

Risk Factors Comparison 2024-03-01 to 2023-03-06 Form: 10-K

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

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, 2023 2024, with committed coverage through June 30, 2024, 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. We continue to have retention for certain workers' compensation claims incurred prior to July 1, 2021 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. 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, if we are unable to

renew these license agreements, if the software is not up to date with current legal requirements and such that we become causes us to be non-compliant, if the software is not updated to meet our needs as our business evolves, or if the software becomes unavailable for any other reason, 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.

Additionally, 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. The methods and techniques used by cyber threat actors to gain entry into our network and access our computer systems, software and data will become more advanced with the use of artificial intelligence and may become increasingly difficult or impossible to detect and prevent.

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 including the California Consumer Privacy Act (CCPA) and the California Privacy Rights Act (CPRA), 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. **Risks Relating to the COVID-19..... and a decline in stockholder value.** Other Risks Related to our Business and Industry New service offerings may subject us to additional risks. In August 2022, BBSI announced its plans to make certain fully insured medical and other health and welfare benefits available to qualifying worksite employees beginning in 2023. This new service offering, as well as other potential future service offerings, may introduce additional risks and uncertainties to our business. Our efforts to implement new services may place substantial additional demands on our employees, as well as our information systems and technology platforms. We may also need to invest significant additional resources in our people, processes, controls and information security. Failure to successfully implement new service offerings, including the appropriate controls, policies and procedures, information systems, and data privacy and security, could have a material adverse effect on our business, reputation, results of operations and financial condition. New service offerings, including health care benefits, may also introduce additional legislative and regulatory requirements with which we are not familiar, or from which we are currently exempt. 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 materially adversely affected. 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 ~~10-11~~ 4 % in ~~2022-2023~~ and increased ~~8-10~~ 4 % in ~~2021-2022~~. 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 ~~73-72~~ % of our total revenues in ~~2022-2023~~. 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, including periods of elevated inflation and interest rates, may 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. An economic downturn 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. Additionally, weak economic conditions may result in higher unemployment, which is correlated with increased workers' compensation claims. ~~pandemic~~ **The spread of a highly**

infectious or contagious disease, and the response by federal, state, and local government agencies, including preventative actions **taken** such as shelter-in-place orders, restrictions on travel, temporary closures of businesses deemed to be high-risk or non-essential, and other government mandates **have affected many areas of the country, could create significant economic disruption that results in a material reduction in** including states where BBSI and our clients operate, particularly on the West Coast. These restrictions on business operations **have significantly disrupted, such as occurred during** the **COVID** U.S. economy, including small- **19 pandemic** and mid-sized businesses, which comprise our primary client base. As our PEO fees are based on client payroll, workforce reductions or shortages related to **the a future** pandemic could have a material adverse effect on our business. Clients who are impacted by government restrictions and economic disruptions may experience liquidity and other financial issues, which may reduce their capacity to pay **for our services.** These factors could have a material adverse effect on our results of operations and financial condition. 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 2022.** 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 several 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 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-limited** 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. Failure to maintain health insurance coverage or significant increases in the cost of health insurance coverage could adversely affect our business and results of operations. In 2023 BBSI began offering health insurance benefits as part of our PEO services. Our arrangement with third-party insurers provides health insurance coverage to BBSI's PEO clients through December 31, **2023-2024**, with the possibility of additional annual renewals. If our third-party insurers are unwilling or unable to renew our arrangement in the future, we would need to seek coverage from 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. Additionally, if maintaining health insurance coverage becomes significantly more costly due to claims experience or other factors, this could also have a material adverse effect on our business and results of operations. Our business is subject to risks associated with healthcare reforms. The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the "Acts") subject us to potential penalties unless we offer our employees minimum essential healthcare coverage that is affordable. To comply with the employer mandate provision of the Acts, we offer health care coverage to all temporary and permanent employees eligible for coverage under the Acts other than employees of our PEO clients, which are responsible for providing required health care coverage to their employees. Designating employees as eligible is complex and is subject to challenge by employees and the Internal Revenue Service ("IRS"). While we believe we have properly identified eligible employees, a later determination that we failed to offer the required health coverage to eligible employees could result in penalties that may materially harm our business. **Additionally, we began offering employee health and welfare benefits to our PEO clients beginning in 2023.** We cannot be certain that compliant insurance coverage will remain available to us on reasonable terms, and we could face additional risks arising from future changes to or repeal of the Acts or changed interpretations of our obligations under the Acts. **If new healthcare legislation or future changes** ~~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.~~ **increase the cost of providing health care** ~~benefits, or to limit our ability to offer health care benefits to our PEO clients, our business, operating results, and the net financial condition impact on our results of operations could be significant.~~ **materially adversely affected. Failure to comply with applicable data security and privacy regulations related to our health care offering could adversely affect our business. As BBSI began offering health benefits to our PEO clients in 2023, we have access to protected health information ("PHI") of our client employees. Compliance with federal and state regulations such as HIPAA and the HITECH Act is required for handling this PHI. HIPAA imposes limitations on the use and disclosure of PHI, and sets requirements for health data privacy, security, and breach notification. Non-compliance with HIPAA can lead to penalties and fines. Failure to appropriately comply with data security regulations could materially adversely impact our business, reputation, operating results, and financial condition.** We face competition from several 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 Insperty, 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 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. 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~~ **Management Committee** ~~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 fixed-rate debt securities and is subject to changing valuation based on interest rate fluctuations, and 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 which could have a material adverse effect on our business, financial condition and results of operations. 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 several 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

Failure to appropriately interpret and comply with COVID- 19 relief programs could materially adversely affect our business, reputation, results of operations and financial condition. 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 programs, including the CARES Act and the American Rescue Plan Act, directly impact the Company and our clients. The guidance surrounding these programs can be limited and has evolved over time. Failure to appropriately interpret and comply with legal and regulatory requirements arising from the COVID- 19 pandemic could harm client relationships and result in fines, penalties, and legal or regulatory action, which could have a material adverse effect on our business and reputation. Several of these programs, including the Employee Retention Tax Credit (" ERC"), use payroll tax credits or deferrals as the mechanism to provide benefits to small businesses and employees. As such, when clients and former clients wish to utilize these programs, the associated tax forms must be filed through the PEO, which creates additional administrative effort for the PEO. Because of this process, IRS review of our clients may further result in administrative effort for BBSI. Additionally, determining eligibility for programs such as ERC is complex and is based on company- specific data that PEOs do not possess for their clients. If the IRS denies any of our clients' claims or deems clients who have received ERC through BBSI ineligible, and if the IRS or our clients attempt to hold BBSI liable for these amounts, this could have a material adverse effect on our business, results of operation and financial condition.

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 ability to offer health care benefits plan operated under Section 125 of the Internal Revenue Code and result in liabilities to our PEO clients by subjecting us under the plan to additional state and federal laws and regulations, and could materially adversely affect our business, financial condition, and results of operations .

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. To operate effectively in a new state, we must 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.