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, 2024

☐ **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 17, 2024, 6,541,799 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, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 51,267	$ 71,168
Investments	72,410	81,027
Trade accounts receivable, net	200,368	171,407
Income taxes receivable	7,727	7,987
Prepaid expenses and other	18,513	18,443
Restricted cash and investments	125,010	97,470
Total current assets	475,295	447,502
Property, equipment and software, net	51,222	50,295
Operating lease right-of-use assets	20,719	19,898
Restricted cash and investments	141,609	145,583
Goodwill	47,820	47,820
Other assets	6,346	6,222
Deferred income taxes	4,789	4,218
Total assets	$ 747,800	$ 721,538
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,697	$ 6,593
Accrued payroll, payroll taxes and related benefits	256,061	234,080
Current operating lease liabilities	6,345	6,623
Current premium payable	65,820	35,276
Other accrued liabilities	7,516	10,674
Workers' compensation claims liabilities	46,555	50,006
Total current liabilities	387,994	343,252
Long-term workers' compensation claims liabilities	111,499	117,757
Long-term premium payable	33,435	37,812
Long-term operating lease liabilities	15,594	14,590
Customer deposits and other long-term liabilities	9,689	8,987
Total liabilities	558,211	522,398
Commitments and contingencies (Notes 4 and 6)		
Stockholders' equity:		
Common stock, $.01 par value; 20,500 shares authorized, 6,536 and 6,572 shares issued and outstanding	65	66
Additional paid-in capital	37,696	36,940
Accumulated other comprehensive loss	(22,297)	(20,801)
Retained earnings	174,125	182,935
Total stockholders' equity	189,589	199,140
Total liabilities and stockholders' equity	$ 747,800	$ 721,538

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, 2024	Three Months Ended March 31, 2023
Revenues:		
Professional employer services	$ 246,189	$ 232,307
Staffing services	19,593	22,360
Total revenues	265,782	254,667
Cost of revenues:		
Direct payroll costs	14,717	16,871
Payroll taxes and benefits	161,895	144,582
Workers' compensation	49,603	51,670
Total cost of revenues	226,215	213,123
Gross margin	39,567	41,544
Selling, general and administrative expenses	42,414	41,226
Depreciation and amortization	1,852	1,677
Loss from operations	(4,699)	(1,359)
Other income (expense):		
Investment income, net	3,274	2,315
Interest expense	(44)	(38)
Other, net	66	36
Other income, net	3,296	2,313
(Loss) income before income taxes	(1,403)	954
(Benefit from) provision for income taxes	(1,267)	135
Net (loss) income	$ (136)	$ 819
Basic (loss) income per common share	$ (0.02)	$ 0.12
Weighted average number of basic common shares outstanding	6,570	6,866
Diluted (loss) income per common share	$ (0.02)	$ 0.12
Weighted average number of diluted common shares outstanding	6,570	6,985

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

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

	Three Months Ended March 31,	
	2024	2023
Net (loss) income	$ (136)	$ 819
Unrealized (losses) gains on investments, net of tax of ($571) and $1,397 in 2024 and 2023, respectively	(1,496)	3,652
Comprehensive (loss) income	$ (1,632)	$ 4,471

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, 2024
(Unaudited)
(In Thousands)

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Retained	
	Shares	Amount	Capital	Loss	Earnings	Total
Balance, December 31, 2023	6,572	$ 66	$ 36,940	$ (20,801)	$ 182,935	$ 199,140
Common stock issued on exercise of options, purchase of ESPP shares and vesting of restricted stock units and performance awards	35	—	376	—	—	376
Common stock repurchased on vesting of restricted stock units and performance awards	(12)	—	(1,456)	—	—	(1,456)
Share-based compensation expense	—	—	2,187	—	—	2,187
Company repurchases of common stock	(59)	(1)	(351)	—	(6,704)	(7,056)
Cash dividends on common stock ($0.30 per share)	—	—	—	—	(1,970)	(1,970)
Unrealized loss on investments, net of tax	—	—	—	(1,496)	—	(1,496)
Net loss	—	—	—	—	(136)	(136)
Balance, March 31, 2024	6,536	$ 65	$ 37,696	$ (22,297)	$ 174,125	$ 189,589

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 gain 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 Cash Flows
(Unaudited)
(In Thousands)

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Cash flows from operating activities:		
Net (loss) income	$ (136)	$ 819
Reconciliations of net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,852	1,677
Non-cash lease expense	1,711	1,756
Net investment (accretion) amortization	(396)	237
Share-based compensation	2,187	1,928
Changes in certain operating assets and liabilities:		
Trade accounts receivable	(28,961)	(24,175)
Income taxes	260	112
Prepaid expenses and other	(70)	(818)
Accounts payable	(896)	(2,880)
Accrued payroll, payroll taxes and related benefits	22,048	13,944
Other accrued liabilities	(3,135)	(1,224)
Premium payable	26,167	(1,413)
Workers' compensation claims liabilities	(9,835)	(14,412)
Operating lease liabilities	(1,806)	(1,819)
Other assets and liabilities, net	(11)	(247)
Net cash provided by (used in) operating activities	8,979	(26,515)
Cash flows from investing activities:		
Purchase of property, equipment and software	(2,779)	(2,995)
Proceeds from sales and maturities of investments	8,290	233
Purchase of restricted investments	(4,649)	(1,725)
Proceeds from sales and maturities of restricted investments	13,253	2,446
Net cash provided by (used in) investing activities	14,115	(2,041)
Cash flows from financing activities:		
Repurchases of common stock	(7,056)	(8,030)
Common stock repurchased on vesting of stock awards	(1,456)	(1,005)
Dividends paid	(1,970)	(2,067)
Proceeds from exercise of stock options and purchase of ESPP	376	339
Net cash used in financing activities	(10,106)	(10,763)
Net increase (decrease) in cash, cash equivalents and restricted cash	12,988	(39,319)
Cash, cash equivalents and restricted cash, beginning of period	74,841	107,378
Cash, cash equivalents and restricted cash, end of period	$ 87,829	$ 68,059

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 ("SEC"). 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 2023 Annual Report on Form 10-K at pages 33 - 61. 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.

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 comprise health insurance premiums paid to third-party insurers and underwriting and benefit consultant payroll. Workers’ compensation costs consist primarily of premiums paid to third-party insurers, claims reserves, claims administration fees, legal fees, medical cost containment (“MCC”) expense, state administrative agency fees, third-party broker commissions, and risk manager payroll, as well as costs associated with operating our two wholly owned insurance companies, Associated Insurance Company for Excess (“AICE”) and Ecole Insurance Company (“Ecole”).

Cash and cash equivalents

We consider non-restricted short-term investments that are highly liquid, readily convertible into cash, 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 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 $0.9 million at March 31, 2024 and December 31, 2023. 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.

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, 2024 and 2023 did not materially differ from interest expense. Income taxes paid by the Company during the three months ended March 31, 2024 and 2023 totaled $0.04 million and $0.01 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, 2024	December 31, 2023	March 31, 2023	December 31, 2022
Cash and cash equivalents	$ 51,267	$ 71,168	$ 52,635	$ 91,423
Restricted cash, included in restricted cash and investments	36,562	3,673	15,424	15,955
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	$ 87,829	$ 74,841	$ 68,059	$ 107,378

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,	
	2024	2023
Weighted average number of basic shares outstanding	6,570	6,866
Effect of dilutive securities	—	119
Weighted average number of diluted shares outstanding	6,570	6,985

As a result of the net loss for the three months ended March 31, 2024, 135,405 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, and accrued workers' compensation liabilities. Actual results may or may not differ from such estimates.

Reclassifications

To conform to the current period's presentation, safety incentives liability of $1.3 million was reclassified to other accrued liabilities in the prior period condensed consolidated balance sheets, and net cash outflows related to safety incentives liability of $0.3 million was reclassified to other accrued liabilities in the prior period condensed consolidated statements of cash flows. Additionally, to conform the current period's presentation to reclassifications made in 2023, net cash outflows associated with premiums payable to third party insurance carriers of $1.4 million were reclassified from other accrued liabilities to premium payable in the prior period condensed consolidated statements of cash flows.

Recent accounting pronouncements

The following Accounting Standards Updates (ASUs) have been recently issued by the Financial Accounting Standards Board (FASB).

ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*

In November 2023, the FASB issued ASU 2023-07, which expands annual and interim reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. All disclosure requirements under the new guidance are also required for public entities with a single reportable segment. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied retrospectively to all prior periods presented in the financial statements. We are evaluating the impact of applying this new accounting guidance to our financial statement disclosures.

ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*

In December 2023, the FASB issued ASU 2023-09, which requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. The standard is intended to benefit investors by providing more detailed income tax disclosures that would be useful in making capital allocation decisions. The ASU applies to all entities subject to income taxes. The new requirements will be effective for annual periods beginning after December 15, 2024. The guidance will be applied on a prospective basis with the option to apply the standard retrospectively. Early adoption is permitted. We are evaluating the impact of applying this new accounting guidance to our income tax disclosures.

Note 2 - Fair Value Measurement

The following table summarizes the Company's investments at March 31, 2024 and December 31, 2023 measured at fair value on a recurring basis (in thousands):

	March 31, 2024			December 31, 2023		
	Cost	Gross Unrealized (Losses) Gains	Recorded Basis	Cost	Gross Unrealized (Losses) Gains	Recorded Basis
Current:						
Cash equivalents:						
Money market funds	$ 18,549	$ —	$ 18,549	$ 19,539	$ —	$ 19,539
Total cash equivalents	18,549	—	18,549	19,539	—	19,539
Investments:						
Corporate bonds	32,319	(3,123)	29,196	34,472	(3,159)	31,313
U.S. government agency securities	12,806	(395)	12,411	12,830	(408)	12,422
U.S. treasuries	12,451	(1,369)	11,082	12,448	(1,253)	11,195
Mortgage backed securities	12,908	(2,677)	10,231	13,084	(2,454)	10,630
Asset backed securities	9,647	(157)	9,490	13,659	(187)	13,472
Emerging markets	—	—	—	2,003	(8)	1,995
Total current investments	80,131	(7,721)	72,410	88,496	(7,469)	81,027
Restricted cash and investments [(1)]:						
U.S. treasuries	125,052	(7,032)	118,020	109,020	(6,415)	102,605
Corporate bonds	82,816	(9,022)	73,794	82,481	(8,454)	74,027
Mortgage backed securities	42,418	(5,874)	36,544	42,077	(5,216)	36,861
U.S. government agency securities	16,854	(1,170)	15,684	16,863	(1,199)	15,664
Mutual funds	9,641	—	9,641	8,941	—	8,941
Asset backed securities	799	(2)	797	799	—	799
Emerging markets	200	3	203	200	2	202
Money market funds	107	—	107	337	—	337
Total restricted cash and investments	277,887	(23,097)	254,790	260,718	(21,282)	239,436
Total investments	$ 376,567	$ (30,818)	$ 345,749	$ 368,753	$ (28,751)	$ 340,002

(1) Included in restricted cash and investments within the condensed consolidated balance sheets as of March 31, 2024 and December 31, 2023 is restricted cash of $11.8 million and $3.6 million, 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, 2024 and December 31, 2023 measured at fair value on a recurring basis by fair value hierarchy level (in thousands):

	March 31, 2024				December 31, 2023			
	Total Recorded Basis	Level 1	Level 2	Other [1]	Total Recorded Basis	Level 1	Level 2	Other [1]
Cash equivalents:								
Money market funds	$ 18,549	$ —	$ —	$ 18,549	$ 19,539	$ —	$ —	$ 19,539
Investments:								
Corporate bonds	29,196	—	29,196	—	31,313	—	31,313	—
U.S. government agency securities	12,411	—	12,411	—	12,422	—	12,422	—
U.S. treasuries	11,082	—	11,082	—	11,195	—	11,195	—
Mortgage backed securities	10,231	—	10,231	—	10,630	—	10,630	—
Asset backed securities	9,490	—	9,490	—	13,472	—	13,472	—
Emerging markets	—	—	—	—	1,995	—	1,995	—
Restricted cash and investments:								
U.S. treasuries	118,020	—	118,020	—	102,605	—	102,605	—
Corporate bonds	73,794	—	73,794	—	74,027	—	74,027	—
Mortgage backed securities	36,544	—	36,544	—	36,861	—	36,861	—
U.S. government agency securities	15,684	—	15,684	—	15,664	—	15,664	—
Mutual funds	9,641	9,641	—	—	8,941	8,941	—	—
Asset backed securities	797	—	797	—	799	—	799	—
Emerging markets	203	—	203	—	202	—	202	—
Money market funds	107	—	—	107	337	—	—	337
Total investments	$ 345,749	$ 9,641	$ 317,452	$ 18,656	$ 340,002	$ 8,941	$ 311,185	$ 19,876

[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, 2024 and December 31, 2023. 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, 2024				
(In thousands)	Less than 1 Year	Between 1 to 5 Years	Between 5 to 10 Years	After 10 Years	Total
U.S. treasuries	$ 71,700	$ 32,671	$ 24,731	—	$ 129,102
Corporate bonds	4,920	67,561	30,339	170	102,990
U.S. government agency securities	39	27,018	1,038	—	28,095
Money market funds	18,656	—	—	—	18,656
Asset backed securities	—	797	8,199	1,291	10,287
Emerging markets	—	—	203	—	203
Total	$ 95,315	$ 128,047	$ 64,510	$ 1,461	$ 289,333

	December 31, 2023				
(In thousands)	Less than 1 Year	Between 1 to 5 Years	Between 5 to 10 Years	After 10 Years	Total
U.S. treasuries	$ 55,955	$ 32,706	$ 25,139	$ —	$ 113,800
Corporate bonds	6,859	67,731	30,574	176	105,340
U.S. government agency securities	39	27,018	1,029	—	28,086
Money market funds	19,876	—	—	—	19,876
Asset backed securities	—	799	12,182	1,290	14,271
Emerging markets	1,995	—	202	—	2,197
Total	$ 84,724	$ 128,254	$ 69,126	$ 1,466	$ 283,570

The average contractual maturity of mortgage backed securities, which are excluded from the table above, was 21 and 23 years as of March 31, 2024 and December 31, 2023, respectively.

Note 3 – Workers' Compensation Claims

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Beginning balance		
Workers' compensation claims liabilities	$ 167,763	$ 215,987
Add: claims expense accrual		
Current period	3,600	4,362
Prior periods	(2,992)	(1,114)
	608	3,248
Less: claim payments related to		
Current period	954	180
Prior periods	9,489	17,480
	10,443	17,660
Change in claims incurred in excess of retention limits	126	66
Ending balance		
Workers' compensation claims liabilities	$ 158,054	$ 201,641

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 85% of the Company's workers' compensation exposure is covered through the insured program.

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

The 2021-2022 Policy, 2022-2023 Policy, and 2023-2024 Policy allow for premium adjustments depending on overall policy performance. If claims develop favorably, BBSI can participate in savings up to $20.0 million, $22.5 million, and $28.5 million for the 2021-2022 Policy, 2022-2023 Policy, and 2023-2024 Policy, respectively. If claims develop adversely, additional premium may be charged up to $7.5 million under the 2021-2022 Policy. No additional premiums may be charged if claims develop adversely under the 2022-2023 Policy and the 2023-2024 Policy.

For the above policies, premium amounts incurred but not paid are recorded as either current or long-term premium payable on the consolidated balance sheets based on the expected timing of the payments.

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.

Claim obligations for policies issued under the insured program between February 1, 2014 and June 30, 2018 were removed through loss portfolio transfers in 2020 and 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
2023	No
2024	No

[(1)] The loss portfolio transfers 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 $234.2 million and $210.9 million at March 31, 2024 and December 31, 2023, 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, Ohio, 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 15% of the Company’s workers’ compensation exposure is covered through self-insurance or Ecole (the “self-insured programs”).

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

The states of California, Maryland, Oregon, Washington, Colorado and Delaware required the Company to maintain collateral totaling $48.1 million at both March 31, 2024 and December 31, 2023 to cover potential workers’ compensation claims losses related to the Company’s current and former status as a self-insured employer. At March 31, 2024, the Company provided surety bonds totaling $48.1 million.

Claims liabilities

The Company provided a total of $158.1 million and $167.8 million at March 31, 2024 and December 31, 2023, respectively, as an estimated future liability for unsettled workers' compensation claims liabilities. Of this amount, $6.1 million and $6.0 million at March 31, 2024 and December 31, 2023, respectively, represent case reserves and IBNR 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 $6.1 million and $6.0 million at March 31, 2024 and December 31, 2023, 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 $25.0 million. Advances under the revolving credit line bear interest, as selected by the Company, of (a) the daily Simple Secured Overnight Financing Rate ("SOFR") plus 1.75% or (b) one-month Term SOFR plus 1.75%. The Agreement also provides for an unused commitment fee of 0.35% per year on the average daily unused amount of the revolving credit line, as well as a fee of 1.75% of the face amount of each letter of credit reserved under the line of credit. The Company had no outstanding borrowings on its revolving credit line at March 31, 2024 and December 31, 2023. 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 $50 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, 2024, 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, 2024.

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

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

In the major jurisdictions where it operates, the Company is generally no longer subject to income tax examinations by tax authorities for tax years before 2017. As of March 31, 2024 and December 31, 2023, total gross unrecognized tax benefits, excluding interest and penalties, of $0.5 million and $0.8 million, respectively, 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, 2024, the Company had no state operating loss carryforwards. At March 31, 2024, the Company did not have a federal general business tax credit carryforward or an alternative minimum tax credit carryforward.

Note 6 – Litigation

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 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 all other cases not discussed above, management has recorded estimated liabilities totaling $0.1 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 experienced 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 8,000 companies each day, define our approach to guiding business owners through the challenges associated with being an employer. BBSI's business teams align with each business owner client through a structured three-tiered progression. In doing so, business teams focus on the objectives of each business owner and deliver planning, guidance and resources in support of those objectives.

Tier 1: Tactical Alignment

The first stage focuses on the mutual setting of expectations and is essential to a successful client relationship. It begins with a process of assessment and discovery in which the business 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 benefit programs 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, among others.

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, 2024 and 2023 ($ in thousands):

	Percentage of Total Net Revenues			
	Three Months Ended March 31,			
	2024		2023	
Revenues:				
Professional employer services	$ 246,189	92.6 %	$ 232,307	91.2 %
Staffing services	19,593	7.4	22,360	8.8
Total revenues	265,782	100.0	254,667	100.0
Cost of revenues:				
Direct payroll costs	14,717	5.5	16,871	6.6
Payroll taxes and benefits	161,895	60.9	144,582	56.8
Workers' compensation	49,603	18.7	51,670	20.3
Total cost of revenues	226,215	85.1	213,123	83.7
Gross margin	39,567	14.9	41,544	16.3
Selling, general and administrative expenses	42,414	16.0	41,226	16.2
Depreciation and amortization	1,852	0.7	1,677	0.7
Loss from operations	(4,699)	(1.8)	(1,359)	(0.6)
Other income, net	3,296	1.2	2,313	0.9
(Loss) income before income taxes	(1,403)	(0.6)	954	0.3
(Benefit from) provision for income taxes	(1,267)	(0.5)	135	0.1
Net (loss) income	$ (136)	(0.1) %	$ 819	0.2 %

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, 2024 and 2023.

	(Unaudited) Three Months Ended March 31,	
(in thousands)	2024	2023
Gross billings	$ 1,907,549	$ 1,789,218
PEO and staffing wages	$ 1,656,443	$ 1,551,352

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,	
	2024	2023
PEO and staffing wages	86.8%	86.7%
Payroll taxes and benefits	8.5%	8.1%
Workers' compensation	2.6%	2.9%
Gross margin	2.1%	2.3%

The presentation of revenue on a net basis and the relative contributions of PEO and staffing 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 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,			
	2024	% Change	2023	% Change
Average WSEs	123,050	3.1%	119,313	2.7%
Ending WSEs	124,785	2.8%	121,363	2.9%

Three Months Ended March 31, 2024 and 2023

Net loss for the first quarter of 2024 amounted to $0.1 million compared to net income of $0.8 million for the first quarter of 2023. Diluted net loss per share for the first quarter of 2024 was $0.02 compared to diluted net income per share of $0.12 for the first quarter of 2023.

Revenue for the first quarter of 2024 totaled $265.8 million, an increase of $11.1 million or 4.4% over the first quarter of 2023, which reflects an increase in the Company's PEO services revenue of $13.9 million or 6.0% and a decrease in staffing services revenue of $2.8 million or 12.4%.

The increase in PEO services revenue was primarily attributable to an increase in average number of WSEs as well as an increase in average billing per WSE.

Gross margin for the first quarter of 2024 totaled $39.6 million or 14.9% of revenue compared to $41.5 million or 16.3% of revenue for the first quarter of 2023. The separate components of gross margin are discussed below.

Direct payroll costs for the first quarter of 2024 totaled $14.7 million or 5.5% of revenue compared to $16.9 million or 6.6% of revenue for the first quarter of 2023. 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 2023.

Payroll taxes and benefits for the first quarter of 2024 totaled $161.9 million or 60.9% of revenue compared to $144.6 million or 56.8% of revenue for the first quarter of 2023. 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 2024 and PEO client benefit costs of $6.6 million in the first quarter of 2024 compared to $1.4 million in the first quarter of 2023.

Workers' compensation expense for the first quarter of 2024 totaled $49.6 million or 18.7% of revenue compared to $51.7 million or 20.3% of revenue for the first quarter of 2023. The decrease in workers' compensation expense as a percentage of revenue was primarily due to favorable prior year liability and premium adjustments of $3.0 million in the first quarter of 2024, compared to favorable prior year liability and premium adjustments of $1.1 million in the first quarter of 2023.

Selling, general and administrative ("SG&A") expenses for the first quarter of 2024 totaled $42.4 million or 16.0% of revenue compared to $41.2 million or 16.2% of revenue for the first quarter of 2023. The decrease as a percentage of revenue was primarily the result of decreased employee-related costs as a percentage of revenue.

Other income, net for the first quarter of 2024 totaled $3.3 million compared to other income, net of $2.3 million for the first quarter of 2023. The increase was primarily attributable to an increase in investment income in the first quarter of 2024.

Our effective income tax rate for the first quarter of 2024 was 90.3% compared to 14.2% for the first quarter of 2023. 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 $87.8 million, which includes cash, cash equivalents, and restricted cash, increased $13.0 million for the three months ended March 31, 2024, compared to a decrease of $39.3 million for the comparable period of 2023. The increase in cash at March 31, 2024 as compared to December 31, 2023 was primarily due to increased premium payable, increased accrued payroll, payroll taxes and related benefits, and proceeds from sales and maturities of restricted and unrestricted cash and investments, partially offset by increased trade accounts receivable, decreased workers' compensation claims liabilities, repurchases of common stock, and purchases of investments and restricted investments.

Net cash provided by operating activities for the three months ended March 31, 2024 amounted to $9.0 million, compared to cash used of $26.5 million for the comparable period of 2023. For the three months ended March 31, 2024, net cash provided by operating activities was primarily due to increased premium payable of $26.2 million and increased accrued payroll, payroll taxes and related benefits of $22.0 million, partially offset by increased trade accounts receivable of $29.0 million and decreased workers' compensation claims liabilities of $9.8 million.

Net cash provided by investing activities for the three months ended March 31, 2024 totaled $14.1 million, compared to cash used of $2.0 million for the comparable period of 2023. For the three months ended March 31, 2024, net cash provided by investing activities consisted of proceeds from sales and maturities of investments and restricted investments of $21.5 million, partially offset by purchases of restricted investments of $4.6 million and purchases of property, equipment and software of $2.8 million.

Net cash used in financing activities for the three months ended March 31, 2024 was $10.1 million, compared to cash used of $10.8 million for the comparable period of 2023. For the three months ended March 31, 2024, net cash used in financing activities primarily consisted of repurchases of common stock of $7.1 million and dividend payments of $2.0 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 $234.2 million and $210.9 million at March 31, 2024 and December 31, 2023, 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, 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; difficulties associated with integrating clients into our operations; economic trends in our service areas; the potential for material deviations from expected future workers' compensation claims experience; changes in the workers' compensation regulatory environment in our primary markets; security breaches or failures in the Company's information technology systems; collectability of accounts receivable; changes in executive management; changes in effective payroll tax rates and federal and state income tax rates; the carrying values of deferred income tax assets and goodwill (which may be affected by our future operating results); the effects of inflation on our operating expenses and those of our clients; the impact of and potential changes to the Patient Protection and Affordable Care Act, escalating medical costs, and other health care legislative initiatives on our business; the effect of conditions in the global capital markets on our investment portfolio; and the availability of capital, borrowing capacity on our revolving credit facility, or letters of credit necessary to meet state-mandated surety deposit requirements for maintaining our status as a qualified self-insured employer for workers' compensation coverage or our insured program. Additional risk factors affecting our business are discussed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2023, which was filed with the SEC on March 1, 2024. 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 outstanding borrowings on its line of credit. The Company's investments and restricted investments, which are classified as available-for-sale, consist primarily of fixed-rate debt securities, the fair value of which fluctuates with prevailing interest rates. Our cash equivalents consist primarily of money market funds, which are not meaningfully impacted by interest rate risk. We attempt to limit our investment portfolio's exposure to market risk through low investment turnover and diversification. Based on the Company’s overall interest exposure at March 31, 2024, a 50 basis point increase in market interest rates would have a $4.8 million downward effect on the fair value of the Company’s investment portfolio. Outstanding borrowings on the Company's line of credit bear interest at a variable market rate, which makes the cost of borrowing on the line of credit susceptible to changing interest rates. At March 31, 2024, 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, 2024.

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, 2024 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, 2023, which was filed with the SEC on March 1, 2024.

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, 2024.

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 (in thousands) [1]
January	8,500	$ 112.28	8,500	$ 58,027
February	—	—	—	58,027
March	50,377	121.11	50,377	51,926
Total	58,877		58,877	

[1] On July 31, 2023, the Board of Directors authorized the repurchase of up to $75.0 million of the Company’s common stock over a two-year period beginning July 31, 2023. The new repurchase program replaces the program approved in February 2022. As of March 31, 2024, the Company had repurchased 220,077 shares at an aggregate purchase price of $23.1 million under the new repurchase program.

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, 2024, 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 1, 2024

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 1, 2024

/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 1, 2024

/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, 2024 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 1, 2024	May 1, 2024

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.