

Staffing 360 Solutions, Inc.  
Form 10-Q  
November 13, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-37575

STAFFING 360 SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE 68-0680859  
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

641 Lexington Avenue, Suite 2701

New York, New York 10022

(Address of principal executive offices) (Zip Code)

(646) 507-5710

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer	Smaller Reporting Company
	Emerging Growth Company

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

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

As of November 13, 2018, there were 5,015,018 outstanding common stock shares, par value \$0.00001 per share, of the issuer.

## Form 10-Q Quarterly Report

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## PART I-FINANCIAL INFORMATION

## Item 1. Financial Statements

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(All amounts in thousands, except share, par values and stated values)

	September 29, 2018 (Unaudited)	December 30, 2017
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 2,824	\$ 3,100
Accounts receivable, net	34,724	33,392
Prepaid expenses and other current assets	1,295	1,443
Total Current Assets	38,843	37,935
Property and equipment, net	1,732	1,618
Identifiable intangible assets, net	23,376	17,145
Goodwill	32,061	27,169
Other assets	2,873	2,881
Total Assets	\$ 98,885	\$ 86,748
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 23,700	\$ 16,709
Current portion of debt, net	675	245
Accounts receivable financing	19,680	25,983
Other current liabilities	9,350	6,372
Total Current Liabilities	53,405	49,309
Term loan - related party, net	46,697	38,749
Term loan, net	1,185	—
Warrant Liability	—	1,426
Other long-term liabilities	4,685	4,049
Total Liabilities	105,972	93,533
Commitments and contingencies	—	—
Stockholders' Deficit:		
Staffing 360 Solutions, Inc. Equity:		
Preferred stock, \$0.00001 par value, 20,000,000 shares authorized;		
Series A Preferred Stock - Related Party, 1,663,008 shares designated, \$1.00 stated value, 1,663,008 shares issued and outstanding, as of September 29, 2018 and December 30, 2017	—	—
Series B Preferred Stock, 200,000 shares designated, \$10.00 stated value, 0 shares issued	—	—

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and outstanding, as of September 29, 2018 and December 30, 2017		
Series C Preferred Stock, 2,000,000 shares designated, \$1.00 stated value, 0 shares issued		
and outstanding, as of September 29, 2018 and December 30, 2017	—	—
Common stock, \$0.00001 par value, 40,000,000 and 20,000,000 shares authorized as of		
September 29, 2018 and December 30, 2017, respectively; 5,003,144 and 3,909,114		
shares		
issued and outstanding, as of September 29, 2018 and December 30, 2017, respectively	—	—
Additional paid in capital	61,673	57,574
Accumulated other comprehensive income	1,477	783
Accumulated deficit	(70,237 )	(65,142 )
Total Stockholders' Deficit	(7,087 )	(6,785 )
Total Liabilities and Stockholders' Deficit	\$ 98,885	\$ 86,748

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

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(All amounts in thousands, except share and per share values)

(UNAUDITED)

	Q3 2018	Q3 2017	Q3 2018 YTD	Q3 2017 YTD
Revenue	\$71,317	\$50,345	\$186,835	\$133,174
Cost of Revenue, excluding depreciation and amortization stated below	58,821	40,768	150,876	108,347
Gross Profit	12,496	9,577	35,959	24,827
Operating Expenses:				
Selling, general and administrative expenses	11,097	8,800	33,315	22,362
Depreciation and amortization	741	790	2,251	2,310
Total Operating Expenses	11,838	9,590	35,566	24,672
Income (Loss) From Operations	658	(13 )	393	155
Other (Expenses) Income:				
Interest expense	(2,279 )	(761 )	(6,185 )	(1,843 )
Amortization of debt discount and deferred financing costs	(156 )	(1,212 )	(393 )	(2,610 )
Loss on extinguishment of debt, net	—	(4,764 )	—	(6,132 )
Change in fair value of warrant liability	—	(688 )	879	(493 )
Gain from sale of business	—	—	238	—
Re-measurement loss on intercompany note	(186 )	—	(332 )	—
Other, net	(14 )	(10 )	227	(31 )
Total Other Expenses, net	(2,635 )	(7,435 )	(5,566 )	(11,109 )
Loss Before Provision for Income Tax	(1,977 )	(7,448 )	(5,173 )	(10,954 )
Benefit from (Provision for) income taxes	(3 )	(206 )	78	(213 )
Net Loss	(1,980 )	(7,654 )	(5,095 )	(11,167 )
Dividends - Series A preferred stock - related party	50	50	150	150
Deemed Dividends - Series D preferred stock	—	—	—	2,009
Net Loss Attributable to Common Stock Holders	\$(2,030 )	\$(7,704 )	\$(5,245 )	\$(13,326 )
Basic and Diluted Net Loss per Share:				
Net Loss	\$(0.42 )	\$(2.63 )	\$(1.20 )	\$(4.25 )
Net Loss Attributable to Common Stock Holders	\$(0.43 )	\$(2.65 )	\$(1.23 )	\$(5.07 )

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Weighted Average Shares Outstanding – Basic and Diluted	4,721,364	2,910,139	4,250,500	2,628,913
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(All amounts in thousands)

(UNAUDITED)

	Q3 2018	Q3 2017	Q3 2018 YTD	Q3 2017 YTD
Net Loss	\$(1,980)	\$(7,654)	\$(5,095)	\$(11,167)
Other Comprehensive loss				
Foreign exchange translation adjustment	356	110	694	(193 )
Comprehensive Loss Attributable to the Company	\$(1,624)	\$(7,544)	\$(4,401)	\$(11,360)

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



## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(All amounts in thousands)

(UNAUDITED)

	Q3 2018 YTD	Q3 2017 YTD
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(5,095 )	\$(11,167 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,251	2,310
Amortization of debt discount and deferred financing costs	393	2,610
Loss on extinguishment of debt, net	—	6,132
Gain in fair value of warrants	(879 )	493
Stock based compensation	951	962
Re-measurement loss on intercompany note	332	—
Gain from sale of business	(238 )	—
Changes in operating assets and liabilities:		
Accounts receivable	6,282	(2,907 )
Prepaid expenses and other current assets	71	(552 )
Other assets	165	196
Accounts payable and accrued expenses	2,789	(129 )
Interest payable - related party	(64 )	—
Other current liabilities	(94 )	(807 )
Other long-term liabilities	97	285
Other	188	(201 )
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>7,149</b>	<b>(2,775 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of business, net of cash acquired	(9,760 )	(20,817 )
Disposal of business, net of cash	1,403	—
Purchase of property and equipment	(330 )	(169 )
Collection of UK factoring facility deferred purchase price	7,086	—
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,601 )</b>	<b>(20,986 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of promissory notes	—	(441 )
Proceeds from term loan - related party	8,428	50,165
Repayments of term loan - related party	—	(11,165 )
Proceeds from term loan	2,047	—
Repayments of term loan	(422 )	(3,811 )
Proceeds from convertible notes	—	400
Repayments of convertible notes	—	(6,635 )
Repayment of bonds	—	(50 )
Repayments (proceeds) on accounts receivable financing, net	(16,220)	5,242
Dividends paid to related parties	(150 )	(515 )

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Proceeds from At-The-Market Facility	2,286	208
Repayment of Series D Preferred Stock	—	(1,500 )
Payments made for earn-outs	(1,402 )	(1,094 )
Financing costs - related party	(280 )	—
Third party financing costs	(109 )	(2,311 )
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<b>(5,822 )</b>	<b>28,493</b>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(274 )</b>	<b>4,732</b>
Effect of exchange rates on cash	(2 )	(2 )
Cash - Beginning of period	3,100	650
Cash - End of period	\$2,824	\$5,380

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

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share, per share and stated value per share)

(UNAUDITED)

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Staffing 360 Solutions, Inc. (“we,” “us,” “our,” “Staffing 360,” or the “Company”) was incorporated in the State of Nevada on December 22, 2009, as Golden Fork Corporation, which changed its name to Staffing 360 Solutions, Inc., ticker symbol “STAF,” on March 16, 2012. On June 15, 2017, the Company changed its state of domicile to Delaware.

The Company effected a one-for-ten reverse stock split on September 17, 2015 and a one-for-five reverse stock split on January 3, 2018. All share and per share information in these consolidated financial statements has been retroactively adjusted to reflect these reverse stock splits.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

These condensed consolidated financial statements and related notes are presented in accordance with generally accepted accounting principles in the United States (“GAAP”), expressed in U.S. dollars.

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

These unaudited condensed consolidated financial statements reflect all adjustments including normal recurring adjustments, which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows for the periods presented in accordance with the GAAP.

These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto for the fiscal year ended December 30, 2017, the transition period ended December 31, 2016 and fiscal year ended May 31, 2016, which are included in the Company’s December 30, 2017 Form 10-K, filed with the United States Securities and Exchange Commission on March 29, 2018. The Company assumes that the users of the interim financial information herein have read, or have access to, the audited consolidated financial statements for the preceding period, and that the adequacy of additional disclosure needed for a fair presentation may be determined in that context. The results of operations for the period ended September 29, 2018

are not necessarily indicative of results for the entire year ending December 29, 2018. This report is for the periods July 1, 2018 to September 29, 2018 (“Q3 2018”), July 2, 2017 to September 30, 2017 (“Q3 2017”), December 31, 2017 to September 29, 2018 (“Q3 2018 YTD”) and January 1, 2017 to September 30, 2017 (“Q3 2017 YTD”).

#### PeopleServe Disposition

On June 6, 2018, the Company divested the stock of PeopleServe Inc., and PeopleServe PRS, Inc. for a total consideration of \$1,502, net of \$567 that was remitted back to the buyer on July 31, 2018 in connection with a net working capital true up. The Company recorded a gain of \$238 from sale of the business.

#### Clement May Acquisition

On June 28, 2018, the Company and Staffing 360 Solutions Limited (formerly known as Longbridge Recruitment 360 Limited), a whollyowned subsidiary of the Company, entered into share purchase agreements (“Share Purchase Agreements”) to acquire all of the share capital of Clement May Limited (“CML”). Consideration for the acquisition of all the shares was (i) an aggregate cash payment of £1,550 (\$2,047), (ii) 15,000 shares of the Company’s common stock, (iii) an earn-out payment of up to £500, the amount to be calculated pursuant to that Share Purchase Agreement and to be paid on or around December 28, 2018, and (iv) deferred consideration of £350, to be paid on or around June 28, 2019, depending on the satisfaction of certain conditions set forth in that Share Purchase Agreement. To finance the above transaction, the Company entered into a term loan with HSBC Bank plc. Refer to Note 5 for further details.

#### Key Resources Inc. Acquisition

On August 27, 2018, the Company and Monroe Staffing Services, LLC (“Monroe Staffing”), an indirect subsidiary of the Company, entered into a share purchase agreement with Pamela D. Whitaker (“Seller”), pursuant to which the Seller sold 100% of the common shares of Key Resources Inc. (“KRI”) to Monroe Staffing (the “KRI Transaction”).

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share, per share and stated value per share)

(UNAUDITED)

The KRI Transaction closed simultaneously with the signing of the share purchase agreement. The purchase price in connection with the KRI Transaction was approximately \$12,163, of which (a) approximately \$8,109 was paid to the Seller at closing, (b) up to approximately \$2,027 is payable as earnout consideration to the Seller on August 27, 2019 and (c) up to \$2,027 is payable as earnout consideration to the Seller on August 27, 2020. The payment of the Earnout Consideration is contingent on KRI's achievement of certain trailing gross profit amounts.

To finance the above transaction, the Company entered into an agreement with Jackson Investment Group, LLC ("Jackson") on August 27, 2018, pursuant to which the note purchase agreement dated as of September 15, 2017 was amended to add an additional senior debt investment of approximately \$8,428 in the Company in exchange for a senior secured note in the principal amount of approximately \$8,428.

#### Revenue Recognition

On January 1, 2018, the Company adopted the new accounting standard ASC 606, Revenue from Contracts with Customers for all open contracts and related amendments as of January 1, 2018 using the modified retrospective method. The adoption had no impact to the reported results. Results for reporting periods beginning after January 1, 2018 will be presented under ASC 606, while the comparative information will not be restated and will continue to be reported under the accounting standards in effect for those periods.

The Company accounts for revenues when both parties to the contract have approved the contract, the rights and obligations of the parties are identified, payment terms are identified, and collectability of consideration is probable. Payment terms vary by client and the services offered.

The Company has primarily two main forms of revenue – temporary contractor revenue and permanent placement revenue. Temporary contractor revenue is accounted for as a single performance obligation satisfied over time because the customer simultaneously receives and consumes the benefits of the Company's performance on an hourly basis. The contracts stipulate weekly billing and the Company has elected the "as invoiced" practical expedient to recognize revenue based on the hours incurred at the contractual rate as we have the right to payment in an amount that corresponds directly with the value of performance completed to date. Permanent placement revenue is recognized on the date the candidate's full-time employment with the customer has commenced. The customer is invoiced on the start date, and the contract stipulates payment due under varying terms, typically 30 days. The contract with the customer stipulates a guarantee period whereby the customer may be refunded if the employee is terminated within a short period time, however this has historically been infrequent, and immaterial upon occurrence. As such, the Company's performance obligations are satisfied upon commencement of the employment, at which point control has transferred to the customer. Revenue in Q3 2018 was comprised of \$68,683 of temporary contractor revenue and \$2,634 of permanent placement revenue, compared with \$48,970 and \$1,375 for Q3 2017, respectively. Revenue in Q3 2018 YTD was comprised of \$178,518 of temporary contractor revenue and \$8,317 of permanent placement revenue, compared with \$130,220 and \$2,954 for Q3 2017 YTD, respectively. Refer to Note 8 for further details on breakdown by segments.

#### Reclassifications

We may make certain reclassifications to prior period amounts to conform with the current year's presentation. These reclassifications did not have a material effect on our condensed consolidated statement of financial position, results of operations or cash flows.

#### Income Taxes

The Company's provision for income taxes is based upon an estimated annual tax rate for the year applied to federal, state and foreign income. On a quarterly basis, the annual effective tax rate is adjusted, as appropriate, based upon changed facts and circumstances, if any, as compared to those forecasted at the beginning of the fiscal year and each interim period thereafter. The Company's effective tax rate may change from period to period based on recurring and non-recurring factors including the geographical mix of earnings, enacted tax legislation, state and local income taxes, and tax audit settlements. The effective income tax rate was (0.31)%, 4.0%, 1.59% and 2.3% for the period ending Q3 2018, Q3 2017, Q3 2018 YTD and Q3 2017 YTD, respectively.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Act") was signed into law making significant changes to the Internal Revenue Code. The changes include, but are not limited to, a U.S. corporate tax rate decrease from 35% to 21%, the transition of U.S. international taxation from a worldwide tax system to a territorial system, allowing for immediate expensing of certain qualified property, modifications to many business deductions and credits, and providing various tax incentives. Shortly after the Tax Act was enacted, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share, per share and stated value per share)

(UNAUDITED)

detail to complete the accounting for certain income tax effects of the Tax Act. SAB 118 provides that in these cases a registrant should continue to apply Financial Accounting Standards Board ("FASB") Accounting Standards Update No. 2009-06, Income Taxes ("Topic 740") based on the provisions of the tax laws that were in effect immediately prior to the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for registrants to complete the accounting under Topic 740.

The Company remeasured domestic deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally the 21% rate imposed by the Tax Act. The Company recorded an expense of \$3.7 million to reduce the net deferred tax assets, along with a corresponding benefit for the reduction of the valuation allowance recorded against these balances in our financial statements for the year ended December 30, 2017.

At September 29, 2018, in accordance with SAB 118, the Company has not completed its accounting for the tax effects of the one-time transition tax imposed by the Tax Act. In order to determine the amount of the liability with respect to the one-time transition tax, the Company must determine, in addition to other factors, the amount of post-1986 Earnings & Profits of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. In order to quantify the liability, we are awaiting further interpretative guidance, continuing to assess available tax methods and elections, and continuing to gather additional information to more precisely compute the amount of the transition tax. Therefore, we have not recorded an estimate of the transition tax in our financial statements.

In addition, the Company is continuing to evaluate whether Global Intangible Low Tax Income taxes ("GILTI") are recorded as a current period expense when incurred or whether such amounts should be factored into the Company's measurement of its deferred taxes. As a result, the Company has not included an estimate of the tax impacts related to GILTI in the third quarter of 2018. The Company has not elected a method and will only do so after completing their analysis of the GILTI provisions.

#### Foreign Currency

Staffing 360 Solutions, Inc. has an intercompany note due from Staffing 360 Solutions Limited (formerly known as Longbridge Recruitment 360 Limited), denominated in U.S. dollars. Staffing 360 Solutions Limited's functional currency is Pound Sterling. The note matures in September 15, 2022, bears interest at a rate of interest equal to the mid-term monthly Applicable Federal Rate (AFR), as published each month by the U.S. Internal Revenue Service pursuant to Section 1274(d) of the Internal Revenue Code, compounded semiannually. Interest is payable in cash quarterly on the first business day of each calendar quarter. Staffing 360 Solutions Limited may prepay all or any portion of the principal amount of this Note at any time, in whole or in part, without premium or penalty. As the note is denominated in U.S. dollars and due to weakening of the Pound Sterling, the Company recorded a non cash foreign currency remeasurement loss of \$186 and \$332 in Q3 2018 and Q3 2018 YTD, respectively.

#### Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, "Leases" (Topic 842). This guidance will be effective for public entities for fiscal years beginning after December 15, 2018 including the interim periods within those fiscal years. Early application is permitted. Under the new provisions, all lessees will report a right-of-use asset and a liability for the obligation to make payments for all leases with the exception of those leases with a term of 12 months or less. All other leases will fall into one of two categories: (i) Financing leases, similar to capital leases, which will require the recognition of an asset and liability, measured at the present value of the lease payments and (ii) Operating leases which will require the recognition of an asset and liability measured at the present value of the lease payments. Lessor accounting remains substantially unchanged with the exception that no leases entered into after the effective date will be classified as leveraged leases. For sale leaseback transactions, the sale will only be recognized if the criteria in the new revenue recognition standard are met. The Company is currently evaluating the impact of adopting this guidance.

#### NOTE 3 – LOSS PER COMMON SHARE

The Company utilizes the guidance per ASC 260, "Earnings per Share." Basic earnings per share are calculated by dividing income available to stockholders by the weighted average number of common stock shares outstanding during each period. Our Series A preferred stock holders (related parties) receive certain dividends or dividend equivalents that are considered participating securities and our loss per share is computed using the two-class method. For Q3 2018, Q3 2017, Q3 2018 YTD and Q3 2017 YTD, pursuant to the two-class method, as a result of the net loss, losses were not allocated to the participating securities.



## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share, per share and stated value per share)

(UNAUDITED)

Diluted earnings per share are computed using the weighted average number of common stock shares and dilutive common share equivalents outstanding during the period. Dilutive common stock equivalents consist of common shares issuable upon the conversion of preferred stock, convertible notes and the exercise of stock options and warrants (calculated using the modified treasury stock method). Such securities, shown below, presented on a common share equivalent basis and outstanding as of September 29, 2018 and September 30, 2017 have been excluded from the per share computations, since their inclusion would be anti-dilutive:

	September 29, 2018	September 30, 2017
Convertible preferred shares	43,239	43,239
Warrants	925,935	932,234
Restricted shares - unvested	595,272	463,052
Long term incentive plan (LTIP)	123,515	178,728
Options	125,400	122,400
Total	1,813,361	1,739,653

## NOTE 4 – ACCOUNTS RECEIVABLE BASED FINANCING FACILITIES

## HSBC Invoice Finance (UK) Ltd – New Facility

On February 8, 2018, CBS Butler, Staffing 360 Solutions Limited and The JM Group, entered into a new arrangement with HSBC Invoice Finance (UK) Ltd (“HSBC”) which provides for HSBC to purchase the subsidiaries’ accounts receivable up to an aggregate amount of £11,500 across all three subsidiaries. The terms of the arrangement provide for HSBC to fund 90% of the purchased accounts receivable upfront and, a secured borrowing line of 70% of unbilled receivables capped at £1,000 (within the overall aggregate total facility of £11,500). The arrangement has an initial term of 12 months, with an automatic rolling three-month extension and carries a service charge of 1.80%.

On June 28, 2018, CML, the Company’s new subsidiary entered into a new agreement with a minimum term of 12 months for purchase of debt (“APD”) with HSBC, joining CBS Butler, Staffing 360 Solutions Limited and The JM Group (collectively, with CML, the “Borrowers”) as “Connected Clients” as defined in the APD. The new Connected Client APDs carry an aggregate Facility Limit of £20,000 across all Borrowers. The obligations of the Borrowers are secured by a fixed charge and a floating charge on the Borrowers’ respective accounts receivable and are subject to cross-company guarantees among the Borrowers. In addition, the secured borrowing line against unbilled receivables

was increased to £1,500 for a period of 90 days.

Under ASU 2016-16, “Statement of Cash Flows (Topic 230, Classification of Certain Cash Receipts and Cash Payments, a consensus of the FASB Emerging Issues Task Force), the upfront portion of the sale of accounts receivable is classified within operating activities, while the deferred purchase price portion (or beneficial interest), once collected, is classified within investing activities.

#### ABN AMRO Commercial Finance

In conjunction with the HSBC Invoice Finance (UK) Ltd – New Facility, on February 8, 2018, Staffing 360 Solutions Limited and The JM Group terminated this facility and the remaining balance was paid in full.

#### CBS Butler

In conjunction with the HSBC Invoice Finance (UK) Ltd – New Facility, on February 8, 2018, CBS Butler terminated this facility and the remaining balance was paid in full.

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share, per share and stated value per share)

(UNAUDITED)

## NOTE 5 – DEBT

	September 29, 2018	December 30, 2017
Jackson Investment Group - related party	\$ 48,428	\$ 40,000
HSBC Term Loan	1,860	—
ABN AMRO	—	254
Total Debt, Gross	50,288	40,254
Less: Debt Discount and Deferred Financing Costs	(1,731 )	(1,260 )
Total Debt, Net	48,557	38,994
Less: Current Portion, Net	(675 )	(245 )
Total Long-Term Debt, Net	\$ 47,882	\$ 38,749

## HSBC Term Loan

On June 26, 2018, the Company's UK subsidiary, Staffing 360 Solutions Limited (formerly known as Staffing 360 Solutions (Holdings) Limited), entered into a term loan agreement (the "Term Loan") with HSBC Bank plc ("HSBC plc"). The Term Loan was drawn down on June 28, 2018 in an original principal amount of £1,550 (\$2,047) to fund the upfront cash consideration of the Clement May acquisition. The Term Loan matures on June 28, 2021, unless otherwise accelerated or terminated earlier. The interest rate on the Term Loan is 2.35% over the base rate of 0.75%, which is subject to periodic adjustment, and is payable in monthly installments of principal and interest. The obligations of Staffing 360 Solutions Limited under the term Loan are secured by fixed and floating charges in favor of HSBC plc on all of Staffing 360 Solutions Limited and its UK subsidiaries' assets, undertakings, accounts receivable and certain other assets pursuant to the terms of the Term Loan agreement.

## Non-interest bearing convertible note - April 11, 2017

On April 11, 2017, the Company entered into a non-interest bearing convertible note for \$477, whereby the Company received cash of \$400, maturing in October 2017. The Company paid this in full on September 18, 2017.

## Lighthouse Seller Note #1

During the period Q3 2017 and Q3 2017 YTD, the Company paid \$1,624 and \$1,874 in principal of notes payable, respectively. The Company paid this note in full on September 18, 2017.

#### Lighthouse Seller Note #2

During the period Q3 2017 and Q3 2017 YTD, the Company paid \$78 and \$234 in principal of notes payable, respectively. This note was paid in full in Q3 2017.

#### Non-interest Bearing Convertible Note (September 10, 2016)

On September 10, 2016, the Company entered into a non interest bearing convertible note for \$477, whereby the Company received cash of \$400. This note was due to mature in March 2017. In March 2017, the Company extended the note to September 2017 with a new maturity value of \$565. The Company paid this in full on September 18, 2017.

#### 8% Convertible Note (July 8, 2015) and 8% Convertible Note (February 8, 2016)

On January 3, 2017, the Company entered into an amendment agreement pursuant to which, the parties refinanced an aggregate amount of \$2,688 of indebtedness and extended all amortization payments for the two 8% convertible notes dated July 8, 2015 and February 8, 2016 (collectively, the "Amendment") to October 1, 2018, which was approximately 21 months from the date of the refinancing.

The Amendment had a new face value of \$3,126, and an 8% interest rate per annum, with no interest payments due until October 1, 2017, payable quarterly thereafter, and an overall term of 21 months with principal due at maturity. The Amendment was convertible into shares of common stock at a price of \$15.00 per share at holder's election, and the holder agreed to eliminate the 20% pre-payment penalty for an early redemption. In connection with the refinancing, the Company issued the holder 120,000 shares of

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common stock, valued at \$498. The Amendment resulted in the extinguishment of the old notes of \$2,688 and recording of the new debt and debt issue costs. The Company recorded a \$870 loss upon extinguishment. On January 26, 2017, the Amendment was paid in full resulting a loss of \$498.

Jackson Investment Group Term Loan Note #2 – Related Party

On April 5, 2017, the Company amended the note and warrant purchase agreement and entered into a second subordinated secured note for \$1,650. Under the terms of this amended agreement, the Company issued to Jackson 59,397 shares of common stock, with an additional 74,184 shares of common stock that were issued after obtaining shareholder approval for issuance of shares to Jackson in excess of the 19.99% limit in June 2017. Also on April 5, 2017, the Company amended the Warrant to allow Jackson to purchase up to an additional 275,508 shares of common stock, modified the initial exercise price of the Warrant to \$5.00 per share and modified the conversion price of accrued interest on the note issued to Jackson in January 2017 to \$7.50. The Warrant was also amended to increase the amount of common stock issuable to Jackson pursuant to the anti-dilution clause contained therein. The second note accrues interest on the principal amount at a rate of 6% per annum and has a maturity date of June 8, 2019; however, in the event the Company satisfied all of its outstanding obligations with Midcap Financial Trust, the maturity date would have been adjusted to July 25, 2018. No interest or principal is payable on the second note until maturity. At any time during the term of the second note, upon notice to Jackson, the Company may also, at its option, redeem all or some of the then outstanding principal amount of the note by paying to Jackson an amount not less than \$100 of the outstanding principal (and in multiples of \$100), plus any accrued but unpaid interest and liquidated damages and other amounts due under the note. The second note's principal is not convertible into shares of common stock; however, 50% of the accrued interest on the second note can be converted into shares of common stock, at the sole election of Jackson at maturity or in the event of a prepayment by the Company, at a conversion price equal to \$7.50 per share. The proceeds of this transaction were used to redeem the remaining shares and conversion rights of the Series D Preferred Stock. The Company has accounted for these warrants as a liability under ASC 815-40 due to certain anti-dilution protection provisions. The Company has recorded a liability of \$1,426 at December 30, 2017. On April 25, 2018, the Company and Jackson amended the Warrant to remove the anti-dilution clauses. Refer to Note 6 for further details.

The Company paid this note in full on September 18, 2017 and entered into a new note with Jackson (refer to "Jackson Note – Related Party")

Jackson Investment Group Term Loan Note #3 – Related Party

In August 2017, the Company entered into a promissory note with Jackson for \$1,600, with a term of 60 days at interest of 10% per annum and in return for 32,000 shares of common stock. The proceeds of the note were used to fund the satisfaction of a judgment entered in the matter of Staffing 360 Solutions, Inc. v. Former Officers of Staffing

360 Solutions, Inc.

The Company paid this in full on September 18, 2017 and entered into a new note with Jackson (refer to “Jackson Note – Related Party”).

Jackson Investment Group Term Loan Note #4 – Related Party

On September 1, 2017, the Company entered into a promissory note with Jackson for \$515, with a term of 31 days at interest of 12% per annum. The proceeds of the note were used to fund other debt obligations. The Company paid this in full on September 18, 2017 and entered into a new note with Jackson (refer to “Jackson Note – Related Party”).

Jackson Note – Related Party

On September 15, 2017, the Company entered into a \$40,000 note agreement with Jackson. The proceeds of the sale of the secured note were used to repay the existing subordinated notes previously issued to Jackson pursuant to the existing note purchase agreement in the aggregate principal amount of \$11,165 and to fund a portion of the purchase price consideration of the Firstpro Acquisition and the CBS Butler Acquisition and repay certain other outstanding indebtedness of the Company. The maturity date for the amounts due under the Jackson Note is September 15, 2020. The Jackson Note will accrue interest at 12% per annum, due quarterly on January 1, April 1, July 1 and October 1 in each year, with the first such payment due on January 1, 2018. Interest on any overdue payment of principal or interest due under the Jackson Note will accrue at a rate per annum that is 5% in excess of the rate of interest otherwise payable thereunder.

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The Company paid a closing fee of \$1,000 in connection with its entry into the A&R Note Purchase Agreement and agreed to issue 450,000 shares of the Company's common stock as a closing commitment fee. These shares are subject to registration rights in favor of Jackson which was included in a new resale registration statement which was filed by the Company on November 1, 2017. The Jackson Note resulted in the extinguishment of the old notes of \$11,165 and recording of the new debt of \$40,000 at fair value. The Company recorded \$4,764 loss upon extinguishment of debt, and deferred debt issuance costs of \$1,385 to be amortized over the term of the new loan.

Immediately prior to closing the Jackson Note, Jackson owned 526,697 shares of common stock and 905,508 warrants.

On August 27, 2018, Company entered into an amended agreement with Jackson, pursuant to which the note purchase agreement dated as of September 15, 2017 was amended and made a new senior debt investment of approximately \$8,428 in the Company in exchange for a senior secured note in the principal amount of approximately \$8,428. Terms of the additional investment are the same as the Jackson Note.

From the proceed of the additional investment, the Company paid a closing fee of \$280 and legal fees of \$39, and issued 192,000 shares of the Company's common stock as a closing commitment fee.

In connection with the additional investment, the Company entered into Amendment No. 1 to Amended and Restated Warrant Agreement ("Warrant Agreement") with Jackson. The Warrant Amendment amended that certain Amended and Restated Warrant Agreement with Jackson, dated as of April 25, 2018 (the "Warrant"), to reduce the exercise price of the Warrant from \$5.00 per share to \$3.50 per share.

The incremental fair value of repricing the Warrant to \$3.50 per share is \$135 and was recognized as deferred financing costs to be amortized over the term of the loan.

The Jackson Note includes certain financial customary covenants, including a leverage ratio covenant. As of September 29, 2018, the Company was not in compliance with this covenant. On November 13, 2018, the Company received a waiver from Jackson curing the non-compliance as of September 29, 2018.

## NOTE 6 – EQUITY

## Common Stock

The Company issued the following shares of common stock during the nine month period ended September 29, 2018:

	Number of common shares issued	Fair Value of shares issued	Fair Value at Issuance (minimum and maximum per share)	
Shares issued to/for:				
At-the-Market Facility	726,821	\$2,286	\$1.61	\$4.23
Jackson Investment Group	192,000	371	1.93	\$1.93
Employees	125,000	199	1.54	1.61
Consultants	19,383	55	1.40	3.42
Acquisition	15,000	21	1.38	1.38
Board and Committee members	15,400	32	1.40	3.25
Reverse stock split (rounding up shares)	426	-	-	-
	1,094,030	\$2,964		

Subsequent to September 29, 2018, the Company sold 5,109 shares of common stock through its at-the-market facility at a value of \$10, and granted 5,600 shares of common stock valued \$11 to the board of directors, and 1,165 shares of common valued at \$2 for consulting services.

## Restricted Shares

The Company has issued shares to employees and board and committee members under its 2015 Omnibus Incentive Plan and 2016 Omnibus Incentive Plan. Under these plans, the shares are restricted for a period of three years from issuance. As of September 29, 2018, the Company has a total of 597,272 shares unvested issued to employees and Board and committee members. In accordance



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with ASC 718, Compensation – Stock Compensation, the Company recognizes stock based compensation from restricted stock based upon the fair value of the award at issuance over the vesting term on a straight-line basis. The fair value of the award is calculated by multiplying the number of restricted shares by the Company's stock price on the date of issuance. The impact of forfeitures has historically been immaterial to the financial statements. The Company recorded compensation expense associated with these restricted shares of \$248, \$206, \$728 and \$575, for the periods ended Q3 2018, Q3 2017, Q3 2018 YTD and Q3 2017 YTD, respectively.

Stock Options

The Company recorded share based payment expense of \$33, \$101, \$168 and \$299 for the periods ended Q3 2018, Q3 2017, Q3 2018 YTD and Q3 2017 YTD, respectively.

Convertible Preferred Shares

Series A Preferred Stock – Related Party

In the period ended Q3 2018 YTD and Q3 2017 YTD, the Company paid \$150 and \$515, respectively, in dividends to its Series A preferred stock holders. The Company did not have any Series A dividends payable to preferred stock holders at the end of Q3 2018 YTD and Q3 2017 YTD.

Series D Preferred Stock

The Series D Preferred Stock contained beneficial conversion features; a portion was quantifiable at the date of issuance in the amount of \$615, which was recognized immediately due to the immediate convertibility of the Series D Preferred Stock and that it had no true redemption date. The additional contingent beneficial conversion feature was quantifiable only at the date of each subsequent conversion. Both beneficial conversion features represent additional value to the holders. As such, they represent a dividend on the Series D Preferred Stock and recorded as a Deemed Dividend. These Deemed Dividends are presented on the Statement of Operations for purposes of calculation Earnings Per Share only and have no net impact on Shareholders' Deficit. Deemed Dividends recorded were \$0 and \$2,009 for Q3 2018 YTD and Q3 2017 YTD, respectively.

On April 5, 2017, the Company entered into an agreement with holders of the Series D Preferred shares to redeem the remaining 62 shares of Series D Preferred Stock and terminate all future conversion rights, in return for \$1,500 in cash and 60,000 shares of common stock.

Warrants

The Company had accounted for the warrants issued to Jackson as a liability under ASC 815-40 due to certain anti-dilution protection provisions. The warrants issued to Jackson are considered to be Level 3 liabilities under ASC

820. On April 25, 2018, the Company and Jackson amended the Warrant to remove the anti-dilution clauses. No economic terms were adjusted. These clauses were the basis for recording the warrants as a liability. Therefore, upon execution of this amendment, the Company recorded a mark-to-market gain and reclass the remaining liability to Additional paid-in capital. The Company recorded a change in fair value of the warrant liability of \$0, \$(688), \$879 and \$(493) in Q3 2018, Q3 2017, Q3 2018 YTD and Q3 2017 YTD, respectively, using Black-Scholes valuation model.

In connection with the additional investment from Jackson, the Company entered into Amendment No. 1 to Amended and Restated Warrant Agreement (“Warrant agreement”) with Jackson. The Warrant Amendment amended that certain Amended and Restated Warrant Agreement with Jackson, dated as of April 25, 2018 (the “Warrant”), to reduce the exercise price of the Warrant from \$5.00 per share to \$3.50 per share. The incremental fair value of repricing the Warrants to \$3.50 per share is \$135 and was recognized as deferred financing costs to be amortized over the term of the Jackson Note.

#### NOTE 7 – COMMITMENTS AND CONTINGENCIES

##### Earn-out Liabilities and Stock Value Guarantees

Pursuant to the acquisition of Control Solutions International, Inc. (“CSI”) on November 4, 2013, the purchase price included monthly cash payments to the former owner and shareholder of CSI for performance-based compensation equal to 20% of CSI’s consolidated gross profit from the date of closing through the end of the sixteenth quarter following the date of closing not to exceed a total of \$2,100. During Q2 2018 and Q2 2017, the Company paid \$0 and \$24, respectively, towards the earn-out liability. During Q3 2018 YTD and Q3 2017 YTD, the Company paid \$15 and \$68, respectively, towards the earn-out liability. No further payments are due.

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Pursuant to the acquisition of The JM Group on November 5, 2015, the purchase price includes a cash payment to the shareholders for performance-based compensation of (a) £850 if the gross profit for the 12 month period ending on the anniversary date of the date of completion (the “Anniversary TTM Gross Profit”) is equal to 90% or more of the gross profit for the twelve months ending October 31, 2015 (the “Completion TTM Gross Profit”); or (b) if the Anniversary TTM Gross Profit is less than 90% of the Completion TTM Gross Profit, a sum equal to £850 multiplied by the Anniversary TTM Gross Profit/Completion TTM Gross Profit. The Company recorded the maximum contingent liability amount of £850 (\$1,180). At December 31, 2016, the remaining balance was \$1,026 and was recorded in other current liabilities. While unpaid, the balance accrued interest at 10.25% per annum. The balance was paid in full in January 2017.

Pursuant to the acquisition of CBS Butler Holdings Limited (“CBS Butler”) on September 15, 2017, the purchase price includes an earn-out payment of up to £4,214 (payable in December 2018, based upon CBS Butler’s operating performance during the period September 1, 2017 through August 31, 2018), and (iv) deferred consideration of £150 less the aggregate amount of each CBS Butler Shareholder’s portion of the net asset shortfall amount, if any, as determined pursuant to the Share Purchase Agreement and the Option Purchase Agreement. In September 2018, the Company paid the deferred consideration of £150 (\$195).

Pursuant to the acquisition of FirstPro Inc. (“FirstPro”) on September 15, 2017, the purchase price includes deferred quarterly installments of \$75 beginning on October 1, 2017, and \$2,675 is payable annually in three equal installments beginning on September 15, 2018. The Company has made \$75 and \$300 in quarterly installments during the period Q3 2018 and Q3 2018 YTD, respectively. The Company made its annual installment of \$892 in September 2018.

Pursuant to the acquisition of Clement May on June 28, 2018, the purchase price includes an earnout payment of up to £500 to be paid on or around December 28, 2018; and deferred consideration of £350, the amount to be calculated and paid pursuant to the Share Purchase Agreement, to be paid on or around June 28, 2019.

Pursuant to the acquisition of KRI on August 27, 2018, the purchase price includes earnout consideration payable to the seller of \$2,027 and \$2,027 on August 27, 2019 and August 27, 2020, respectively. The payment of the earnout consideration is contingent on KRI’s achievement of certain trailing gross profit amounts.

Legal Proceedings

NewCSI, Inc. vs. Staffing 360 Solutions, Inc.

On May 22, 2014, NewCSI, Inc. (“NewCSI”), the former owners of Control Solutions International, filed a complaint in the United States District Court for the Western District of Texas, Austin Division, against the Company arising from the terms of the Stock Purchase Agreement dated August 14, 2013 between the Company and NewCSI. NewCSI claims that the Company breached a provision of the Stock Purchase Agreement (“SPA § 2.7”) that required the Company to calculate and pay to NewCSI 50% of certain “Deferred Tax Assets” within 90 days after December 31, 2013, subject to certain criteria. The Complaint sought payment of the amount allegedly owed under SPA § 2.7 and acceleration of earn-out payments provided for in the Stock Purchase Agreement of \$1,400, less amounts paid to date, and attorneys’ fees.

On December 31, 2014, NewCSI filed an amended complaint to which NewCSI added an additional count asserting an “Adjustment Event” had occurred requiring an acceleration of earn-out payments provided for in the CSI Stock Purchase Agreement of \$2,100, less amounts paid as of December 31, 2014 totaling \$429 (balance of \$1,671 at December 31, 2014), should the Company or CSI “be unable, or admit in writing its inability, to pay its debts as they mature.” The Company responded denying the material allegations and interposing numerous affirmative defenses, including that the earn-out liability was fully expensed at the time of the acquisition and fully accrued for on the Company’s balance sheet as part of the purchase accounting at the time of the acquisition. A the trial was held May 18-20, 2015. On May 20, 2015, the jury rendered a verdict, finding that the Company had not complied with SPA § 2.7 and owed \$154, but that NewCSI had not proven that the Company or CSI had become unable to pay debts as they came due.

On June 3, 2015, NewCSI filed a Motion for Entry of Judgment as Matter of Law seeking entry of a judgment in the amount of \$154, plus accelerated earn-out payments in the amount of \$1,152, plus statutory interest. NewCSI did not challenge the jury verdict on the ability to pay issue. Also on June 3, 2015, the Company filed a Motion for Entry of Judgment as a Matter of Law seeking entry of judgment against NewCSI on the jury’s finding that the Company had not complied with SPA § 2.7, or, in the alternative, for a reduction of damages to \$154 and to hold that NewCSI may not be awarded accelerated earn-out payments as that would result in an illegal penalty.

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On October 21, 2015, judgment was entered in this action in favor of NewCSI and against the Company in the amount of \$1,307, plus pre-judgment interest, post-judgment interest, and costs.

On January 26, 2016, the District Court set the bond in respect of the NewCSI litigation at \$1,384. The Company has filed a notice of appeal to the United States Court of Appeals for the Fifth Circuit (“Appellate Court”) seeking reversal of the judgment and posted a supersedeas bond to stay the execution of the judgment pending appeal. On April 18, 2016, the Court granted the NewCSI shareholders’ request for payment of attorneys’ fees, but reserved judgment on the amount of fees to award pending the outcome of the Company’s appeal. On November 3, 2016, oral arguments for the appeal were heard and on July 26, 2017, the Appellate Court affirmed the trial Court’s decision but left the legal fee award open for determination by further proceedings in the trial court. On August 29, 2017 the surety company released the supersedeas bond to the New CSI shareholders’ counsel, which was amount was approximately \$5 less than the judgment amount with accumulated interest. Payment of this remaining balance has been made by the Company.

On September 29, 2017 NewCSI filed a Supplemental Motion in the United States District Court for the Western District of Texas, Austin Division, seeking \$629 in attorneys’ fees. The Company opposed this motion but the magistrate judge issued a report and recommendation on November 17, 2017 recommending an award of fees in the amount of \$606. The Company filed an objection with the trial judge to the magistrate’s report and recommendation. On May 30, 2018 the trial judge issued an order adopting the report and recommendation of the magistrate judge and awarding NewCSI the amount of \$606 in legal fees, plus interest at the statutory rate of 2.27% per annum. The Company paid \$606 in full settlement of this matter in June 2018.

Staffing 360 Solutions, Inc. v. Former Officers of Staffing 360 Solutions, Inc.

On November 13, 2015, in a separate proceeding, Staffing 360 initiated an arbitration before JAMS entitled Staffing 360 Solutions, Inc. v. Former Officers of Staffing 360 Solutions, Inc., against three officers of Staffing 360, each a former Staffing 360 officer and employee. In its demand for arbitration and statement of claim, Staffing 360 alleged that these individuals breached their employment agreements with Staffing 360 and the fiduciary duties each owed to the Company. The three respondents responded with a counterclaim alleging wrongful termination and have moved to dismiss the arbitration, as well as moved for severance in relation to the remainder of their contracts. On July 20, 2016, the arbitrator decided in favor of both of the respondents’ motions. Further on September 21, 2016 the arbitrator rendered the final award, which was set at \$1,433. The former officers brought an action in US District Court in New York City under the caption Dealy et al., v. Staffing 360 Solutions, Inc., requesting that the Court convert this arbitration award into a judgment. On July 11, 2017, the Court entered an order confirming the arbitrator’s award and granting judgement against the Company. In August 2017, the Company paid \$1,582 in full satisfaction of this matter.



## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

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## NOTE 8 – SEGMENTS

The Company generated revenue and gross profit by segment as follows:

	Q3 2018	Q3 2017	Q3 2018 YTD	Q3 2017 YTD
Commercial Staffing - US	\$28,496	\$25,635	\$73,441	\$71,354
Professional Staffing - US	11,301	12,259	40,034	36,187
Professional Staffing - UK	31,520	12,451	73,360	25,633
Total Revenue	\$71,317	\$50,345	\$186,835	\$133,174
Commercial Staffing - US	\$4,463	\$4,642	\$12,278	\$12,947
Professional Staffing - US	4,069	2,411	12,268	6,528
Professional Staffing - UK	3,964	2,524	11,413	5,352
Total Gross Profit	\$12,496	\$9,577	\$35,959	\$24,827
Selling, general and administrative expenses	\$(11,097)	\$(8,800)	\$(33,315)	\$(22,362)
Depreciation and amortization	(741)	(790)	(2,251)	(2,310)
Interest expense	(2,279)	(761)	(6,185)	(1,843)
Amortization of debt discount and deferred financing costs	(156)	(1,212)	(393)	(2,610)
Loss on extinguishment of debt, net	—	(4,764)	—	(6,132)
Change in fair value of warrant liability	—	(688)	879	(493)
Gain from sale of business	—	—	238	—
Re-measurement loss on intercompany note	(186)	—	(332)	—
Other (expense) income, net	(14)	(10)	227	(31)
Loss Before Provision for Income Tax	\$(1,977)	\$(7,448)	\$(5,173)	\$(10,954)

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The following table disaggregates revenues by segments:

	Q3 2018			
	Commercial Staffing - - US	Professional Staffing - US	Professional Staffing - UK	Total
Permanent Revenue	\$ 13	\$ 1,714	\$ 907	\$2,634
Temporary Revenue	28,483	9,587	30,613	68,683
Total	\$28,496	\$ 11,301	\$ 31,520	\$71,317
	Q3 2017			
	Commercial Staffing - - US	Professional Staffing - US	Professional Staffing - UK	Total
Permanent Revenue	\$92	\$ 291	\$ 992	\$1,375
Temporary Revenue	25,543	11,968	11,459	48,970
Total	\$25,635	\$ 12,259	\$ 12,451	\$50,345
	Q3 2018 YTD			
	Commercial Staffing - - US	Professional Staffing - US	Professional Staffing - UK	Total
Permanent Revenue	\$128	\$ 4,887	\$ 3,302	\$8,317
Temporary Revenue	73,313	35,147	70,058	178,518
Total	\$73,441	\$ 40,034	\$ 73,360	\$186,835
	Q3 2017 YTD			
	Commercial Staffing - - US	Professional Staffing - US	Professional Staffing - UK	Total
Permanent Revenue	\$136	\$ 570	\$ 2,248	\$2,954
Temporary Revenue	71,218	35,617	23,385	130,220
Total	\$71,354	\$ 36,187	\$ 25,633	\$133,174



As of September 29, 2018 and December 30, 2017, the Company has assets in the U.S., the U.K. and Canada as follows:

	September 29, 2018	December 30, 2017
United States	\$ 58,484	\$ 53,814
United Kingdom	40,306	32,861
Canada	95	73
Total Assets	\$ 98,885	\$ 86,748

#### NOTE 9 – ACQUISITIONS

In accordance with ASC 805, the Company accounts for acquisitions using the purchase method under which the acquisition purchase price is allocated to the assets acquired and liabilities assumed based upon their respective fair values. The Company utilizes management estimates and, in some instances, may retain the services of an independent third-party valuation firm to assist in determining the fair values of assets acquired, liabilities assumed and contingent consideration granted. Such estimates and valuations require the Company to make significant assumptions, including projections of future events and operating performance.

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

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In connection with the acquisition of KRI and Clement May, the Company recorded the following identifiable intangible assets, based on preliminary valuation.

	KRI	Clement May
Goodwill <sup>(1)</sup>	\$3,346	\$ 1,545
Intangible assets		
Tradenames	\$1,000	\$ 470
Non-compete	—	273
Customer Relationships	6,400	451
	\$7,400	\$ 1,194

(1) Goodwill amounts for KRI are shown net of adjustments of \$627 for discounting of deferred earnouts and other purchase accounting adjustments.

Goodwill of Clement May is included in the Company's Professional-UK reportable segment. Goodwill of KRI is included in the Company's Professional-US reportable segment.

Identified intangible assets for Clement May are being amortized on a straight-line basis over their weighted average estimated useful life of 8.4 years. The Company acquired a total of \$14,305 in receivables and fair value of these receivables equals the contract value; and recorded contingent consideration associated with Clement May of £850 (\$1,122).

Identified intangible assets of KRI are being amortized on a straight-line basis over their weighted average estimated useful life of 10 years. The Company acquired a total of \$2,531 in receivables and fair value of these receivables equals the contract value; and recorded contingent consideration associated with KRI of \$3,427, net of discounting.

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The following table summarizes the final allocation of the purchase price to the estimated fair values of net assets acquired at the date of the acquisition:

	KRI	Clement May
Purchase price	\$11,536	\$3,543
Less:		
Net assets acquired	\$(790 )	\$(804 )
Intangible assets	(7,400 )	(1,194 )
Goodwill	\$3,346	\$1,545

The Company recorded a total of \$105 and \$35 in third party expenses associated with consummating the Clement May and KRI acquisitions, respectively, which are included in Selling, general and administrative expenses, excluding depreciation and amortization stated on the Consolidated Statement of Operations.

The following unaudited pro forma consolidated results of operation have been prepared, as if the acquisition of FirstPro and CBS Butler had occurred as of June 1, 2016, and acquisition of KRI and Clement May acquired on January 1, 2017.

	Q3 2018	Q3 2017	Q3 2018 YTD	Q3 2017 YTD
Revenues	\$76,749	\$83,118	\$234,001	\$244,485
Net loss from continuing operations	(2,269 )	(7,683 )	(5,392 )	(11,956 )

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## NOTE 10 – OTHER RELATED PARTY TRANSACTIONS

In addition to the Series A Preferred Shares and Notes issued to Jackson, the following are other related party transactions:

## Board and Committee Members

The Company had the following activity with its Board and Committee Members:

	Q3 2018				Q3 2017			
	Cash Compensation	Shares Issued	Value of Shares Issued	Compensation Expense Recognized	Cash Compensation	Shares Issued	Value of Shares Issued	Compensation Expense Recognized
Dimitri Villard	\$ 19	1,400	\$ 2	\$ 22	\$ 19	1,400	\$ 6	\$ 19
Jeff Grout	19	1,400	2	22	19	1,400	6	19
Nick Florio	19	1,400	2	22	19	1,400	7	19
Alicia Barker	—	1,400	2	—	—	—	—	—
	\$ 57	5,600	\$ 8	\$ 66	\$ 57	4,200	\$ 19	\$ 57

  

	Q3 2018 YTD				Q3 2017 YTD			
	Cash Compensation	Shares Issued	Value of Shares Issued	Compensation Expense Recognized	Cash Compensation	Shares Issued	Value of Shares Issued	Compensation Expense Recognized
Dimitri Villard	\$ 56	4,200	\$ 9	\$ 62	\$ 50	14,900	\$ 60	\$ 53
Jeff Grout	56	4,200	9	62	50	14,900	60	53
Nick Florio	56	4,200	9	62	50	15,100	61	53
Alicia Barker	19	2,800	4	—	—	—	—	—
	\$ 187	15,400	\$ 31	\$ 186	\$ 150	44,900	\$ 181	\$ 159

The Company has no balances in accounts payable and accrued expenses – related parties account as of September 29, 2018.

## The Briand Separation Agreement

The Company's former employee, board member and officer resigned from his positions with the Company and subsidiaries. The Company entered into an agreement (the "Briand Separation Agreement") with Mr. Briand dated December 21, 2017, with an effective date ("Separation Date") of January 31, 2018, pursuant to which Mr. Briand may provide advisory services, if requested by the Company, through the effective date. The Company paid \$16 in Q3 2018 to Mr. Briand as part of this separation agreement. The accrued

balance due to Mr. Briand as of September 29, 2018 is \$284.

#### Appointment of Officers

On March 28, 2018, the Company appointed Alicia Barker to fill the Class II director vacancy created by the departure of Mr. Briand earlier this year, such appointment was effective April 1, 2018. Ms. Barker joined the company's board of directors as an independent director and serves on the Board's Compensation Committee and on the Nominating and Corporate Governance Committee.

Effective July 1, 2018, the Company entered into an Employment Agreement with Alicia Barker that appointed her as the Company's Chief Operating Officer. Ms. Barker will continue as a member of the Company's board of directors, but effective with her appointment will no longer be a member of any Board committee, nor an independent member of the Board, bringing the number of independent directors to three of five Board members.

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share, per share and stated value per share)

(UNAUDITED)

## NOTE 11 – SUPPLEMENTAL CASH FLOW INFORMATION

	Q3 2018 YTD	Q3 2017 YTD
Cash paid for:		
Interest	\$4,775	\$1,827
Income taxes	104	140
Non-Cash Investing and Financing Activities:		
Deferred purchase price of UK factoring facility	\$8,418	\$—
Shares issued in connection with acquisition of business	21	—
Shares issued in connection with convertible note	—	498
Shares issued in connection with Jackson term loan	371	2,527
Shares issued in connection with Series D payoff	—	208
Shares issued in connection with CBS Butler acquisition	—	430
Warrants issued in connection with Jackson term loan	682	2,303
CSI earnout (payment with Surety bond)	—	1,405
Deemed Dividends	—	2,009

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Quarterly Report. This section includes a number of forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that reflect our current views with respect to future events and financial performance. All statements that address expectations or projections about the future, including, but not limited to, statements about our plans, strategies, adequacy of resources and future financial results (such as revenue, gross profit, operating profit, cash flow), are forward-looking statements. Some of the forward-looking statements can be identified by words like “anticipates,” “believes,” “expects,” “may,” “will,” “can,” “could,” “should,” “intends,” “project,” “predict,” “plans,” “estimate,” “possible,” “potential,” “would,” “seek,” and similar references to future periods. These statements are not guarantees of future performance and involve a number of risks, uncertainties and assumptions that are difficult to predict. Because these forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond our control or are subject to change, actual outcomes and results may differ materially from what is expressed or forecasted in these forward-looking statements. Important factors that could cause actual results to differ materially from these forward-looking statements include, but are not limited to: negative outcome of pending and future claims and litigation; our ability to access the capital markets by pursuing additional debt and equity financing to fund our business plan and expenses on terms acceptable to us or at all; and our ability to comply with our contractual covenants, including in respect of our debt; potential cost overruns and possible rejection of our business model and/or sales methods; weakness in general economic conditions and levels of capital spending by customers in the industries we serve; weakness or volatility in the financial and capital markets, which may result in the postponement or cancellation of our customers' capital projects or the inability of our customers to pay our fees; delays or reductions in U.S. government spending; credit risks associated with our customers; competitive market pressures; the availability and cost of qualified labor; our level of success in attracting, training and retaining qualified management personnel and other staff employees; changes in tax laws and other government regulations, including the impact of health care reform laws and regulations; the possibility of incurring liability for our business activities, including, but not limited to, the activities of our temporary employees; our performance on customer contracts; and government policies, legislation or judicial decisions adverse to our businesses. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We assume no obligation to update such statements, whether as a result of new information, future events or otherwise, except as required by law. We recommend readers to carefully review the reports and documents we file from time to time with the Securities and Exchange Commission (“SEC”), particularly our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K.

### Overview

We are incorporated in the State of Delaware. As a rapidly growing public company in the international staffing sector, our high-growth business model is based on finding and acquiring suitable, mature, profitable, operating, U.S. and U.K. based staffing companies. Our targeted consolidation model is focused specifically on the Professional Sector and Commercial Sector disciplines.

### Business Model, Operating History and Acquisitions

We are a high-growth international staffing company engaged in the acquisition of U.S. and U.K. based staffing companies. As part of our consolidation model, we pursue a broad spectrum of staffing companies supporting primarily the Professional and Commercial Sectors. Our typical acquisition model is based on paying consideration in

the form of cash, stock, earn-outs and/or promissory notes. In furthering our business model, the Company is regularly in discussions and negotiations with various suitable, mature acquisition targets. Since November 2013, the company has completed ten acquisitions.

All share numbers in this section have been adjusted for the one-for-five reverse stock split effective at 5:00 p.m. New York time on January 3, 2018.

On September 15, 2017, Staffing 360 Georgia, LLC (“Staffing Georgia”), a wholly-owned subsidiary of the Company entered into an asset purchase agreement with Firstpro Inc. (“FPI”), Firstpro Georgia, LLC (“FPL”), and certain individuals, pursuant to which the FPI and FPL sold substantially all of their assets to Staffing Georgia (“Firstpro Acquisition”). The purchase price in connection with the Staffing Georgia, was \$8,000, of which, (a) \$4,500 was paid at closing, (b) \$825 is payable in quarterly installments of \$75 beginning on October 1, 2017, and (c) \$2,675 is payable annually in three equal installments beginning on September 15, 2018.

On September 15, 2017, the Company and Staffing 360 Solutions Limited (formerly known as Longbridge Recruitment 360 Limited), a wholly-owned subsidiary of the Company, entered into an agreement (“Share Purchase Agreement”) with the holders of share capital of CBS Butler Holdings Limited (“CBS Butler”) and an agreement (“Option Purchase Agreement”) with the holders of outstanding options of CBS Butler, pursuant to which the holders of the share capital of CBS Butler and holders of outstanding



STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(All amounts in thousands, except share, par values and stated values)

options of CBS Butler sold all of their shares and options of CBS Butler to Staffing 360 Solutions Limited (the "CBS Butler Acquisition"), in exchange for (i) an aggregate cash payment of £13,810, (ii) an aggregate of 100,000 shares of the Company's common stock, (iii) an earn-out payment of up to £4,214 (payable in October 2018 based upon CBS Butler's operating performance during the period September 1, 2017 through August 31, 2018), and (iv) deferred consideration of £150 less the aggregate amount of each CBS Butler Shareholder's portion of the net asset shortfall amount, if any, as determined pursuant to the Share Purchase Agreement and the Option Purchase Agreement.

To finance the above transactions, the Company entered into an agreement with Jackson Investment Group, LLC ("Jackson") on September 15, 2017. The Company, as borrower, and certain domestic subsidiaries of the Company, as guarantors, entered into an amended and restated note purchase agreement with Jackson, as lender (the "A&R Note Purchase Agreement"), pursuant to which Jackson made a senior debt investment of \$40,000 in the Company in exchange for a senior secured note in the principal amount of \$40,000 (the "Jackson Note"). The proceeds of the sale of the secured note were used to (i) repay the existing subordinated notes previously issued to Jackson in the aggregate principal amount of \$11,165, (ii) to fund the upfront cash portion of the purchase price consideration of the Firstpro Acquisition and the CBS Butler Acquisition, (iii) to repay almost all other outstanding indebtedness of the Company and (iv) general working capital purposes. The maturity date of the Jackson Note is September 15, 2020. The Jackson Note will accrue interest at 12% per annum, due quarterly on January 1, April 1, July 1 and October 1 in each year, with the first such payment due on January 1, 2018. Interest on any overdue payment of principal or interest due under the Jackson Note will accrue at a rate per annum that is 5% in excess of the rate of interest otherwise payable thereunder. The Company may prepay the amounts due on the Jackson Note in whole or in part from time to time, without penalty or premium, subject to the conditions set forth in the A&R Note Purchase Agreement, and such prepayments, depending on the timing of the prepayments, may result in a discount on the principal amount to be prepaid as set forth in the A&R Note Purchase Agreement. The Company paid a closing fee of \$1,000 in connection with its entry into the A&R Note Purchase Agreement and agreed to issue 450,000 shares of the Company's common stock as a closing commitment fee.

#### PeopleServe Disposition

On June 6, 2018, the Company divested the stock of PeopleServe Inc., and PeopleServe PRS, Inc. for a total consideration of \$1,502, net of \$567 that was remitted back to the buyer on July 31, 2018 in connection with a net working capital true up. The Company recorded a gain of \$238 from sale of business.

#### Clement May Acquisition

On June 28, 2018, the Company and Staffing 360 Solutions Limited (formerly known as Longbridge Recruitment 360 Limited), a wholly-owned subsidiary of the Company, entered into share purchase agreements ("Share Purchase Agreements") of the share capital of Clement May Limited ("CML"). Consideration for the acquisition of all the shares was (i) an aggregate cash payment of £1,550 (\$2,047), (ii) 15,000 shares of the Company's common stock, (iii) the assignment of certain outstanding debt owed to the CML Majority Holder to the Principal as set forth in that Share Purchase Agreement, (iv) an earn-out payment of up to £500, the amount to be calculated and paid pursuant to that

Share Purchase Agreement due on or around December 28, 2018, and (v) deferred consideration of £350, to be paid on or around June 28, 2019, depending on the satisfaction of certain conditions set forth in that Share Purchase Agreement. To finance the above transaction, the Company entered into a term loan with HSBC Bank plc. Refer to Note 9 for further details.

#### Key Resources Inc. Acquisition

On August 27, 2018, the Company and Monroe Staffing Services, LLC (“Monroe Staffing”), an indirect subsidiary of the Company, entered into a share purchase agreement with Pamela D. Whitaker (“Seller”), pursuant to which the Seller sold 100% of the common shares of Key Resources Inc. (“KRI”) to Monroe Staffing (the “KRI Transaction”).

The KRI Transaction closed simultaneously with the signing of the share purchase agreement. The purchase price in connection with the KRI Transaction was approximately \$12,163, of which (a) approximately \$8,109 was paid to the Seller at closing, (b) up to approximately \$2,027 is payable as earnout consideration to the Seller on August 27, 2019 and (c) up to \$2,027 is payable as earnout consideration to the Seller on August 27, 2020. The payment of the Earnout Consideration is contingent on KRI’s achievement of certain trailing gross profit amounts.

To finance the above transaction, the Company entered into an agreement with Jackson on August 27, 2018, pursuant to which the note purchase agreement dated as of September 15, 2017 was amended to add an additional senior debt investment of approximately \$8,428 in the Company in exchange for a senior secured note in the principal amount of approximately \$8,428.

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(All amounts in thousands, except share, par values and stated values)

For three-month periods ended September 29, 2018 and September 30, 2017

	Q3 2018		Q3 2017		Growth		
		% of Revenue		% of Revenue			
Revenue	\$71,317	100.0	% \$50,345	100.0	%	41.7 %	
Direct cost of revenue	58,821	82.5	% 40,768	81.0	%	44.3 %	
Gross profit	12,496	17.5	% 9,577	19.0	%	30.5 %	
Operating expenses	11,838	16.6	% 9,590	19.0	%	23.4 %	
Income (loss) from operations	658	0.9	% (13 )	(0.0	)%	5161.5%	
Other expenses	(2,635 )	(3.7	)%	(7,435 )	(14.8	)%	(64.6 )%
Provision for income taxes	(3 )	(0.0	)%	(206 )	(0.4	)%	(98.5 )%
Net loss	\$(1,980 )	(2.8	)%	\$(7,654 )	(15.2	)%	(74.1 )%

## Revenue

For Q3 2018, revenue increased by 41.7% to \$71,317, as compared with \$50,345, for Q3 2017. Of that growth, \$26,888 was from the acquisitions of CBS Butler, Firstpro, Clement May, and KRI. This was partially offset by a decline of \$4,374 from divesting of PeopleServe, an organic decline of \$1,481 from the remaining core business, and \$61 from unfavorable foreign currency translation. Temporary contractor revenue declined \$1,290 and permanent placement declined \$191.

Revenue in Q3 2018 was comprised of \$68,683 of temporary contractor revenue and \$2,634 of permanent placement revenue, compared with \$48,970 and \$1,375 for Q3 2017, respectively.

## Direct cost of revenue, Gross profit and gross margin

Direct cost of services includes the variable cost of labor and various non-variable costs (e.g., workers' compensation insurance) relating to employees (temporary and permanent) as well as sub-contractors and consultants. For Q3 2018, direct cost of revenue was \$58,821, an increase of 44.3% from \$40,768 in Q3 2017, compared with revenue growth of 41.7%.

Gross profit for Q3 2018 was \$12,496, an increase of 30.5% over \$9,577, for Q3 2017, representing gross margin of 17.5% and 19.0% for each period, respectively. Gross profit growth was primarily attributable to the impact of acquisitions. This was partly offset by lower savings from workers' compensation insurance versus the savings realized in the corresponding period in 2017, the divestiture of the lower margin PeopleServe business, and organic decline on lower permanent placement and contract revenue.

## Operating expenses

Operating expenses for Q3 2018 were \$11,838, an increase of 23.4% over \$9,590 for Q3 2017. The acquisitions of CBS Butler, Firstpro, Clement May, and KRI drove an increase of 32.3% in operating expense. Excluding the acquisitions, operating expenses decreased by 8.9% driven by lower non-recurring costs, legal, and other costs associated with acquisitions, lower variable costs from lower organic revenue, and savings that are materializing which are attributable to synergies within the subsidiaries, cost savings initiatives, and PeopleServe divesture.

#### Other Expenses

Other expenses for Q3 2018 was \$2,635, a decrease of 64.6% from \$7,435 in Q3 2017. For Q3 2018 compared with Q3 2017, other expenses primarily reflects higher interest of \$1,518 driven mainly by the higher debt and cost of capital resulting from the refinancing in September 2017 and financing of The Clement May and Key Resources acquisitions; a loss on extinguishment of debt in Q3 2017 of \$4,764 attributable to the refinancing of convertible notes in January 2017 and Jackson Notes in September 2017, with no corresponding loss in Q3 2018, a loss of \$186 from remeasuring the Company's intercompany note; lower amortization of debt discount and deferred financing costs by \$1,056 also attributable to the refinancing; a loss of \$688 from fair valuing warrants in Q3 2017, with no corresponding loss in Q3 2018.

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(All amounts in thousands, except share, par values and stated values)

For the nine-month periods ended September 29, 2018 and September 30, 2017

	Q3 2018		Q3 2017		Growth
	YTD	% of Revenue	YTD	% of Revenue	
Revenue	\$186,835	100.0 %	\$133,174	100.0 %	40.3 %
Direct cost of revenue	150,876	80.8 %	108,347	81.4 %	39.3 %
Gross profit	35,959	19.2 %	24,827	18.6 %	44.8 %
Operating expenses	35,566	19.0 %	24,672	18.5 %	44.2 %
Income from operations	393	0.2 %	155	0.1 %	153.5 %
Other expenses	(5,566 )	(3.0 )%	(11,109 )	(8.3 )%	(49.9 )%
Benefit from (Provision for) income taxes	78	0.0 %	(213 )	(0.2 )%	(136.6 )%
Net loss	\$(5,095 )	(2.7 )%	\$(11,167 )	(8.4 )%	(54.4 )%

## Revenue

Q3 2018 YTD revenue increased by 40.3% to \$186,835, as compared with \$133,174 for Q3 2017 YTD. Of that growth, \$64,905 was from the acquisitions of CBS Butler, Firstpro, Clement May, and KRI and \$1,181 was from favorable foreign currency translation. This was partially offset by a decline of \$6,403 due to PeopleServe and an organic decline of \$6,022 from the remaining core business. Organic temporary contractor revenue declined \$5,459, partially due to a greater number of weather-related work stoppage days in 2018, and organic permanent placement declined \$563.

Revenue in Q3 2018 YTD was comprised of \$178,518 of temporary contractor revenue and \$8,317 of permanent placement revenue, compared with \$130,220 and \$2,954 for Q3 2017 YTD, respectively.

## Direct cost of revenue, Gross profit and gross margin

Direct cost of services includes the variable cost of labor and various non-variable costs (e.g., workers' compensation insurance) relating to employees (temporary and permanent) as well as sub-contractors and consultants. For Q3 2018 YTD, direct cost of revenue was \$150,876, an increase of 39.3% from \$108,347, in Q3 2017 YTD, compared with revenue growth of 40.3%.

Gross profit for Q3 2018 YTD was \$35,959, an increase of 44.8% over \$24,827, for Q3 2017 YTD, representing gross margin of 19.2% and 18.6% for each period, respectively. Gross profit growth was attributed to the impact of acquisitions. This was partly offset by lower savings from workers' compensation insurance versus the savings realized in the corresponding period in 2017, organic decline on lower permanent placement and contract revenue, and the divestiture of the lower margin PeopleServe business.

### Operating expenses

Operating expenses for Q3 2018 YTD was \$35,566, an increase of 44.2% over \$24,672, for Q3 2017 YTD. Of that increase, 42.6% can be attributed to acquisition of CBS Butler, Firstpro, Clement May, and KRI. The remaining increase is primarily stemming from other non-recurring costs and other costs associated with acquisitions, capital raising, and non-cash charges or credits. This was partly offset by lower variable costs from lower organic revenue, savings that are materializing which are attributable to synergies within the subsidiaries, cost savings initiatives, PeopleServe divesture and higher commissions on the higher gross profit.

### Other Expenses

Other expenses for Q3 2018 YTD was \$5,566, a decrease of 49.9% from \$11,109, in Q3 2017 YTD. For Q3 2018 YTD compared with Q3 2017 YTD, other expenses primarily reflects higher interest of \$4,342 driven mainly by the higher debt and cost of capital resulting from the refinancing in September 2017; lower amortization of debt discount and deferred financing costs by \$2,217 also attributable to the refinancing; a loss on extinguishment of debt in Q3 2017 YTD of \$6,132 attributable to the refinancing of convertible notes in January 2017, with no corresponding loss in Q3 2018 YTD; a higher gain of \$1,372 from fair valuing warrants in; a gain of \$238 from the sale of PeopleServe; a loss of \$332 from remeasuring the Company's intercompany note; and, other income of \$258 primarily from investment income on the Company's workers' compensation collateral.

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(All amounts in thousands, except share, par values and stated values)

## Non-GAAP Measures

To supplement our consolidated financial statements presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"), we also use non-GAAP financial measures and Key Performance Indicators ("KPIs") in addition to our GAAP results. We believe non-GAAP financial measures and KPIs may provide useful information for evaluating our cash operating performance, ability to service debt, compliance with debt covenants and measurement against competitors. This information should be considered as supplemental in nature and should not be considered in isolation or as a substitute for the related financial information prepared in accordance with GAAP. In addition, these non-GAAP financial measures may not be comparable to similarly entitled measures reported by other companies.

We present the following non-GAAP financial measure and KPIs in this report:

**Revenue and Gross Profit by Sector** We use this KPI to measure the Company's mix of Revenue and respective profitability between its two main lines of business due to their differing margins. For clarity, these lines of business are not the Company's operating segments, as this information is not currently regularly reviewed by the chief operating decision maker to allocate capital and resources. Rather, we use this KPI to benchmark the Company against the industry.

The following table details Revenue and Gross Profit by Sector:

	Q3 2018		Q3 2017		Q3 2018 YTD		Q3 2017 YTD	
		Mix		Mix		Mix		Mix
Commercial Staffing - US	\$28,496	40%	\$25,635	51%	\$73,441	39%	\$71,354	54%
Professional Staffing - US	11,301	16%	12,259	24%	40,034	22%	36,187	27%
Professional Staffing - UK	31,520	44%	12,451	25%	73,360	39%	25,633	19%
<b>Total Revenue</b>	<b>\$71,317</b>		<b>\$50,345</b>		<b>\$186,835</b>		<b>\$133,174</b>	
Commercial Staffing - US	\$4,463	36%	\$4,642	48%	\$12,278	34%	\$12,947	52%
Professional Staffing - US	4,069	33%	2,411	26%	12,268	34%	6,528	26%
Professional Staffing - UK	3,964	31%	2,524	26%	11,413	32%	5,352	22%
<b>Total Gross Profit</b>	<b>\$12,496</b>		<b>\$9,577</b>		<b>\$35,959</b>		<b>\$24,827</b>	
Commercial Staffing - US	15.7	%	18.1	%	16.7	%	18.1	%
Professional Staffing - US	36.0	%	19.7	%	30.6	%	18.0	%
Professional Staffing - UK	12.6	%	20.3	%	15.6	%	20.9	%
<b>Total Gross Margin</b>	<b>17.5</b>	<b>%</b>	<b>19.0</b>	<b>%</b>	<b>19.2</b>	<b>%</b>	<b>18.6</b>	<b>%</b>





## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(All amounts in thousands, except share, par values and stated values)

Adjusted EBITDA This measure is defined as net loss attributable to common stock before: interest expense, benefit from (provision for) income taxes; income (loss) from discontinued operations, net of tax; other (income) expense, net, in operating income (loss); amortization and impairment of identifiable intangible assets; impairment of goodwill; depreciation; operational restructuring and other charges; other income (expense), net, below operating income (loss); non-cash expenses associated with stock compensation; and charges the Company considers to be non-recurring in nature such as legal expenses associated with litigation, professional fees associated potential and completed acquisitions. We use this measure because we believe it provides a more meaningful understanding of the profit and cash flow generation of the Company.

	Q3 2018	Q3 2017	Q3 2018 YTD	Q3 2017 YTD
Net loss	\$(1,980 )	\$(7,654 )	\$(5,095 )	\$(11,167 )
Interest expense	2,279	761	6,185	1,843
Provision for (benefits from) income taxes	3	206	(78 )	213
Depreciation and amortization (1)	897	2,002	2,644	4,920
EBITDA	\$1,199	\$(4,685 )	\$3,656	\$(4,191 )
Acquisition, capital raising and other non-recurring expenses (2)	797	934	2,642	1,194
Other non-cash charges (3)	288	344	951	962
Loss on extinguishment of debt, net	—	4,764	—	6,132
Change in fair value of warrant liability	—	688	(879 )	493
Gain from sale of business	—	—	(238 )	—
Re-measurement loss on intercompany note	186	—	332	—
Other income	14	10	(227 )	31
Adjusted EBITDA	\$2,484	\$2,055	\$6,237	\$4,621
Trailing Twelve Months ("TTM") Adjusted EBITDA	\$9,007	\$5,814	\$9,007	\$5,814
Gross Profit TTM	\$47,873	\$32,768	\$47,873	\$32,768
TTM Adjusted EBITDA as percentage of gross profit TTM	18.8 %	17.7 %	18.8 %	17.7 %
Pro Forma TTM Adjusted EBITDA (4)	\$12,330	NA	\$12,330	NA

(1) Includes amortization included in other expenses.

(2)

Acquisition, capital raising and other non-recurring expenses primarily relate to capital raising expenses, acquisition and integration expenses and legal expenses incurred in relation to matters outside the ordinary course of business.

- (3) Other non-cash charges primarily relate to staff option and share compensation expense, expense for shares issued to directors for board services, and consideration paid for consulting services.
- (4) Pro Forma TTM Adjusted EBITDA includes the Adjusted EBITDA of acquisitions for the period prior to the acquisition date.

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(All amounts in thousands, except share, par values and stated values)

**Operating Leverage** This measure is calculated by dividing the growth in Adjusted EBITDA by the growth in Gross Profit, on a trailing 12-month basis. We use this KPI because we believe it provides a measure of the Company's efficiency for converting incremental gross profit into Adjusted EBITDA.

	Twelve Months Ended September 29, 2018		September 30, 2017	
Gross Profit - TTM (Current Period)	\$47,873		\$ 32,768	
Gross Profit - TTM (Prior Period)		32,768		31,490
Gross Profit - Growth	\$15,105		\$ 1,278	
Adjusted EBITDA - TTM (Current Period)	\$9,007		\$ 5,814	
Adjusted EBITDA - TTM (Prior Period)		5,814		5,362
Adjusted EBITDA - Growth	\$3,193		\$ 452	
Operating Leverage	21.1	%	35.4	%

**Leverage Ratio** Calculated as Total Long-Term Debt, Net, gross of any Original Issue Discount, divided by Pro Forma Adjusted EBITDA for the trailing 12-months. We use this KPI as an indicator of the Company's ability to service its debt prospectively.

	September 29, 2018	December 30, 2017
Total Long-Term Debt, Net	\$ 47,882	\$ 38,749
Addback: Total Debt Discount and Deferred Financing Costs	1,731	1,251
Total Long-Term Debt	\$ 49,613	\$ 40,000
TTM Adjusted EBITDA	\$ 9,007	\$ 7,391
Pro Forma TTM Adjusted EBITDA	\$ 12,330	\$ 14,767
Pro Forma Leverage Ratio	4.0x	2.7x

Operating Cash Flow Including Proceeds from Accounts Receivable Financing calculated as net cash (used in) provided by operating activities plus net proceeds from accounts receivable financing. Because much of the Company's temporary payroll expense is paid weekly and in advance of clients remitting payment for invoices, operating cash flow is often weaker in staffing companies where revenue and accounts receivable are growing. Accounts receivable financing is essentially an advance on client remittances and is primarily used to fund temporary payroll. As such, we believe this measure is helpful to investors as an indicator of the Company's underlying operating cash flow.

On February 8, 2018, CBS Butler, Staffing 360 Solutions Limited and The JM Group, entered into a new arrangement with HSBC Invoice Finance (UK) Ltd ("HSBC") which provides for HSBC to purchase the subsidiaries' accounts receivable up to an aggregate amount of £11,500 across all three subsidiaries. The terms of the arrangement provide for HSBC to fund 90% of the purchased accounts receivable upfront and, a secured borrowing line of 70% of unbilled receivables capped at £1,000 (within the overall aggregate total facility of £11,500). Under ASU 2016-16, "Statement of Cash Flows (Topic 230, Classification of Certain Cash Receipts and Cash Payments, a consensus of the FASB Emerging Issues Task Force, the upfront portion of the sale of accounts receivable is classified within operating activities, while the deferred purchase price portion (or beneficial interest), once collected, is classified within investing activities.

On June 28, 2018, Clement May Limited entered into a new agreement for purchase of debt ("APD") with HSBC, joining CBS Butler, Staffing 360 Solutions Limited and The JM Group (collectively, with Clement May, the "Borrowers") as "Connected Clients" as defined in the APD. The new Connected Client APDs carry an aggregate Facility Limit of £20,000 across all Borrowers and the Clement May APD matures on June 28, 2019, unless otherwise accelerated or terminated earlier. The obligations of the Borrowers are secured by a fixed charge and a floating charge on the Borrowers' respective accounts receivable and are subject to cross-company guarantees among the Borrowers. In addition the secured borrowing line against unbilled receivables was increased to £1,500 for a period of 90 days.

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(All amounts in thousands, except share, par values and stated values)

	Q3 2018 YTD	Q3 2017 YTD
Net cash provided by operating activities	\$7,149	\$(2,775)
Collection of UK factoring facility deferred purchase price	7,086	—
Repayments on accounts receivable financing	(16,220)	5,242
Net cash (used in) provided by operating activities including proceeds from accounts receivable financing	\$(1,985)	\$2,467

The Leverage Ratio and Operating Cash Flow Including Proceeds from Accounts Receivable Financing should be considered together with the information in the "Liquidity and Capital Resources" section, immediately below.

## Liquidity and Capital Resources

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations, and otherwise operate on an ongoing basis. Historically, we have funded our operations through term loans, promissory notes, bonds, convertible notes, private placement offerings and sales of equity.

Our primary uses of cash have been for professional fees related to our operations and financial reporting requirements and for the payment of compensation, benefits and consulting fees. The following trends may occur as the Company continues to execute on its strategy:

- An increase in working capital requirements to finance organic growth,
- Addition of administrative and sales personnel as the business grows,
- Increases in advertising, public relations and sales promotions for existing and new brands as we expand within existing markets or enter new markets,
- A continuation of the costs associated with being a public company, and
- Capital expenditures to add technologies.

Our liquidity may be negatively impacted by the significant costs associated with our public company reporting requirements, costs associated with newly applicable corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 and other rules implemented by the Securities and Exchange Commission. We

expect all of these applicable rules and regulations could significantly increase our legal and financial compliance costs and increase the use of resources.

As of and for the period ended September 29, 2018, the Company had a working capital deficiency of \$14,562, an accumulated deficit of \$70,237, and a net loss of \$5,095.

On September 15, 2017, the Company entered into the Jackson Note for \$40,000. The proceeds of the sale of the secured note were used to (i) repay the existing subordinated notes previously issued to Jackson in the aggregate principal amount of \$11,165, (ii) to fund a portion of the upfront cash portion of purchase price consideration of the Firstpro Acquisition and the CBS Butler Acquisition, (iii) repay substantially all other outstanding indebtedness of the Company and (iv) for general working capital purposes. The maturity date for the Jackson Note is September 15, 2020. The Jackson Note will accrue interest at 12% per annum, due quarterly on January 1, April 1, July 1 and October 1 in each year, with the first such payment due on January 1, 2018. Interest on any overdue payment of principal or interest due under the Jackson Note will accrue at a rate per annum that is 5% in excess of the rate of interest otherwise payable thereunder.

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(All amounts in thousands, except share, par values and stated values)

To finance the CML acquisition, the Company entered into a term loan with HSBC Bank plc. The Term Loan was drawn down on June 28, 2018 in an original principal amount of £1,550 (\$2,047). Refer to Note 9 for further details.

To finance the KRI acquisition, the Company entered into an agreement with Jackson, for the New Jackson Note.

Management believes the Company is a going concern meaning it will meet its obligations for the next 12 months as of the date these financial statements are issued.

Operating activities

For Q3 2018 YTD, net cash provided by operations of \$7,149 was primarily attributable changes in operating assets and liabilities totaling \$9,434, non-cash adjustments of \$2,810, partially offset by net loss of \$5,095. Changes in operating assets and liabilities primarily relates to a decrease in accounts receivable of \$6,282 (see further discussion below), increase in accounts payable and accrued expenses of \$2,789, decrease in other assets of \$165, decrease in prepaid expenses and other current assets of \$71, other of \$188 and increase in other long term liabilities of \$97; offset by decrease in interest payable – related party of \$64 and decrease in other current liabilities of \$94. Total non-cash adjustments of \$2,810 primarily includes depreciation and amortization of intangible assets of \$2,251, stock based compensation of \$951, amortization of debt discounts and deferred financing of \$393, foreign currency re-measurement on intercompany loan of \$332; offset by gain on fair value of warrants of \$879 and gain from sale of business of \$238.

On February 8, 2018, CBS Butler, Staffing 360 Solutions Limited and The JM Group, entered into a new arrangement with HSBC Invoice Finance (UK) Ltd (“HSBC”) which provides for HSBC to purchase the subsidiaries’ accounts receivable. Under ASU 2016-16, “Statement of Cash Flows (Topic 230, Classification of Certain Cash Receipts and Cash Payments, a consensus of the FASB Emerging Issues Task Force, the upfront portion of the sale of accounts receivable is classified within operating activities, while the deferred purchase price portion (or beneficial interest), once collected, is classified within investing activities.

For Q3 2017 YTD, net cash used in operations of \$2,775 was primarily attributable changes in operating assets and liabilities totaling \$4,115 and net loss of \$11,167; offset by non-cash adjustments of \$12,507. Changes in operating assets and liabilities primarily relates increase in accounts receivable of \$2,907, decrease in other current liabilities of \$807, an increase in prepaid expenses of \$552, decrease in accounts payable and accrued expenses of \$129 and other of \$201, offset by an increase in other long-term liabilities of \$285 and a decrease in other assets of \$196. Total non-cash adjustments of \$12,507 primarily includes costs related to the extinguishment of debt of \$6,132, amortization of debt discounts and beneficial conversion features of \$2,610, depreciation and amortization of intangible assets of \$2,310, stock based compensation of \$962, and change in fair value of warrants of \$493. During the period January 1, 2017 to September 30, 2017, the Company used approximately \$3,500 of the proceeds from Jackson to pay accounts payable and accrued expenses. In addition, cash used in operations is net of \$1,582 for settlement of the Staffing 360 Solutions, Inc. v. Former Officers of Staffing 360 Solutions, Inc. arbitration.

Investing activities

## Edgar Filing: Staffing 360 Solutions, Inc. - Form 10-Q

For Q3 2018 YTD, net cash flows used in investing activities was \$1,601, \$9,760 related to acquisition of Clement May and KRI and purchase of property and equipment of \$330; offset by collection of the beneficial interest from HSBC of \$7,086 (see discussion above) and disposal of business of \$1,403.

For Q3 2017 YTD, net cash flows used in investing activities was \$20,986 which is primarily due to acquisition of CBS Butler for upfront consideration of \$16,317, acquisition of Firstpro for upfront consideration of \$4,500 and purchased of property and equipment of \$169.

### Financing activities

For Q3 2018 YTD, net cash flows used in financing activities totaled \$5,822, of which \$16,220 relates repayments on accounts receivable financing, net (primarily relates to settlement of the prior U.K. secured borrowing facilities in connection with the new HSBC facility (see discussion above)), payments for deferred payments associated with the Firstpro and CBS Butler acquisition and CSI earnout of \$1,402, \$422 for repayments of term loans, \$389 for third party financing costs and \$150 dividends to related parties; offset by proceeds from term loans of \$10,475 and proceeds from the At-market facility of \$2,286.

For Q3 2017 YTD, net cash flows provided by financing activities totaled \$28,493 which is primarily due to proceeds from term loans of \$50,165, proceeds from convertible notes of \$400, proceeds from the At-The-Market Facility of \$208 and proceeds from accounts receivable financing net of \$5,242, offset by repayments of term loans of \$14,976, repayment of convertible notes of \$6,635, third-



STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(All amounts in thousands, except share, par values and stated values)

party financing costs of \$2,311, Series D Series D pay off of \$1,500, payments made towards earn-out agreements totaling \$1,094, dividends paid to related parties of \$515, repayment of promissory notes of \$441, and repayment of bonds of \$50.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Refer to the Form 10-K filed with the SEC on March 29, 2018.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, "Leases" (Topic 842). This guidance will be effective for public entities for fiscal years beginning after December 15, 2018 including the interim periods within those fiscal years. Early application is permitted. Under the new provisions, all lessees will report a right-of-use asset and a liability for the obligation to make payments for all leases with the exception of those leases with a term of 12 months or less. All other leases will fall into one of two categories: (i) Financing leases, similar to capital leases, which will require the recognition of an asset and liability, measured at the present value of the lease payments and (ii) Operating leases which will require the recognition of an asset and liability measured at the present value of the lease payments. Lessor accounting remains substantially unchanged with the exception that no leases entered into after the effective date will be classified as leveraged leases. For sale leaseback transactions, the sale will only be recognized if the criteria in the new revenue recognition standard are met. The Company is currently evaluating the impact of adopting this guidance.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 of the Securities Exchange Act of 1934, as amended (“Exchange Act”), under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of the Company’s “disclosure controls and procedures” and “internal control over financial reporting” as of the end of the period covered by this Quarterly Report.

##### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act that are designed to ensure that information required to be disclosed in our reports filed or submitted to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms, and that information is accumulated and communicated to management, including the principal executive and financial officer as appropriate, to allow timely decisions regarding required disclosures. Our principal executive officer and principal financial officer evaluated the effectiveness of disclosure controls and procedures as of the end of the period covered by this Quarterly Report (“Evaluation Date”), pursuant to Rule 13a-15(b) under the Exchange Act. Based on that evaluation, the Company identified a material weakness relating to the accounting for complex debt and equity instruments. As such, our principal executive officer and principal financial officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were not operating effectively.

Management believes that the condensed consolidated financial statements in this quarterly report on Form 10-Q fairly present, in all material respects, the Company’s financial condition as of the Evaluation Date, and results of its operations and cash flows for the Evaluation Date, in conformity with United States Generally Accepted Accounting Principles (“GAAP”).

##### Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting. 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 and includes those policies and procedures that

- a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- b) provide reasonable assurance that transactions are recorded as necessary to permit the 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 our management and directors; and
- c)

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.

Based on our evaluation under the framework described above, our management concluded that our internal controls over financial reporting were not effective in accordance with Item 308(a)(3) of Regulation S-K as we had "material weaknesses" (as such term is defined below) in our control environment and financial reporting process relating to the accounting for complex debt and equity instruments.

A "material weakness" is defined under SEC rules as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis by the company's internal controls.

The Company intends to remedy the foregoing material weakness in our control environment and financial reporting process by pursuing third party technical accounting consultation in the matter of transactions that involve complex debt and equity instruments.

A system of controls, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the system of controls are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Based on our evaluation under the framework described above, aside from the material

weakness discussed above, our management concluded that our internal controls over financial reporting were effective in accordance with Item 308(a)(3) of Regulation S-K.

Attestation report of the registered public accounting firm

This Quarterly Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to the rules of the SEC.

Changes in Internal Control over Financial Reporting

No change in our system of internal control over financial reporting occurred during the period ended September 29, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II-OTHER INFORMATION

Item 1. Legal Proceedings

No material developments.

Item 1A. Risk Factors.

There have been no material developments to alter the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 30, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the period December 31, 2017 through September 29, 2018, we issued 19,383 shares of common stock, with an aggregate value of \$55 to Greenridge Global LLC, SP Padda and J Charles Assets in return for investor relations advisory services and construction of leasehold improvements. The shares were issued in reliance upon an exemption pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

Exhibit No.	Description
3.1	<u>Amended and Restated Certificate of Incorporation (previously filed as Exhibit 3.3 to the Company's Form 8-K, filed with the SEC on June 15, 2017)</u>
3.2	<u>Amendment to Amended and Restated Certificate of Incorporation (previously filed as Exhibit 3.1 to the Company's Form 8-K, filed with the SEC on January 3, 2018)</u>
3.3	<u>Amended and Restated By-Laws (previously filed as Exhibit 3.1 to the Company's Form 8-K, filed with the SEC on March 29, 2018)</u>
10.1	<u>Share Purchase Agreement, dated August 27, 2018, by and among Monroe Staffing, the Company and Pamela D. Whitaker (previously filed as Exhibit 10.1 to the Company's Form 8-K/A filed with the SEC on November 2, 2018).</u>
10.2	<u>Amendment No. 1 to Amended and Restated Warrant Agreement, dated August 27, 2018, between the Company and Jackson Investment Group, LLC</u>
10.3	<u>Amendment No.10 and Joinder Agreement to Credit and Security Agreement and Limited Consent, dated August 27, 2018, by and among the Company, certain subsidiaries of the Company and MidCap Funding X Trust</u>
10.4	<u>First Omnibus Amendment, Joinder and Reaffirmation Agreement, dated August 27, 2018, by and among the Company, certain subsidiaries of the Company, and Jackson Investment Group, LLC</u>
10.5	<u>12% Senior Secured Note, due September 15, 2020, issued on August 27, 2018, staf-ex105_220.htm to Jackson Investment Group, LLC</u>
10.6	<u>First Amendment to Intercreditor Agreement, dated August 27, 2018, by and among Jackson Investment Group, LLC, the Company, certain subsidiaries of the Company, and MidCap Funding X Trust.</u>
10.7	<u>First Amended and Restated Revolving Loan Note, by and among certain subsidiaries of the Company and MidCap Funding X Trust</u>
31.1	<u>Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of Sarbanes Oxley Act of 2002</u>
31.2	<u>Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of Sarbanes Oxley Act of 2002</u>
32.1†	<u>Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes Oxley Act of 2002</u>
32.2†	<u>Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes Oxley Act of 2002</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema
101.CAL	XBRL Taxonomy Calculation Linkbase
101.DEF	XBRL Taxonomy Definition Linkbase
101.LAB	XBRL Taxonomy Label Linkbase
101.PRE	XBRL Taxonomy Presentation Linkbase

† In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are furnished and not filed.



SIGNATURES

Pursuant to the requirements 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.

Date: November 13, 2018 STAFFING 360 SOLUTIONS, INC.

By: /s/ Brendan Flood  
Brendan Flood  
Chairman and Chief Executive Officer  
(Duly Authorized Officer and Principal Executive Officer)

Date: November 13, 2018 STAFFING 360 SOLUTIONS, INC.

By: /s/ David Faiman  
David Faiman  
Chief Financial Officer  
(Duly Authorized Officer, Principal Financial Officer and Principal Accounting Officer)