



BBSI

**ANNUAL REPORT
2021**

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

FORM 10-K

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

For the fiscal year ended December 31, 2021
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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

State the aggregate market value of the common equity held by non-affiliates of the registrant: \$534,958,957 at June 30, 2021

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

<u>Class</u>	<u>Outstanding at February 21, 2022</u>
Common Stock, Par Value \$.01 Per Share	7,422,523 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2022 Annual Meeting of Stockholders are hereby incorporated by reference in Part III of Form 10-K.

BARRETT BUSINESS SERVICES, INC.
2021 ANNUAL REPORT ON FORM 10-K
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PART I

Item 1. BUSINESS

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.

Certain statements below contain forward-looking information that is subject to risks and uncertainties. See “Forward-Looking Information” in Item 7 of Part II of this report and “Risk Factors” in Item 1A of Part I of this report.

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 employees located in 47 states and the District of Columbia through a network of 50 branch locations in Arizona, California, Colorado, Delaware, Idaho, Maryland, Nevada, New Mexico, North Carolina, Oregon, Pennsylvania, Tennessee, Utah, Virginia and Washington. We also have several smaller recruiting locations in our general market areas, which are under the direction of a branch office.

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.

Categories of Services

We report financial results in two categories of services: Professional Employer Services ("PEO") and Staffing. See Item 7 of Part II of this Report for information regarding the percentages of total net revenues provided by our PEO and staffing services for each of the last three fiscal years, and our consolidated financial statements in Item 8 of Part II of this Report for information regarding revenues, net income and total assets in our single reportable segment.

PEO

We enter into a client services agreement to establish a co-employment relationship with each client company, assuming responsibility for payroll, payroll taxes, workers' compensation coverage (if elected) and certain other administrative functions for the client's existing workforce. We refer to employees of our PEO clients as worksite employees ("WSEs"). The client maintains physical care, custody and control of the WSEs, including the authority to hire and terminate employees. During 2021, we supported in excess of 7,600 PEO clients with total average WSEs of 112,928. This compares to more than 7,500 PEO clients with an average of 108,249 total WSEs during 2020.

Staffing and Recruiting

Our staffing services include on-demand or short-term staffing assignments, contract staffing, direct placement, and long-term or indefinite-term on-site management. On-site management employees are BBSI management employees who are based on the client-site and whose jobs are to assist BBSI staffing employees. Our recruiting experts maintain a deep network of professionals from which we source candidates. Through an assessment process, we gain an understanding of the short and long-term needs of our clients, allowing us to identify and source the right talent for each position. We then conduct a rigorous screening process to help ensure a successful hire.

Clients and Client Contracts

Our PEO business is typically characterized by long-term relationships that result in recurring revenue. The terms and conditions applicable to our client relationships are set forth in a client services agreement, which typically provides for an initial term of one year with renewal for additional one-year periods, but generally permits cancellation by either party upon 30 days' written notice. In addition, in most cases we may terminate the agreement at any time for certain breaches of contract, including nonpayment or failure to follow our workplace safety recommendations.

The PEO client services agreement also provides for indemnification by the client against losses arising out of any default by the client under the agreement, including failure to comply with any employment-related, health and safety, or immigration laws or regulations. Our client service agreement requires that clients enter into a co-employment arrangement and maintain comprehensive liability coverage in the amount of \$1.0 million for acts of their employees. It is nevertheless possible that claims not satisfied or covered through indemnification or insurance may be asserted against us, which could adversely affect our results of operations.

We have PEO client services agreements with a diverse array of customers, including electronics manufacturers, various light-manufacturing industries, agriculture-based companies, transportation and shipping enterprises, food processors, telecommunications companies, public utilities, general contractors in various construction-related fields, and professional services firms. None of our clients individually represented more than 1% of our total revenues in 2021.

Market Opportunity

As a PEO that aligns with the mission of business owners by providing resources and guidance to small and mid-size businesses, BBSI believes its growth is driven by the desire of business owners to focus on mission-critical functions, reduce complexity associated with the employment function, mitigate costs and maximize their investment in human capital. Our integrated management platform has enabled us to capitalize on these needs within the small to mid-size business sector.

The small and mid-sized business segment is particularly attractive because:

- it is large, continues to offer significant growth opportunity and remains underserved by professional services companies;
- it typically has fewer in-house resources than larger businesses and, as a result, is generally more dependent on external resources;
- we generally experience a relatively high client retention rate and lower client acquisition costs within this market segment; and
- we have found that small to mid-sized businesses are responsive to quality of service when selecting a PEO or staffing services provider.

Competition

The business environment in which we operate is characterized by intense competition and fragmentation. BBSI is not aware of reliable statistics regarding the number of its competitors, but certain large, well-known companies typically compete with us in the same markets and also have greater financial and marketing resources than we do, including Automatic Data Processing, Inc., ManpowerGroup, Inc., Kelly Services, Inc., Insperty, Inc., TriNet Group, Inc., Robert Half International Inc. and Paychex, Inc. We face additional competition from regional providers and we may in the future also face competition from new entrants to the field, including other staffing services companies, payroll processing companies and insurance companies. The principal competitive factors in the business environment in which we operate are price and level of service.

We believe that our growth is attributable to our ability to provide small and mid-sized companies with the resources and knowledge base of a large employer delivered through a local operations team. Our level of integration with each client business provides us an additional competitive advantage.

Technology Platform

Our client-facing technology platform, myBBSI, includes both internally developed and licensed software which gives our clients a wide range of tools, including the ability to process payroll, collect and process time and attendance information, manage human resource information including employee onboarding and termination, as well as compensation and payroll tax reporting.

Growth Strategy

We believe our clients are one of our best advocates and powerful drivers of referral-based growth. In each market, operations teams provide expertise, consultation and support to our clients, driving growth and supporting retention. We anticipate that by adding business teams to existing branches, we can achieve incremental growth in those markets, driven by our reputation and by client referrals. In most markets business development efforts are led by area managers and are further supported by business development managers.

Our business growth has three primary sources: referrals from existing clients, direct business-to-business sales efforts by our area managers and business development managers, and an extensive referral network. Partners in our referral network include insurance brokers, financial advisors, attorneys, CPA's, and other business professionals who can facilitate an introduction to prospective clients. These referral partners facilitate introductions to business owners on our behalf, typically in exchange for a fee equal to a small percentage of payroll.

We see two key drivers to our growth:

- Increase market share in existing markets. We seek to support, strengthen and expand branch office operations through the ongoing development of business teams. We believe that strengthening and expanding the operations of each location is an efficient and effective means of increasing market share in the geographic areas in which we do business, and that our business teams serve a dual purpose: 1) Delivering high-quality service to our clients, thereby supporting client business growth and retention, and driving client referrals, and 2) Incubating talent at the branch level to support expansion into new markets.
- Penetrate new markets. We intend to open additional branch offices in new geographic markets as opportunities arise. We have developed a strategic approach to geographic expansion, which will serve as a guide for determining if and when to enter new markets. As part of this effort, we have become licensed to provide PEO services nationwide. We believe our decentralized organizational model built on teams of senior-level professionals allows us to incubate talent to support our expansion efforts.

Workers' Compensation

Through our client services agreement, BBSI has the ability to provide workers' compensation coverage to its clients. We provide this coverage through a variety of methods, all of which are subject to rigorous underwriting to assess financial stability, risk factors and cultural alignment related to safety and the client's desire to improve their operations. In providing this coverage, we are responsible for complying with applicable statutory requirements for workers' compensation coverage.

Risk mitigation is also an important contributor to our principal goal of helping business owners operate their business more efficiently. It is in the mutual interests of the client and BBSI to commit to workplace safety and risk mitigation. We maintain clear guidelines for our area managers and risk management consultants, directly tying their continued employment to their diligence in understanding and addressing the risks of accident or injury associated with the industries in which client companies operate and in monitoring clients' compliance with workplace safety requirements.

Elements of Workers' Compensation System

State law (and for certain types of employees, federal law) generally mandates that an employer reimburse its employees for the costs of medical care and other specified benefits for injuries or illnesses, including catastrophic injuries and fatalities, incurred in the course and scope of employment. Most states require employers to maintain workers' compensation insurance or otherwise demonstrate financial responsibility to meet workers' compensation obligations to employees. The benefits payable for various categories of claims are determined by state regulation and vary with the severity and nature of the injury or illness and other specified factors. In return for this guaranteed protection, workers' compensation is an exclusive remedy and employees are generally precluded from seeking other damages from their employer for workplace injuries. In many states, employers who meet certain financial and other requirements are permitted to self-insure.

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.

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.

Claims Management

As a result of our status as a self-insured employer in four states and our retention arrangements, our workers' compensation expense is tied directly to the incidence and severity of covered workplace injuries. We seek to contain our workers' compensation costs through a comprehensive approach to claims management. We use managed-care systems to reduce medical costs and keep time-loss costs to a minimum by assigning injured workers, whenever possible, to short-term assignments which accommodate the workers' physical limitations. We believe that these assignments minimize both time actually lost from work and covered time-loss costs. We engage a third-party claims administrator ("TPA") to provide the primary claims management expertise. Typical claims management procedures include performing thorough and prompt on-site investigations of claims filed by employees, working with physicians to encourage efficient medical management of cases, denying questionable claims and attempting to negotiate early settlements to eliminate future adverse development of claims costs. We also maintain a corporate-wide pre-employment drug screening program and a post-injury drug test program. We believe our claims management program has resulted in a reduction in the frequency of fraudulent claims and in accidents in which the use of illicit drugs appears to have been a contributing factor.

Human Capital

At December 31, 2021, we had 121,660 total employees, including 116,154 WSEs under our PEO client service agreements, 4,760 staffing services employees, 742 managerial, sales and administrative employees (together, "management employees"), and 4 executive officers. The number of employees at any given time may vary significantly due to business conditions at customer or client companies. We believe our employee relations with management employees are good.

BBSI believes that making significant investments in the best management employee talent available allows us to leverage the value of this investment many times over. Additionally, we believe our Company's success depends on our ability to attract, develop and retain our workforce. As such, we strive to be an employer of choice and promote the health, welfare and safety of our employees. This involves promoting diversity and treating all employees with dignity and respect, while providing our management employees with fair, market-based, competitive and equitable compensation.

We motivate our management employees through a compensation package that includes a competitive base salary and the opportunity for profit sharing. At the branch level, profit sharing is in direct correlation to client WSE growth and workers' compensation claims performance, reinforcing a culture focused on achievement of client goals. We also provide a comprehensive benefits package as well as an employee stock purchase plan. We seek feedback from employees regarding our benefits package through employee surveys. This information is used by management to make improvements as we continuously strive to be an employer of choice. During 2021, we implemented a program that provides paid volunteer time to encourage our management employees to participate in community service projects, which has been favorably received both internally and externally.

We offer various qualified employee benefit plans to our employees, including those employees for whom we are the administrative employer in a co-employment arrangement with a PEO client that so elects. Employees covered under a PEO arrangement may participate in our 401(k) plan at the sole discretion of the PEO client. Our qualified staffing and management employee benefit plans include our 401(k) plan, in which employees may enroll upon reaching 21 years of age and completing 1,000 hours of service in a 12 consecutive month period. We make matching contributions to the 401(k) plan under a safe harbor provision, which are immediately 100% vested. We match 100% of contributions by management and staffing employees up to 3% of each participating employee's annual compensation and 50% of the employee's contributions up to an additional 2% of annual compensation. We may also make discretionary contributions to the 401(k) plan, which vest over six years and are subject to certain legal limits, at the sole discretion of our Board of Directors.

We also offer a cafeteria plan under Section 125 of the Internal Revenue Code and group health, life insurance and disability insurance plans to qualified staffing and management employees. Generally, qualified employee benefit plans are subject to provisions of both the Internal Revenue Code and the Employee Retirement Income Security Act of 1974 ("ERISA").

Certain highly compensated employees of the Company are allowed to participate in a nonqualified deferred compensation plan. Under the plan, participants are permitted to defer receipt for income tax purposes of up to 90% of salary and up to 100% of any incentive bonus. Participants earn a return on their deferred compensation based on investment earnings of participant-selected investments. As an incentive to participate in the plan, the Company awards restricted stock units with a value equal to 35% of the amount deferred under the plan, up to a maximum of \$75,000 per year. The restricted stock units vest in full on the fifth anniversary of the grant date, contingent on the continued employment of the participant.

The Company established a Rabbi trust under which compensation deferred by participants is deposited and held separately from the Company's other assets, subject to the claims of the Company's creditors in the event of its bankruptcy or insolvency.

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the "Acts") subject us to potential penalties unless we offer to our employees minimum essential healthcare coverage that is affordable. Because each PEO client is considered to be the sole employer in the application of any rule or law included within the scope of the Acts, we are not required to offer health care coverage to the WSEs of our PEO clients. However, in order to comply with the employer mandate provision of the Acts, we offer health care coverage to all eligible staffing employees and management employees eligible for coverage under the Acts.

In response to the COVID-19 pandemic in March 2020, we transitioned much of our workforce to a remote working environment with a commitment to the safety of our employees and the communities we serve. Beginning in the third quarter of 2020 and continuing through 2021, we re-opened our offices while continuing to adhere to health and safety protocols and provided remote work options to accommodate employees seeking the flexibility to work remotely as well as in the office.

Regulatory and Legislative Environment

We are subject to the laws and regulations of the jurisdictions within which we operate, including those governing self-insured employers under the workers' compensation systems in Oregon, Maryland, and Colorado, as well as in Washington for staffing and management employees. We are also subject to laws and regulations governing our two wholly owned insurance companies in Arizona. While the specific PEO laws and regulations vary among these jurisdictions, they typically require some form of licensing or registration and often have statutory requirements for workplace safety and notice of change in obligation of workers' compensation coverage in the event of contract termination. Although compliance with these requirements imposes some additional financial risk, particularly with respect to those clients who breach their payment obligation to us, such compliance has not had a material adverse effect on our business to date.

Our operations are affected by numerous federal and state laws relating to labor, tax and employment matters. Through our client services agreement, we assume certain obligations and responsibilities as the administrative employer under federal and state laws. Since many of these federal and state laws were enacted prior to the development of nontraditional employment relationships, such as professional employer, temporary employment, and outsourcing arrangements, many of these laws do not specifically address the obligations and responsibilities of nontraditional employers. In addition, the definition of "employer" under these laws is not uniform.

As an employer, we are subject to all federal statutes and regulations governing our employer-employee relationships for staffing and management employees. Subject to the discussion of risk factors below, we believe that our operations are in compliance in all material respects with applicable federal statutes and regulations.

Due to the nature of our operations, we collect, store, process, use and retain significant amounts of confidential and sensitive personal employee and client information. As such, we are subject to a variety of federal and state laws and regulations associated with data security.

Additional Information

Our filings with the SEC, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and registration statements, as well as any amendments to these filings, are accessible free of charge at our website at <http://www.bbsi.com> as soon as reasonably practicable after they are electronically filed with the SEC. By making this reference to our website, we do not intend to incorporate into this report any information posted on our website. The website should not be considered part of this report.

The SEC also maintains a website at <http://www.sec.gov> that provides access to reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including the Company.

Item 1A. RISK FACTORS

In addition to other information contained in this report, the following risk factors should be considered carefully in evaluating our business.

Risks Relating to the COVID-19 Pandemic

The Company's business may be negatively affected by outbreaks of disease, such as epidemics or pandemics, including the ongoing COVID-19 pandemic.

In March 2020, the World Health Organization and the United States government declared COVID-19 a pandemic and recommended containment and mitigation measures worldwide. In response to the COVID-19 pandemic, various preventative actions and government mandates have affected many areas of the country, including states where BBSI and our clients operate, particularly on the West Coast. These restrictions on business operations have had a particularly disruptive effect on small-and mid-sized businesses, which comprise our primary client base. As our PEO fees are based on client payroll, workforce reductions, labor shortages and supply disruptions related to the pandemic or otherwise could have a material adverse effect on our business. Clients that are impacted by government restrictions and economic disruptions may experience liquidity and other financial issues, reducing their capacity to pay for our services.

In response to the pandemic, federal and state government agencies have enacted numerous laws and regulatory guidelines designed to help the economy, individuals and employers. Many of these legislative and regulatory changes, including the American Rescue Plan Act enacted on March 11, 2021, directly impact the Company and our clients. Several of these programs use payroll tax credits and other payroll tax-related reductions or deferrals as the mechanism to provide benefits to small businesses and employees. The guidance surrounding these programs is limited and continuously evolving. Failure to appropriately interpret and comply with legal and regulatory changes arising from the COVID-19 pandemic could have a material adverse effect on our business and reputation. Additionally, failure to incorporate changes to laws and regulations resulting from COVID-19 into our PEO business model may decrease our ability to attract and retain clients.

Additionally, many states revised their workers' compensation standards of coverage to include COVID-19 related illnesses for certain groups of workers. While effects on the Company's workers' compensation exposure in the states in which we operate have been limited to date, these changes in laws and regulations or in the pattern of COVID-19 illnesses could increase our exposure to workers' compensation claims.

As our employees may work from home more frequently and access the Company's systems remotely, the Company may be exposed to heightened security risks, including the risk of cyber-attacks. Additionally, if the Company's key management employees are unable to perform their duties for an extended period, including as the result of illness, the Company's business may be adversely affected.

The COVID-19 pandemic has also caused significant volatility and uncertainty in the U.S. economy that may result in another economic downturn, which could in turn lead to a decrease in gross billings, increases in workers' compensation and unemployment claims, increased unemployment taxes, increased uncollectable receivables and reductions in the value of the Company's investment portfolio.

Continuation or exacerbation of the consequences of the pandemic described above and elsewhere in this report would likely have a material adverse effect on our business, cash flows, results of operations and financial condition, which may also result in our inability to comply with financial covenants under our credit facilities, our inability to obtain necessary additional financing and a decline in stockholder value.

Risks Relating to Workers' Compensation

Our ability to continue our business operations under our present service model is dependent on maintaining workers' compensation insurance coverage.

Our arrangement with fully licensed, third-party insurers under the insured program provides workers' compensation coverage to BBSI's PEO clients through June 30, 2022, with committed coverage through June 30, 2023, and the possibility of additional annual renewals. If our fully licensed third-party insurers are unwilling or unable to renew our arrangement in the future, we would need to seek coverage from a small number of alternative insurers. If replacement coverage were unavailable or available only on significantly less favorable terms, our business and results of operations would be materially adversely affected.

Our consolidated retention for workers' compensation claims prior to July 1, 2021 is \$3.0 million per occurrence under our insurance arrangement in the majority of states in which we operate.

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.

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.

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. 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.

Thus, for claims incurred before July 1, 2020, the Company has financial risk for most workers' compensation claims under \$5.0 million on a per occurrence basis, except for claims transferred under the insured program as part of LPT 1 and LPT 2. For claims incurred between July 1, 2020 and June 30, 2021, the Company has financial risk for most workers' compensation claims under \$3.0 million on a per occurrence basis. This level of per occurrence retention may result in higher workers' compensation costs to us with a corresponding negative effect on our operating results and financial condition.

Collateral requirements could increase beyond our ability to satisfy those requirements.

The Company is required to provide collateral for its insured program and by certain states related to its current and former status as a self-insured employer. Various factors, including adverse loss experience or a decline in the fair value of investments in our collateral accounts, could cause the counterparties to require that additional collateral be posted. To partially satisfy these collateral requirements, the Company has provided surety bonds and standby letters of credit. If there are significant changes to the market for these credit products, or if we are unable to renew these agreements, we may incur increased costs or be required to deposit additional capital as collateral.

Failure to manage the severity and frequency of workplace injuries will increase our workers' compensation expenses.

Significant increases in the relative frequency or severity of workplace injuries due to failures to accurately assess potential risks or assure implementation of effective safety measures by our clients may result in increased workers' compensation claims expenses, with a corresponding negative effect on our results of operations and financial condition.

Risks Related to Technology

To succeed, we must constantly improve our technology to meet the expectations of our clients. If we fail to meet those expectations, we may lose clients and harm our business.

In order to attract and retain clients and satisfy their expectations, the software, hardware and networking technologies we use must be frequently and rapidly upgraded, enhanced and improved in response to technological advances, competitive pressures, client expectations, and new and changing laws. Failure to successfully implement technological improvements could result in harm to our reputation, loss of market share, reduced revenue, or client claims against us, any of which could materially harm our business.

As we continue to invest in upgrades or replacements to our existing systems, including enhancements and additional security measures, we may incur substantial costs and risks relating to development, installation and implementation, including disruptions in our service offerings or increases in expected costs, which may have a material adverse effect on our operating results and financial condition.

We are dependent upon technology services, and if we experience damage, service interruptions or failures in our computer and telecommunications systems, our client relationships and our ability to attract new clients may be adversely affected.

We rely extensively on computer systems, including systems of third-party vendors, to provide service offerings to our clients, manage our branch network, perform employment-related services and accounting and reporting functions, and summarize and analyze our financial results. These systems are subject to damage or interruption from telecommunications failures, power-related outages, third-party disruptions, computer viruses and malicious attacks, security breaches and catastrophic events. If these systems are damaged or fail to function properly, we may incur substantial costs to repair or replace them, experience loss of critical data and interruptions or delays in our ability to manage our operations, and encounter a loss of client confidence. In addition, our clients' businesses may be adversely affected by any system or equipment failure or breach we experience. As a result, we may suffer damage to our reputation, we may lose clients, our ability to attract new clients may be adversely affected, and we could be exposed to contractual liability.

We depend on third-party software to provide our services and support our operations.

Significant portions of our services and operations rely on software that is licensed from third-party vendors. The fees associated with these license agreements could increase in future periods, resulting in increased operating expenses. If there are significant changes to the terms and conditions of our license agreements, or if we are unable to renew these license agreements, we may be required to make changes to our vendors or information technology systems. These changes may impact the services we provide to our clients or the processes we have in place to support our operations, which could have an adverse effect on our business.

We could be subject to reduced revenues, increased costs, liability claims, or harm to our reputation as a result of data theft, cyberattacks or other security vulnerabilities.

The nature of our business involves the receipt, storage, and transmission of personal and proprietary information about thousands of employees and clients. Attacks on information technology systems continue to grow in frequency and sophistication, and we and our third-party vendors are targeted by unauthorized parties using malicious tactics, code and viruses. Hardware or applications we develop or procure from third-party vendors may contain defects in design or other problems that could unexpectedly compromise the confidentiality, integrity or availability of data or our systems. Because the techniques used to obtain unauthorized access and disable or sabotage systems change frequently and may be difficult to detect for long periods of time, we and our third-party vendors may be unable to anticipate these techniques or implement adequate preventive measures. As these threats continue to evolve, we may be required to invest significant additional resources to modify and enhance our information security and controls or to investigate and remediate any security vulnerabilities. While our technology infrastructure is designed to safeguard and protect personal and business information, we have limited ability to monitor the implementation of similar safeguards by our vendors.

Any cyberattack, unauthorized intrusion, malicious software infiltration, network disruption, corruption of data, misuse or theft of private or other sensitive information, or inadvertent acts by our own employees, could result in the disclosure or misuse of confidential or proprietary information, which could have a material adverse effect on our business operations or that of our clients. If we experience a significant data security breach, fail to detect and appropriately respond to a significant data security breach, or fail to comply with the various state cybersecurity regulations, we could be exposed to government enforcement actions and private litigation. These losses may exceed our insurance coverage for such incidents. In addition, our employees and clients could lose confidence in our ability to protect their personal and proprietary information, which could cause them to terminate their relationships with us. Any loss of confidence arising from a significant data security breach could hurt our reputation, further damaging our business.

Other Risks Related to our Business and Industry

In order to continue to grow revenues, we are dependent on retaining current clients and attracting new clients.

The Company's revenue growth can be volatile and is dependent on same customer sales and the addition of new clients. Revenues increased 8.4% in 2021 and decreased 6.5% in 2020. There can be no assurance that we will continue to maintain current levels of revenues. Efforts to achieve business growth intensifies pressure on retaining current clients and attracting increasing numbers of new clients.

Our business is subject to risks associated with geographic market concentration.

Our California operations accounted for approximately 73% of our total revenues in 2021. As a result of the current importance of our California operations and anticipated continued growth from these operations, our profitability over the next several years is expected to be largely dependent on economic and regulatory conditions in California. If California experiences an economic downturn, or if the regulatory environment changes in a way that adversely affects our ability to do business or limits our competitive advantages, our profitability and growth prospects may be materially adversely affected. Similarly, due to our geographic concentration in California, a natural disaster or major event that disrupts these markets or the related workforce could have an immediate and material adverse impact on our operations and profitability.

Economic conditions may impact our ability to attract new clients and cause our existing clients to reduce staffing levels or cease operations.

Weak economic conditions typically have a negative impact on small-and mid-sized businesses, which make up the majority of our clients. In turn, these businesses could cut costs, including trimming employees from their payrolls, or closing locations or ceasing operations altogether. If current economic conditions were to weaken further, these forces may result in decreased revenues due both to the downsizing of our current clients and increased difficulties in attracting new clients in a poor economic environment. In addition, weak economic conditions may also result in additional bad debt expense to the extent that existing clients cease operations or are otherwise unable to meet their financial obligations.

Our staffing business is vulnerable to economic fluctuations.

Demand for our staffing services is sensitive to changes in the level of economic activity in the regions in which we do business. As economic activity slows down, companies often reduce their use of temporary employees before undertaking layoffs of permanent staff, resulting in decreased demand for staffing services. On the other hand, during strong economic periods or tight labor markets due to other factors, we often experience shortages of qualified employees to meet customer needs, as occurred during 2021.

Because we assume the obligation to make wage, tax and regulatory payments in respect of some employees, we are exposed to client credit risks.

We generally assume credit risk associated with our clients' employee payroll obligations, including liability for payment of salaries and wages (including payroll taxes), as well as retirement benefits. These obligations are fixed whether or not the client makes payments to us as required by our services agreement. We attempt to mitigate this risk by invoicing our clients at the end of their specific payroll processing cycle. We also carefully monitor the timeliness of our clients' payments and impose strict credit standards on our customers. If we fail to successfully manage our credit risk, our results of operations and financial condition could be materially and adversely affected.

Increases in unemployment claims could raise our state and federal unemployment tax rates that we may not be able to pass on to our customers.

During weak economic conditions in our markets, the level of unemployment claims tends to rise as a result of employee layoffs at our clients and lack of work in our temporary staffing pool. The rise in unemployment claims often results in higher state and federal unemployment tax rates, which in most instances cannot be concurrently passed on to our customers either due to existing client services agreements or competitive pricing pressures. Increases in our state and federal unemployment tax rates could have a material adverse effect on our results of operations, particularly in the early part of the calendar year when payroll tax rates are at or near their maximum.

If we are unable to maintain our brand image and corporate reputation, our business may suffer.

Our success depends in part on our ability to maintain our reputation for providing excellent service to our customers. Service quality issues, whether actual or perceived, and even when due to dissemination of false information or unfounded perceptions, could tarnish the image of our brand and may cause customers to use other companies. Also, adverse publicity surrounding labor relations, data breaches, SEC investigations, and the like, could negatively affect our overall reputation. Damage to our reputation could reduce demand for our services and thus have an adverse effect on our business, financial condition and results of operations.

Our service agreements may be terminated on short notice, leaving us vulnerable to a significant loss of customers in a short period of time, if business or regulatory conditions change or events occur that negatively affect our reputation.

Our client services agreements are generally terminable on 30 days' notice by either us or our client. As a result, our clients may terminate their agreement with us at any time, making us particularly vulnerable to changing business or regulatory conditions or changes affecting our reputation or the reputation of our industry.

We may be exposed to employment-related claims and costs and periodic litigation that could adversely affect our business and results of operations.

We either co-employ employees in connection with our PEO client services agreements or place our employees in our customers' workplace in connection with our staffing business. As such, we are subject to a number of risks inherent to our status as the administrative employer, including without limitation:

- claims of misconduct or negligence on the part of our employees, discrimination or harassment claims against our employees, or claims by our employees of discrimination or harassment by our clients;
- immigration-related claims;
- claims relating to violations of wage, hour and other workplace regulations;
- claims relating to employee benefits, entitlements to employee benefits, or errors in the calculation or administration of such benefits; and
- possible claims relating to misuse of customer confidential information, misappropriation of assets or other similar claims.

If we experience significant incidents involving any of the above-described risk areas, we could face substantial out-of-pocket losses, fines or negative publicity. In addition, such claims may give rise to litigation, which may be time consuming, distracting and costly, and could have a material adverse effect on our business. With respect to claims involving our co-employer relationships, although our client services agreement provides that the client will indemnify us for any liability attributable to the conduct of the client or its employees, we may not be able to enforce such contractual indemnification, or the client may not have sufficient assets to satisfy its obligations to us. An increase in employment-related claims against us may have a material adverse effect on our results of operations.

We are dependent on certain key personnel and recruitment and retention of key employees may be difficult and expensive.

We believe that the successful operation of our business is dependent upon our retention of the services of key personnel, including our Chief Executive Officer, other executive officers and area managers. We may not be able to retain all of our executives, senior managers and key personnel in light of competition for their services. If we lose the services of one of our executive officers or a significant number of our senior managers, our results of operations likely would be adversely affected.

We depend on attracting and retaining qualified employees; during periods of economic growth, our costs to do so increase and attracting and retaining people becomes more difficult.

Our teams of client-facing professionals are the foundation of our value proposition. Our ability to attract and retain qualified personnel could be adversely affected by lower unemployment rates and higher compensation levels. During periods of economic growth, we face increased competition for retaining and recruiting qualified personnel, resulting in higher advertising and recruiting costs and increased salary expenses. If we cannot attract and retain qualified employees, the quality of our services may deteriorate and our reputation and results of operations could be adversely affected.

We do not have an expansive in-house sales staff and therefore rely extensively on referral partners.

We currently maintain a minimal internal professional sales force, instead relying heavily on referral partners to provide referrals to new business. In connection with these arrangements, we pay a fee to referral partners for new clients. These referral firms and individuals do not have an exclusive relationship with us. If we are unable to maintain these relationships or if our referral partners increase their fees or lose confidence in our services, we could face declines in our business and additional costs and uncertainties as we attempt to hire and train an internal sales force.

Our business is subject to risks associated with healthcare reforms.

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the “Acts”) subject us to potential penalties unless we offer our employees minimum essential healthcare coverage that is affordable. In order to comply with the employer mandate provision of the Acts, we offer health care coverage to all temporary and permanent employees eligible for coverage under the Acts other than employees of our PEO clients, which are responsible for providing required health care coverage to their employees. Designating employees as eligible is complex and is subject to challenge by employees and the Internal Revenue Service (“IRS”). While we believe we have properly identified eligible employees, a later determination that we failed to offer the required health coverage to eligible employees could result in penalties that may materially harm our business. We cannot be certain that compliant insurance coverage will remain available to us on reasonable terms, and we could face additional risks arising from future changes to or repeal of the Acts or changed interpretations of our obligations under the Acts. There can be no assurance that we will be able to recover all related costs through increased pricing to our customers or that such costs will be recovered in the period in which costs are incurred, and the net financial impact on our results of operations could be significant.

We face competition from a number of other companies.

We face competition from various companies that may provide all or some of the services we offer. Our competitors include companies that are engaged in staffing services such as Robert Half International Inc., Kelly Services, Inc., and ManpowerGroup Inc.; companies that are focused on co-employment, such as Insperity, Inc., and TriNet Group, Inc.; and companies that primarily provide payroll processing services, such as Automatic Data Processing, Inc. and Paychex, Inc. We also compete with insurance carriers and other providers of workers’ compensation insurance, and our offerings must be priced competitively with prices provided by these competitors in order for us to attract and retain our clients. Maintaining competitive pricing in the workers’ compensation market could lead to reduced margins and profitability. Additionally, we face competition from information technology outsourcing firms and broad-based outsourcing and consulting firms that perform individual projects.

Several of our existing or potential competitors have substantially greater financial, technical and marketing resources than we do, which may enable them to:

- develop and expand their infrastructure and service offerings more quickly and achieve greater cost efficiencies;
- invest in new technologies;
- expand operations into new markets more rapidly;
- devote greater resources to marketing;
- compete for acquisitions more effectively and complete acquisitions more easily; and
- aggressively price products and services and increase benefits in ways that we may not be able to match financially.

In order to compete effectively in our markets, we must target our potential clients carefully, continue to improve our efficiencies and the scope and quality of our services, and rely on our service quality, innovation, education and program clarity. If our competitive advantages are not compelling or sustainable, then we are unlikely to increase or sustain profits and our stock price could decline.

Our investment portfolio is subject to market and credit risks, which could adversely impact our financial condition or results of operations.

We seek to hold a diversified portfolio of high-quality investments that is managed by a professional investment advisory firm in accordance with our investment policy and routinely reviewed by management and approved by the risk management committee of our Board of Directors. However, our investments, including those held as collateral for our various insurance programs, are subject to general economic conditions and market risks, as well as risks inherent to particular securities, including credit, interest rate and liquidity risks. Our portfolio consists primarily of debt securities and is subject to the risk that certain investments may default, become impaired due to deterioration in the financial condition of one or more issuers of the securities, or will need to be sold for realized losses. Although our investment strategy is designed to preserve our capital, we cannot be certain that our investment objectives will be achieved, and we could incur substantial realized and unrealized investment losses in future periods.

We may be unable to draw on our revolving credit facility in the future.

If our business does not perform as expected, including if we generate less revenue than anticipated from our operations or encounter significant unexpected costs, we may fail to comply with the financial covenants under our credit facilities. If we do not comply with our financial covenants and we do not obtain a waiver or amendment from our lender, the lender may elect to cause all amounts owed to become immediately due and payable or may decline to renew our credit facility. In that event, we would seek to establish a replacement credit facility with one or more other lenders, including lenders with which we have an existing relationship, potentially on less desirable terms. There can be no guarantee that replacement financing would be available at commercially reasonable terms, if at all.

Changes in our income tax positions or adverse outcomes resulting from on-going or future tax audits could harm our business, operating results, financial condition and prospects.

Significant judgments and estimates are required in determining our provision for income taxes and other tax liabilities. In determining the adequacy of our tax provision, we assess the likelihood of adverse outcomes that could result if our tax positions were challenged by the IRS and other tax authorities. The tax authorities in the U.S. regularly examine our income and other tax returns. The ultimate outcome of tax examinations and disputes cannot be predicted with certainty. Should the IRS or other tax authorities assess additional taxes as a result of these or other examinations, we may be required to record charges to operations that could have a material impact on our results of operations, financial position or cash flows.

Our long-term growth strategy may include acquisitions which could be unsuccessful or cause disruptions to our business, which could adversely impact our financial condition or results of operations.

Potential future acquisitions may introduce a number of risks related to the integration of businesses, personnel, product lines, and technologies. If we are unable to successfully identify appropriate acquisition candidates, negotiate favorable terms, and successfully integrate an acquisition, our business, financial condition, and results of operation could be materially and adversely affected.

Risks Related to Our Regulatory Environment

We operate in a complex regulatory environment, and failure to comply with applicable laws and regulations could adversely affect our business.

Corporate human resource operations are subject to a broad range of complex and evolving laws and regulations, including those applicable to payroll practices, benefits administration, employment practices, workers' compensation coverage, and privacy. Because our clients have employees in many states throughout the United States, we must perform our services in compliance with the legal and regulatory requirements of multiple jurisdictions. Some of these laws and regulations may be difficult to ascertain or interpret and may change from time to time. Violation of such laws and regulations could subject us to fines, penalties, and damages, damage our reputation, constitute a breach of our client agreements, impair our ability to obtain and renew required licenses, and decrease our profitability or competitiveness. If any of these effects were to occur, our operating results and financial condition could be adversely affected.

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

We are the administrative employer in our co-employment relationships under the various laws and regulations of the IRS and the U.S. Department of Labor. If we are determined not to be the administrative employer under such laws and regulations and are therefore unable to assume our clients' obligations for employment and other taxes, our clients may be held jointly and severally liable for payment of such taxes. Some clients or prospective clients may view such potential liability as an unacceptable risk, discouraging current clients from continuing a relationship with us or prospective clients from entering into a new relationship with us. Any determination that we are not the administrative employer for purposes of ERISA could also adversely affect our cafeteria benefits plan operated under Section 125 of the Internal Revenue Code and result in liabilities to us under the plan.

Changes in government regulations may result in restrictions or prohibitions applicable to the provision of employment services or the imposition of additional licensing, regulatory or tax requirements.

Our business is heavily regulated in most jurisdictions in which we operate. We cannot provide assurance that the states in which we conduct or seek to conduct business will not:

- impose additional regulations that prohibit or restrict employment-related businesses like ours;
- require additional licensing or add restrictions on existing licenses to provide employment-related services; or
- increase taxes or make changes in the way in which taxes are calculated for providers of employment-related services.

Any changes in applicable laws and regulations may make it more difficult or expensive for us to do business, inhibit expansion of our business, or result in additional expenses that limit our profitability or decrease our ability to attract and retain clients.

We may find it difficult to expand our business into additional states due to varying state regulatory requirements.

Future growth in our operations depends, in part, on our ability to offer our services to prospective clients in new states, which may subject us to different regulatory requirements and standards. In order to operate effectively in a new state, we must obtain and maintain all necessary licenses and regulatory approvals, adapt our procedures to that state's regulatory requirements and modify our service offerings to adapt to local market conditions. As we expand into additional states, we may not be able to duplicate in other markets the financial performance experienced in our current markets.

Our wholly owned insurance companies are subject to substantial government regulation.

Our wholly owned insurance companies are primarily regulated by state insurance commissioners in the states in which they conduct business. Such regulation includes monitoring the financial status of these companies, approving policies and premium rates, maintaining requirements for capital surplus and types of investments, and approving any significant changes to the legal or operating structure of these entities. State regulators can also impose taxes and other fees on insurance companies under their jurisdiction. These regulations may restrict our ability to operate these companies in the manner we believe is best, which could increase the cost of our operations, restrict our access to insurance coverage or adversely affect our liquidity.

Risks Related to Ownership of our Common Stock

Our stock price may be volatile or may decline, resulting in substantial losses for our stockholders.

The market price of our Common Stock has been, and may continue to be, volatile for the foreseeable future. Important factors that may cause our trading price to decline include the factors listed below and other factors that may have a material adverse effect on our business or financial results, including those described above in this "Risk Factors" section:

- actual or anticipated fluctuations in our results of operations, including a significant slowdown in our revenue growth or material increase in our workers' compensation expense;
- our failure to maintain effective internal control over financial reporting or otherwise discover material errors in our financial reporting;
- imposition of significant fines or penalties or other adverse action by regulatory authorities against the Company;
- adverse developments in legal proceedings involving claims against the Company;
- our failure to meet financial projections or achieve financial results anticipated by analysts; or
- changes in our Board of Directors or management.

Maryland law and our Charter and bylaws contain provisions that could make the takeover of the Company more difficult.

Certain provisions of Maryland law and our Charter and bylaws could have the effect of delaying or preventing a third-party from acquiring the Company, even if a change in control would be beneficial to our stockholders. These provisions of our Charter and bylaws permit the Board of Directors to issue up to 500,000 shares of preferred stock with such rights and preferences, including voting rights, as the Board may establish, without further approval by the Company's stockholders, which could also adversely affect the voting power of holders of our Common Stock.

In addition, the Company is subject to the Maryland control share act (the "Control Share Act"). Under the Control Share Act, a person (an "Acquiring Person") who acquires voting stock in a transaction (a "Control Share Acquisition") which results in its holding voting power within specified ranges cannot vote the shares it acquires in the Control Share Acquisition unless voting rights are accorded to such control shares by the holders of two-thirds of the outstanding voting shares, excluding the Acquiring Person and the Company's officers and directors who are also employees of the Company.

The Company is also subject to the provisions of Maryland law limiting the ability of certain Maryland corporations to engage in specified business combinations (the "Business Combination Act"). Subject to certain exceptions, the Business Combination Act prohibits a Maryland corporation from engaging in a business combination with a stockholder who, with its affiliates, owns 10% or more of the corporation's voting stock. These provisions will not apply to business combinations that are approved by the Board of Directors before the stockholder became an interested stockholder.

Item 1B UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

We operate through 50 branch offices. The following table shows the number of locations in each state in which we have offices. We also lease office space in other locations in our market areas which we use to recruit and place employees.

Offices	Number of Branch Locations
California	23
Colorado	3
Oregon	3
Pennsylvania	3
Washington	3
Arizona	2
Idaho	2
Maryland	2
Nevada	2
Utah	2
Delaware	1
New Mexico	1
North Carolina	1
Tennessee	1
Virginia	1

We lease office space for our branch offices. At December 31, 2021, our leases had expiration dates ranging from less than one year to seven years. Our corporate headquarters occupies approximately 81 percent of the 65,300 square foot building we own in Vancouver, Washington.

Item 3. LEGAL PROCEEDINGS

BBSI is not subject to material legal proceedings and claims other than those which arise in the ordinary course of our business, except for those matters discussed in "Note 12 - Litigation" to the consolidated financial statements incorporated into Item 8 of Part II of this report.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II**Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock (the "Common Stock") trades on the Global Select Market segment of The Nasdaq Stock Market under the symbol "BBSI." At February 10, 2022, there were 23 stockholders of record and approximately 5,906 beneficial owners of the Common Stock.

The following table summarizes information related to stock repurchases during the quarter ended December 31, 2021.

Month	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plan (1)	Approximate Dollar Value of Shares that May Yet Be Repurchased Under the Plan (1)
October	-	\$ -	-	\$ 31,172,822
November	31,006	75.83	31,006	28,821,716
December	60,098	69.23	60,098	24,660,945
Total	<u>91,104</u>		<u>91,104</u>	

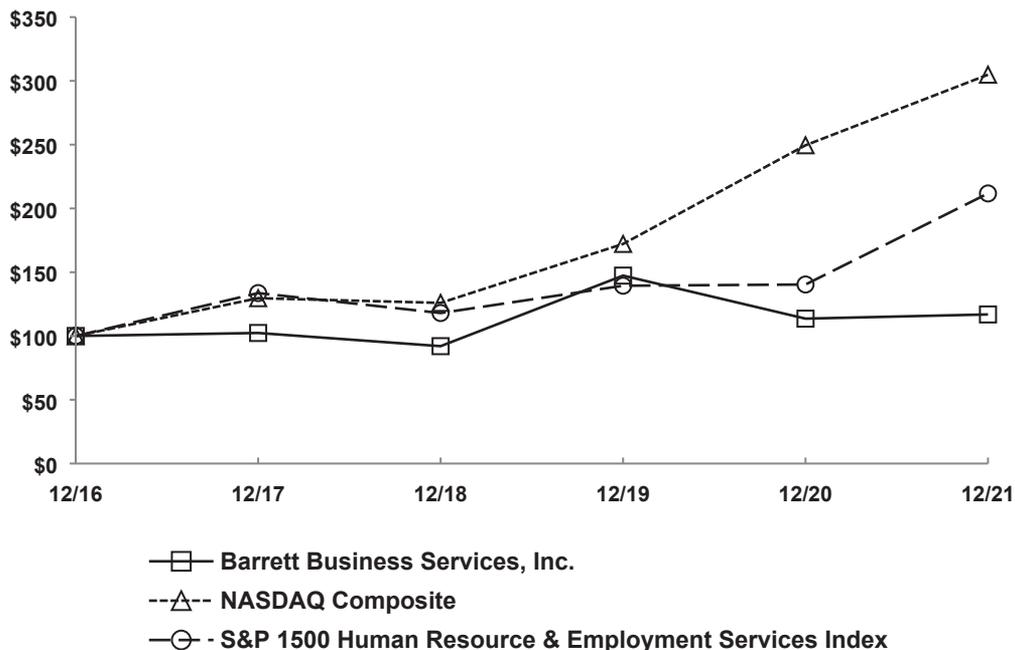
(1) In August 2019, the Board authorized the repurchase of up to \$50.0 million of shares of the Company's stock from time to time in open market purchases over a three-year period beginning August 15, 2019. As of December 31, 2021, the Company had repurchased 382,057 shares at an aggregate purchase price of \$25.3 million. 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.

The following graph shows the cumulative total return at the dates indicated for the period from December 31, 2016 until December 31, 2021, for our Common Stock, The Nasdaq Composite Index, and the S&P 1500 Human Resource & Employment Services Index, a published industry index that is considered reflective of the Company's peers.

The stock performance graph has been prepared assuming that \$100 was invested on December 31, 2016 in our Common Stock and the indexes shown, and that dividends are reinvested. The stock price performance reflected in the graph may not be indicative of future price performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Barrett Business Services, Inc., the NASDAQ Composite Index, and S&P 1500 Human Resource & Employment Services Index



*\$100 invested on 12/31/16 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

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	12/16	12/17	12/18	12/19	12/20	12/21
Barrett Business Services, Inc.	100.00	102.36	92.03	147.34	113.60	116.89
NASDAQ Composite	100.00	129.64	125.96	172.17	249.51	304.85
S&P 1500 Human Resource & Employment Services Index	100.00	133.65	117.99	139.40	140.36	211.75

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

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

We report revenues in our financial results in two categories of services: professional employer services ("PEO") and staffing.

With our PEO clients, we enter into a co-employment arrangement in which we become the administrative employer while the client maintains physical care, custody and control of their workforce. Our PEO services are billed as a percentage of client payroll; the gross amount invoiced includes direct payroll costs plus an additional percentage amount to cover employer payroll-related taxes, workers' compensation coverage (if provided), other service related costs and a margin. However, actual costs can be higher or lower than anticipated. PEO customers are invoiced following the end of each payroll processing cycle, with payment generally due on the invoice date. Revenues for PEO services exclude direct payroll billings because we are not the primary obligor for those payments.

We generate staffing services revenues primarily from short-term staffing, contract staffing, on-site management and direct placement services. For staffing services other than direct placement, invoiced amounts include direct payroll, an amount intended to cover employer payroll-related taxes, workers' compensation coverage, other service related costs and a margin. Staffing customers are invoiced weekly and typically have payment terms of 30 days. Direct placement services are billed at agreed fees at the time of a successful placement.

Our business is concentrated in California, and we expect to continue to derive a majority of our revenues from this market in the future. Revenues generated in our California operations accounted for 73% of our total revenues in 2021, 75% in 2020 and 77% in 2019. Consequently, any weakness in economic conditions or changes in the regulatory or insurance environment in California could have a material adverse effect on our financial results.

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

Selling, general and administrative expenses represent both branch office and corporate-level operating expenses. Branch operating expenses consist primarily of branch office staff payroll and personnel related costs, advertising, rent, office supplies, professional and legal fees and branch incentive compensation. Corporate-level operating expenses consist primarily of executive and office staff payroll and personnel related costs, professional and legal fees, travel, occupancy costs, information systems costs, and executive and corporate staff incentive compensation.

Depreciation and amortization represent depreciation of property and equipment, leasehold improvements, software and internally developed software costs. Property, equipment, software and internally developed software costs are depreciated using the straight-line method over their estimated useful lives, which range from 3 to 39 years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life.

Critical Accounting Policies and Estimates

We have identified the following accounting estimate as critical to our business and the understanding of our results of operations. For a detailed discussion of the application of this and other accounting policies, see “Note 1 - Summary of Operations and Significant Accounting Policies” to the consolidated financial statements in Item 8 of Part II of this report. The preparation of this Annual Report on Form 10-K requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. 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. Actual results may differ from these estimates.

Workers' Compensation Reserves

We recognize our liability for the ultimate payment of incurred claims and claims adjustment expenses by establishing a reserve that represents our estimates of future amounts necessary to pay claims and related expenses with respect to workplace injuries that have occurred. When a claim involving a probable loss is reported, our independent third-party administrator for workers' compensation claims (“TPA”) establishes a case reserve for the estimated amount of ultimate loss. The estimate reflects a judgment based on established case reserving practices and the experience and knowledge of the TPA regarding the nature and expected amount of the claim, as well as the estimated expenses of settling the claim, including legal and other fees and expenses of claims administration. The adequacy of such case reserves depends in part on the professional judgment of the TPA to properly and comprehensively evaluate the economic consequences of each claim.

Our reserves include an additional component for potential future increases in the cost to finally resolve open injury claims and claims incurred in prior periods but not reported (together, “IBNR”) based on actuarial estimates provided by the Company's independent actuary. IBNR reserves, unlike specific case reserves, do not apply to a specific claim but rather apply to the entire population of claims arising from a specific time period. IBNR primarily covers costs relating to:

- Future claim payments in excess of case reserves on recorded open claims;
- Additional claim payments on closed claims; and
- Claims that have occurred but have not yet been reported to us.

The process of estimating 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, modifications in reserve estimation procedures, changes in individuals involved in the reserve estimation process, inflation, trends in the litigation and settlement of pending claims, and legislative changes.

Our estimates are based on actuarial analyses and informed judgment, derived from individual experiences 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. 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.

We believe that the amounts recorded for our estimated liabilities for workers' compensation claims, which are based on informed judgment, analysis of data, actuarial estimates, and analysis of other trends associated with the Company's historical universe of claims data, are reasonable. Nevertheless, adjustments to such estimates will be required in future periods if the development of claim costs varies materially from our estimates, and such future adjustments may be material to our results of operations.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements and their potential effect on the Company's results of operations and financial condition, see "Note 1 - Summary of Operations and Significant Accounting Policies" to the consolidated financial statements in Item 8 of Part II of this report.

Forward-Looking Information

Statements in this Item or in Items 1, 1A, 3 and 9A of 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 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 and long-term debt, 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 this report. We disclaim any obligation to publicly announce any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Results of Operations

The spread of COVID-19 and resulting restrictions and labor shortages across the United States are having, and will continue to have, a negative impact on the operating results of the Company. As our clients respond to the effects of efforts to address the consequences of the pandemic, including the measures taken at various levels of government to contain the virus's spread, we expect that our ability to add new customers, as well as to grow revenues from existing customers, will be adversely affected due to economic slowdown, business closures, labor shortages and reductions in hours worked.

The following table sets forth the percentages of total revenues represented by selected items in the Company's consolidated statements of operations for the years ended December 31, 2021, 2020 and 2019, included in Item 8 of Part II of this report.

(\$ in thousands)	Percentage of Total Net Revenues					
	Years Ended December 31,					
	2021		2020		2019	
Revenues:						
Professional employer service fees	\$843,815	88.3 %	\$777,430	88.3 %	\$819,873	87.0 %
Staffing services	111,351	11.7	103,394	11.7	\$122,438	13.0
Total revenues	955,166	100.0	880,824	100.0	942,311	100.0
Cost of revenues:						
Direct payroll costs	83,821	8.8	78,380	8.9	92,455	9.8
Payroll taxes and benefits	469,888	49.2	418,793	47.5	429,713	45.6
Workers' compensation	196,949	20.6	200,744	22.8	211,890	22.5
Total cost of revenues	750,658	78.6	697,917	79.2	734,058	77.9
Gross margin	204,508	21.4	182,907	20.8	208,253	22.1
Selling, general and administrative expenses	155,259	16.3	141,916	16.1	153,879	16.3
Depreciation and amortization	5,326	0.6	4,844	0.6	3,886	0.4
Income from operations	43,923	4.6	36,147	4.1	50,488	5.4
Other income, net	6,738	0.7	6,449	0.7	10,650	1.1
Income before income taxes	50,661	5.3	42,596	4.8	61,138	6.5
Provision for income taxes	12,582	1.3	8,831	1.0	12,846	1.4
Net income	<u>\$ 38,079</u>	<u>3.9 %</u>	<u>\$ 33,765</u>	<u>3.8 %</u>	<u>\$ 48,292</u>	<u>5.2 %</u>

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 years ended December 31, 2021, 2020 and 2019.

(in thousands)	Year Ended December 31,		
	2021	2020	2019
Gross billings	\$ 6,569,986	\$ 5,924,539	\$ 5,971,008
PEO and staffing wages	5,693,903	5,098,604	5,090,943

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)	Year Ended December 31,		
	2021	2020	2019
Workers' compensation	\$ 196,949	\$ 200,744	\$ 211,890
Safety incentive costs	2,985	23,544	31,663
Non-GAAP gross workers' compensation	\$ 199,934	\$ 224,288	\$ 243,553

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.

	Percentage of Gross Billings		
	Year Ended December 31,		
	2021	2020	2019
PEO and staffing wages	86.7%	86.1%	85.3%
Payroll taxes and benefits	7.2%	7.1%	7.2%
Non-GAAP gross workers' compensation	3.0%	3.8%	4.1%
Gross margin	3.1%	3.1%	3.5%

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.

	Year Ended December 31,				
	2021	% Change	2020	% Change	2019
Average WSEs	112,928	4.3%	108,249	-5.3%	114,341
Ending WSEs	116,154	6.3%	109,292	-4.6%	114,584

Years Ended December 31, 2021 and 2020

Net income for 2021 was \$38.1 million compared to net income of \$33.8 million for 2020. Diluted income per share for 2021 was \$5.00 compared to diluted income per share of \$4.39 for 2020.

Revenue for 2021 totaled \$955.2 million, an increase of \$74.3 million or 8.4% over 2020, which reflects an increase in the Company’s PEO service fee revenue of \$66.4 million or 8.5% and an increase in staffing services revenue of \$8.0 million or 7.7%.

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 2021 totaled \$204.5 million or 21.4% of revenue compared to \$182.9 million or 20.8% of revenue for 2020. 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 2021 totaled \$83.8 million or 8.8% of revenue compared to \$78.4 million or 8.9% of revenue for 2020. The decrease in direct payroll costs percentage was primarily due to the increase in PEO services and decrease in staffing services within the mix of our customer base in 2021 as compared to 2020.

Payroll taxes and benefits for 2021 totaled \$469.9 million or 49.2% of revenue compared to \$418.8 million or 47.5% of revenue for 2020. The increase in payroll taxes and benefits as a percentage of revenues is due primarily to an increase in newly hired WSEs, which increased the amount of payroll subject to payroll taxes in 2021 as compared to 2020.

Workers’ compensation expense for 2021 totaled \$196.9 million or 20.6% of revenue compared to \$200.7 million or 22.8% of revenue for 2020. 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 \$9.2 million related to prior period claims in 2021, compared to a favorable adjustment of \$6.4 million in 2020.

Selling, general and administrative (“SG&A”) expenses for 2021 totaled \$155.3 million or 16.3% of revenue compared to \$141.9 million or 16.1% of revenue for 2020. The increase of \$13.4 million in SG&A expense in 2021 was primarily attributable to an increase in IT expense related to the launch of our myBBSI portal in 2020 and increased employee related expenses due to prior year reductions during the COVID-19 pandemic that have since been reversed, as well as increased variable employee compensation and incentive pay in 2021 related to stronger than expected financial results.

Other income, net for 2021 totaled \$6.7 million compared to other income of \$6.4 million for 2020. The increase was primarily attributable to a decrease in interest expense, partially offset by decreased investment income due to lower interest rates.

Our effective income tax rate for 2021 was 24.8% compared to 20.7% for 2020. 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. See “Note 9 - Income Taxes” to the consolidated financial statements included in Item 8 of Part II of this report for additional information regarding income taxes.

A discussion of our financial condition and results of operations for 2020 compared to 2019 can be found in Part II, Item 7. Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on March 8, 2021.

Fluctuations in Quarterly Operating Results

We have historically experienced significant fluctuations in our quarterly operating results, including losses 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 \$78.6 million, which includes cash, cash equivalents, and restricted cash, decreased \$155.2 million for the twelve months ended December 31, 2021, compared to a decrease of \$39.5 million for the comparable period of 2020. The decrease in cash at December 31, 2021 as compared to December 31, 2020 was primarily due to purchases of investments and restricted investments, decreased workers' compensation claims liabilities, increased trade accounts receivable and repurchase of common stock, partially offset by proceeds from the sales and maturities of investments and restricted investments, increased accrued payroll, payroll taxes and related benefits and net income.

Net cash used in operating activities in 2021 amounted to \$15.5 million, compared to net cash used in \$27.9 million for the comparable period of 2020. In 2021, cash used in operating activities was primarily due to decreased workers' compensation claims liabilities of \$77.6 million, increased trade accounts receivable of \$37.2 million and decreased safety incentive of \$14.5 million, partially offset by increased accrued payroll, payroll taxes and related benefits of \$49.7 million and net income of \$38.1 million.

Net cash used in investing activities totaled \$112.9 million in 2021, compared to net cash provided of \$4.1 million for the comparable period of 2020. In 2021, net cash used in investing activities consisted primarily of proceeds from sales and maturities of investments and restricted investments of \$202.6 million, partially offset by purchases of investments and restricted investments of \$308.6 million and purchases of property, equipment and software of \$6.8 million.

Net cash used in financing activities in 2021 was \$26.9 million compared to net cash used of \$15.7 million for the comparable period of 2020. In 2021, cash used in financing activities primarily consisted of repurchases of common stock of \$17.3 million, dividend payments of \$9.1 million and common stock repurchased on vesting of stock awards to settle income tax obligations of \$1.5 million, partially offset by proceeds from exercises of stock options of \$1.2 million.

The Company is required to maintain minimum collateral levels for certain policies issued under the insured program, which is held in trust accounts (the “trust accounts”). The balance in the trust accounts was \$273.6 million and \$290.7 million at December 31, 2021 and December 31, 2020, respectively. The trust account balances are included as a component of the current and long-term restricted cash and investments in the Company’s consolidated balance sheets.

On June 30, 2021, the Company entered into a loss portfolio transfer agreement 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 the LPT required \$5.0 million to be paid prior to June 30, 2021, with the remaining amount paid in July 2021.

In March 2022, the Company entered into an amended credit agreement (the “Amended Agreement”) with Wells Fargo Bank, N.A. (the “Bank”), which supersedes the previous agreement. The Amended Agreement increased the revolving credit line from \$33.0 million to \$50.0 million and maintained the sublimit for standby letters of credit at \$8.0 million. Advances under the credit line bear interest, as selected by the Company, of (a) the daily Simple Secured Overnight Financing Rate (“SOFR”) plus 1.75% or (b) the one-month Term SOFR plus 1.75%. The Amended Agreement also provides for an unused commitment fee of 0.30% per year on the average daily unused amount of the revolving credit line.

The Amended Agreement replaced the financial covenants in the Agreement (as defined below) with the following financial covenants:

- 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.
- 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.

Other than as described above, the Agreement (as defined below) previously in place during 2021 is substantially unchanged.

At December 31, 2021, the Company maintained an agreement (the “Agreement”) with the Bank for a revolving credit line of \$33.0 million and a sublimit for standby letters of credit of \$8.0 million. At December 31, 2021, \$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 floating rate of one-month London Inter-Bank Offered Rate (“LIBOR”) plus 1.75% or (b) the fixed rate of LIBOR plus 1.75%. The Agreement also provided for an unused commitment fee of 0.375% 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 December 31, 2021 and 2020. The credit facility was collateralized by the Company’s accounts receivable and other rights to receive payment.

The Agreement also provided a \$63.7 million standby letter of credit (the “Letter of Credit”). In April 2021, the Company and the insurance carrier reached an agreement to replace the Letter of Credit with other collateral assets and cancel the Letter of Credit in its entirety. As part of the transaction, the Bank released the \$38.7 million of collateral held in support of the Letter of Credit, and the Company transferred the \$38.7 million along with an additional \$25.0 million to the trust accounts to satisfy the collateral requirements of the insured program.

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

- EBITDA [net income before taxes plus interest expense (net of capitalized interest expense), depreciation expense, and amortization expense] on a rolling four-quarter basis must be not less than \$30 million at the end of each fiscal quarter; and
- the ratio of restricted and unrestricted cash and investments to workers’ compensation and safety incentive liabilities must be at least 1.0:1.0, measured quarterly.

The Agreement imposed 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 contained 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 December 31, 2021, 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 and \$3.7 million at December 31, 2021 and 2020, respectively, secured by the Company's corporate office building in Vancouver, Washington. This loan required payment of monthly installments of \$18,375, bearing interest at the one-month LIBOR plus 2.0%, with the unpaid principal balance due July 1, 2022. On January 31, 2022, the Company paid the outstanding balance of the mortgage loan.

Management expects that the funds anticipated to be generated from operations, current liquid assets, and availability under the Company's revolving credit facility will be sufficient in the aggregate to fund the Company's working capital needs for the next twelve months.

Contractual Obligations

The Company's contractual obligations as of December 31, 2021 are summarized below:

(in thousands)	As of December 31, 2021				
	Payments Due by Period				
	Total	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Operating leases ⁽¹⁾	\$ 25,409	\$ 8,129	\$ 11,377	\$ 4,201	\$ 1,702
Long-term debt	3,510	3,510	—	—	—
Total contractual obligations	\$ 28,919	\$ 11,639	\$ 11,377	\$ 4,201	\$ 1,702

(1) As of December 31, 2021, the Company has additional operating leases that have not yet commenced of \$2.1 million and remaining balances on short-term operating leases of \$22,394. In January 2022, the Company paid off all of its long-term debt.

Item 7A. 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 and long-term debt. As of December 31, 2021, the Company's investments consisted principally of approximately \$159.5 million in corporate bonds, \$82.6 million in mortgage backed securities, \$67.3 million in U.S. treasuries, \$42.0 million in U.S. government agency securities, \$29.6 million in asset backed securities, \$13.9 million in money market funds, and \$6.3 million in mutual funds. The Company's outstanding debt totaled approximately \$3.5 million at December 31, 2021. Based in the Company's overall interest exposure at December 31, 2021, a 50 basis point increase in market interest rates would have an \$8.2 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of
Barrett Business Services, Inc.
Vancouver, Washington

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Barrett Business Services, Inc. and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income, stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 7, 2022, expressed an unqualified opinion on the company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Workers' Compensation Claims Liabilities

Workers' compensation claims liabilities represent management's estimate of future amounts necessary to pay claims and related expenses with respect to workplace injuries that have occurred as of a given reporting date. The estimated liability for open workers' compensation claims is based on an evaluation of information provided by the Company's third-party administrators for workers' compensation claims, coupled with an actuarial estimate of future adverse loss development with respect to reported claims and incurred but not reported claims (together, IBNR). Workers' compensation claims liabilities included case reserve estimates for reported losses, plus additional amounts for estimated IBNR claims, medical cost containment, legal costs, and unallocated loss adjustment expenses. 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. The Company's estimates are based on informed judgment, derived from individual experience and expertise applied to multiple sets of data and analyses. The company considers significant facts and circumstances known both at the time that loss reserves are initially established, and as new facts and circumstances become known. Workers' compensation claims liabilities as of December 31, 2021 were \$279 million.

Given the high degree of judgment required to estimate the value of the workers' compensation claims liabilities, performing audit procedures to evaluate the workers' compensation claims liabilities recorded for the year ended December 31, 2021, required a high degree of auditor judgment and an increased extent of effort, including the need to involve our actuarial specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the workers' compensation claims liabilities included the following, among others:

- We tested the effectiveness of controls related to workers' compensation claims liabilities, including those involved in estimating the ultimate losses to be incurred for reported and unreported claims.
- We tested the underlying data that is used as inputs into the actuarial analysis, including historical claims, to evaluate whether those inputs were reasonable. In addition, we assessed whether any changes in the business or environment, including legislative changes, interest rates, and claims handling practices, were appropriately considered in developing the estimate of ultimate losses to be incurred for reported and unreported claims.
- With the assistance of our actuarial specialists, we evaluated the methods and assumptions used by management to estimate the workers' compensation claims liabilities by performing the following:
 - Compared management's prior-year assumptions of expected claims development and ultimate loss to actuals incurred during the current year to identify and evaluate potential bias in the determination of the workers' compensation claims liabilities.
 - Developed a range of independent estimates of the workers' compensation claims liabilities, utilizing claim payment patterns, loss development factors, and future cost trends for workers' compensation claims liabilities. We compared our estimated ranges to management's estimates.
 - Read the Company's reinsurance policies and compared the coverage and terms to the assumptions used by management.

/s/ Deloitte & Touche LLP
Portland, Oregon
March 7, 2022

We have served as the Company's auditor since 2016.

Barrett Business Services, Inc.
Consolidated Balance Sheets
December 31, 2021 and 2020
(In Thousands, Except Par Value)

	December 31, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 69,405	\$ 68,688
Investments	96,763	101,244
Trade accounts receivable, net	155,707	118,506
Income taxes receivable	—	6,485
Prepaid expenses and other	17,606	15,961
Restricted cash and investments	67,238	96,991
Total current assets	<u>406,719</u>	<u>407,875</u>
Property, equipment and software, net	36,277	34,916
Operating lease right-of-use assets	20,697	23,025
Restricted cash and investments	232,965	258,153
Goodwill	47,820	47,820
Other assets	2,474	3,161
	<u>\$ 746,952</u>	<u>\$ 774,950</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 3,510	\$ 221
Accounts payable	4,485	4,746
Accrued payroll, payroll taxes and related benefits	199,067	149,989
Income taxes payable	1,673	—
Current operating lease liabilities	7,191	7,539
Other accrued liabilities	15,120	7,275
Workers' compensation claims liabilities	80,028	102,040
Safety incentives liability	4,322	18,827
Total current liabilities	<u>315,396</u>	<u>290,637</u>
Long-term workers' compensation claims liabilities	199,379	255,706
Long-term debt	—	3,510
Deferred income taxes	1,687	4,518
Long-term operating lease liabilities	14,598	16,419
Customer deposits and other long-term liabilities	7,362	5,925
Total liabilities	<u>538,422</u>	<u>576,715</u>
Commitments and contingencies (Notes 6, 8 and 12)		
Stockholders' equity:		
Common stock, \$.01 par value; 20,500 shares authorized, 7,415 and 7,566 shares issued and outstanding in 2021 and 2020, respectively	74	76
Additional paid-in capital	29,054	24,885
Accumulated other comprehensive income	1,079	7,564
Retained earnings	178,323	165,710
Total stockholders' equity	<u>208,530</u>	<u>198,235</u>
	<u>\$ 746,952</u>	<u>\$ 774,950</u>

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

Barrett Business Services, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2021, 2020 and 2019
(In Thousands, Except Per Share Amounts)

	Year Ended December 31,		
	2021	2020	2019
Revenues:			
Professional employer service fees	\$ 843,815	\$ 777,430	\$ 819,873
Staffing services	111,351	103,394	122,438
Total revenues	<u>955,166</u>	<u>880,824</u>	<u>942,311</u>
Cost of revenues:			
Direct payroll costs	83,821	78,380	92,455
Payroll taxes and benefits	469,888	418,793	429,713
Workers' compensation	196,949	200,744	211,890
Total cost of revenues	<u>750,658</u>	<u>697,917</u>	<u>734,058</u>
Gross margin	204,508	182,907	208,253
Selling, general and administrative expenses	155,259	141,916	153,879
Depreciation and amortization	5,326	4,844	3,886
Income from operations	<u>43,923</u>	<u>36,147</u>	<u>50,488</u>
Other income (expense):			
Investment income, net	7,215	7,977	12,520
Interest expense	(372)	(1,244)	(1,789)
Other, net	(105)	(284)	(81)
Other income, net	6,738	6,449	10,650
Income before income taxes	50,661	42,596	61,138
Provision for income taxes	12,582	8,831	12,846
Net income	<u>\$ 38,079</u>	<u>\$ 33,765</u>	<u>\$ 48,292</u>
Basic income per common share	<u>\$ 5.05</u>	<u>\$ 4.46</u>	<u>\$ 6.48</u>
Weighted average number of basic common shares outstanding	<u>7,540</u>	<u>7,577</u>	<u>7,451</u>
Diluted income per common share	<u>\$ 5.00</u>	<u>\$ 4.39</u>	<u>\$ 6.27</u>
Weighted average number of diluted common shares outstanding	<u>7,621</u>	<u>7,688</u>	<u>7,699</u>

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

Barrett Business Services, Inc.
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2021, 2020 and 2019
(In Thousands)

	Year Ended December 31,		
	2021	2020	2019
Net income	\$ 38,079	\$ 33,765	\$ 48,292
Unrealized (losses) gains on investments, net of tax of (\$2,478), \$1,814, and \$3,014 in 2021, 2020, and 2019, respectively	(6,485)	4,745	7,887
Comprehensive income	<u>\$ 31,594</u>	<u>\$ 38,510</u>	<u>\$ 56,179</u>

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

Barrett Business Services, Inc.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2021, 2020 and 2019
(In Thousands)

	Common Stock		Additional	Accumulated	Retained	Total
	Shares	Amount	Paid-in	Other	Earnings	
			Capital	(Loss)		
				Income		
Balance, December 31, 2018	<u>7,395</u>	<u>\$ 74</u>	<u>\$ 15,437</u>	<u>\$ (5,068)</u>	<u>\$ 108,594</u>	<u>\$ 119,037</u>
Common stock issued on exercise of options and vesting of restricted stock units	157	1	753	—	—	754
Common stock repurchased on vesting of restricted stock units	(38)	—	(3,136)	—	—	(3,136)
Share-based compensation expense	—	—	7,173	—	—	7,173
Cash dividends on common stock (\$1.10 per share)	—	—	—	—	(8,208)	(8,208)
Unrealized gain on investments, net of tax	—	—	—	7,887	—	7,887
Net income	—	—	—	—	48,292	48,292
Balance, December 31, 2019	<u>7,514</u>	<u>\$ 75</u>	<u>\$ 20,227</u>	<u>\$ 2,819</u>	<u>\$ 148,678</u>	<u>\$ 171,799</u>
Common stock issued on exercise of options and vesting of restricted stock units	223	2	3,082	—	—	3,084
Common stock repurchased on vesting of restricted stock units	(27)	—	(1,417)	—	—	(1,417)
Share-based compensation expense	—	—	3,436	—	—	3,436
Company repurchase of common stock	(144)	(1)	(443)	—	(7,612)	(8,056)
Cash dividends on common stock (\$1.10 per share)	—	—	—	—	(9,121)	(9,121)
Unrealized gain on investments, net of tax	—	—	—	4,745	—	4,745
Net income	—	—	—	—	33,765	33,765
Balance, December 31, 2020	<u>7,566</u>	<u>\$ 76</u>	<u>\$ 24,885</u>	<u>\$ 7,564</u>	<u>\$ 165,710</u>	<u>\$ 198,235</u>
Common stock issued on exercise of options and vesting of restricted stock units	106	1	1,155	—	—	1,156
Common stock repurchased on vesting of stock awards	(20)	—	(1,465)	—	—	(1,465)
Share-based compensation expense	—	—	5,366	—	—	5,366
Company repurchase of common stock	(237)	(3)	(887)	—	(16,397)	(17,287)
Cash dividends on common stock (\$1.10 per share)	—	—	—	—	(9,069)	(9,069)
Unrealized loss on investments, net of tax	—	—	—	(6,485)	—	(6,485)
Net income	—	—	—	—	38,079	38,079
Balance, December 31, 2021	<u>7,415</u>	<u>\$ 74</u>	<u>\$ 29,054</u>	<u>\$ 1,079</u>	<u>\$ 178,323</u>	<u>\$ 208,530</u>

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

Barrett Business Services, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2021, 2020 and 2019
(In Thousands)

	Year Ended December 31,		
	2021	2020	2019
Cash flows from operating activities:			
Net income	\$ 38,079	\$ 33,765	\$ 48,292
Reconciliations of net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	5,326	4,844	3,886
Non-cash operating lease expense	8,045	7,246	6,991
Investment amortization and losses recognized	1,433	587	1,117
Loss recognized on disposal of property and equipment	114	574	—
Deferred income taxes	(347)	5,492	2,656
Share-based compensation	5,366	3,436	7,173
Changes in certain operating assets and liabilities:			
Trade accounts receivable	(37,201)	45,055	(11,964)
Income taxes	8,158	(5,150)	(5,738)
Prepaid expenses and other	(1,645)	(1,042)	(1,039)
Accounts payable	(261)	(1,247)	1,657
Accrued payroll, payroll taxes and related benefits	49,739	(22,608)	17,858
Other accrued liabilities	7,753	(1,671)	(11,720)
Workers' compensation claims liabilities	(77,640)	(80,783)	25,477
Safety incentives liability	(14,505)	(9,123)	(1,260)
Operating lease liabilities	(7,886)	(7,062)	(6,242)
Other assets and liabilities, net	13	(228)	(7)
Net cash (used in) provided by operating activities	<u>(15,459)</u>	<u>(27,915)</u>	<u>77,137</u>
Cash flows from investing activities:			
Purchase of property, equipment and software	(6,801)	(8,610)	(10,798)
Purchase of investments	(54,835)	(65,738)	(54,343)
Proceeds from sales and maturities of investments	75,256	47,922	88,771
Purchase of restricted investments	(253,781)	(34,968)	(9,812)
Proceeds from sales and maturities of restricted investments	127,298	65,535	52,495
Net cash (used in) provided by investing activities	<u>(112,863)</u>	<u>4,141</u>	<u>66,313</u>
Cash flows from financing activities:			
Proceeds from credit-line borrowings	2,718	—	18,843
Payments on credit-line borrowings	(2,718)	—	(18,843)
Payments on long-term debt	(221)	(220)	(221)
Repurchase of common stock	(17,287)	(8,056)	—
Common stock repurchased on vesting of stock awards	(1,465)	(1,417)	(3,136)
Dividends paid	(9,069)	(9,121)	(8,208)
Proceeds from exercise of stock options	1,156	3,084	754
Net cash used in financing activities	<u>(26,886)</u>	<u>(15,730)</u>	<u>(10,811)</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	(155,208)	(39,504)	132,639
Cash, cash equivalents and restricted cash, beginning of period	233,837	273,341	140,702
Cash, cash equivalents and restricted cash, end of period	<u>\$ 78,629</u>	<u>\$ 233,837</u>	<u>\$ 273,341</u>

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

Barrett Business Services, Inc.
Notes to Consolidated Financial Statements

Note 1 - Summary of Operations and Significant Accounting Policies

Nature of operations

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

We believe this platform, delivered through our decentralized organizational structure, differentiates BBSI from our competitors. The Company operates through a network of 50 branch offices throughout Arizona, California, Colorado, Delaware, Idaho, Maryland, Nevada, New Mexico, North Carolina, Oregon, Pennsylvania, Tennessee, Utah, Virginia and Washington. Approximately 73%, 75% and 77%, respectively, of our revenue during 2021, 2020, and 2019 was attributable to our California operations. BBSI was incorporated in Maryland in 1965.

The Company operates a wholly owned, fully licensed captive insurance company, Associated Insurance Company for Excess ("AICE") and a wholly owned, fully licensed insurance company, Ecole. AICE and Ecole provide access to more competitive and cost-effective insurance markets and provide cost-effective risk management. See "Note 5 – Workers' Compensation Claims" for additional information in the Company's insurance programs.

Principles of consolidation

The accompanying financial statements are prepared on a consolidated basis. All intercompany account balances and transactions between BBSI, AICE, and Ecole have been eliminated in consolidation.

Reportable segment

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

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

Investments

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 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 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 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 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 \$460,000 and \$757,000 at December 31, 2021 and 2020, 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.

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

	2021	2020	2019
Balance at January 1,			
Allowance for doubtful accounts	\$ 757	\$ 888	\$ 533
Charges to expense	193	125	459
Write-offs of uncollectible accounts, net of recoveries	(490)	(256)	(104)
Balance at December 31,			
Allowance for doubtful accounts	<u>\$ 460</u>	<u>\$ 757</u>	<u>\$ 888</u>

Income taxes

Our income taxes are accounted for using an asset and liability approach. This requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable tax rates. A valuation allowance is recorded against deferred tax assets if, based on the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The factors used to assess the likelihood of realization include the Company's forecast of the reversal of temporary differences, future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company's effective tax rate on future earnings.

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

Goodwill and intangible assets

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

Property, equipment and software

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

We capitalize software development costs incurred during the application development stage, which is the stage when preliminary project planning ends and software development begins. Capitalized costs generally include both internal and external costs associated with coding and testing. Capitalized costs are amortized on a straight-line basis over the estimated useful life, commencing when the software is placed into service. Costs incurred during the preliminary project stage and the postimplementation stage, as well as general and administrative and overhead costs, are expensed as they are incurred.

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

	Years
Buildings	39
Office furniture and fixtures	7
Computer hardware, software and software development costs	3 - 10
Leasehold improvements	1 - 7

Impairment of long-lived assets

Long-lived assets, such as property, equipment and software and acquired intangibles subject to amortization, are reviewed for impairment annually, or whenever events or changes in circumstances indicate that the remaining estimated useful life may warrant revision or that the carrying amount of an asset may not be recoverable. Some of the events or changes in circumstances that would trigger an impairment review include, but are not limited to, significant under-performance relative to expected and/or historical results, significant negative industry or economic trends, or knowledge of transactions involving the sale of similar property at amounts below the carrying value.

Assets are grouped for measurement of impairment at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. If the carrying amount of an asset group exceeds the estimated undiscounted future cash flows expected to be generated by the asset group, then an impairment charge is recognized to the extent the carrying amount exceeds the asset group's fair value. In determining fair value, management considers current results, trends, future prospects, and other economic factors.

Leases

The Company leases office facilities and equipment under operating leases. In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, "Leases" (Topic 842) which requires lessees to recognize a right-of-use ("ROU") asset and a lease liability for all leases with terms greater than 12 months and also requires disclosures by lessees and lessors about the amount, timing and uncertainty of cash flows arising from leases.

We determine whether an arrangement is or contains a lease at inception. We record our operating lease liabilities and right-of-use (ROU) assets at the lease commencement date. Operating lease liabilities are based on the present value of future minimum lease payments over the lease term, and include options to renew a lease in the future minimum lease payments if it is reasonably certain that the Company will exercise that option. ROU assets are based on the lease liability, adjusted for any lease prepayments and lease incentives. If a lease does not provide an implicit interest rate, we use our incremental borrowing rate on a collateralized basis from the information available at commencement date in determining the present value of lease payments. We recognize expense for lease payments on a straight-line basis over the lease term for operating leases. Leases with initial terms of 12 months or less are considered short-term lease costs and are not recorded as ROU assets on the consolidated balance sheets. ROU assets are reviewed for impairment in the same manner as long-lived assets. No impairment has been recorded in the periods presented.

The Company has elected the practical expedient not to separate non-lease components from lease components for all classes of assets. Our lease agreements contain \$3.7 million of residual value guarantees and generally do not contain material variable lease payments or restrictive covenants.

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 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 \$4.3 million and \$18.8 million at December 31, 2021 and 2020, 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 in 2021, 2020, and 2019 did not materially differ from interest expense. Income taxes paid by the Company totaled \$4.7 million, \$8.5 million, and \$15.4 million in 2021, 2020, and 2019, 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 consolidated balance sheets to the amounts reported on the consolidated statements of cash flows (in thousands):

	December 31, 2021	December 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 69,405	\$ 68,688	\$ 44,570
Restricted cash, included in restricted cash and investments	9,224	165,149	228,771
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 78,629</u>	<u>\$ 233,837</u>	<u>\$ 273,341</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):

	Year Ended December 31,		
	2021	2020	2019
Weighted average number of basic shares outstanding	7,540	7,577	7,451
Effect of dilutive securities	81	111	248
Weighted average number of diluted shares outstanding	<u>7,621</u>	<u>7,688</u>	<u>7,699</u>

Accounting estimates

The preparation of our 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 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.

Recent accounting pronouncements

There were no new or pending accounting pronouncements in 2021 that had, or will have, a material impact on our results of operations or financial condition.

Note 2 - Concentration of Credit Risk

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

At December 31, 2021, we had concentrations of credit risk as follows:

- \$159.5 million, at fair value, in corporate bonds.
- \$82.6 million, at fair value, in mortgage backed securities
- \$67.3 million, at fair value, in U.S. treasuries.
- \$42.0 million, at fair value, in U.S. government agency securities.
- \$29.6 million, at fair value, in asset backed securities.
- \$13.9 million, at fair value, in money market funds
- \$6.3 million, at fair value, in mutual funds

Note 3 - Fair Value Measurement

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

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

In determining the fair value of our financial assets, the Company predominately uses the market approach. In determining the fair value of all its corporate bonds, mortgage backed securities, U.S. treasuries, U.S. government agency securities, supranational, mutual funds, money market funds, asset backed securities, and municipal bonds, the Company utilizes non-binding quotes provided by our investment brokers.

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

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

Level 2 – Inputs to the valuation methodology include:

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

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

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

The following table summarizes the Company's investments at December 31, 2021 and 2020 measured at fair value on a recurring basis (in thousands):

	December 31, 2021			December 31, 2020		
	Cost	Gross Unrealized Gains (Losses)	Recorded Basis	Cost	Gross Unrealized Gains (Losses)	Recorded Basis
Current:						
Cash equivalents:						
Money market funds	\$ 13,384	\$ —	\$ 13,384	\$ 42,007	\$ —	\$ 42,007
Total cash equivalents	13,384	—	13,384	42,007	—	42,007
Investments:						
Corporate bonds	41,954	(136)	41,818	50,918	884	51,802
Asset backed securities	29,533	(38)	29,495	36,948	(146)	36,802
U.S. government agency securities	7,383	418	7,801	7,396	752	8,148
Mortgage backed securities	18,089	(440)	17,649	4,367	24	4,391
U.S. treasuries	—	—	—	100	1	101
Total current investments	96,959	(196)	96,763	99,729	1,515	101,244
Restricted cash and investments ⁽¹⁾:						
Corporate bonds	117,700	(17)	117,683	88,902	4,091	92,993
Mortgage backed securities	64,217	764	64,981	48,795	2,356	51,151
Money market funds	528	—	528	40,063	(4)	40,059
U.S. government agency securities	32,898	1,281	34,179	29,737	2,466	32,203
Mutual funds	6,273	—	6,273	5,036	—	5,036
Supranational bonds	—	—	—	4,775	3	4,778
U.S. treasuries	67,614	(342)	67,272	4,371	19	4,390
Asset backed securities	107	1	108	256	4	260
Total restricted cash and investments	289,337	1,687	291,024	221,935	8,935	230,870
Total investments	\$399,680	\$ 1,491	\$401,171	\$363,671	\$ 10,450	\$374,121

(1) Included in restricted cash and investments within the consolidated balance sheets as of December 31, 2021 and 2020 is restricted cash of \$9.2 million and \$124.3 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 December 31, 2021 and 2020 measured at fair value on a recurring basis by fair value hierarchy level (in thousands):

	December 31, 2021					December 31, 2020				
	Total	Level 1	Level 2	Level 3	Other ⁽¹⁾	Total	Level 1	Level 2	Level 3	Other ⁽¹⁾
	Recorded					Recorded				
Cash equivalents:										
Money market funds	13,384	\$ —	\$ —	\$ —	\$ 13,384	\$ 42,007	\$ —	\$ —	\$ —	\$ 42,007
Investments:										
Corporate bonds	41,818	—	41,818	—	—	51,802	—	51,802	—	—
Asset backed securities	29,495	—	29,495	—	—	36,802	—	36,802	—	—
U.S. government agency securities	7,801	—	7,801	—	—	8,148	—	8,148	—	—
Mortgage backed securities	17,649	—	17,649	—	—	4,391	—	4,391	—	—
U.S. treasuries	—	—	—	—	—	101	—	101	—	—
Restricted cash and investments:										
Corporate bonds	117,683	—	117,683	—	—	92,993	—	92,993	—	—
Mortgage backed securities	64,981	—	64,981	—	—	51,151	—	51,151	—	—
Money market funds	528	—	—	—	528	40,059	—	—	—	40,059
U.S. government agency securities	34,179	—	34,179	—	—	32,203	—	32,203	—	—
Mutual funds	6,273	6,273	—	—	—	5,036	5,036	—	—	—
Supranational bonds	—	—	—	—	—	4,778	—	4,778	—	—
U.S. treasuries	67,272	—	67,272	—	—	4,390	—	4,390	—	—
Asset backed securities	108	—	108	—	—	260	—	260	—	—
Total investments	<u>\$ 401,171</u>	<u>\$ 6,273</u>	<u>\$ 380,986</u>	<u>\$ —</u>	<u>\$ 13,912</u>	<u>\$ 374,121</u>	<u>\$ 5,036</u>	<u>\$ 287,019</u>	<u>\$ —</u>	<u>\$ 82,066</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 December 31, 2021 and 2020. Actual maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

(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
Money market funds	13,657	—	—	—	13,657
U.S. government agency securities	—	25,171	16,809	—	41,980
Asset backed securities	—	108	2,200	27,295	29,603
Supranational bonds	—	—	—	—	—
U.S. treasuries	953	4,295	62,024	—	67,272
Total	\$ 39,211	\$ 65,144	\$ 180,213	\$ 27,445	\$ 312,013

(In thousands)	December 31, 2020				
	Less than 1 Year	Between 1 to 5 Years	Between 5 to 10 Years	After 10 Years	Total
Corporate bonds	\$ 49,308	\$ 61,315	\$ 34,172	\$ —	\$ 144,795
Money market funds	82,066	—	—	—	82,066
U.S. government agency securities	1,013	18,668	20,670	—	40,351
Asset backed securities	2	267	—	36,793	37,062
Supranational bonds	4,778	—	—	—	4,778
U.S. treasuries	1,367	1,504	1,620	—	4,491
Total	\$ 138,534	\$ 81,754	\$ 56,462	\$ 36,793	\$ 313,543

The average contractual maturity of mortgage backed securities, which are excluded from the table above, was 23 years as of December 31, 2021 and 2020.

Note 4 - Property, Equipment and Software

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

	December 31,	
	2021	2020
Buildings	\$ 16,857	\$ 16,498
Office furniture and fixtures	14,159	13,691
Computer hardware and software	11,458	11,591
Software development costs	23,332	18,353
Other	512	437
	66,318	60,570
Less accumulated depreciation and amortization	(31,531)	(27,144)
	34,787	33,426
Land	1,490	1,490
	<u>\$ 36,277</u>	<u>\$ 34,916</u>

We recognized \$3.1 million, \$3.4 million and \$3.3 million in depreciation expense associated with our property and equipment in 2021, 2020 and 2019, respectively. We recognized \$2.2 million, \$1.4 million, and \$531,000 in amortization of capitalized software development costs in 2021, 2020 and 2019, respectively. We capitalized \$5.0 million, \$6.0 million and \$8.3 million of software development costs in 2021, 2020 and 2019, respectively.

Note 5 - Workers' Compensation Claims

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

	Years Ended December 31,		
	2021	2020	2019
Beginning balance			
Workers' compensation claims liabilities	\$ 357,746	\$ 438,986	\$ 413,397
Add: claims expense accrual			
Current period	75,786	147,097	161,691
Prior periods	(9,225)	(6,383)	(13,355)
	66,561	140,714	148,336
Less: claim payments related to			
Current period	15,063	22,877	24,414
Prior periods	129,138	198,620	98,445
	144,201	221,497	122,859
Change in claims incurred in excess of retention limits	(699)	(457)	112
Ending balance			
Workers' compensation claims liabilities	\$ 279,407	\$ 357,746	\$ 438,986
Incurred but not reported (IBNR)	\$ 153,838	\$ 210,798	\$ 285,191
Ratio of IBNR to workers' compensation claims liabilities	55%	59%	65%

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

(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 trust accounts (the “trust accounts”). The balance in the trust accounts was \$273.6 million and \$290.7 million at December 31, 2021 and December 31, 2020, respectively. The trust account balances are 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 and \$60.1 million at December 31, 2021 and 2020, respectively, to cover potential workers' compensation claims losses related to the Company’s current and former status as a self-insured employer. At December 31, 2021, 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 \$279.4 million and \$357.7 million at December 31, 2021 and 2020, respectively, as an estimated future liability for unsettled workers' compensation claims liabilities. Of this amount, \$2.2 million and \$2.9 million at December 31, 2021 and 2020, 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 \$2.2 million and \$2.9 million at December 31, 2021 and 2020, respectively, included in other assets in the consolidated balance sheets.

Note 6 - Revolving Credit Facility and Long-Term Debt

In March 2022, the Company entered into an amended credit agreement (the "Amended Agreement") with Wells Fargo Bank, N.A. (the "Bank"), which supersedes the previous agreement. The Amended Agreement increased the revolving credit line from \$33.0 million to \$50.0 million and maintained the sublimit for standby letters of credit at \$8.0 million. Advances under the credit line bear interest, as selected by the Company, of (a) the daily Simple Secured Overnight Financing Rate ("SOFR") plus 1.75% or (b) the one-month Term SOFR plus 1.75%. The Amended Agreement also provides for an unused commitment fee of 0.30% per year on the average daily unused amount of the revolving credit line.

The Amended Agreement replaced the financial covenants in the Agreement (as defined below) with the following financial covenants:

- 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.
- 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.

Other than as described above, the Agreement (as defined below) previously in place during 2021 is substantially unchanged.

At December 31, 2021, the Company maintained an agreement (the "Agreement") with the Bank for a revolving credit line of \$33.0 million and a sublimit for standby letters of credit of \$8.0 million. At December 31, 2021, \$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 floating rate of one-month London Inter-Bank Offered Rate ("LIBOR") plus 1.75% or (b) the fixed rate of LIBOR plus 1.75%. The Agreement also provided for an unused commitment fee of 0.375% 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 December 31, 2021 and 2020. The credit facility was collateralized by the Company's accounts receivable and other rights to receive payment.

The Agreement also provided a \$63.7 million standby letter of credit (the "Letter of Credit"). In April 2021, the Company and the insurance carrier reached an agreement to replace the Letter of Credit with other collateral assets and cancel the Letter of Credit in its entirety. As part of the transaction, the Bank released the \$38.7 million of collateral held in support of the Letter of Credit and the Company transferred the \$38.7 million along with an additional \$25.0 million to the trust accounts to satisfy the collateral requirements of the insured program.

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

- EBITDA [net income before taxes plus interest expense (net of capitalized interest expense), depreciation expense, and amortization expense] on a rolling four-quarter basis must be not less than \$30 million at the end of each fiscal quarter; and
- the ratio of restricted and unrestricted cash and investments to workers' compensation and safety incentive liabilities must be at least 1.0:1.0, measured quarterly.

The Agreement imposed 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 contained 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 December 31, 2021, 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 and \$3.7 million at December 31, 2021 and 2020, respectively, secured by the Company's corporate office building in Vancouver, Washington. This loan required payment of monthly installments of \$18,375, bearing interest at the one-month LIBOR plus 2.0%, with the unpaid principal balance due July 1, 2022. On January 31, 2022, the Company paid the outstanding balance of the mortgage loan.

Note 7 – Benefit Plans

We have a 401(k) Retirement Savings Plan for the benefit of our eligible employees. Employees covered under a PEO arrangement may participate in the plan at the sole discretion of the PEO client. We make matching contributions to the 401(k) plan under a safe harbor provision. The determination of any discretionary Company contributions to the plan is at the sole discretion of our Board of Directors. No discretionary Company contributions were made to the plan for the years ended December 31, 2021, 2020 and 2019. We made matching contributions of \$1.9 million, \$1.8 million and \$1.9 million in 2021, 2020, and 2019, respectively.

The Company allows certain highly compensated employees of the Company to defer compensation under a nonqualified deferred compensation plan. The long-term portion of the deferred compensation plan liability was \$6.3 million and \$4.9 million at December 31, 2021 and 2020, respectively, and is recorded in customer deposits and other long-term liabilities on the consolidated balance sheets. The current portion of the deferred compensation plan liability was \$0.2 million and \$0.1 million at December 31, 2021 and 2020, respectively, and is recorded in other accrued liabilities on the consolidated balance sheets. The fair value of the long-term portion of this plan was \$6.3 million and \$4.9 million at December 31, 2021 and 2020, respectively, and is recorded in noncurrent restricted cash and investments on the consolidated balance sheets. The fair value of the current portion of this plan was \$0.2 million and \$0.1 million at December 31, 2021 and 2020, respectively, and is recorded in current restricted cash and investments on the consolidated balance sheets.

Note 8 – Leases

The Company primarily leases office buildings under operating leases which are included in Operating lease right-of-use ("ROU") assets, Current operating lease liabilities, and Long-term operating lease liabilities on the consolidated balance sheets. The Company's leases have remaining terms of 1 to 7 years.

Information related to the Company's total lease costs was as follows (in thousands):

	Year Ended	
	December 31, 2021	December 31, 2020
Operating lease cost	\$ 8,957	\$ 8,352
Variable lease cost	689	928
Short-term lease cost	94	709
Total lease cost	<u>\$ 9,740</u>	<u>\$ 9,989</u>

Information related to the Company's ROU assets and related lease liabilities was as follows (in thousands):

	Year Ended	
	December 31, 2021	December 31, 2020
Cash paid for operating lease liabilities	\$ 8,854	\$ 8,136
Right-of-use assets obtained in exchange for new operating lease obligations	5,717	6,444

	December 31, 2021	December 31, 2020
	Weighted-average remaining lease term	3.6 years
Weighted-average discount rate	3.6 %	3.9 %

The table below reconciles the undiscounted future minimum lease payments (displayed by year and in the aggregate) under noncancellable operating leases with terms of more than one year to the total operating lease liabilities recognized on the consolidated balance sheets as of December 31, 2021 (in thousands):

2022	\$ 7,807
2023	6,405
2024	4,359
2025	2,231
2026	1,322
Thereafter	1,038
Total undiscounted future minimum lease payments	23,162
Less: Difference between undiscounted lease payments and discounted operating lease liabilities	1,373
Total operating lease liabilities	\$ 21,789
Current operating lease liabilities	\$ 7,191
Long-term operating lease liabilities	14,598
Total operating lease liabilities	\$ 21,789

The Company has additional operating leases of \$2.1 million that have not commenced as of December 31, 2021, and as such, have not been recognized in the Company's Consolidated Balance Sheets. These operating leases are expected to commence in 2022 with lease terms of 7 years.

Note 9 - Income Taxes

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

	Year Ended December 31,		
	2021	2020	2019
Current:			
Federal	\$ 9,527	\$ 2,943	\$ 8,806
State	3,408	396	1,381
	<u>12,935</u>	<u>3,339</u>	<u>10,187</u>
Deferred:			
Federal	143	4,156	(774)
State	(496)	1,336	3,433
	<u>(353)</u>	<u>5,492</u>	<u>2,659</u>
Total provision	<u>\$ 12,582</u>	<u>\$ 8,831</u>	<u>\$ 12,846</u>

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

	December 31,	
	2021	2020
Deferred income tax assets:		
Workers' compensation claims liabilities	\$ 7,870	\$ 9,946
Deferred compensation	6,109	2,235
Operating lease liability	5,870	6,107
Other	1,388	1,154
Payroll tax deferral	749	1,668
Equity based compensation	678	555
State credit carryforward	329	518
MCC accrual	167	1,062
Customer incentives	12	54
	<u>23,172</u>	<u>23,299</u>
Less: valuation allowance	163	163
	<u>23,009</u>	<u>23,136</u>
Deferred income tax liabilities:		
Tax amortization of goodwill	(10,120)	(10,375)
Tax depreciation in excess of book depreciation	(7,433)	(7,187)
Operating lease right-of-use	(5,527)	(5,766)
Other	(1,223)	(1,455)
Tax effect of unrealized gains, net	(393)	(2,871)
	<u>(24,696)</u>	<u>(27,654)</u>
Net deferred income taxes	<u>\$ (1,687)</u>	<u>\$ (4,518)</u>

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

	Year Ended December 31,		
	2021	2020	2019
Statutory federal tax rate	21.0 %	21.0 %	21.0 %
State taxes, net of federal benefit	4.5	3.2	6.2
Adjustment for final positions on filed returns	0.9	0.6	(0.2)
Non deductible expenses and other, net	0.5	0.7	1.3
Federal and state tax credits	(2.1)	(4.9)	(7.5)
Other, net	—	0.1	0.2
	<u>24.8 %</u>	<u>20.7 %</u>	<u>21.0 %</u>

Under ASC 740, "Income Taxes," management evaluates the realizability of the deferred tax assets on a quarterly basis under a "more-likely-than-not" standard. As part of this evaluation, management reviews all evidence both positive and negative to determine if a valuation allowance is needed. One component of this analysis is to determine whether the Company was in a cumulative loss position for the most recent 12 quarters. The Company was in a cumulative income position for the 12 quarters ended at both December 31, 2021 and December 31, 2020.

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 an 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 an 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 notice 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 December 31, 2021, 2020 and 2019, 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 December 31, 2021, the Company had no state operating loss carryforwards. At December 31, 2021, the Company did not have a federal general business tax credit carryforward or an alternative minimum tax credit carryforward.

Note 10 - Stock Incentive Plans

The Company's 2020 Stock Incentive Plan (the "2020 Plan"), which provides for share-based awards to Company employees, non-employee directors and outside consultants or advisors, was approved by stockholders on May 27, 2020. The number of shares of common stock reserved for issuance under the 2020 Plan is 375,000, of which the maximum number of shares for which incentive stock options may be granted is 375,000. The 2020 Plan replaced the Company's 2015 Stock Incentive Plan (the "2015 Plan"), and no new share-based awards may be granted under the 2015 Plan. The number of shares available for grant at December 31, 2021 was 185,665.

Share-based compensation expense included in selling, general and administrative expenses during the years ended December 31, 2021, 2020 and 2019, was \$5.4 million, \$3.4 million and \$7.2 million, respectively. Related income tax benefits for the years ended December 31, 2021, 2020 and 2019, were \$1.3 million, \$0.8 million and \$1.3 million, respectively.

Stock Options

Outstanding stock options generally vest over either four or eight years and expire ten years after the date of grant.

A summary of the status of the Company's stock options at December 31, 2021, together with changes during the periods then ended, is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In Thousands)
Outstanding at December 31, 2020	139,648	\$ 56.13	—	—
Options exercised	(34,773)	17.60	—	—
Outstanding at December 31, 2021	104,875	68.91	5.32	1,068
Exercisable at December 31, 2021	24,875	\$ 26.12	2.40	\$ 1,068

No stock options were granted during the years ended December 31, 2021, 2020, and 2019.

The intrinsic value of stock options exercised for the years ended December 31, 2021, 2020 and 2019 was \$1.7 million, \$4.1 million, and \$3.8 million, respectively. No stock options vested during the year ended December 31, 2021. The fair value of stock options vested for the years ended December 31, 2020 and 2019 was \$43,000 and \$312,000, respectively. As of December 31, 2021, unrecognized compensation expense related to stock options was \$2.2 million with a weighted average remaining amortization period of 4.2 years.

Restricted Stock Units

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

The following table presents restricted stock unit activity:

	Units	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2020	181,823	\$ 59.16
Granted	91,409	72.23
Vested	(60,038)	60.48
Cancelled/Forfeited	(17,130)	53.08
Nonvested at December 31, 2021	196,064	\$ 65.38

The total fair value of restricted stock units vested during the years ended December 31, 2021, 2020 and 2019 was \$3.6 million, \$3.8 million and \$5.8 million, respectively. As of December 31, 2021, unrecognized compensation expense related to restricted stock units was \$10.0 million with a weighted average remaining amortization period of 2.7 years.

Performance Share Units

Performance share units (“PSUs”) are granted to key employees of the Company and are conditioned on attaining specified financial performance metrics. Awards are subject to upward or downward adjustments depending on whether the actual financial metrics are above or below the target level, with a maximum payout up to 200% of a target number of shares.

PSUs fully vest on the date that the Compensation Committee determines the level of attainment of specified performance goals, generally over a three-year period.

The following table presents PSU activity:

	Units		Weighted Average Grant Date Fair Value
Nonvested at December 31, 2020	8,464	\$	76.78
Granted	29,821		69.17
Vested	(3,360)		82.21
Cancelled/Forfeited	(592)		82.21
Nonvested at December 31, 2021	34,333	\$	69.54

The total fair value of PSUs vested during the years ended December 31, 2021, 2020 and 2019 was \$276,000, \$743,000, and \$296,000.

Employee Stock Purchase Plan

The Company offers employees the right to purchase shares at a discount from the market price under the Company’s 2019 Employee Stock Purchase Plan. Subject to the annual statutory limit, employees are eligible to participate through payroll deductions of up to 15% of their compensation. At the end of each six-month offering period, shares are purchased by the participants at 85% of the fair market value at the end of the offering period. As of December 31, 2021, approximately 284,000 shares were reserved for future issuance under the 2019 Employee Stock Purchase Plan.

Note 11 - Stock Repurchase Program

The Company maintains a stock repurchase program approved by the Board of Directors, which authorizes the repurchase of shares from time to time in open market purchases. On August 6, 2019, the Board of Directors authorized the repurchase of up to \$50.0 million of the Company’s common stock over a three-year period beginning August 15, 2019. The Company repurchased 237,587 and 144,470 shares at an aggregate purchase price of \$17.3 million and \$8.1 million during 2021 and 2020, respectively. No share repurchases were made during 2019. In addition, shares of restricted stock units withheld to satisfy tax-withholding obligations from the vesting of restricted stock units were 20,308, 25,922 and 38,356 in 2021, 2020, and 2019, respectively, which are not subject to the current repurchase program. See “Note 6. Revolving Credit Facility and Long-Term Debt” for related restrictions.

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.

Note 12 - 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 constitutes “public works” under the applicable law, and also ruling that plaintiffs’ are 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. An amicus brief in support of BBSI’s appeal was filed by the District and certain associations of special districts, cities and counties in California. Oral argument took place on January 5, 2021. 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 has been 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 13 - 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 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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 Chief Executive Officer (“CEO”) and Chief Financial Officer (“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 December 31, 2021.

Annual Report on Internal Control over Financial Reporting

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 CEO and our CFO to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with GAAP in the United States of America. Management, with the participation of our CEO and CFO, conducted an evaluation of the effectiveness of our ICFR based on the framework established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon that evaluation, management has concluded that the Company’s internal control over financial reporting was effective as of December 31, 2021.

The effectiveness of the Company’s internal control over financial reporting has also been audited by Deloitte & Touche LLP, the Company’s independent registered public accounting firm, as stated in their report included below.

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 December 31, 2021 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.

Chief Executive Officer and Chief Financial Officer Certifications

The certifications of our CEO and CFO required under Section 302 of the Sarbanes-Oxley Act have been filed as Exhibits 31.1 and 31.2 to this report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of
Barrett Business Services, Inc.
Vancouver, Washington

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Barrett Business Services, Inc. and subsidiaries (the "Company") as of December 31, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2021, of the Company and our report dated March 7, 2022, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report over Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Portland, Oregon
March 7, 2022

Item 9B. OTHER INFORMATION

In March 2022, the Company entered into an amended credit agreement with the Bank, which supersedes the previous agreement. The amended agreement increased the revolving credit line from \$33.0 million to \$50.0 million, maintained the sublimit for standby letters of credit at \$8.0 million, and replaced certain financial covenants. The term of the agreement was also extended from July 1, 2022 to July 1, 2024. For additional information regarding the Company's borrowing relationship with the Bank, see Note 6 to our consolidated financial statements in Part II, Item 8 of this report. The amended loan documents are filed with this report as Exhibits 4.1, 4.2 and 4.4.

Item 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information required by this item is incorporated by reference to the information set forth under the captions "Item 1-Election of Directors," "Background and Experience of Executive Officers" and "Code of Ethics" in our definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report (the "Proxy Statement").

Item 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the information set forth under the captions "Director Compensation for 2021" and "Executive Compensation" in the Proxy Statement.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to the information set forth under the caption "Stock Ownership of Principal Stockholders and Management – Beneficial Ownership Table" and "Additional Equity Compensation Plan Information" in the Proxy Statement.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to the information set forth under the caption "Item 1-Election of Directors" and "Related Person Transactions" in the Proxy Statement.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to the information set forth under the caption "Matters Relating to Our Independent Registered Public Accounting Firm" in the Proxy Statement.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial Statements and Schedules

The Financial Statements, together with the report thereon of Deloitte & Touche LLP, are included on the pages indicated below:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm-Deloitte & Touche LLP (PCAOB ID: 34)	33
Consolidated Balance Sheets as of December 31, 2021 and 2020	35
Consolidated Statements of Operations for the Years Ended December 31, 2021, 2020 and 2019	36
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2021, 2020 and 2019	37
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2021, 2020 and 2019	38
Consolidated Statements of Cash Flows for the Years Ended December 31, 2021, 2020 and 2019	39
Notes to Consolidated Financial Statements	40

No schedules are required to be filed herewith.

Exhibits

The following exhibits are filed or furnished herewith or incorporated by reference and this list is intended to constitute the exhibit index.

Exhibit Number	Description
3.1	Charter of the Registrant, as amended, through May 31, 2018. Incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (the "2018 Second Quarter 10-Q").
3.2	Bylaws of the Registrant, as amended through May 27, 2020. Incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 (the "2020 Second Quarter 10-Q").
4.1	Third Amended and Restated Credit Agreement between the Registrant and Wells Fargo Bank, National Association ("Wells Fargo"), dated as of March 1, 2022.
4.2	Amended and Restated Security Agreement: Business Assets, dated as of March 1, 2022, between the Registrant and Wells Fargo.
4.3	Amended and Restated Standby Letter of Credit Agreement dated as of June 20, 2018, between the Registrant and Wells Fargo. Incorporated by reference to Exhibit 4.4 to the 2018 Second Quarter 10-Q.
4.4	Fourth Amended and Restated Revolving Line of Credit Note dated March 1, 2022 of the Registrant.
4.5	Description of the Registrant's Capital Stock. Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on June 26, 2020.

- 10.1 Second Amended and Restated 1993 Stock Incentive Plan of the Registrant. Incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001.*
- 10.2 2003 Stock Incentive Plan of the Registrant (the "2003 Plan"). Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.*
- 10.3 2009 Stock Incentive Plan of the Registrant (the "2009 Plan"). Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.*
- 10.4 2015 Stock Incentive Plan of the Registrant (the "2015 Plan"). Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 2, 2015.*
- 10.5 2020 Stock Incentive Plan of the Registrant (the "2020 Plan"). Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 2, 2020.*
- 10.6 Form of Performance Share Award Agreement for Executive Officers for awards granted beginning in 2018 under the 2015 Plan. Incorporated by reference to Exhibit 10.1 to the 2018 Second Quarter 10-Q.*
- 10.7 Form of Performance Share Award Agreement under 2020 Stock Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2021 (the "2021 Second Quarter 10-Q").*
- 10.8 Form of Employee Nonqualified Stock Option Award Agreement under the 2009 Plan. Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (the "2010 First Quarter 10-Q").*
- 10.9 Form of Non-Employee Director Nonqualified Stock Option Award Agreement under the 2009 Plan. Incorporated by reference to Exhibit 10.3 to the 2010 First Quarter 10-Q.*
- 10.10 Form of Employee Nonqualified Stock Option Award Agreement under the 2009 Plan. Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (the "2011 First Quarter 10-Q").*
- 10.11 Form of Non-Employee Director Nonqualified Stock Option Award Agreement under the 2009 Plan. Incorporated by reference to Exhibit 10.3 to the 2011 First Quarter 10-Q.*
- 10.12 Nonqualified Stock Option Award Agreement between the Registrant and Thomas J. Carley dated July 1, 2016. Incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016.*
- 10.13 Form of Employee Nonqualified Stock Option Award Agreement for grants to Gerald R. Blotz and Gary E. Kramer effective March 28, 2018, under the 2015 Plan. Incorporated by reference to Exhibit 10.2 to the 2018 Second Quarter 10-Q.*
- 10.14 Form of Incentive Stock Option Award Agreement relating to February 2, 2015, grants under the 2009 Plan. Incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015.*
- 10.15 Form of Restricted Stock Units Award Agreement for Executive Officers for awards granted beginning in 2018 under the 2015 Plan. Incorporated by reference to Exhibit 10.3 to the 2018 Second Quarter 10-Q.*
- 10.16 Form of Restricted Stock Units Award Agreement for Executive Officers under the 2020 Plan. Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 (the "2020 Third Quarter 10-Q").*
- 10.17 Form of Restricted Stock Units Award Agreement for Non-Employee Directors under the 2020 Plan. Incorporated by reference to Exhibit 10.2 to the 2020 Third Quarter 10-Q.*

- 10.18 Summary of Compensatory Arrangements for Non-Employee Directors of the Registrant effective January 1, 2022.*
- 10.19 Barrett Business Services, Inc., Nonqualified Deferred Compensation Plan. Incorporated by reference to Exhibit 10.8 to the 2017 Second Quarter 10-Q.*
- 10.20 First and Second Amendments to the Barrett Business Services, Inc., Nonqualified Deferred Compensation Plan. Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019.*
- 10.21 Form of Restricted Stock Units Award Agreement under Nonqualified Deferred Compensation Plan. Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.*
- 10.22 Form of Restricted Stock Units Award Agreement under Nonqualified Deferred Compensation Plan for grants beginning July 1, 2020. Incorporated by reference to Exhibit 10.3 to the 2020 Third Quarter 10-Q.*
- 10.23 Employment Agreement between the Registrant and Gary Kramer Jr., dated April 22, 2020. Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on April 24, 2020 (the "April 24, 2020 8-K").*
- 10.24 Employment Agreement between the Registrant and Gerald Blotz, dated April 22, 2020. Incorporated by reference to Exhibit 10.3 to the April 24, 2020 8-K.*
- 10.25 Employment Agreement between the Registrant and Anthony Harris, dated April 22, 2020. Incorporated by reference to Exhibit 10.4 to the April 24, 2020 8-K.*
- 10.26 Employment Agreement between the Registrant and James Potts, dated August 14, 2020. Incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2020 (the "2020 10-K")*
- 10.27 Amended Death Benefit Agreement entered into by the Registrant and Gerald L. Blotz effective October 30, 2020. Incorporated by reference to Exhibit 10.31 to the 2020 10-K *
- 10.28 Death Benefit Agreement entered into by the Registrant and Anthony Harris effective June 30, 2020. Incorporated by reference to Exhibit 10.7 to the 2020 Second Quarter 10-Q.*
- 10.29 Amended Death Benefit Agreement entered into by the Registrant and Gary Kramer effective June 30, 2020. Incorporated by reference to Exhibit 10.8 to the 2020 Second Quarter 10-Q.*
- 10.30 Death Benefit Agreement entered into by the Registrant and James Potts effective October 30, 2020. Incorporated by reference to Exhibit 10.34 to the 2020 10-K.*
- 10.31 Barrett Business Services, Inc. Amended and Restated Annual Cash Incentive Award Plan. Incorporated by reference to Exhibit 10.45 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018.*
- 10.32 Form of Indemnification Agreement with each outside director of Barrett Business Services, Inc. Incorporated by reference to Exhibit 10.2 to the 2021 Second Quarter 10-Q.*
- 21. Subsidiaries of the Registrant.
- 23.1 Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
- 32. Certification pursuant to 18 U.S.C. Section 1350.
- 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 Coverage Page Interactive Data File (embedded within the Inline XBRL document).

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

Item 16. FORM 10-K SUMMARY

None.

SIGNATURES

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

BARRETT BUSINESS SERVICES, INC.
Registrant

Date: March 7, 2022

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 7th day of March, 2022.

Principal Executive Officer and Director:

/s/ Gary E. Kramer President and Chief Executive
Gary E. Kramer Officer and Director

Principal Financial and Accounting Officer:

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

Majority of Directors:

/s/ Thomas J. Carley Director
Thomas J. Carley

/s/ Thomas B. Cusick Director
Thomas B. Cusick

/s/ Diane L. Dewbrey Director
Diane L. Dewbrey

/s/ James B. Hicks Director
James B. Hicks, Ph.D.

/s/ Jon L. Justesen Director
Jon L. Justesen

/s/ Anthony Meeker Chairman of the Board and Director
Anthony Meeker

/s/ Carla A. Moradi Director
Carla A. Moradi

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

DIRECTORS

THOMAS J. CARLEY
*Chief Operating Officer,
Urth Organic Corporation*

THOMAS B. CUSICK
Executive Advisor, Columbia Sportswear Company

DIANE L. DEWBREY
Director of MBIA, Inc.

JAMES B. HICKS, Ph. D.
*Professor of Research in Biological Sciences,
University of Southern California*

JON L. JUSTESEN
*Co-Owner and Chief Executive Officer,
Justesen Ranches*

GARY E. KRAMER
*President and Chief Executive Officer
Barrett Business Services, Inc.*

ANTHONY MEEKER
*Chairman of the Board
Retired Managing Director,
Victory Capital Management, Inc.*

CARLA A. MORADI
*Senior Vice President,
Global Partner & Alliances Organization of
Anaplan, Inc.
Saas provider to global enterprises*

VINCENT P. PRICE
*Executive Vice President and Chief Financial Officer,
Cambia Health Solutions, Inc.*

OFFICERS

GARY E. KRAMER
President and Chief Executive Officer

ANTHONY J. HARRIS
*Executive Vice President-Finance, Chief Financial
Officer and Treasurer*

GERALD R. BLOTZ
Executive Vice President, Chief Operating Officer

JAMES R. POTTS
*Executive Vice President, General Counsel and
Secretary*

STOCKHOLDER INFORMATION

STOCK LISTING

The common stock of Barrett Business Services, Inc. is traded on The Nasdaq Stock Market under the symbol "BBSI." The Company had 23 shareholders of record and approximately 5,906 beneficial owners at February 10, 2022.

FINANCIAL REPORTS

Copies of the Company's published financial reports, including its Annual Report on Form 10-K, are available upon request and without charge by contacting Investor Relations at the address listed below or through our website at www.BBSI.com

STOCKHOLDER ACCOUNT ASSISTANCE

American Stock Transfer & Trust Company, LLC acts as transfer agent and registrar for the Company. For assistance regarding stock certificates (including transfers), address or name changes, or lost stock certificates, please contact:

American Stock Transfer
& Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
Telephone: (800) 937-5449
Email: help@astfinancial.com
Hearing Impaired (TTY):
866-703-9077 or 718-921-8386
Internet: www.astfinancial.com

CORPORATE HEADQUARTERS

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