providing PEO services to the franchisee; and various parties related to the franchisor. Plaintiffs claimed, among other things, that BBSI and the franchisor were their joint employer with franchisee and therefore jointly responsible for the alleged wage and hour violations. The case was subsequently removed to the United States District Court for the Eastern District of California, and on January 18, 2019, the District Court certified a class of former non-exempt employees who resided in California and worked for the franchisee in certain positions during the period from April 6, 2007 through January 19, 2019. On November 30, 2020, the District Court granted BBSI's motion for summary judgment to be removed from the case. Thereafter the plaintiffs appealed to the United States Court of Appeals for the Ninth Circuit,

18

and on June 2, 2022, the Court of Appeals reversed the order granting summary judgment to BBSI. The court held that there is a triable issue of fact concerning whether or not BBSI was a joint-employer under applicable California law. BBSI intends to vigorously defend the claim, including continuing to assert its defense on the ground that it was not a joint-employer of plaintiffs. Given the uncertainties surrounding this litigation, management is unable to estimate a potential range of loss.

In addition to the matters matter above, BBSI is subject to other legal proceedings and claims that arise in the ordinary course of our business. There are significant uncertainties surrounding litigation. For the matters matter discussed above, as well as other cases, management has recorded estimated liabilities totaling \$2.00.2 million in other accrued liabilities in the condensed consolidated balance sheets.

Note 7 – Subsequent Events

Revolving Credit Facility

On July 31, 2023, the Company entered into an amended credit agreement with Wells Fargo Bank, N.A.

For additional information regarding the Company's borrowing relationship with the Bank, see "Note 4 – Revolving Credit Facility and Long-Term Debt" to the unaudited condensed consolidated financial statements included in Item 1 of Part I of this report.

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

2019

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

General

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

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

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

Business Organization We operate a decentralized delivery model using operationally-focused business teams, typically located within 50 miles of our client companies. These teams are led by senior level business generalists and include senior level professionals with expertise in human resources, organizational development, risk mitigation and workplace safety,

recruiting, employee benefits, and various types of administration, including payroll. These teams are responsible for growth and profitability of their operations, and for providing strategic leadership, guidance and expert consultation to our client companies. The decentralized structure fosters autonomous decision-making in which business teams deliver plans that closely align with the objectives of each business owner client. We support clients with a local presence in 68 markets throughout the United States.

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 7,770 companies each day, define our approach to guiding business owners through the challenges associated with being an employer. BBSI's business teams align with each business owner client through a structured three-tiered progression. In doing so, business teams focus on the objectives of each business owner and deliver planning, guidance and resources in support of those objectives.

Tier 1: Tactical Alignment

The first stage focuses on the mutual setting of expectations and is essential to a successful client relationship. It begins with a process of assessment and discovery in which the business owner's business objectives, attitudes, and culture are aligned with BBSI's processes, controls and culture. This stage includes an implementation process, which addresses the administrative components of employment.

Tier 2: Dynamic Relationship

The second stage of the relationship emphasizes organizational development as a means of achieving each client's business objectives. There is a focus on process improvement, development of best practices, supervisor training and leadership development.

21 20

Tier 3: Strategic Counsel

With an emphasis on advocacy on behalf of the business owner, the third stage of the relationship is more strategic and forward-looking with a goal of cultivating an environment in which all efforts are directed by the mission and long-term objectives of the business owner.

In addition to serving as a resource and guide, BBSI can provide workers' compensation coverage as a means of meeting statutory requirements and protecting our clients from employment-related injury claims. Through our third-party administrators, we provide claims management services for our clients. We work to manage and reduce job injury claims, identify fraudulent claims and structure optimal work programs, including modified duty. In 2023, BBSI began offering employee benefits to our clients. The employee benefit programs are designed to provide strategic value to our clients

through access to best-in-class plans and service. Benefit plans available to clients include medical, dental and vision plans, flexible spending accounts and health savings accounts, life insurance and voluntary accident coverage, and critical illness and disability coverage.

Results of Operations

The following table sets forth the percentages of total revenues represented by selected items in the Company's condensed consolidated statements of operations for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022 (\$ in thousands):

	Percentage of Total Net Revenues								Percentage of Total Net Revenues							
	Three Months Ended				Six Months Ended				Three Months Ended				Nine Months Ended			
	June 30,				June 30,				September 30,				September 30,			
	2023		2022		2023		2022		2023		2022		2023		2022	
Revenue																
s:																
Profes									2		2		7		6	
sional									5		4		2		9	
emplo	24	9	23	8	47	9	44	8	1, 9	4, 8	7, 9	4, 8	4, 8	4, 8	4, 8	4, 8
yer	4,	2	2,	8	6,	1	9,	8	4 2	5 9	9 1	1 8	4 2	5 9	9 1	1 8
service	25	.	17	.	56	.	60	.	2	.	6	.	8	.	7	.
s	\$ 6	3 %	\$ 4	6 %	\$ 3	8 %	\$ 7	4 %	\$ 3	0 %	\$ 7	3 %	\$ 6	8 %	\$ 4	7 %
Staffin				1				1	2		2		6		8	
g	20	7	30	1	42	8	58	1	1,	9,	1	4,	8,	1	8,	1
service	,3	.	,0	.	,7	.	,9	.	9 8	2 0	6 8	2 1	0	.	0	.
s	74	7	05	4	34	2	47	6	0	.	5	.	3	.	0	.
Tot		1		1		1		1	5	0	5	7	9	2	2	3
al	26	0	26	0	51	0	50	0	2		2		7		7	
reve	4,	0	2,	0	9,	0	8,	0	7 1	7 1	9 1	8 1	3, 0	3, 0	2, 0	2, 0
nue	63	.	17	.	29	.	55	.	3 0	8 0	6 0	3 0	2	.	2	.
s	0	0	9	0	7	0	4	0	2	.	2	.	2	.	7	.
Cost of									8	0	2	0	5	0	6	0
revenues																
:																

									1		2		4		6	
									6,		2,		8,		6,	
Direct	15	5	22	8	31	6	44	8	3	6	1	8	2	6	4	8
payrol	,1	.	,4	.	,9	.	,3	.	1	.	1	.	9	.	9	.
l costs	10	7	58	6	81	2	79	7	8	0	2	1	9	1	1	5
									1		1		4		3	
Payrol									3		2		1		9	
l taxes	13	5	12	4	27	5	26	5	5,	4	8,	4	4,	5	0,	4
and	4,	0	6,	8	8,	3	2,	1	7	9	4	6	3	2	6	9
benefi	10	.	35	.	69	.	21	.	0	.	5	.	9	.	7	.
ts	9	7	3	2	1	7	8	6	4	6	9	9	5	3	7	9
													1		1	
Worke									5		5		5		5	
rs'		1		1	10	1		1	2,	1	6,	2	3,	1	1,	1
compe	48	8	46	7	0,	9	94	8	9	9	3	0	0	9	0	9
nsatio	,3	.	,4	.	03	.	,7	.	7	.	5	.	1	.	6	.
n	65	3	83	7	5	3	19	6	7	4	0	6	2	3	9	3
Tot									2		2		6		6	
al									0		0		1		0	
cost									4,		7		6,		7	
of	19	7	19	7	41	7	40	7	9	5	9	5	7	7	2	7
reve	7,	4	5,	4	0,	9	1,	8	9	.	2	.	0	.	3	.
nue	58	.	29	.	70	.	31	.	9	0	1	6	6	7	7	7
s	4	7	4	5	7	2	6	9								
									6		6		7		7	
		2		2	10	2	10	2	8,	2	6,	2	6,	2	4,	2
	67	5	66	5	8,	0	7,	1	3	5	9	4	9	2	1	2
Gross	,0	.	,8	.	59	.	23	.	2	.	0	.	1	.	3	.
margin	46	3	85	5	0	8	8	1	9	0	1	4	9	3	9	3
Selling,													1		1	
general									4		4		2		2	
and		1		1		1		1	4,	1	3,	1	9,	1	5,	1
administr	43	6	42	6	85	6	82	6	1	6	0	5	1	6	4	6
ative	,8	.	,2	.	,0	.	,4	.	6	.	0	.	9	.	3	.
expenses	08	6	72	1	34	4	37	2	0	2	1	7	4	3	8	0

Depreciat									1,		1,		5,		4,	
ion and	1,	0	1,	0	3,	0	3,	0	8	0	5	0	2	0	5	0
amortizat	72	.	52	.	40	.	03	.	6	.	5	.	7	.	8	.
ion	9	7	3	6	6	7	1	6	7	7	4	6	3	7	5	6
									2		2		4		4	
Income									2,		2,		2,		4,	
from	21	8	23	8	20	3	21	4	3	8	3	8	4	5	1	5
operatio	,5	.	,0	.	,1	.	,7	.	0	.	4	.	5	.	1	.
ns	09	0	90	8	50	7	70	3	2	1	6	1	2	3	6	7
									2,		1,		6,		4,	
Other	2,	0	1,	0	4,	0	3,	0	3	0	5	0	8	0	7	0
income,	14	.	55	.	46	.	19	.	7	.	6	.	3	.	5	.
net	8	8	4	6	1	9	0	6	0	9	8	6	1	9	8	6
									2		2		4		4	
Income									4,		3,		9,		8,	
before	23	8	24	9	24	4	24	4	6	9	9	8	2	6	8	6
income	,6	.	,6	.	,6	.	,9	.	7	.	1	.	8	.	7	.
taxes	57	8	44	4	11	6	60	9	2	0	4	7	3	2	4	3
													1		1	
Provision									6,		6,		3,		3,	
for	6,	2	6,	2	6,	1	6,	1	4	2	4	2	2	1	1	1
income	64	.	63	.	77	.	65	.	5	.	7	.	2	.	3	.
taxes	1	5	0	5	6	3	8	3	3	4	6	4	9	7	4	7
									1		1		3		3	
									8,		7,		6,		5,	
Net	17	6	18	6	17	3	18	3	2	6	4	6	0	4	7	4
inco	,0	.	,0	.	,8	.	,3	.	1	.	3	.	5	.	4	.
me	\$ 16	3 %	\$ 14	9 %	\$ 35	3 %	\$ 02	6 %	\$ 9	6 %	\$ 8	3 %	\$ 4	5 %	\$ 0	6 %

22 21

We report PEO revenues net of direct payroll costs because we are not the primary obligor for wage payments to our clients' employees. However, management believes that gross billings and wages are useful in understanding the volume of our business activity and serve as an important performance metric in managing our operations, including the preparation of internal operating forecasts and establishing executive compensation performance goals. We therefore

present for purposes of analysis gross billings and wage information for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
	Three Months Ended		Six Months Ended		Three Months Ended		Nine Months Ended	
	June 30,		June 30,		September 30,		September 30,	
(in thousands)								
	2023	2022	2023	2022	2023	2022	2023	2022
Gross billings	1,91	1,82	3,70	3,53	1,96	1,90	5,66	5,44
	1,55	9,22	0,76	6,40	3,46	8,81	4,23	5,21
	\$ 0	\$ 5	\$ 8	\$ 0	\$ 2	\$ 8	\$ 0	\$ 7
PEO and staffing wages	1,66	1,58	3,21	3,07	1,70	1,65	4,91	4,72
	1,66	8,99	3,02	1,19	6,30	6,58	9,32	7,77
	\$ 8	\$ 0	1	\$ 6	\$ 2	\$ 0	3	\$ 2

In monitoring and evaluating the performance of our operations, management also reviews the following ratios, which represent selected amounts as a percentage of gross billings. Management believes these ratios are useful in understanding the efficiency and profitability of our service offerings.

	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
	Percentage of Gross Billings		Percentage of Gross Billings		Percentage of Gross Billings		Percentage of Gross Billings	
	Three Months Ended		Six Months Ended		Three Months Ended		Nine Months Ended	
	June 30,		June 30,		September 30,		September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
PEO and staffing wages	86.9%	86.9%	86.9%	86.9%	86.9%	86.8%	86.9%	86.8%
Payroll taxes and benefits	7.0%	6.9%	7.5%	7.4%	6.9%	6.7%	7.3%	7.2%
Workers' compensation	2.6%	2.5%	2.7%	2.7%	2.7%	3.0%	2.7%	2.8%
Gross margin	3.5%	3.7%	2.9%	3.0%	3.5%	3.5%	3.1%	3.2%

The presentation of revenue on a net basis and the relative contributions of staffing and PEO services revenue can create volatility in our gross margin as a percentage of revenue. Generally, a relative increase in PEO services revenue will result in a higher gross margin as a percentage of revenue. Improvement in gross margin percentage occurs because incremental client services revenue dollars are reported as revenue net of all related direct payroll and safety incentive costs.

We refer to employees of our PEO clients as worksite employees (“WSEs”). Management reviews average and ending WSE growth to monitor and evaluate the performance of our operations. Average WSEs are calculated by dividing the number of unique individuals paid in each month by the number of months in the period. Ending WSEs represents the number of unique individuals paid in the last month of the period.

	(Unaudited) Three Months Ended June 30,				(Unaudited) Three Months Ended September 30,			
	% Change		% Change		% Change		% Change	
	2023		2022		2023		2022	
Average	124,1		122,2		127,2		125,8	
WSEs	86	1.6%	34	8.8%	32	1.1%	13	8.2%
Ending	127,3		123,8		128,4		127,2	
WSEs	36	2.8%	53	8.4%	48	0.9%	97	9.8%

	(Unaudited) Six Months Ended June 30,				(Unaudited) Nine Months Ended September 30,			
	% Change		% Change		% Change		% Change	
	2023		2022		2023		2022	
Average	121,7		119,2		123,5		121,4	
WSEs	49	2.1%	16	9.1%	77	1.8%	15	8.8%
Ending	127,3		123,8		128,4		127,2	
WSEs	36	2.8%	53	8.4%	48	0.9%	97	9.8%

23 22

Three Months Ended **June 30, 2023** **September 30, 2023** and 2022

Net income for the second third quarter of 2023 amounted to \$17.0 million \$18.2 million compared to net income of \$18.0 million \$17.4 million for the second third quarter of 2022. Diluted net income per share for the second third quarter of 2023 was \$2.47 \$2.68 compared to diluted net income per share of \$2.48 \$2.45 for the second third quarter of 2022.

Revenue for the second third quarter of 2023 totaled \$264.6 million \$273.3 million, an increase a decrease of \$2.5 million \$0.5 million or 0.9% 0.2% over the second third quarter of 2022, which reflects an increase in the Company's PEO services revenue of \$12.1 million \$6.9 million or 5.2% 2.8% and a decrease in staffing services revenue of \$9.6 million \$7.4 million or 32.1% 25.1%.

The increase in PEO services revenue was primarily attributable to an increase in the average number of WSEs from net new clients, partially offset by a reduction in WSEs at existing clients, as well as an increase in average billing per WSE. The decrease in staffing services revenue was primarily due to lower demand for staffing services and continued tight labor market conditions in the second third quarter of 2023.

Gross margin for the second third quarter of 2023 totaled \$67.0 million \$68.3 million or 25.3% 25.0% of revenue compared to \$66.9 million or 25.5% 24.4% of revenue for the second third quarter of 2022. The separate components of gross margin are discussed below.

Direct payroll costs for the second third quarter of 2023 totaled \$15.1 million \$16.3 million or 5.7% 6.0% of revenue compared to \$22.5 million \$22.1 million or 8.6% 8.1% of revenue for the second third quarter of 2022. The decrease in direct payroll costs as a percentage of revenues was primarily due to a decrease in staffing services within the mix of our customer base compared to the second third quarter of 2022.

Payroll taxes and benefits for the second third quarter of 2023 totaled \$134.1 million \$135.7 million or 50.7% 49.6% of revenue compared to \$126.4 million \$128.5 million or 48.2% 46.9% of revenue for the second third quarter of 2022. The increase in payroll taxes and benefits expense as a percentage of revenue was primarily due to higher average payroll tax rates in the second quarter of 2023 and PEO client benefit costs of \$1.8 million \$3.4 million in the second third quarter of 2023 related to the availability of employee benefits to our PEO clients beginning in 2023.

Workers' compensation expense for the second third quarter of 2023 totaled \$48.4 million \$53.0 million or 18.3% 19.4% of revenue compared to \$46.5 million \$56.4 million or 17.7% 20.6% of revenue for the second third quarter of 2022. The increase decrease in workers' compensation expense as a percentage of revenue was primarily due to lower workers' compensation costs in the current year as well as favorable prior year liability and premium adjustments of \$6.3 million \$2.2 million in the second third quarter of 2023, compared to favorable prior year liability and premium adjustments of \$8.5 million \$1.4 million in the second third quarter of 2022.

Selling, general and administrative ("SG&A") expenses for the second third quarter of 2023 totaled \$43.8 million \$44.2 million or 16.6% 16.2% of revenue compared to \$42.3 million \$43.0 million or 16.1% 15.7% of revenue for the second third quarter of 2022. The increase as a percentage of revenue was primarily due to the decrease in staffing services within the mix of our customer base. The increase of \$1.5 million \$1.2 million in SG&A expense was primarily attributable to increased employee-related costs.

Other income, net for the second third quarter of 2023 totaled \$2.1 million \$2.4 million compared to other income, net of \$1.6 million for the second third quarter of 2022. The increase was primarily attributable to an increase in investment

income in the second third quarter of 2023.

Our effective income tax rate for the second third quarter of 2023 was 28.1% 26.2% compared to 26.9% 27.1% for the second third quarter of 2022. Our income tax rate typically differs from the federal statutory tax rate of 21% primarily due to state taxes as well as federal and state tax credits.

Six Nine Months Ended June 30, 2023 September 30, 2023 and 2022

Net income for the first six nine months of 2023 amounted to \$17.8 million \$36.1 million compared to net income of \$18.3 million \$35.7 million for the first six nine months of 2022. Diluted net income per share for the first six nine months of 2023 was \$2.57 \$5.24 compared to diluted net income per share of \$2.48 \$4.91 for the first six nine months of 2022.

Revenue for the first six nine months of 2023 totaled \$519.3 million \$792.6 million, an increase of \$10.7 million \$10.2 million or 2.1% 1.3% over the first six nine months of 2022, which reflects an increase in the Company's PEO services revenue of \$27.0 million \$33.8 million or 6.0% 4.9% and a decrease in staffing services revenue of \$16.2 million \$23.6 million or 27.5% 26.7%.

The increase in PEO services revenue was primarily attributable to an increase in the average number of WSEs from net new clients, partially offset by a reduction in WSEs at existing clients, as well as an increase in average billing per WSE. The decrease in staffing services revenue was primarily due to lower demand for staffing services and continued tight labor market conditions in the first six nine months of 2023.

24 23

Gross margin for the first six nine months of 2023 totaled \$108.6 million \$176.9 million or 20.8% 22.3% of revenue compared to \$107.2 million \$174.1 million or 21.1% 22.3% of revenue for the first six nine months of 2022. The separate components of gross margin are discussed below.

Direct payroll costs for the first six nine months of 2023 totaled \$32.0 million \$48.3 million or 6.2% 6.1% of revenue compared to \$44.4 million \$66.5 million or 8.7% 8.5% of revenue for the first six nine months of 2022. The decrease in direct payroll costs as a percentage of revenues was primarily due to a decrease in staffing services within the mix of our customer base compared to the first six nine months of 2022.

Payroll taxes and benefits for the first six nine months of 2023 totaled \$278.7 million \$414.4 million or 53.7% 52.3% of revenue compared to \$262.2 million \$390.7 million or 51.6% 49.9% of revenue for the first six nine months of 2022. The increase in payroll taxes and benefits expense as a percentage of revenue was primarily due to higher average payroll tax rates in the first six months of 2023 and PEO client benefit costs of \$3.2 million \$6.6 million related to the availability of employee benefits to our PEO clients beginning in 2023.

Workers' compensation expense for the first six nine months of 2023 totaled \$100.0 million \$153.0 million or 19.3% of revenue compared to \$94.7 million \$151.1 million or 18.6% 19.3% of revenue for the first six nine months of 2022. The increase in workers' Workers' compensation expense as a percentage of revenue was primarily due to benefited from

lower workers' compensation costs in the current year, offset by lower favorable prior year liability and premium adjustments of \$7.4 million \$9.5 million in the first six nine months of 2023 compared to favorable prior year liability and premium adjustments of \$11.4 million \$12.8 million in the first six nine months of 2022.

SG&A expense for the first six nine months of 2023 totaled \$85.0 million \$129.2 million or 16.4% 16.3% of revenue compared to \$82.4 million \$125.4 million or 16.2% 16.0% of revenue for the first six nine months of 2022. The increase as a percentage of revenue was primarily due to the decrease in staffing services within the mix of our customer base. The increase of \$2.6 million \$3.8 million in SG&A expense was primarily attributable to increased employee-related costs.

Other income, net for the first six nine months of 2023 totaled \$4.5 million \$6.8 million compared to other income, net of \$3.2 million \$4.8 million for the first six nine months of 2022. The increase was primarily attributable to an increase in investment income in the first six nine months of 2023.

Our effective income tax rate for the first six nine months of 2023 was 27.5% 26.8% compared to 26.7% 26.9% for the first six nine months of 2022. Our income tax rate typically differs from the federal statutory tax rate of 21% primarily due to state taxes as well as federal and state tax credits.

Fluctuations in Quarterly Operating Results

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

25 24

Liquidity and Capital Resources

The Company's cash balance of \$54.6 million \$62.4 million, which includes cash, cash equivalents, and restricted cash, decreased \$52.8 million \$44.9 million for the six nine months ended June 30, 2023 September 30, 2023, compared to a decrease of \$34.5 million \$10.6 million for the comparable period of 2022. The decrease in cash at June 30, 2023 September 30, 2023 as compared to December 31, 2022 was primarily due to increased trade accounts receivable, decreased workers' compensation claims liabilities, and repurchases of common stock, and purchases of investments and restricted

investments, partially offset by net income, and increased accrued payroll, payroll taxes and related benefits, benefits, and increased premium payable.

Net cash used in provided by operating activities for the six nine months ended June 30, 2023 September 30, 2023 amounted to \$23.2 million \$10.0 million, compared to cash used of \$37.4 million \$3.1 million for the comparable period of 2022. For the six nine months ended June 30, 2023 September 30, 2023, net cash used in provided by operating activities was primarily due to increased trade accounts receivable of \$34.2 million and decreased workers' compensation claims liabilities of \$24.9 million, partially offset by net income of \$17.8 million and \$36.1 million, increased accrued payroll, payroll taxes and related benefits of \$16.5 million \$25.8 million, and increased premium payable of \$23.2 million, partially offset by increased trade accounts receivable of \$41.4 million and decreased workers' compensation claims liabilities of \$38.7 million.

Net cash used in investing activities for the six nine months ended June 30, 2023 September 30, 2023 totaled \$6.4 million \$17.5 million, compared to cash provided of \$39.4 million \$42.5 million for the comparable period of 2022. For the six nine months ended June 30, 2023 September 30, 2023, net cash used in investing activities consisted primarily of the purchase of investments and restricted investments of \$11.5 million, \$25.3 million and the purchase of property, equipment and software of \$5.8 million \$8.1 million, partially offset by proceeds from sales and maturities of investments and restricted investments of \$11.1 million \$15.8 million.

Net cash used in financing activities for the six nine months ended June 30, 2023 September 30, 2023 was \$23.2 million \$37.4 million, compared to cash used of \$36.5 million \$50.0 million for the comparable period of 2022. For the six nine months ended June 30, 2023 September 30, 2023, net cash used in financing activities primarily consisted of repurchases of common stock of \$18.2 million \$29.1 million and dividend payments of \$4.1 million \$6.1 million.

The Company is required to maintain minimum collateral levels for certain policies issued under the insured program, which is held in a trust account (the "trust account"). The balance in the trust account was \$163.4 million \$178.7 million and \$188.2 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively. The trust account balance is included as a component of the current and long-term restricted cash and investments in the Company's condensed consolidated balance sheets.

See "Note 4 – Revolving Credit Facility and Long-Term Debt" to the unaudited condensed consolidated financial statements included in Item 1 of Part I of this report for additional information regarding the Company's credit agreement with Wells Fargo Bank, N.A.

Forward-Looking Information

Statements in this report include forward-looking statements which are not historical in nature and are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, discussion of economic conditions in our market areas and their effect on revenue levels, the lingering effects of the COVID-19 pandemic on our business operations, the competitiveness of our service offerings, the availability of certain fully insured medical and other health and welfare benefits to qualifying worksite employees, our

ability to attract and retain clients and to achieve revenue growth, the effect of changes in our mix of services on gross margin, the effect of tight labor market conditions, the adequacy of our workers' compensation reserves, the effect of changes in estimates of our future claims liabilities on our workers' compensation reserves, including the effect of changes in our reserving practices and claims management process on our actuarial estimates, expected levels of required surety deposits and letters of credit, our ability to generate sufficient taxable income in the future to utilize our deferred tax assets, the effect of our formation and operation of two wholly owned licensed insurance subsidiaries, the risks of operation and cost of our insured program, the financial viability of our excess insurance carriers, the effectiveness of our management information systems, our relationship with our primary bank lender and the availability of financing and working capital to meet our funding requirements, litigation costs, the effect of changes in the interest rate environment on the value of our investment securities, the adequacy of our allowance for doubtful accounts, and the potential for and effect of acquisitions.

All our forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors with respect to the Company include: our ability to retain current clients and attract new clients; the effects of governmental orders, laws or regulations imposing requirements related to the COVID-19 pandemic; difficulties associated with integrating clients into our operations; economic trends in our service areas; the potential for material deviations from expected future workers' compensation claims experience; changes in the workers' compensation regulatory environment in our primary markets; security breaches or failures in the Company's information technology systems; collectability of accounts receivable; changes in executive management; changes in effective payroll tax rates and federal and state income tax rates; the carrying values of deferred income tax assets and goodwill (which may be affected by our future operating results); the effects of inflation on our operating expenses and those of our clients; the impact of and potential changes to the Patient Protection and Affordable Care Act, escalating medical costs, and other health care legislative initiatives on our business; the effect of conditions in the global capital markets on our investment portfolio; and the availability of capital, borrowing capacity on our revolving credit facility, or letters of credit necessary to meet state-mandated surety deposit requirements for maintaining our status as a qualified self-insured employer for workers' compensation coverage or our insured program. Additional risk factors affecting our business are discussed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2022, which was filed with the SEC on March 6, 2023, and in Item 1A of Part II of this report. We disclaim any obligation to publicly announce any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

27 26

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk for changes in interest rates primarily relates to its investment portfolio and its outstanding borrowings on its line of credit. As of June 30, 2023 September 30, 2023, the Company's investments consisted principally of approximately \$105.7 million \$104.3 million in corporate bonds, \$60.4 million \$97.9 million in U.S. treasuries,

\$51.1 million \$47.5 million in mortgage backed securities, \$29.3 million \$27.5 million in U.S. government agency securities, \$14.0 million \$14.1 million in asset backed securities, \$11.7 million in money market funds, \$8.0 million \$7.9 million in mutual funds, and \$2.0 million in emerging markets securities. securities and \$1.7 million in money market funds. Based on the Company's overall interest exposure at June 30, 2023 September 30, 2023, a 50 basis point increase in market interest rates would have a \$5.5 million \$5.2 million downward effect on the fair value of the Company's investment portfolio. At June 30, 2023 September 30, 2023, the Company had no outstanding borrowings on its line of credit.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

We maintain "disclosure controls and procedures" that are designed with the objective of providing reasonable assurance that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply their judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on their evaluation, the Company's CEO and CFO have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective as of June 30, 2023 September 30, 2023.

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 quarter ended June 30, 2023 September 30, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Inherent Limitations

Control systems, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control systems' objectives are being met. Further, the design of any control systems must reflect the fact that there are resource constraints, and the benefits of all controls must be considered relative to their costs. Due to the inherent

limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple errors or mistakes. Control systems can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II-OTHER INFORMATION

Item 1. Legal Proceedings

Refer to "Note 6 - Litigation," to the condensed consolidated financial statements included in Part I, Item 1 of this report for information regarding legal proceedings in which we are involved.

Item 1A. Risk Factors

Other than the information below, there have been no material changes in the risk factors that were included in our Annual Report on Form 10-K for the year ended December 31, 2022, which was filed with the SEC on March 6, 2023.

If we are determined not to be an "employer" under certain laws and regulations, our clients may stop using our services, and we may be subject to additional liabilities.

We are the administrative employer in our co-employment relationships under the various laws and regulations of the IRS and the U.S. Department of Labor. If we are determined not to be the administrative employer under such laws and regulations and are therefore unable to assume our clients' obligations for employment and other taxes, our clients may be held jointly and severally liable for payment of such taxes. Some clients or prospective clients may view such potential liability as an unacceptable risk, discouraging current clients from continuing a relationship with us or prospective clients from entering into a new relationship with us. Any determination that we are not the administrative employer for purposes of ERISA could also adversely affect our ability to offer health care benefits to our PEO clients by subjecting us to additional state and federal laws and regulations, and could materially adversely affect our business, financial condition, and results of operations.

Our business is subject to risks associated with healthcare reforms.

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the "Acts") subject us to potential penalties unless we offer our employees minimum essential healthcare coverage that is

affordable. To comply with the employer mandate provision of the Acts, we offer health care coverage to all temporary and permanent employees eligible for coverage under the Acts other than employees of our PEO clients, which are responsible for providing required health care coverage to their employees. Designating employees as eligible is complex and is subject to challenge by employees and the Internal Revenue Service (“IRS”). 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.

Additionally, we began offering employee health and welfare benefits to our PEO clients beginning in 2023. 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 or repeal of the Acts or changed interpretations of our obligations under the Acts. If new healthcare legislation or future changes to the Acts were to increase the cost of providing health care benefits, or to limit our ability to offer health care benefits to our PEO clients, our business, operating results, and financial condition could be materially adversely affected.

Failure to comply with applicable data security and privacy regulations related to our health care offering could adversely affect our business.

As BBSI began offering health benefits to our PEO clients in 2023, we have access to protected health information (PHI) of our client employees. Compliance with federal and state regulations such as HIPAA and the HITECH Act is required for handling this PHI. HIPAA imposes limitations on the use and disclosure of PHI, and sets requirements for health data privacy, security, and breach notification. Non-compliance with HIPAA can lead to penalties and fines. Failure to appropriately comply with data security regulations could materially adversely impact our business, reputation, operating results, and financial condition.

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

The following table summarizes information related to stock repurchases during the quarter ended June 30, 2023 September 30, 2023.

Month	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plan ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Repurchased Under the Plan ⁽¹⁾
April	5,000	\$ 82.77	5,000	\$ 19,389,728
May	90,461	81.41	90,461	12,024,947

June	27,900	84.80	27,900	9,659,076
Total	123,361		123,361	

<u>Month</u>	<u>Total Number of Shares Repurchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Repurchased as Part of Publicly Announced Plan ⁽¹⁾</u>	<u>Approximate Dollar Value of Shares that May Yet Be Repurchased Under the Plan ⁽¹⁾</u>
July	-	\$ -	-	\$ 75,000,000
August	48,500	95.66	48,500	70,360,386
September	66,900	93.83	66,900	64,082,866
Total	115,400		115,400	

⁽¹⁾ On February 28, 2022, the Board of Directors authorized the repurchase of up to \$75.0 million of the Company's common stock over a two-year period beginning February 28, 2022. As of June 30, 2023, the Company had repurchased 819,851 shares at an aggregate purchase price of \$65.3 million. On July 31, 2023, the Board of Directors authorized the repurchase of up to \$75.0 million of the Company's common stock over a two-year period beginning July 31, 2023. The new repurchase program replaces the program approved in February 2022. As of September 30, 2023, the Company had repurchased 115,400 shares at an aggregate purchase price of \$10.9 million under the new repurchase program.

Item 5. Other Information

(a) On July 31, 2023, the Company entered into an amended credit agreement with the Bank. Under the Amendment, the Company's revolving credit line of \$50.0 million was extended from July 1, 2024 to July 1, 2026. The amendment increased the sublimit for standby letters of credit from \$8.0 million to \$25.0 million, increased the unused commitment fee from 0.30% per year to 0.35% per year on the average daily unused amount of the revolving credit line, and modified certain financial covenants and restrictions.

For additional information regarding the Company's borrowing relationship with the Bank, see "Note 4 – Revolving Credit Facility and Long-Term Debt" to the unaudited condensed consolidated financial statements included in Item 1 of Part I of this report. The amended loan documents are filed with this report as Exhibits 4.1 and 4.2.

(b) Not applicable.

(c) Not applicable.

Item 6. Exhibits

- 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.](#)
- 4.1 [First Amendment, effective as of June 12, 2023, to Third Amended and Restated Credit Agreement between the Registrant and Wells Fargo Bank, National Association.](#)
- 4.2 [Fifth Amended and Restated Revolving Line of Credit Note effective June 12, 2023 of the Registrant.](#)
- 101.INS Inline XBRL Instance Document- the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 September 30, 2023, has been formatted in Inline XBRL.

*Furnished, not filed.

SIGNATURES

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

BARRETT BUSINESS SERVICES, INC.

Registrant

Date: August 2, 2023 November 1, 2023

By: /s/ Anthony J. Harris

Anthony J. Harris

Executive Vice President and Chief Financial Officer and
Treasurer

31 30

FIRST AMENDMENT TO THIRD AMENDED AND RESTATED CREDIT AGREEMENT

THIS AMENDMENT TO CREDIT AGREEMENT (this "Amendment") dated June 12, 2023, is entered into by and between BARRETT BUSINESS SERVICES, INC., a Maryland corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Third Amended and Restated Credit Agreement between Borrower and Bank dated March 1, 2022, as amended from time to time ("Credit Agreement").

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

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

1. Section 1.1. (a) is hereby amended by deleting "July 1, 2024" as the last day on which Bank will make advances under the Line of Credit, and by substituting for said date "July 1, 2026." Any promissory note delivered in connection with this Amendment shall replace and be deemed the Line of Credit Note defined in and made pursuant to the Credit Agreement.

2. Section 1.1. (c) is hereby deleted in its entirety, and the following substituted therefor:

"(c) Standby Letter of Credit Subfeature. As a subfeature under the Line of Credit, Bank agrees from time to time during the term thereof to issue or cause an affiliate to issue standby letters of credit for the account of Borrower (each, a "Subfeature Standby Letter of Credit" and collectively, "Subfeature Standby Letters of Credit"); provided however, that the aggregate undrawn amount of all outstanding Subfeature Standby Letters of Credit shall not at any time exceed Twenty-Five Million Dollars (\$25,000,000.00). The form and substance of each Subfeature Standby Letter of Credit shall be subject to approval by Bank, in its sole discretion. No Subfeature Standby Letter of Credit shall have an expiration date subsequent to the maturity date of the Line of Credit. The undrawn amount of all Subfeature Standby Letters of Credit shall be reserved under the Line of Credit and shall not be available for borrowings thereunder. Each Subfeature Standby Letter of Credit shall be issued for a term not to exceed three hundred sixty-five (365) days, as designated by Borrower; provided however, that no Subfeature Standby Letter of Credit shall be issued with, nor shall Bank be required to renew or (if applicable) allow automatic renewal of any Subfeature Standby Letter of Credit so that it will have, an

expiration date that is subsequent to the maturity date of the Line of Credit (with any such Subfeature Standby Letter of Credit with an expiration date subsequent to the maturity of the Line of Credit to be referred to as an "Extended Date Letter of Credit") unless Borrower immediately upon demand by Bank at any time, provides Bank with cash collateral (which may be in addition to or, if agreed by Bank, may be a replacement for, such other collateral that may have been granted by Borrower to Bank, pursuant to this Agreement or otherwise), consisting of a deposit account maintained by Borrower with Bank in an amount that is not less than one hundred five percent (105%) of the undrawn amount of such Extended Date Letter of Credit, as evidenced by and subject to the security agreements

and other documents as Bank shall reasonably require, all in form and substance satisfactory to Bank; and provided further, that in no event shall any Extended Date Letter of Credit have a then current expiration date more than three hundred sixty-five (365) days beyond the maturity date of the Line of Credit."

3. The following is hereby added to the Credit Agreement as Section 1.1. (d):

"(d) Increase in Line of Credit Amount. Borrower may, at any time during the term of the Line of Credit, request an increase in the aggregate principal amount of the Line of Credit of up to \$50,000,000.00 (which shall not result in the aggregate principal amount of the Line of Credit hereunder exceeding \$100,000,000.00) by submitting such request in writing to Bank specifying the dollar amount of the increase. Bank may approve such request, so long as (i) credit approves such request, which shall be at Bank's sole and absolute discretion, (ii) before and after such increase, no Event of Default as defined herein, and no condition, event or act which with the giving of notice or the passage of time or both would constitute such an event of Default, shall have occurred and be continuing or shall exist, and (iii) Borrower executes and delivers any loan documentation related to such increase as requested by Bank, including, but not limited to, a new promissory note or modification to the Line of Credit Note evidencing such increase."

4. Section 1.2. (c) is hereby deleted in its entirety, and the following substituted therefor:

"(c) Unused Commitment Fee. Borrower shall pay to Bank a fee equal to thirty-five hundredths percent (0.35%) per annum (computed on the basis of a 360-day year, actual days elapsed) on the daily unused amount of the Line of Credit, which fee shall be calculated on a quarterly basis by Bank and shall be due and payable by Borrower in arrears on the first day of each July, December, January and April, commencing on July 1, 2023."

5. Section 4.9. (b) is hereby deleted in its entirety, and the following substituted therefor:

"(b) Tangible Net Worth not less than \$50,000,000.00 at each fiscal quarter end, with "Tangible Net Worth" defined as the aggregate of total stockholders' equity plus subordinated debt less any intangible assets and less any loans or advances to, or investments in, any related entities or individuals."

6. Section 5.3. is hereby deleted in its entirety, and the following substituted therefor:

"SECTION 5.3. MERGER, CONSOLIDATION, TRANSFER OF ASSETS. (a) Merge into or consolidated with any other entity; (b) make any substantial change in the nature of Borrower's or any Affiliate's business as conducted as of the date hereof; (c) acquire all or substantially all of the assets of any other entity, except for a Permitted Acquisition (as defined below); (d) sell, lease, transfer or otherwise dispose of all or a substantial or material portion of Borrower's or any Affiliate's assets except in the ordinary course of its business, nor (e) accomplish any of the above by virtue of a division or similar transaction. "Permitted Acquisition" means any acquisition by Borrower of all or substantially all of the operating assets of any person or entity so long as all of the following conditions are satisfied: (i) the acquisition is consummated in compliance with applicable law, (ii) there exists no Event of Default, nor any act, condition or event which with the giving of notice or the passage of time or both would constitute and Event of

Default, and no such Event of Default or potential Event of Default results after giving effect to the acquisition, (iii) the aggregate consideration (valuing any non-cash consideration at its fair market value, and including without limitation the amount of all liabilities assumed or acquired) does not exceed \$25,000,000.00 for each such acquisition and does not exceed \$25,000,000.00 in the aggregate in any fiscal year, and (iv) Borrower provides Bank with notice of the acquisition at least thirty (30) days prior thereto."

7. The effective date of this Amendment shall be the date that all of the following conditions set forth in this Section have been satisfied, as determined by Bank and evidenced by Bank's system of record. Notwithstanding the occurrence of the effective date of this Amendment, Bank shall not be obligated to extend credit under this Amendment or any other Loan Document until all conditions to each extension of credit set forth in the Credit Agreement have been fulfilled to Bank's satisfaction.

(a) Approval of Bank Counsel. All legal matters incidental to the effectiveness of this Amendment shall be satisfactory to Bank's counsel.

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

(i) This Amendment and each promissory note or other instrument or document required hereby.

(ii) Such other documents as Bank may require under any other Section of this Amendment.

(c) Regulatory and Compliance Requirements. All regulatory and compliance requirements, standards and processes shall be completed to the satisfaction of Bank.

(d) Change fee. Immediately upon signing this Amendment Borrower shall pay to Bank a non-refundable fee of \$50,000.00.

8. Except as specifically provided herein, all terms and conditions of the Credit Agreement remain in full force and effect, without waiver or modification. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment. This Amendment and the Credit Agreement shall be read together, as one document.

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

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

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, have caused this Amendment to be effective as of the effective date set forth herein.

BARRETT BUSINESS SERVICES, INC.

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: /s/ Anthony J. Harris

ANTHONY HARRIS,
CHIEF FINANCIAL OFFICER

By: /s/ David Cruz

DAVID CRUZ, DIRECTOR

EXHIBIT 4.2

FIFTH AMENDED AND RESTATED REVOLVING LINE OF CREDIT NOTE

\$50,000,000.00 Los Angeles, California

June 12, 2023

This Note amends, restates and supersedes in its entirety, and is given as a replacement for, and not in satisfaction of or as a novation with respect to, that certain Fourth Amended and Restated Revolving Line of Credit Note in the principal amount of Fifty Million Dollars (\$50,000,000.00), executed by Borrower in favor of Bank and dated March 1, 2022, as amended or modified from time to time.

FOR VALUE RECEIVED, the undersigned BARRETT BUSINESS SERVICES, INC. ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at MAC: E2186-129, 1800 Century Park E, 12th Floor, Los Angeles, California 90067, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of Fifty Million Dollars (\$50,000,000.00), or so much thereof as may be advanced and be outstanding pursuant to the terms of the Credit Agreement, as defined herein, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

DEFINITIONS:

As used herein, the following terms shall have the meanings set forth after each, and any other term defined in this Note shall have the meaning set forth at the place defined:

(a) "Benchmark Floor" means a rate of interest equal to zero percent (0%).

(b) "Daily Simple SOFR" means, with respect to any day (a "SOFR Rate Day"), a rate per annum equal to SOFR for the day (such day, the "SOFR Determination Day") that is two (2) U.S. Government Securities Business Days prior to (i) if such SOFR Rate Day is a U.S. Government Securities Business Day, such SOFR Rate Day or (ii) if such SOFR Rate Day is not a U.S. Government Securities Business Day, the U.S. Government Securities Business Day immediately preceding such SOFR Rate Day, in each case, as such SOFR is published by the SOFR Administrator on the SOFR Administrator's Website; provided, however, that if Daily Simple SOFR determined as provided above would be less than the Benchmark Floor, then Daily Simple SOFR shall be deemed to be the Benchmark Floor. If by 5:00 p.m. (New York City time) on the second (2nd) U.S. Government Securities Business Day immediately following any SOFR Determination Day, SOFR in respect of such SOFR Determination Day has not been published on the SOFR Administrator's Website and a Benchmark Replacement Date with respect to Daily Simple SOFR has not occurred, then SOFR for such SOFR Determination Day will be SOFR as published in respect of the first preceding U.S. Government Securities Business Day for which SOFR was published on the SOFR Administrator's Website; provided that any SOFR determined pursuant to this sentence shall be utilized for purposes of calculation of Daily Simple SOFR for no more than three (3) consecutive SOFR Rate Days.

(c) "Federal Reserve Business Day:" means any day that is not a Saturday, Sunday or other day on which the Federal Reserve Bank of New York is closed.

(d) "Interest Period" means a period commencing on a Federal Reserve Business Day and continuing for one (1) month during which all or a portion of the entire outstanding principal balance of this Note bears interest determined in relation to SOFR Average with the understanding, that (i) no Interest Period may be selected for a principal amount less than One Hundred Thousand Dollars (\$100,000.00),

-1-

(ii) if the day after the end of any Interest Period is not a Federal Reserve Business Day (so that a new Interest Period could not be selected by Borrower to start on such day), then such Interest Period shall continue up to, but shall not include, the next Federal Reserve Business Day after the end of such Interest Period, unless the result of such extension would be to cause any immediately following Interest Period to begin in the next calendar month in which event the Interest Period shall continue up to, but shall not include, the Federal Reserve Business Day immediately preceding the last day of such Interest Period, and (iii) no Interest Period shall extend beyond the scheduled maturity date hereof.

(e) "Prime Rate" means at any time the rate of interest most recently announced within Bank at its principal office as its prime rate, with the understanding that the Prime Rate is one of Bank's base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof after its announcement in such internal publication or publications as Bank may designate; provided, however, that if Prime Rate determined as provided above would be less than zero percent (0 %), then Prime Rate shall be deemed to be zero percent (0%).

(f) "SOFR" means a rate per annum equal to the secured overnight financing rate as administered by the SOFR Administrator.

(g) "SOFR Administrator" means the Federal Reserve Bank of New York (or a successor administrator of the secured overnight financing rate).

(h) "SOFR Administrator's Website" means the website of the Federal Reserve Bank of New York, currently at <http://www.newyorkfed.org>, or any successor source for the secured overnight financing rate identified as such by the SOFR Administrator from time to time.

(i) "SOFR Average" means, for any Interest Period, the rate per annum determined by Bank as the compounded average of SOFR over a rolling calendar day period of thirty (30) days ("30-Day SOFR Average"), for the day (such day, the "SOFR Average Determination Day") that is two (2) U.S. Government Securities Business Days prior to the first day of such Interest Period as such rate is published by the SOFR Administrator on the SOFR Administrator's Website; provided, however, that (i) if as of 5:00 p.m. (New York City time) on any SOFR Average Determination Day, such 30-Day SOFR Average has not been published on the SOFR Administrator's Website and a Benchmark Replacement Date with respect to SOFR Average has not occurred, then SOFR Average will be the 30-Day SOFR Average as published on the SOFR Administrator's Website for the first preceding U.S. Government Securities Business Day for which such 30-Day SOFR Average was published on the SOFR Administrator's Website so long as the first preceding U.S. Government Securities Business Day is not more than three (3) U.S. Government Securities Business Days prior to such SOFR Average Determination Day and (ii) if SOFR Average determined as provided above (including pursuant to clause (i) of this proviso) would be less than the Benchmark Floor, then SOFR Average shall be deemed to be the Benchmark Floor.

(j) "U.S. Government Securities Business Day" means any day except for (i) a Saturday, (ii) a Sunday or (iii) a day on which the Securities Industry and Financial Markets Association, or any successor thereto, recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in United States government securities.

INTEREST:

(a) Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) either (i) at a fluctuating rate per annum determined by Bank to be one and seventy-five hundredths percent (1.75%) above Daily Simple SOFR in effect from time to time, or (ii) at a fixed rate per annum determined by Bank to be one and seventy-five hundredths percent (1.75%) above SOFR Average in effect on the first day of the applicable Interest Period. Bank is hereby authorized to note the date, principal amount and interest rate applicable to this Note and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on

any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted. Bank shall be permitted to estimate the amount of accrued interest that is payable at any time hereunder on the applicable invoice provided by Bank to Borrower in respect thereof, in which case Borrower shall pay such estimated amount and Bank shall to the extent necessary, include on the next invoice an adjustment to correct any difference between the amount on the applicable invoice and the amount of interest that actually accrued pursuant to the terms of this Note.

(b) Selection of Interest Rate Options. Subject to the provisions herein regarding Interest Periods and the prior notice required for the selection of a SOFR Average interest rate, (i) at any time any portion of this Note bears interest determined in relation to SOFR Average for an Interest Period, (A) it may be continued by Borrower at the end of the Interest Period applicable thereto so that all or a portion thereof bears interest determined in relation to SOFR Average for a new Interest Period designated by Borrower, or (B) Borrower may convert all or a portion thereof so that it bears interest determined in relation to Daily Simple SOFR, (ii) at any time any portion of this Note bears interest determined in relation to Daily Simple SOFR, Borrower may convert all or a portion thereof so that it bears interest determined in relation to SOFR Average for an Interest Period designated by Borrower, and (iii) at the time an advance is made hereunder, Borrower may choose to have all or a portion thereof bear interest determined in relation to Daily Simple SOFR, or to SOFR Average for an Interest Period designated by Borrower.

To select a SOFR Average option hereunder, Borrower shall give Bank notice thereof that is received by Bank prior to 11:00 a.m. in the time zone of the city referenced on the first page of this Note above the Note date on a Federal Reserve Business Day at least two (2) Federal Reserve Business Days prior to the first day of the Interest Period, or at a later time during such Federal Reserve Business Day if Bank, at its sole option but without obligation to do so, accepts Borrower's notice and quotes a fixed rate to Borrower. Such notice shall specify: (A) the interest rate option selected by Borrower, (B) the principal amount subject thereto, and (C) for each SOFR Average selection, to the extent Borrower has the option to designate the length of an Interest Period, the length of the applicable Interest Period. If Bank has not received such notice in accordance with the foregoing before an advance is made hereunder or before the end of any Interest Period, Borrower shall be deemed to have made a Daily Simple SOFR interest selection for such advance on the principal amount to which such Interest Period applied. Any such notice may be given by telephone (or such other electronic method as Bank may permit) so long as it is given in accordance with the foregoing and, with respect to each SOFR Average selection, if requested by Bank, Borrower provides to Bank written confirmation thereof not later than three (3) Federal Reserve Business Days after such notice is given. Borrower shall reimburse Bank immediately upon demand for any loss or expense (including any loss or expense incurred by reason of the liquidation or redeployment of funds obtained to fund or maintain a SOFR Average borrowing) incurred by Bank as a result of the failure of Borrower to accept or complete a SOFR Average borrowing hereunder after making a request therefor. Any reasonable determination of such amounts by Bank shall be conclusive and binding upon Borrower. Should more than one person or entity sign this Note as a Borrower, any notice required above may be given by any one Borrower acting alone, which notice shall be binding on all other Borrowers.

(c) Taxes and Regulatory Costs. Borrower shall pay to Bank immediately upon demand, in addition to any other amounts due or to become due hereunder, any and all (i) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority and related in any

manner to SOFR, Daily Simple SOFR or SOFR Average, and (ii) costs, expenses and liabilities arising from or in connection with reserve percentages prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Board of Governors of the Federal Reserve System, as amended), assessment rates imposed by the Federal Deposit Insurance Corporation, or similar requirements or costs imposed by any domestic or foreign governmental authority or resulting from compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority and related in any manner to SOFR, Daily Simple SOFR or SOFR Average. In determining which of the foregoing are attributable to any SOFR, Daily Simple SOFR or SOFR Average option available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

-3-

(d) Default Interest. Bank shall have the option in its sole and absolute discretion to have the outstanding principal balance of this Note bear interest at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to four percent (4.0%) above the rate of interest from time to time applicable to this Note (i) from and after the maturity date of this Note; (ii) from and after the date prior to the maturity date of this Note when all principal owing hereunder becomes due and payable by acceleration or otherwise; and/or (iii) upon the occurrence and during the continuance of any Event of Default.

(e) Inability to Determine Interest Rates; Illegality. Subject to the Benchmark Replacement Provisions below, if Bank determines (any determination of which shall be conclusive and binding on Borrower) that either (i) Daily Simple SOFR or SOFR Average cannot be determined pursuant to the definition thereof other than as a result of a Benchmark Transition Event (an "Inability Determination") or (ii) any law has made it unlawful, or that any governmental authority has asserted that it is unlawful, for Bank to make or maintain an advance based on SOFR, Daily Simple SOFR or SOFR Average, or to determine or charge interest rates based upon SOFR, Daily Simple SOFR or SOFR Average (an "Illegality Determination"), then Bank will so notify Borrower. If the foregoing Inability Determination or Illegality Determination relates to Daily Simple SOFR, then any outstanding principal balance of this Note bearing interest determined in relation to Daily Simple SOFR shall bear interest (computed on the basis of a 360-day year, actual days elapsed) at a fluctuating rate per annum determined by Bank to be equal to the Prime Rate in effect from time to time, from the date of such Inability Determination or such Illegality Determination until Bank revokes such Inability Determination or notifies Borrower that the circumstances giving rise to such Illegality Determination no longer exist, as applicable. If the foregoing Inability Determination or Illegality Determination relates to SOFR Average, then any outstanding principal balance of this Note bearing interest determined in relation to SOFR Average shall bear interest (computed on the basis of a 360-day year, actual days elapsed) at a fluctuating rate per annum determined by Bank to be equal to the Prime Rate in effect from time to time, from the date of such Inability Determination or such Illegality Determination until Bank revokes such Inability Determination or notifies Borrower that the circumstances giving rise to such Illegality Determination no longer exist, as applicable; provided, however, that, with respect to any outstanding principal balance of this Note bearing interest determined in relation to SOFR Average, no such determination of interest shall take effect during any applicable Interest Period as a result of an Inability Determination. When interest is determined in relation to the Prime Rate, each change in the rate of interest hereunder shall become effective on the date each Prime Rate change is announced within Bank.

Notwithstanding any of the foregoing to the contrary, if a Benchmark Replacement is subsequently determined in accordance with applicable Benchmark Replacement Provisions, that Benchmark Replacement, plus any applicable margin, will then supersede the foregoing with respect to the replaced Benchmark.

BENCHMARK REPLACEMENT PROVISIONS:

Notwithstanding anything to the contrary contained in this Note or in any related loan document (for the purposes of these Benchmark Replacement Provisions, a swap agreement by and between Borrower and Bank or any of its affiliates is not a loan document):

(a) Benchmark Replacement. If a Benchmark Transition Event with respect to any applicable then-current Benchmark occurs, the applicable Benchmark Replacement will replace such Benchmark for all purposes under this Note or under any related loan document. Any Benchmark Replacement will become effective on the applicable Benchmark Replacement Date without any further action or consent of Borrower.

(b) Benchmark Replacement Conforming Changes. Bank will have the right to make Benchmark Replacement Conforming Changes from time to time and any amendments implementing such Benchmark Replacement Conforming Changes will become effective without any further action or consent of Borrower.

-4-

(c) Notices; Standards for Decisions and Determinations. Bank will promptly notify Borrower of (i) the implementation of any Benchmark Replacement and (ii) the effectiveness of any Benchmark Replacement Conforming Changes. Any determination, decision or election that may be made by Bank pursuant to these Benchmark Replacement Provisions, including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, will be conclusive and binding absent manifest error and will be made in its sole discretion and without Borrower consent.

(d) Certain Defined Terms. As used in this Note, each of the following capitalized terms has the meaning given to such term below:

(i) "Benchmark" means, initially, Daily Simple SOFR or SOFR Average, as applicable; provided, however, that if a Benchmark Transition Event has occurred with respect to Daily Simple SOFR, SOFR Average or the applicable then-current Benchmark, then "Benchmark" means the applicable Benchmark Replacement to the extent that such Benchmark Replacement has become effective pursuant to the provisions of this Note.

(ii) "Benchmark Administrator" means, initially, the SOFR Administrator or any successor administrator of the applicable then-current Benchmark or any insolvency or resolution official with authority over such administrator.

(iii) "Benchmark Replacement" means the sum of: (A) the alternate rate of interest that has been selected by Bank as the replacement for the applicable then-current Benchmark; and (B) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected by Bank, in each case, giving due consideration to (x) any selection or recommendation by the Relevant Governmental Body at such time for a replacement rate, the mechanism for determining such a rate, the methodology or conventions applicable to such rate, or the spread adjustment, or method for calculating or determining such spread adjustment, for such rate, or (y) any evolving or then-prevailing market convention for determining a rate of interest as a replacement to the applicable

then-current Benchmark, the methodology or conventions applicable to such rate, or the spread adjustment, or method for calculating or determining such spread adjustment, for such alternate rate for U.S. dollar-denominated syndicated or bilateral credit facilities at such time; provided, however, that if the applicable Benchmark Replacement as determined as provided above would be less than the Benchmark Floor, then the applicable Benchmark Replacement shall be deemed to be the Benchmark Floor, subject to any other applicable floor rate provision.

(iv) "Benchmark Replacement Conforming Changes" means any technical, administrative or operational changes (including, without limitation, changes to the definition of "U.S. Government Securities Business Day," the definition of "Interest Period," the timing and frequency of determining rates and making payments of interest, prepayment provisions and other technical, administrative or operational matters) that Bank decides may be appropriate to reflect the adoption and implementation of a Benchmark Replacement and to permit the administration thereof by Bank.

(v) "Benchmark Replacement Date" means the date specified by Bank in a notice to Borrower following a Benchmark Transition Event.

(vi) "Benchmark Transition Event" means the occurrence of one or more of the following events with respect to any then-current Benchmark: a public statement or publication of information by or on behalf of the Benchmark Administrator or a regulatory supervisor for the Benchmark Administrator announcing that (A) the Benchmark Administrator has ceased or will cease to provide such Benchmark permanently or indefinitely or (B) such Benchmark is no longer, or as of a specified future date will no longer be, representative of underlying markets.

(vii) "Relevant Governmental Body," means the Board of Governors of the Federal Reserve System and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by

-5-

the Board of Governors of the Federal Reserve System and/or the Federal Reserve Bank of New York or any successor thereto.

BORROWING AND REPAYMENT:

(a) Borrowing and Repayment of Principal. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of any document executed in connection with or governing this Note; provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for Borrower, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on July 1, 2026.

(b) Payment of Interest. Interest accrued on this Note shall be payable on the first day of each month, commencing July 1, 2023, and on the maturity date set forth above.

(c) Advances. Advances hereunder, to the total amount of the principal sum stated above, may be made by the holder at the oral or written request of (i) ANTHONY HARRIS or GARY KRAMER, any one acting alone (subject to any of Bank's applicable authentication policies or procedures, which may require that a particular individual—including another specific individual listed above—provide verification of the identity of the requestor), who are authorized to request advances and direct the disposition of any advances until written notice of the revocation of such authority is received by the holder at

the office designated above, or (ii) any person, with respect to advances deposited to the credit of any deposit account of Borrower, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account. The holder shall have no obligation to determine whether any person requesting an advance is or has been authorized by Borrower.

(d) Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof. All payments credited to principal shall be applied first, to the outstanding principal balance of this Note which bears interest determined in relation to Daily Simple SOFR, if any, and second, to the outstanding principal balance of this Note which bears interest determined in relation to SOFR Average, with such payments applied to the oldest Interest Period first.

PAYMENTS:

If any payment of principal or interest to be made pursuant to this Note, other than a prepayment or a payment due on the maturity date of this Note, shall fall due on a day that is not a Federal Reserve Business Day, payment shall be made on the next succeeding Federal Reserve Business Day, except that, if such next succeeding Federal Reserve Business Day would fall in the next calendar month, such payment shall be made on the immediately preceding Federal Reserve Business Day. Any extension or contraction of time shall be reflected in computing interest or fees, as the case may be.

PREPAYMENT:

(a) Daily Simple SOFR. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to Daily Simple SOFR, in any amount and without penalty.

(b) SOFR Average. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to SOFR Average in the minimum amount of One Hundred Thousand Dollars (\$100,000.00); provided however, that if the outstanding principal balance of such portion of this Note is less than said amount, the minimum prepayment amount shall be the entire outstanding principal balance hereof. In consideration of Bank providing this prepayment option to Borrower, or if any such

-6-

portion of this Note shall become due and payable at any time prior to the last day of any Interest Period by acceleration or otherwise, Borrower shall pay to Bank immediately upon demand a fee which is the amount, if any, by which (i) exceeds (ii) below:

- (i) The amount of interest that would have accrued on the amount prepaid at the interest rate applicable to such amount had it remained outstanding until the last day of the Interest Period applicable thereto.
- (ii) The amount of interest that would have accrued on the amount prepaid at the SOFR Average (without adding any spread or margin specified in part (a) under the "INTEREST" section of this Note) that would have been applicable to such amount had this Note been disbursed on the repayment date and remained outstanding until the last day of the Interest Period applicable thereto.

Borrower acknowledges that prepayment of such amount may result in Bank incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or liabilities. Borrower, therefore, agrees to pay the above-described prepayment fee and agrees that said amount represents a reasonable estimate of the

prepayment costs, expenses and/or liabilities of Bank. If Borrower fails to pay any prepayment fee when due, the amount of such prepayment fee shall thereafter bear interest until paid at a rate per annum two percent (2.00%) above the Prime Rate in effect from time to time (computed on the basis of a 360-day year, actual days elapsed).

(c) Application of Prepayments. If principal under this Note is payable in more than one installment, then any prepayments of principal shall be applied to the most remote principal installment or installments then unpaid.

SWAP AGREEMENT:

Borrower understands and acknowledges that (i) any Swap Agreement constitutes an independent agreement between Borrower and Bank and will be unaffected by any repayment, prepayment, acceleration, reduction, increase or change in the terms of this Note, except as otherwise expressly provided in the Swap Agreement, (ii) nothing in this Note shall be construed as a modification of a Swap Agreement or create an obligation to amend a Swap Agreement, (iii) Borrower may incur losses or reductions in benefits related to differences between the economic terms and characteristics of this Note and those of a related Swap Agreement (including, without limitation, differences with respect to maturity dates, payment dates and methods for determining interest rates and differences between borrowings hereunder and the notional amount of a Swap Agreement), and Bank is under no obligation to ensure that there are no differences or that differences will not arise hereafter, including, without limitation, differences between usage hereunder and the notional amount of a Swap Agreement, and (iv) Bank has no obligation to modify, renew or extend the maturity date of this Note to match the maturity date of a Swap Agreement. For the purposes of this Note, "Swap Agreement" means any existing or future swap agreement by and between Borrower and Bank or any of its affiliates.

EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of that certain Third Amended and Restated Credit Agreement between Borrower and Bank dated March 1, 2022, as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

MISCELLANEOUS:

(a) Remedies. Upon the sale, transfer, hypothecation, assignment or other encumbrance, whether voluntary, involuntary or by operation of law, of all or any interest in any real property securing this Note, if any, or upon the occurrence of any Event of Default, the holder of this Note, at the holder's

-7-

option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note whether or not suit is brought, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration

proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Borrower or any other person or entity.

(b) Collateral Exclusion. No lien or security interest created by or arising under any deed of trust, mortgage, security deed, or similar real estate collateral agreement ("Lien Document") shall secure the Note Obligations unless such Lien Document specifically describes the promissory note(s), instrument(s) or agreement(s) evidencing Note Obligations as a part of the indebtedness secured thereby. This exclusion shall apply notwithstanding (i) the fact that such Lien Document may appear to secure the Note Obligations by virtue of a cross-collateralization provision or other provisions expanding the scope of the secured obligations, and (ii) whether such Lien Document was entered into prior to, concurrently with, or after the date hereof. As used herein, "Note Obligations" means any obligations under this Note, as amended, extended, renewed, refinanced, supplemented or otherwise modified from time to time, or under any other evidence of indebtedness that has been modified, renewed or extended in whole or in part by this Note, as amended, extended, renewed, refinanced, supplemented or otherwise modified from time to time.

(c) Obligations Joint and Several. Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

(d) Governing Law. This Note shall be governed by and construed in accordance with the laws of Oregon, but giving effect to federal laws applicable to national banks, without reference to the conflicts of law or choice of law principles thereof.

(e) Effective Date. The effective date of this Note shall be the date that Bank has accepted this Note and all conditions to the effectiveness of the Credit Agreement have been fulfilled to Bank's satisfaction. Notwithstanding the occurrence of the effective date of this Note, Bank shall not be obligated to extend credit under this Note until all conditions to each extension of credit set forth in the Credit Agreement have been fulfilled to Bank's satisfaction.

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

-8-

IN WITNESS WHEREOF, the undersigned has executed this Note to be effective as of the effective date set forth herein.

BARRETT BUSINESS SERVICES, INC.

By: /s/ Anthony J. Harris

ANTHONY HARRIS,
CHIEF FINANCIAL OFFICER

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: /s/ David Cruz
DAVID CRUZ, DIRECTOR

-9-

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Gary E. Kramer, certify that:

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

and report financial information; and

- b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 2, 2023 November 1, 2023

/s/ Gary E. Kramer

Gary E. Kramer

Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Anthony J. Harris, 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 of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the registrant's most-recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
- a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 2, 2023 November 1, 2023

/s/ Anthony J. Harris

Anthony J. Harris

Chief Financial Officer

EXHIBIT 32

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

In connection with the Quarterly Report of Barrett Business Services, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2023 September 30, 2023 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/ Gary E. Kramer

Gary E. Kramer

Chief Executive Officer

/s/ Anthony J. Harris

Anthony J. Harris

Chief Financial Officer

August 2, November 1, 2023

August 2, November 1, 2023

A signed original of this written statement required by Section 906 has been provided to Barrett Business Services, Inc. and will be retained by Barrett Business Services, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2023, Refinitiv. All rights reserved. Patents Pending.