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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 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	**52-0812977**
(State or other jurisdiction of Incorporation or organization)	**(IRS Employer Identification No.)**
8100 NE Parkway Drive, Suite 200 Vancouver, Washington	**98662**
(Address of principal executive offices)	**(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	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

As of April 19, 2023, 6,806,397 shares of the registrant's common stock ($0.01 par value) were outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Unaudited Interim Condensed Consolidated Financial Statements

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

	March 31, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 52,635	$ 91,423
Investments	80,088	68,325
Trade accounts receivable, net	188,013	163,838
Prepaid expenses and other	20,605	19,787
Restricted cash and investments	108,165	110,989
Total current assets	449,506	454,362
Property, equipment and software, net	47,272	45,954
Operating lease right-of-use assets	19,273	19,804
Restricted cash and investments	99,117	104,277
Goodwill	47,820	47,820
Other assets	3,358	3,281
Deferred income taxes	10,044	11,440
Total assets	$ 676,390	$ 686,938
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,384	$ 8,264
Accrued payroll, payroll taxes and related benefits	235,922	222,331
Income taxes payable	722	610
Current operating lease liabilities	7,029	6,957
Other accrued liabilities	29,314	31,603
Workers' compensation claims liabilities	58,233	62,917
Safety incentives liability	1,784	2,049
Total current liabilities	338,388	334,731
Long-term workers' compensation claims liabilities	143,408	153,070
Long-term operating lease liabilities	13,559	14,225
Customer deposits and other long-term liabilities	7,557	7,070
Total liabilities	502,912	509,096
Commitments and contingencies (Notes 4 and 6)		
Stockholders' equity:		
Common stock, $.01 par value; 20,500 shares authorized, 6,800 and 6,871 shares issued and outstanding	68	69
Additional paid-in capital	33,559	32,744
Accumulated other comprehensive expense	(23,942)	(27,594)
Retained earnings	163,793	172,623
Total stockholders' equity	173,478	177,842
Total liabilities and stockholders' equity	$ 676,390	$ 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 March 31, 2023	Three Months Ended March 31, 2022
Revenues:		
Professional employer services	$ 232,307	$ 217,433
Staffing services	22,360	28,942
Total revenues	254,667	246,375
Cost of revenues:		
Direct payroll costs	16,871	21,921
Payroll taxes and benefits	144,582	135,865
Workers' compensation	51,670	48,236
Total cost of revenues	213,123	206,022
Gross margin	41,544	40,353
Selling, general and administrative expenses	41,226	40,165
Depreciation and amortization	1,677	1,508
Loss from operations	(1,359)	(1,320)
Other income (expense):		
Investment income, net	2,315	1,638
Interest expense	(38)	(34)
Other, net	36	32
Other income, net	2,313	1,636
Income before income taxes	954	316
Provision for income taxes	135	28
Net income	$ 819	$ 288
Basic income per common share	$ 0.12	$ 0.04
Weighted average number of basic common shares outstanding	6,866	7,406
Diluted income per common share	$ 0.12	$ 0.04
Weighted average number of diluted common shares outstanding	6,985	7,474

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

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

	Three Months Ended March 31,	
	2023	2022
Net income	$ 819	$ 288
Unrealized income (losses) on investments, net of tax of $1,397 and ($5,487) in 2023 and 2022, respectively	3,652	(14,358)
Comprehensive income (loss)	$ 4,471	$ (14,070)

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

Barrett Business Services, Inc.
Condensed Consolidated Statements of Stockholders' Equity
Three Months Ended March 31, 2023
(Unaudited)
(In Thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
	Shares	Amount				
Balance, December 31, 2022	6,871	$ 69	$ 32,744	$ (27,594)	$ 172,623	$ 177,842
Common stock issued on exercise of options, purchase of ESPP shares and vesting of restricted stock units and performance awards	31	-	339	-	-	339
Common stock repurchased on vesting of restricted stock units and performance awards	(11)	-	(1,005)	-	-	(1,005)
Share-based compensation expense	-	-	1,928	-	-	1,928
Company repurchases of common stock	(91)	(1)	(447)	-	(7,582)	(8,030)
Cash dividends on common stock ($0.30 per share)	-	-	-	-	(2,067)	(2,067)
Unrealized income on investments, net of tax	-	-	-	3,652	-	3,652
Net income	-	-	-	-	819	819
Balance, March 31, 2023	6,800	$ 68	$ 33,559	$ (23,942)	$ 163,793	$ 173,478

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

Barrett Business Services, Inc.
Condensed Consolidated Statements of Stockholders' Equity
Three Months Ended March 31, 2022
(Unaudited)
(In Thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount				
Balance, December 31, 2021	7,415	$ 74	$ 29,054	$ 1,079	$ 178,323	$ 208,530
Common stock issued on exercise of options, purchase of ESPP shares and vesting of restricted stock units and performance awards	18	-	411	-	-	411
Common stock repurchased on vesting of restricted stock units and performance awards	(4)	-	(185)	-	-	(185)
Share-based compensation expense	-	-	1,830	-	-	1,830
Company repurchases of common stock	(115)	(1)	(484)	-	(8,090)	(8,575)
Cash dividends on common stock ($0.30 per share)	-	-	-	-	(2,229)	(2,229)
Unrealized loss on investments, net of tax	-	-	-	(14,358)	-	(14,358)
Net income	-	-	-	-	288	288
Balance, March 31, 2022	7,314	$ 73	$ 30,626	$ (13,279)	$ 168,292	$ 185,712

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

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

	Three Months Ended March 31,	
	2023	2022
Cash flows from operating activities:		
Net income	$ 819	$ 288
Reconciliations of net income to net cash used in operating activities:		
Depreciation and amortization	1,677	1,508
Non-cash lease expense	1,756	1,798
Investment amortization and losses recognized	237	336
Deferred Income taxes	-	25
Share-based compensation	1,928	1,830
Changes in certain operating assets and liabilities:		
Trade accounts receivable	(24,175)	(100,589)
Income taxes	112	223
Prepaid expenses and other	(818)	(1,633)
Accounts payable	(2,880)	(153)
Accrued payroll, payroll taxes and related benefits	13,944	85,897
Other accrued liabilities	(2,372)	50
Workers' compensation claims liabilities	(14,412)	(16,894)
Safety incentives liability	(265)	(1,038)
Operating lease liabilities	(1,819)	(1,725)
Other assets and liabilities, net	(247)	(132)
Net cash used in operating activities	(26,515)	(30,209)
Cash flows from investing activities:		
Purchase of property, equipment and software	(2,995)	(6,754)
Proceeds from sales and maturities of investments	233	10,796
Purchase of restricted investments	(1,725)	(2,272)
Proceeds from sales and maturities of restricted investments	2,446	18,735
Net cash (used in) provided by investing activities	(2,041)	20,505
Cash flows from financing activities:		
Payments on long-term debt	-	(3,510)
Repurchases of common stock	(8,030)	(8,575)
Common stock repurchased on vesting of stock awards	(1,005)	(185)
Dividends paid	(2,067)	(2,229)
Proceeds from exercise of stock options	339	411
Net cash used in financing activities	(10,763)	(14,088)
Net decrease in cash, cash equivalents and restricted cash	(39,319)	(23,792)
Cash, cash equivalents and restricted cash, beginning of period	107,378	78,629
Cash, cash equivalents and restricted cash, end of period	$ 68,059	$ 54,837

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

Note 1 - Basis of Presentation of Interim Period Statements

The accompanying condensed consolidated financial statements are unaudited and have been prepared by Barrett Business Services, Inc. (“BBSI”, the “Company”, “our” or “we”), pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures typically included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. The 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, 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 March 31, 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 $1.8 million and $2.0 million at March 31, 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.

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 three months ended March 31, 2023 and 2022 did not materially differ from interest expense. Income taxes paid by the Company during the three months ended March 31, 2023 and 2022 totaled $0.01 million and $0.04 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):

	March 31, 2023	December 31, 2022	March 31, 2022	December 31, 2021
Cash and cash equivalents	$ 52,635	$ 91,423	$ 46,074	$ 69,405
Restricted cash, included in restricted cash and investments	15,424	15,955	8,763	9,224
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	$ 68,059	$ 107,378	$ 54,837	$ 78,629

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):

	Three Months Ended March 31,	
	2023	2022
Weighted average number of basic shares outstanding	6,866	7,406
Effect of dilutive securities	119	68
Weighted average number of diluted shares outstanding	6,985	7,474

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.

Note 2 - Fair Value Measurement

The following table summarizes the Company’s investments at March 31, 2023 and December 31, 2022 measured at fair value on a recurring basis (in thousands):

	March 31, 2023			December 31, 2022		
	Cost	Gross Unrealized Losses	Recorded Basis	Cost	Gross Unrealized Losses	Recorded Basis
Current:						
Cash equivalents:						
Money market funds	$ 26,823	$ -	$ 26,823	$ 40,296	$ -	$ 40,296
Total cash equivalents	26,823	-	26,823	40,296	-	40,296
Investments:						
Corporate bonds	38,447	(4,644)	33,803	38,489	(5,181)	33,308
Asset backed securities	13,696	(581)	13,115	13,709	(737)	12,972
Mortgage backed securities	15,903	(2,972)	12,931	16,135	(3,139)	12,996
U.S. treasuries	12,439	(1,310)	11,129	-	-	-
U.S. government agency securities	7,366	(240)	7,126	7,369	(302)	7,067
Emerging markets	2,034	(50)	1,984	2,044	(62)	1,982
Total current investments	89,885	(9,797)	80,088	77,746	(9,421)	68,325
Restricted cash and investments [(1)]:						
Corporate bonds	81,833	(9,834)	71,999	81,993	(11,296)	70,697
U.S. treasuries	56,950	(6,441)	50,509	66,479	(9,222)	57,257
Mortgage backed securities	44,878	(5,394)	39,484	46,138	(6,045)	40,093
U.S. government agency securities	26,450	(1,625)	24,825	26,479	(2,156)	24,323
Mutual funds	7,509	-	7,509	6,301	-	6,301
Money market funds	150	-	150	646	-	646
Asset backed securities	-	-	-	9	-	9
Total restricted cash and investments	217,770	(23,294)	194,476	228,045	(28,719)	199,326
Total investments	$ 334,478	$ (33,091)	$ 301,387	$ 346,087	$ (38,140)	$ 307,947

[(1)] Included in restricted cash and investments within the condensed consolidated balance sheets is restricted cash of $12.8 million and $15.9 million as of March 31, 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.

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

	March 31, 2023					December 31, 2022				
	Total Recorded Basis	Level 1	Level 2	Level 3	Other (1)	Total Recorded Basis	Level 1	Level 2	Level 3	Other (1)
Cash equivalents:										
Money market funds	$ 26,823	$ -	$ -	$ -	$ 26,823	$ 40,296	$ -	$ -	$ -	$ 40,296
Investments:										
Corporate bonds	33,803	-	33,803	-	-	33,308	-	33,308	-	-
Asset backed securities	13,115	-	13,115	-	-	12,972	-	12,972	-	-
Mortgage backed securities	12,931	-	12,931	-	-	12,996	-	12,996	-	-
U.S. treasuries	11,129	-	11,129	-	-	-	-	-	-	-
U.S. government agency securities	7,126	-	7,126	-	-	7,067	-	7,067	-	-
Emerging markets	1,984	-	1,984	-	-	1,982	-	1,982	-	-
Restricted cash and investments:										
Corporate bonds	71,999	-	71,999	-	-	70,697	-	70,697	-	-
U.S. treasuries	50,509	-	50,509	-	-	57,257	-	57,257	-	-
Mortgage backed securities	39,484	-	39,484	-	-	40,093	-	40,093	-	-
U.S. government agency securities	24,825	-	24,825	-	-	24,323	-	24,323	-	-
Mutual funds	7,509	7,509	-	-	-	6,301	6,301	-	-	-
Money market funds	150	-	-	-	150	646	-	-	-	646
Asset backed securities	-	-	-	-	-	9	-	9	-	-
Total investments	$ 301,387	$ 7,509	$ 266,905	$ -	$ 26,973	$ 307,947	$ 6,301	$ 260,704	$ -	$ 40,942

(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 March 31, 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.

	March 31, 2023				
(In thousands)	Less than 1 Year	Between 1 to 5 Years	Between 5 to 10 Years	After 10 Years	Total
Corporate bonds	$ 2,536	$ 53,788	$ 49,300	$ 178	$ 105,802
U.S. treasuries	3,532	16,627	41,479	-	61,638
U.S. government agency securities	3,986	24,436	3,529	-	31,951
Money market funds	26,973	-	-	-	26,973
Asset backed securities	-	-	11,821	1,294	13,115
Emerging markets	1,984	-	-	-	1,984
Total	$ 39,011	$ 94,851	$ 106,129	$ 1,472	$ 241,463

	December 31, 2022				
(In thousands)	Less than 1 Year	Between 1 to 5 Years	Between 5 to 10 Years	After 10 Years	Total
Corporate bonds	$ 646	$ 50,439	$ 52,920	$ -	$ 104,005
U.S. treasuries	440	3,405	53,412	-	57,257
Money market funds	40,539	-	-	-	40,539
U.S. government agency securities	3,943	24,025	3,422	-	31,390
Asset backed securities	-	9	2,113	10,859	12,981
Emerging markets	-	1,982	-	-	1,982
Total	$ 45,568	$ 79,860	$ 111,867	$ 10,859	$ 248,154

The average contractual maturity of mortgage backed securities, which are excluded from the table above, was 23 years as of March 31, 2023 and December 31, 2022.

Note 3 – Workers' Compensation Claims

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

	Three Months Ended March 31,	
	2023	2022
Beginning balance		
Workers' compensation claims liabilities	$ 215,987	$ 279,407
Add: claims expense accrual		
Current period	4,362	4,284
Prior periods	(1,114)	(2,919)
	3,248	1,365
Less: claim payments related to		
Current period	180	225
Prior periods	17,480	18,034
	17,660	18,259
Change in claims incurred in excess of retention limits	66	133
Ending balance		
Workers' compensation claims liabilities	$ 201,641	$ 262,646
Incurred but not reported (IBNR)	$ 103,804	$ 138,604
Ratio of IBNR to workers' compensation claims liabilities	51 %	53 %

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 83% of the Company's workers' compensation exposure is covered through the insured program.

The Company entered into a new arrangement for its insured program effective July 1, 2021 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 2021-2022 Policy allows for premium adjustments depending on overall policy performance. If claims develop favorably, BBSI can participate in the savings up to $20.0 million for the twelve-month policy period. If claims develop adversely, additional premium may be charged up to $7.5 million for the twelve-month policy period.

Effective July 1, 2022, the Company renewed the arrangement for its insured program, which now continues through June 30, 2023 (the “2022-2023 Policy”). Under the renewed arrangement, the Company can participate in savings up to $22.5 million for the twelve-month policy period. For the 2022-2023 Policy, no additional premium may be charged if claims develop adversely. The 2022-2023 Policy includes a renewal commitment through June 30, 2024.

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 $178.8 million and $188.2 million at March 31, 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 17% 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 $53.9 million and $54.5 million at March 31, 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 March 31, 2023, the Company provided surety bonds totaling $53.9 million, including a California requirement of $22.3 million.

Claims liabilities

The Company provided a total of $201.6 million and $216.0 million at March 31, 2023 and December 31, 2022, respectively, as an estimated future liability for unsettled workers' compensation claims liabilities. Of this amount, $3.0 million at March 31, 2023 and December 31, 2022, 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 $3.0 million and $3.0 million at March 31, 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

The Company maintains an agreement (the “Agreement”) with Wells Fargo Bank, N.A. (the ”Bank”) for a revolving credit line of $50.0 million and a sublimit for standby letters of credit of $8.0 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% 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 March 31, 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
- 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 million at each fiscal quarter end.

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;
- 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 March 31, 2023, the Company was in compliance with all covenants.

Note 5 – Income Taxes

Under ASC 740, "Income Taxes," management evaluates the realizability of the deferred tax assets on a quarterly basis under a "more likely than not" standard. As part of this evaluation, management reviews all evidence, both positive and negative, to determine if a valuation allowance is needed. One component of this analysis is to determine whether the Company was in a cumulative loss position for the most recent 12 quarters. The Company was in a cumulative income position for the 12 quarters ended March 31, 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. In November 2022, 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 $5.5 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 $0.2 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 March 31, 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 March 31, 2023, the Company had no state operating loss carryforwards. At March 31, 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 mediation effort which resulted in a settlement agreement on December 22, 2021. The settlement is subject to customary court approval.

On January 17, 2018 and January 18, 2018, respectively, suits were filed in the California Superior Court for the County of Santa Cruz by Sandra Gill, Robert Seth Gill Jr. and Alyssa Gill, individually and on behalf of the estate of Robert S. Gill, Sr., and by Stephen and Torrey Whitmire, against Hildebrand and Sons Trucking, Daniel Harrington, BBSI, the State of California, Department of Transportation, the State of California, California Highway Patrol, and Statewide Traffic Safety and Signs seeking monetary damages arising out of personal injuries and a fatality suffered after Messrs. Gill and Whitmire were struck by a truck at a California highway mudslide removal operation. Hildebrand was a PEO client of BBSI and operated the truck involved in the accident. The actions allege that the injuries and death were the result of, among other things, the negligent actions of a Hildebrand employee, and the unsafe conditions at the mudslide removal operation. In February 2023, BBSI and the plaintiffs reached an agreement to settle, which removed BBSI from the suit.

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, 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 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 discussed above, as well as other cases, management has recorded estimated liabilities totaling $2.7 million in other accrued liabilities in the condensed consolidated balance sheets.

Note 7 – Subsequent Events

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

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

General

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

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

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

Business Organization We operate a decentralized delivery model using operationally-focused business teams, typically located within 50 miles of our client companies. These teams are led by senior level business generalists and 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.

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 months ended March 31, 2023 and 2022 ($ in thousands):

	Percentage of Total Net Revenues Three Months Ended March 31,			
	2023		2022	
Revenues:				
Professional employer services	$ 232,307	91.2 %	$ 217,433	88.3 %
Staffing services	22,360	8.8	28,942	11.7
Total revenues	254,667	100.0	246,375	100.0
Cost of revenues:				
Direct payroll costs	16,871	6.6	21,921	8.9
Payroll taxes and benefits	144,582	56.8	135,865	55.1
Workers' compensation	51,670	20.3	48,236	19.6
Total cost of revenues	213,123	83.7	206,022	83.6
Gross margin	41,544	16.3	40,353	16.4
Selling, general and administrative expenses	41,226	16.2	40,165	16.3
Depreciation and amortization	1,677	0.7	1,508	0.6
Loss from operations	(1,359)	(0.6)	(1,320)	(0.5)
Other income, net	2,313	0.9	1,636	0.7
Income before income taxes	954	0.3	316	0.1
Provision for income taxes	135	0.1	28	0.0
Net income	$ 819	0.2 %	$ 288	0.1 %

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 months ended March 31, 2023 and 2022.

(in thousands)	(Unaudited) Three Months Ended March 31, 2023	(Unaudited) Three Months Ended March 31, 2022
Gross billings	$ 1,789,218	$ 1,707,175
PEO and staffing wages	$ 1,551,352	$ 1,482,201

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) Percentage of Gross Billings	
	Three Months Ended March 31,	
	2023	2022
PEO and staffing wages	86.7%	86.8%
Payroll taxes and benefits	8.1%	8.0%
Workers' compensation	2.9%	2.8%
Gross margin	2.3%	2.4%

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 March 31,			
	2023	% Change	2022	% Change
Average WSEs	119,313	2.7%	116,197	9.3%
Ending WSEs	121,363	2.9%	117,924	8.8%

Three Months Ended March 31, 2023 and 2022

Net income for the first quarter of 2023 amounted to $0.8 million compared to net income of $0.3 million for the first quarter of 2022. Diluted net income per share for the first quarter of 2023 was $0.12 compared to diluted net income per share of $0.04 for the first quarter of 2022.

Revenue for the first quarter of 2023 totaled $254.7 million, an increase of $8.3 million or 3.4% over the first quarter of 2022, which reflects an increase in the Company's PEO service revenue of $14.9 million or 6.8% and a decrease in staffing services revenue of $6.6 million or 22.8%.

The increase in PEO services revenues was primarily attributable to an increase in the average number of WSEs as well as an increase in average billing per WSE. The decrease in staffing services revenue was due primarily to lower demand for temporary workers caused by inclement weather and continued tight labor market conditions.

Gross margin for the first quarter of 2023 totaled $41.5 million or 16.3% of revenue compared to $40.4 million or 16.4% of revenue for the first quarter of 2022. The separate components of gross margin are discussed below.

Direct payroll costs for the first quarter of 2023 totaled $16.9 million or 6.6% of revenue compared to $21.9 million or 8.9% of revenue for the first 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 first quarter of 2022.

Payroll taxes and benefits for the first quarter of 2023 totaled $144.6 million or 56.8% of revenue compared to $135.9 million or 55.1% of revenue for the first 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 first quarter of 2023 and PEO client benefit costs of $1.4 million related to the availability of employee benefits to our PEO clients beginning in 2023.

Workers' compensation expense for the first quarter of 2023 totaled $51.7 million or 20.3% of revenue compared to $48.2 million or 19.6% of revenue for the first quarter of 2022. The increase in workers' compensation expense as a percentage of revenue was primarily due to favorable adjustments of only $1.1 million related to prior period claims in the first quarter of 2023, compared to favorable adjustments of $2.9 million related to prior period claims in the first quarter of 2022.

Selling, general and administrative ("SG&A") expenses for the first quarter of 2023 totaled $41.2 million or 16.2% of revenue compared to $40.2 million or 16.3% of revenue for the first quarter of 2022. The increase of $1.0 million in SG&A expense was primarily attributable to increased employee-related costs.

Other income, net for the first quarter of 2023 totaled $2.3 million compared to other income of $1.6 million for the first quarter of 2022. The increase was primarily attributable to an increase in investment income in the first quarter of 2023.

Our effective income tax rate for the first quarter of 2023 was 14.2% compared to 8.9% for the first 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.

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.

Liquidity and Capital Resources

The Company's cash balance of $68.1 million, which includes cash, cash equivalents, and restricted cash, decreased $39.3 million for the three months ended March 31, 2023, compared to a decrease of $23.8 million for the comparable period of 2022. The decrease in cash at March 31, 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, partially offset by increased accrued payroll, payroll taxes and related benefits.

Net cash used in operating activities for the three months ended March 31, 2023 amounted to $26.5 million, compared to cash used of $30.2 million for the comparable period of 2022. For the three months ended March 31, 2023, net cash used in operating activities was primarily due to increased trade accounts receivable of $24.2 million and decreased workers' compensation claims liabilities of $14.4 million, partially offset by increased accrued payroll, payroll taxes and related benefits of $13.9 million.

Net cash used in investing activities for the three months ended March 31, 2023 totaled $2.0 million, compared to cash provided of $20.5 million for the comparable period of 2022. For the three months ended March 31, 2023, net cash used in investing activities consisted primarily of purchase of property, equipment and software of $3.0 million and purchase of restricted investments of $1.7 million, partially offset by proceeds from sales and maturities of investments and restricted investments of $2.7 million.

Net cash used in financing activities for the three months ended March 31, 2023 was $10.8 million, compared to cash used of $14.1 million for the comparable period of 2022. For the three months ended March 31, 2023, net cash used in financing activities primarily consisted of repurchases of common stock of $8.0 million and dividend payments of $2.1 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 $178.8 million and $188.2 million at March 31, 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 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. We disclaim any obligation to publicly announce any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company’s exposure to market risk for changes in interest rates primarily relates to its investment portfolio and its outstanding borrowings on its line of credit. As of March 31, 2023, the Company’s investments consisted principally of approximately $105.8 million in corporate bonds, $61.6 million in U.S. treasuries, $52.4 million in mortgage backed securities, $32.0 million in U.S. government agency securities, $27.0 million in money market funds, $13.1 million in asset backed securities, $7.5 million in mutual funds and $2.0 million in emerging markets securities. Based on the Company’s overall interest exposure at March 31, 2023, a 50 basis point increase in market interest rates would have a $5.8 million downward effect on the fair value of the Company’s investment portfolio. At March 31, 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 March 31, 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 March 31, 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 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 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 March 31, 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)]
January	—	$ —	—	$ 27,832,833
February	—	—	—	27,832,833
March	90,553	88.67	90,553	19,803,564
Total	90,553		90,553	

[(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 March 31, 2023, the Company had repurchased 696,490 shares at an aggregate purchase price of $55.2 million.

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.
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 March 31, 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: May 3, 2023

By: /s/ Anthony J. Harris
Anthony J. Harris
Executive Vice President and Chief Financial Officer and Treasurer

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

Date: May 3, 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 as of, and for, the periods presented in this quarterly report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
    d. disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the registrant’s most-recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: May 3, 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 March 31, 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	/s/ Anthony J. Harris
Gary E. Kramer	Anthony J. Harris
Chief Executive Officer	Chief Financial Officer
May 3, 2023	May 3, 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.