

**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, 2022

**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)

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

**52-0812977**  
(IRS Employer  
Identification No.)

**98662**  
(Zip Code)

**(360) 828-0700**

(Registrant's telephone number, including area code)

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 20, 2022, 7,320,152 shares of the registrant's common stock (\$0.01 par value) were outstanding.

BARRETT BUSINESS SERVICES, INC.

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**PART I – FINANCIAL INFORMATION**

**Item 1. Unaudited Interim Condensed Consolidated Financial Statements**

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

	March 31, 2022	December 31, 2021
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 46,074	\$ 69,405
Investments	81,334	96,763
Trade accounts receivable, net	256,296	155,707
Prepaid expenses and other	19,239	17,606
Restricted cash and investments	113,427	67,238
Total current assets	516,370	406,719
Property, equipment and software, net	41,595	36,277
Operating lease right-of-use assets	18,367	20,697
Restricted cash and investments	153,982	232,965
Goodwill	47,820	47,820
Other assets	2,608	2,474
Deferred income taxes	3,775	—
	<u>\$ 784,517</u>	<u>\$ 746,952</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ -	\$ 3,510
Accounts payable	4,332	4,485
Accrued payroll, payroll taxes and related benefits	283,937	199,067
Income taxes payable	1,896	1,673
Current operating lease liabilities	6,603	7,191
Other accrued liabilities	15,958	15,120
Workers' compensation claims liabilities	75,893	80,028
Safety incentives liability	3,284	4,322
Total current liabilities	391,903	315,396
Long-term workers' compensation claims liabilities	186,753	199,379
Deferred income taxes	—	1,687
Long-term operating lease liabilities	13,000	14,598
Customer deposits and other long-term liabilities	7,149	7,362
Total liabilities	<u>598,805</u>	<u>538,422</u>
Commitments and contingencies (Notes 4 and 6)		
Stockholders' equity:		
Common stock, \$.01 par value; 20,500 shares authorized, 7,314 and 7,415 shares issued and outstanding	73	74
Additional paid-in capital	30,626	29,054
Accumulated other comprehensive (loss) income	(13,279)	1,079
Retained earnings	168,292	178,323
Total stockholders' equity	<u>185,712</u>	<u>208,530</u>
	<u>\$ 784,517</u>	<u>\$ 746,952</u>

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,	
	2022	2021
<b>Revenues:</b>		
Professional employer service fees	\$ 217,433	\$ 193,819
Staffing services	28,942	24,626
Total revenues	<u>246,375</u>	<u>218,445</u>
<b>Cost of revenues:</b>		
Direct payroll costs	21,921	18,450
Payroll taxes and benefits	135,865	122,783
Workers' compensation	48,236	46,347
Total cost of revenues	<u>206,022</u>	<u>187,580</u>
Gross margin	40,353	30,865
Selling, general and administrative expenses	40,165	37,107
Depreciation and amortization	1,508	1,297
Loss from operations	<u>(1,320)</u>	<u>(7,539)</u>
<b>Other income (expense):</b>		
Investment income, net	1,638	1,769
Interest expense	(34)	(308)
Other, net	32	9
Other income, net	<u>1,636</u>	<u>1,470</u>
Income (loss) before income taxes	316	(6,069)
Provision for (benefit from) income taxes	28	(1,515)
Net income (loss)	<u>\$ 288</u>	<u>\$ (4,554)</u>
Basic income (loss) per common share	<u>\$ 0.04</u>	<u>\$ (0.60)</u>
Weighted average number of basic common shares outstanding	<u>7,406</u>	<u>7,576</u>
Diluted income (loss) per common share	<u>\$ 0.04</u>	<u>\$ (0.60)</u>
Weighted average number of diluted common shares outstanding	<u>7,474</u>	<u>7,576</u>

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

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

	Three Months Ended March 31,	
	2022	2021
Net income (loss)	\$ 288	\$ (4,554)
Unrealized losses on investments, net of tax of (\$5,487) and (\$2,007) in 2022 and 2021, respectively	(14,358)	(5,250)
Comprehensive loss	<u>\$ (14,070)</u>	<u>\$ (9,804)</u>

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 and 2021  
(Unaudited)  
(In Thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	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 repurchase 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	<u>7,314</u>	<u>\$ 73</u>	<u>\$ 30,626</u>	<u>\$ (13,279)</u>	<u>\$ 168,292</u>	<u>\$ 185,712</u>

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
	Shares	Amount				
Balance, December 31, 2020	7,566	\$ 76	\$ 24,885	\$ 7,564	\$ 165,710	\$ 198,235
Common stock issued on exercise of options, purchase of ESPP shares and vesting of restricted stock units and performance awards	38	—	815	—	—	815
Common stock repurchased on vesting of restricted stock units and performance awards	(1)	—	(107)	—	—	(107)
Share-based compensation expense	—	—	1,060	—	—	1,060
Company repurchase of common stock	(49)	—	(170)	—	(3,266)	(3,436)
Cash dividends on common stock (\$0.30 per share)	—	—	—	—	(2,278)	(2,278)
Unrealized loss on investments, net of tax	—	—	—	(5,250)	—	(5,250)
Net loss	—	—	—	—	(4,554)	(4,554)
Balance, March 31, 2021	<u>7,554</u>	<u>\$ 76</u>	<u>\$ 26,483</u>	<u>\$ 2,314</u>	<u>\$ 155,612</u>	<u>\$ 184,485</u>

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,	
	2022	2021
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 288	\$ (4,554)
Reconciliations of net income (loss) to net cash used in operating activities:		
Depreciation and amortization	1,508	1,297
Non-cash lease expense	1,798	1,872
Investment amortization and losses recognized	336	203
Deferred income taxes	25	—
Share-based compensation	1,830	1,060
Changes in certain operating assets and liabilities:		
Trade accounts receivable	(100,589)	(88,924)
Income taxes	223	(1,724)
Prepaid expenses and other	(1,633)	1,348
Accounts payable	(153)	865
Accrued payroll, payroll taxes and related benefits	85,897	83,926
Other accrued liabilities	50	964
Workers' compensation claims liabilities	(16,894)	5,273
Safety incentives liability	(1,038)	(7,573)
Operating lease liabilities	(1,725)	(1,887)
Other assets and liabilities, net	(132)	(30)
Net cash used in operating activities	<u>(30,209)</u>	<u>(7,884)</u>
<b>Cash flows from investing activities:</b>		
Purchase of property, equipment and software	(6,754)	(1,781)
Purchase of investments	—	(23,444)
Proceeds from sales and maturities of investments	10,796	9,381
Purchase of restricted investments	(2,272)	(132,788)
Proceeds from sales and maturities of restricted investments	18,735	24,286
Net cash provided by (used in) investing activities	<u>20,505</u>	<u>(124,346)</u>
<b>Cash flows from financing activities:</b>		
Payments on long-term debt	(3,510)	(55)
Repurchase of common stock	(8,575)	(3,436)
Common stock repurchased on vesting of stock awards	(185)	(107)
Dividends paid	(2,229)	(2,278)
Proceeds from exercise of stock options	411	815
Net cash used in financing activities	<u>(14,088)</u>	<u>(5,061)</u>
Net decrease in cash, cash equivalents and restricted cash	<u>(23,792)</u>	<u>(137,291)</u>
Cash, cash equivalents and restricted cash, beginning of period	78,629	233,837
Cash, cash equivalents and restricted cash, end of period	<u>\$ 54,837</u>	<u>\$ 96,546</u>

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 2021 Annual Report on Form 10-K at pages 33 – 60. 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 and workers' compensation costs. Our cost of revenues for staffing services includes direct payroll costs, employer payroll-related taxes, employee benefits, and workers' compensation costs. Direct payroll costs represent the gross payroll earned by staffing services employees based on salary or hourly wages. Payroll taxes and employee benefits consist of the employer's portion of Social Security and Medicare taxes, federal and state unemployment taxes, and staffing services employee reimbursements for materials, supplies and other expenses, which are paid by our customer. Workers' compensation costs consist primarily of 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, and have maturities at acquisition of less than three months to be cash equivalents for purposes of the condensed consolidated statements of cash flows and condensed consolidated balance sheets. The Company maintains cash balances in bank accounts that normally exceed FDIC insured limits. The Company has not experienced any losses related to its cash concentration.

**Investments**

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 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 \$ 555,000 and \$460,000 at March 31, 2022 and December 31, 2021, 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 \$3.3 million and \$4.3 million at March 31, 2022 and December 31, 2021, 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, 2022 and 2021 did not materially differ from interest expense. Income taxes paid during the three months ended March 31, 2022 totaled \$0.04 million. Income taxes paid during the three months ended March 31, 2021 totaled \$ 0.2 million.

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, 2022	December 31, 2021	March 31, 2021	December 31, 2020
Cash and cash equivalents	\$ 46,074	\$ 69,405	\$ 28,545	\$ 68,688
Restricted cash, included in restricted cash and investments	8,763	9,224	68,001	165,149
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	<u>\$ 54,837</u>	<u>\$ 78,629</u>	<u>\$ 96,546</u>	<u>\$ 233,837</u>

### 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,	
	2022	2021
Weighted average number of basic shares outstanding	7,406	7,576
Effect of dilutive securities	68	—
Weighted average number of diluted shares outstanding	<u>7,474</u>	<u>7,576</u>

As a result of the net loss for the three months ended March 31, 2021, 95,889 potential common shares have been excluded from the calculation of diluted loss per share because their effect would be anti-dilutive.

### 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, 2022 and December 31, 2021 measured at fair value on a recurring basis (in thousands):

	March 31, 2022			December 31, 2021		
	Cost	Gross Unrealized Losses	Recorded Basis	Cost	Gross Unrealized Gains (Losses)	Recorded Basis
<b>Current:</b>						
<b>Cash equivalents:</b>						
Money market funds	\$ 29,439	\$ —	\$ 29,439	\$ 13,384	\$ —	\$ 13,384
<b>Total cash equivalents</b>	<u>29,439</u>	<u>—</u>	<u>29,439</u>	<u>13,384</u>	<u>—</u>	<u>13,384</u>
<b>Investments:</b>						
Corporate bonds	41,899	(2,912)	38,987	41,954	(136)	41,818
Asset backed securities	19,521	(220)	19,301	29,533	(38)	29,495
Mortgage backed securities	17,270	(1,588)	15,682	18,089	(440)	17,649
U.S. government agency securities	7,379	(15)	7,364	7,383	418	7,801
<b>Total current investments</b>	<u>86,069</u>	<u>(4,735)</u>	<u>81,334</u>	<u>96,959</u>	<u>(196)</u>	<u>96,763</u>
<b>Restricted cash and investments (1):</b>						
Corporate bonds	107,011	(5,914)	101,097	117,700	(17)	117,683
U.S. treasuries	66,525	(4,505)	62,020	67,614	(342)	67,272
Mortgage backed securities	58,378	(2,491)	55,887	64,217	764	64,981
U.S. government agency securities	32,868	(709)	32,159	32,898	1,281	34,179
Mutual funds	6,992	—	6,992	6,273	—	6,273
Money market funds	427	—	427	528	—	528
Asset backed securities	77	—	77	107	1	108
<b>Total restricted cash and investments</b>	<u>272,278</u>	<u>(13,619)</u>	<u>258,659</u>	<u>289,337</u>	<u>1,687</u>	<u>291,024</u>
<b>Total investments</b>	<u>\$ 387,786</u>	<u>\$ (18,354)</u>	<u>\$ 369,432</u>	<u>\$ 399,680</u>	<u>\$ 1,491</u>	<u>\$ 401,171</u>

(1) Included in restricted cash and investments within the condensed consolidated balance sheets is restricted cash of \$0.8 million and \$9.2 million as of March 31, 2022 and December 31, 2021, 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, 2022 and December 31, 2021 measured at fair value on a recurring basis by fair value hierarchy level (in thousands):

	March 31, 2022					December 31, 2021				
	Total Recorded Basis	Level 1	Level 2	Level 3	Other (1)	Total Recorded Basis	Level 1	Level 2	Level 3	Other (1)
<b>Cash equivalents:</b>										
Money market funds	\$ 29,439	\$ —	\$ —	\$ —	\$ 29,439	\$ 13,384	\$ —	\$ —	\$ —	\$ 13,384
<b>Investments:</b>										
Corporate bonds	38,987	—	38,987	—	—	41,818	—	41,818	—	—
Asset backed securities	19,301	—	19,301	—	—	29,495	—	29,495	—	—
Mortgage backed securities	15,682	—	15,682	—	—	17,649	—	17,649	—	—
U.S. government agency securities	7,364	—	7,364	—	—	7,801	—	7,801	—	—
<b>Restricted cash and investments:</b>										
Corporate bonds	101,097	—	101,097	—	—	117,683	—	117,683	—	—
U.S. treasuries	62,020	—	62,020	—	—	67,272	—	67,272	—	—
Mortgage backed securities	55,887	—	55,887	—	—	64,981	—	64,981	—	—
U.S. government agency securities	32,159	—	32,159	—	—	34,179	—	34,179	—	—
Mutual funds	6,992	6,992	—	—	—	6,273	6,273	—	—	—
Money market funds	427	—	—	—	427	528	—	—	—	528
Asset backed securities	77	—	77	—	—	108	—	108	—	—
<b>Total investments</b>	<u>\$ 369,432</u>	<u>\$ 6,992</u>	<u>\$ 332,574</u>	<u>\$ —</u>	<u>\$ 29,866</u>	<u>\$ 401,171</u>	<u>\$ 6,273</u>	<u>\$ 380,986</u>	<u>\$ —</u>	<u>\$ 13,912</u>

(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, 2022 and December 31, 2021. Actual maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

(In thousands)	March 31, 2022				
	Less than 1 Year	Between 1 to 5 Years	Between 5 to 10 Years	After 10 Years	Total
Corporate bonds	\$ 18,509	\$ 37,911	\$ 83,028	\$ 636	\$ 140,084
U.S. treasuries	251	3,738	58,031	—	62,020
U.S. government agency securities	—	23,956	15,567	—	39,523
Money market funds	29,680	—	—	—	29,680
Asset backed securities	—	77	2,189	17,112	19,378
Total	<u>\$ 48,440</u>	<u>\$ 65,682</u>	<u>\$ 158,815</u>	<u>\$ 17,748</u>	<u>\$ 290,665</u>

  

(In thousands)	December 31, 2021				
	Less than 1 Year	Between 1 to 5 Years	Between 5 to 10 Years	After 10 Years	Total
Corporate bonds	\$ 24,601	\$ 35,570	\$ 99,180	\$ 150	\$ 159,501
U.S. treasuries	953	4,295	62,024	—	67,272
U.S. government agency securities	—	25,171	16,809	—	41,980
Asset backed securities	—	108	2,200	27,295	29,603
Money market funds	13,657	—	—	—	13,657
Total	<u>\$ 39,211</u>	<u>\$ 65,144</u>	<u>\$ 180,213</u>	<u>\$ 27,445</u>	<u>\$ 312,013</u>

The average contractual maturity of mortgage backed securities, which are excluded from the table above, was 24 years and 23 years as of March 31, 2022 and December 31, 2021, respectively.

### Note 3 – Workers' Compensation Claims

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

	Three Months Ended March 31,	
	2022	2021
Beginning balance		
Workers' compensation claims liabilities	\$ 279,407	\$ 357,746
Add: claims expense accrual		
Current period	4,284	33,270
Prior periods	(2,919)	(1,180)
	<u>1,365</u>	<u>32,090</u>
Less: claim payments related to		
Current period	225	1,050
Prior periods	18,034	25,767
	<u>18,259</u>	<u>26,817</u>
Change in claims incurred in excess of retention limits	133	(356)
Ending balance		
Workers' compensation claims liabilities	<u>\$ 262,646</u>	<u>\$ 362,663</u>
Incurred but not reported (IBNR)	<u>\$ 138,604</u>	<u>\$ 212,297</u>
Ratio of IBNR to workers' compensation claims liabilities	53 %	59 %

## 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 82% 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 assume all risk of loss for claims incurred after June 30, 2021. The agreement continues to June 30, 2022 and includes a renewal commitment through June 30, 2023. The arrangement allows for premium adjustments depending on overall portfolio performance. If claims develop favorably, BBSI can participate in the savings up to \$20.0 million for a twelve-month policy period. If claims develop adversely, additional premium may be charged up to \$7.5 million for a twelve-month policy period.

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 payment terms of LPT 2 required \$ 5.0 million to be paid prior to June 30, 2021, with the remaining amount paid in July 2021.

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

(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 \$240.4 million and \$273.6 million at March 31, 2022 and December 31, 2021, 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 18% 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 \$ 58.4 million at both March 31, 2022 and December 31, 2021, to cover potential workers' compensation claims losses related to the Company's current and former status as a self-insured employer. At March 31, 2022, the Company provided surety bonds and standby letters of credit totaling \$58.4 million, including a California requirement of \$32.6 million.

### Claims liabilities

The Company provided a total of \$ 262.6 million and \$279.4 million at March 31, 2022 and December 31, 2021, respectively, as an estimated future liability for unsettled workers' compensation claims liabilities. Of this amount, \$2.3 million and \$2.2 million at March 31, 2022 and December 31, 2021, 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 \$2.3 million and \$2.2 million at March 31, 2022 and December 31, 2021, 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. At March 31, 2022, \$6.2 million of the sublimit for standby letters of credit was used. 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, 2022 and December 31, 2021. 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, 2022, the Company was in compliance with all covenants.

The Company maintained a mortgage loan with the Bank with a balance of approximately \$ 3.5 million at December 31, 2021. On January 31, 2022, the Company paid the outstanding balance of the mortgage loan.

#### **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, 2022.

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 is examining the Company's federal tax returns for the years ended December 31, 2011 through 2014 and 2017 through 2019 . In July 2020, BBSI received notice that the IRS intends to disallow certain wage-based tax credits claimed for years 2011 to 2014, which would result in estimated total additional tax due of approximately \$ 2.3 million for the tax years 2012 through 2015, including the impact on carryover tax attributes. In November 2021, BBSI received notice that the IRS intends to disallow certain wage-based tax credits claimed for the year 2017, which could result in estimated total additional taxes and penalties due of \$1.7 million for 2017. Years 2018 and 2019 remain under audit; however, disallowance of similar wage-based credits for these years would result in additional estimated tax due of \$1.7 million and \$1.6 million for 2018 and 2019, respectively. 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 the 2015 and 2016 tax years and tax years before 2011. As of March 31, 2022, the Company had no material unrecognized tax benefits.

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

At March 31, 2022, the Company had no state operating loss carryforwards. At March 31, 2022, 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.

In addition to the 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 settlement discussed above, as well as other cases, management has recorded estimated liabilities of \$2.6 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, 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. This structure also provides a means of incubating talent to support increased growth and capacity. We support clients with a local presence in 68 markets in Arizona, California, Colorado, Delaware, Idaho, Maryland, Nevada, North Carolina, Oregon, Pennsylvania, Tennessee, Utah, and Washington.

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 7,600 companies each day, define our approach to guiding business owners through the challenges associated with being an employer. BBSI's business teams align with each business owner client through a structured three-tiered progression. In doing so, business teams focus on the objectives of each business owner and deliver planning, guidance and resources in support of those objectives.

#### *Tier 1: Tactical Alignment*

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

#### *Tier 2: Dynamic Relationship*

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

#### *Tier 3: Strategic Counsel*

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

In addition to serving as a resource and guide, BBSI has the ability to provide workers' compensation coverage as a means of meeting statutory requirements and protecting our clients from employment-related injury claims. Through our 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.

## 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, 2022 and 2021 (\$ in thousands):

	Percentage of Total Net Revenues			
	Three Months Ended			
	March 31,			
	2022		2021	
<b>Revenues:</b>				
Professional employer service fees	\$ 217,433	88.3 %	\$ 193,819	88.7 %
Staffing services	28,942	11.7	24,626	11.3
Total revenues	246,375	100.0	218,445	100.0
<b>Cost of revenues:</b>				
Direct payroll costs	21,921	8.9	18,450	8.4
Payroll taxes and benefits	135,865	55.1	122,783	56.2
Workers' compensation	48,236	19.6	46,347	21.2
Total cost of revenues	206,022	83.6	187,580	85.9
Gross margin	40,353	16.4	30,865	14.1
Selling, general and administrative expenses	40,165	16.3	37,107	17.0
Depreciation and amortization	1,508	0.6	1,297	0.6
Loss from operations	(1,320)	(0.5)	(7,539)	(3.5)
Other income, net	1,636	0.7	1,470	0.7
Income (loss) before income taxes	316	0.1	(6,069)	(2.8)
Provision for (benefit from) income taxes	28	0.0	(1,515)	(0.7)
Net income (loss)	\$ 288	0.1 %	\$ (4,554)	(2.1) %

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, 2022 and 2021.

(in thousands)	(Unaudited)			
	Three Months Ended			
	March 31,			
	2022		2021	
Gross billings	\$	1,707,175	\$	1,471,541
PEO and staffing wages	\$	1,482,201	\$	1,271,392

Because safety incentives represent consideration payable to PEO customers, safety incentive costs are netted against PEO revenue in our consolidated statements of operations. We therefore present below for purposes of analysis non-GAAP gross workers' compensation expense, which represents workers' compensation costs including safety incentive costs. We believe this non-GAAP measure is useful in evaluating the total costs of our workers' compensation program. In July 2020, the Company began limiting its safety incentive offering in certain markets, resulting in a substantial reduction in safety incentive costs.

(in thousands)	(Unaudited)			
	Three Months Ended			
	March 31,			
	2022		2021	
Workers' compensation	\$	48,236	\$	46,347
Safety incentive costs		516		1,075
Non-GAAP gross workers' compensation	\$	48,752	\$	47,422

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			
	2022		2021	
PEO and staffing wages		86.8%		86.4%
Payroll taxes and benefits		8.0%		8.3%
Non-GAAP gross workers' compensation		2.9%		3.2%
Gross margin		2.4%		2.1%

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. 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,			
	2022	% Change	2021	% Change
Average WSEs	116,197	9.3%	106,300	-6.1%
Ending WSEs	117,924	8.8%	108,423	-4.3%

### Three Months Ended March 31, 2022 and 2021

Net income for the first quarter of 2022 amounted to \$0.3 million compared to net loss of \$4.6 million for the first quarter of 2021. Diluted income per share for the first quarter of 2022 was \$0.04 compared to diluted loss per share of \$0.60 for the first quarter of 2021.

Revenue for the first quarter of 2022 totaled \$246.4 million, an increase of \$27.9 million or 12.8% over the first quarter of 2021, which reflects an increase in the Company's PEO service fee revenue of \$23.6 million or 12.2% and an increase in staffing services revenue of \$4.3 million or 17.5%.

The increase in PEO services revenues was primarily attributable to an increase in average billing per WSE as well as an increase in the average number of WSEs. The increase in staffing services revenue was due primarily to the reopening of business after the impacts of COVID-19 during the prior year period.

Gross margin for the first quarter of 2022 totaled \$40.4 million or 16.4% of revenue compared to \$30.9 million or 14.1% of revenue for the first quarter of 2021. The increase in gross margin as a percentage of revenues is primarily a result of the factors discussed within the separate components of gross margin below.

Direct payroll costs for the first quarter of 2022 totaled \$21.9 million or 8.9% of revenue compared to \$18.5 million or 8.4% of revenue for the first quarter of 2021. The increase in direct payroll costs percentage was primarily due to an increase in staffing services within the mix of our customer base compared to the first quarter of 2021.

Payroll taxes and benefits for the first quarter of 2022 totaled \$135.9 million or 55.1% of revenue compared to \$122.8 million or 56.2% of revenue for the first quarter of 2021. The decrease in payroll taxes and benefits as a percentage of revenues is primarily due to lower average state tax rates and an increase in the amount of payroll not subject to payroll taxes in the period due to higher average wages per WSE.

Workers' compensation expense for the first quarter of 2022 totaled \$48.2 million or 19.6% of revenue compared to \$46.3 million or 21.2% of revenue for the first quarter of 2021. The decrease in workers' compensation expense as a percentage of revenue was primarily due to favorable claims development as well as a favorable adjustment of \$2.9 million related to prior period claims in the first quarter of 2022, compared to a favorable adjustment of \$1.2 million in the first quarter of 2021.

Selling, general and administrative (“SG&A”) expenses for the first quarter of 2022 totaled \$40.2 million or 16.3% of revenue compared to \$37.1 million or 17.0% of revenue for the first quarter of 2021. The increase of \$3.1 million in SG&A expense was primarily attributable to increased variable employee compensation and incentive pay in the current quarter related to stronger financial results and increased travel and marketing expenses due to more in-person meetings and events.

Other income, net for the first quarter of 2022 was \$1.6 million compared to other income of \$1.5 million for the first quarter of 2021. The increase was primarily attributable to a decrease in interest expense in the first quarter of 2022.

Our effective income tax rate for the first quarter of 2022 was 8.9% compared to 25.0% for the first quarter of 2021. 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 \$54.8 million, which includes cash, cash equivalents, and restricted cash, decreased \$23.8 million for the three months ended March 31, 2022, compared to a decrease of \$137.3 million for the comparable period of 2021. The decrease in cash at March 31, 2022 as compared to December 31, 2021 was primarily due to increased trade accounts receivable and decreased workers’ compensation claims liabilities, partially offset by increased accrued payroll, payroll taxes and related benefits and proceeds from the sales and maturities of investments and restricted investments.

Net cash used by operating activities for the three months ended March 31, 2022 was \$30.2 million, compared to net cash used of \$7.9 million for the comparable period of 2021. For the three months ended March 31, 2022, cash used by operating activities was primarily due to increased trade accounts receivable of \$100.6 million, decreased workers’ compensation claims liabilities of \$16.9 million and increased prepaid expenses and other of \$1.6 million, partially offset by increased accrued payroll, payroll taxes and related benefits of \$85.9 million and net income of \$0.3 million.

Net cash provided by investing activities for the three months ended March 31, 2022 was \$20.5 million, compared to net cash used of \$124.3 million for the comparable period of 2021. For the three months ended March 31, 2022, net cash provided by investing activities consisted primarily of proceeds from sales and maturities of investment and restricted investments of \$29.5 million, partially offset by purchases of property, equipment and software of \$6.8 million and the purchase of restricted investments of \$2.3 million.

Net cash used in financing activities for the three months ended March 31, 2022 was \$14.1 million, compared to net cash used of \$5.1 million for the comparable period of 2021. For the three months ended March 31, 2022, cash used in financing activities primarily consisted of repurchases of common stock of \$8.6 million, pay down of the outstanding balance of the mortgage loan of \$3.5 million and dividend payments of \$2.2 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 \$240.4 million and \$273.6 million at March 31, 2022 and December 31, 2021, 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, 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 of our forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors with respect to the Company include our ability to retain current clients and attract new clients, 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, 2021, which was filed with the SEC on March 7, 2022. 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, 2022, the Company's investments consisted principally of \$140.0 million in corporate bonds, \$71.6 million in mortgage backed securities, \$62.0 million in U.S. treasuries, \$39.5 million in U.S. government agency securities, \$29.9 million in money market funds, \$19.4 million in asset backed securities and \$6.9 million in mutual funds. Based on the Company's overall interest exposure at March 31, 2022, a 50 basis point increase in market interest rates would have a \$7.5 million effect on the fair value of the Company's investment portfolio. A 50 basis point increase would have an immaterial effect on the Company's outstanding borrowings because of the relative size of the outstanding borrowings.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our ICFR is a process designed by, or under the supervision of, our 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, 2022.

**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, 2022 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

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, 2021, which was filed with the SEC on March 7, 2022.

### 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, 2022.

<b>Month</b>	<b>Total Number of Shares Repurchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Repurchased as Part of Publicly Announced Plan <sup>(1)</sup></b>	<b>Approximate Dollar Value of Shares that May Yet Be Repurchased Under the Plan <sup>(1)</sup></b>
January	—	\$ —	—	\$ 24,660,945
February	—	—	—	24,660,945
March	114,868	74.65	114,868	66,424,868
Total	<u>114,868</u>		<u>114,868</u>	

(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. The new repurchase program replaces the program approved in August 2019. As of March 31, 2022, the Company had repurchased 114,868 shares at an aggregate purchase price of \$8.6 million.

<b>Item 6.</b>	<b>Exhibits</b>
31.1	<a href="#"><u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a).</u></a>
31.2	<a href="#"><u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a).</u></a>
32*	<a href="#"><u>Certification pursuant to 18 U.S.C. Section 1350.</u></a>
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, 2022, 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 4, 2022

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

**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 4, 2022

/s/ Gary E. Kramer

Gary E. Kramer  
Chief Executive Officer

**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 4, 2022

/s/ Anthony J. Harris

Anthony J. Harris

Chief Financial Officer

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

In connection with the Quarterly Report of Barrett Business Services, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2022 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

May 4, 2022

/s/ Anthony J. Harris

Anthony J. Harris  
Chief Financial Officer

May 4, 2022

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.