

Staffing 360 Solutions, Inc.  
Form 10-Q/A  
June 13, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended September 30, 2017

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

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 post 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 (Do not check if a smaller reporting company)

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 June 13, 2018, there were 4,255,572 outstanding common stock shares, par value \$0.00001 per share, of the issuer.



Explanatory Note

We are filing this Amendment No. 1 to our Quarterly Report on Form 10-Q for the period ended September 30, 2017, as filed with the Securities and Exchange Commission on November 14, 2017, to correct errors related to the recognition of compensation expense associated with shares granted to employees and directors, the recognition of the beneficial conversion features associated with our Series D Preferred Shares, classification of warrants issued to Jackson and the recognition of closing fees paid to Jackson in connection with the financing on September 15, 2017.

---

Form 10-Q Quarterly Report

INDEX

PART I  
FINANCIAL INFORMATION

Item 1	<u>Financial Statements</u>	1
	<u>Condensed Consolidated Balance Sheets as of September 30, 2017, (unaudited) and December 31, 2016</u>	1
	<u>Unaudited Condensed Consolidated Statements of Operations for the period July 2, 2017 to September 30, 2017, for the period July 3, 2016 to October 1, 2016, for the period January 1, 2017 to September 30, 2017, and for the period January 3, 2016 to October 1, 2016</u>	2
	<u>Unaudited Condensed Consolidated Statements of Comprehensive Loss for the period July 2, 2017 to September 30, 2017, for the period July 3, 2016 to October 1, 2016, for the period January 1, 2017 to September 30, 2017, and for the period January 3, 2016 to October 1, 2016</u>	3
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the period January 1, 2017 to September 30, 2017 and January 3, 2016 to October 1, 2016</u>	4
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	5
Item 2	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	26
Item 3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	36
Item 4	<u>Controls and Procedures</u>	36

PART II  
OTHER INFORMATION

Item 1	<u>Legal Proceedings</u>	38
Item 1A	<u>Risk Factors</u>	38
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
Item 3	<u>Defaults Upon Senior Securities</u>	39
Item 4	<u>Mine Safety Disclosures</u>	39
Item 5	<u>Other Information</u>	39
Item 6	<u>Exhibits</u>	40
	<u>Signatures</u>	41

## 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 30, 2017 (Unaudited, As Restated)	December 31, 2016
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 5,380	\$ 650
Accounts receivable, net	33,797	22,274
Prepaid expenses and other current assets	1,174	613
Total Current Assets	40,351	23,537
Property and equipment, net	1,241	919
Identifiable intangible assets, net	16,199	9,149
Goodwill	33,362	15,779
Other assets	2,972	4,573
Total Assets	\$ 94,125	\$ 53,957
<b>LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' (DEFICIT) EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 22,052	\$ 18,110
Current portion of debt, net	367	3,639
Accounts receivable financing	23,076	15,605
Dividends payable - related party	—	366
Other current liabilities	1,247	1,274
Total Current Liabilities	46,742	38,994
Term loan - related party, net	38,630	—
Warrant Liability	2,303	—
Long-term debt, net	—	3,997
Other long-term liabilities	6,615	2,688
Total Liabilities	94,290	45,679
	—	884

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

Series D Preferred Stock, 5,000 shares designated, \$0.00001 par value, \$10,000 stated value, 0 and 93 shares issued and outstanding, as of September 30, 2017 and December 31, 2016, respectively

Stockholders' (Deficit) Equity:

Staffing 360 Solutions, Inc. (Deficit) Equity:

Preferred stock, \$0.00001 par value, 20,000,000 shares authorized;

Series A Preferred Stock - Related Party, 1,663,008 shares designated, \$0.00001 par value, \$1.00 stated value, 1,663,008 shares issued and outstanding, as of September 30, 2017 and December 31, 2016

— —

Series B Preferred Stock, 200,000 shares designated, \$0.00001 par value, \$10.00 stated value, 0 shares issued and outstanding, as of September 30, 2017 and December 31, 2016

— —

Series C Preferred Stock, 2,000,000 shares designated, \$0.00001 par value, \$1.00 stated value, 0 shares issued and outstanding, as of September 30, 2017 and December 31, 2016

— —

Common stock, \$0.00001 par value, 40,000,000 and 20,000,000 shares authorized as of September 30, 2017 and December 31, 2016, respectively; 3,837,764 and 1,827,959 shares issued and outstanding, as of September 30, 2017 and December 31, 2016, respectively

— —

Additional paid in capital

56,991 53,190

Accumulated other comprehensive income

662 855

Accumulated deficit

(57,818 ) (46,651 )

Total Stockholders' (Deficit) Equity

(165 ) 7,394

Total Liabilities, Mezzanine Equity and Stockholders' (Deficit) Equity

\$ 94,125 \$ 53,957

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)

	July 2, 2017 to	July 3, 2016 to	January 1, 2017 to	January 3, 2016 to
	September 30, 2017 (As Restated)	October 1, 2016	September 30, 2017 (As Restated)	October 1, 2016
Revenue	\$50,345	\$45,950	\$ 133,174	\$ 135,423
Cost of Revenue, Excluding Depreciation and Amortization Stated Below	40,768	37,545	108,347	111,802
Gross Profit	9,577	8,405	24,827	23,621
Operating Expenses:				
Selling, general and administrative expenses, excluding depreciation and amortization stated below	8,800	7,917	22,362	24,194
Depreciation and amortization	790	727	2,310	2,059
Total Operating Expenses	9,590	8,644	24,672	26,253
(Loss) Income From Operations	(13 )	(239 )	155	(2,632 )
Other Expenses:				
Interest expense	(761 )	(615 )	(1,843 )	(2,007 )
Amortization of beneficial conversion feature	—	(183 )	—	(550 )
Amortization of debt discount and deferred financing costs	(1,212 )	(401 )	(2,610 )	(1,310 )
Loss on extinguishment of debt, net	(4,764 )	—	(6,132 )	—
Change in fair value of warrant liability	(688 )	—	(493 )	—
Gain on settlement of warrants	—	—	—	485
Other expense	(10 )	(35 )	(31 )	(38 )
Total Other Expenses	(7,435 )	(1,234 )	(11,109 )	(3,420 )
Loss Before Provision for Income Tax	(7,448 )	(1,473 )	(10,954 )	(6,052 )
(Provision for) benefit from income taxes	(206 )	375	(213 )	(260 )
Net Loss	(7,654 )	(1,098 )	(11,167 )	(6,312 )



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

Net income attributable to non-controlling interest	—	—	—	37
Net Loss Before Preferred Share Dividends	(7,654 )	(1,098 )	(11,167 )	(6,349 )
Dividends - Series A preferred stock - related party	50	50	150	150
Deemed Dividends - Series D preferred stock	—	927	2,009	1,660
Net Loss Attributable to Common Stock Holders	\$(7,704 )	\$(2,075 )	\$(13,326 )	\$(8,159 )
Basic and Diluted Net Loss per Share:				
Net Loss	\$(2.63 )	\$(0.77 )	\$(4.25 )	\$(5.27 )
Net Loss Attributable to Common Stock Holders	\$(2.65 )	\$(1.45 )	\$(5.07 )	\$(6.81 )
Weighted Average Shares Outstanding – Basic and Diluted	2,910,139	1,426,938	2,628,913	1,197,680

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)

	July 2, 2017 to	July 3, 2016 to	January 1, 2017 to	January 3, 2016 to
	September 30, 2017 (As Restated)	October 1, 2016	September 30, 2017 (As Restated)	October 1, 2016
Net Loss	\$ (7,654 )	\$ (1,098 )	\$ (11,167 )	\$ (6,312 )
Other Comprehensive Income (loss)				
Foreign exchange translation adjustment	110	169	(193 )	484
Comprehensive Loss	(7,544 )	(929 )	(11,360 )	(5,828 )
Comprehensive income attributable to non-controlling interest	—	—	—	37
Comprehensive Loss attributable to common stock holders	\$ (7,544 )	\$ (929 )	\$ (11,360 )	\$ (5,865 )

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)

	January 1, 2017 to September 30, 2017 (As Restated)	January 3, 2016 to October 1, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (11,167 )	\$ (6,312 )
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	250	132
Amortization of identifiable intangible assets	2,060	1,927
Amortization of debt discount and deferred financing costs	2,610	1,860
Loss on extinguishment of debt, net	6,132	—
Change in fair value of warrants	493	—
Gain on settlement of warrants	—	(485 )
Stock based compensation	962	773
Interest paid in stock	—	109
Other	—	41
Changes in operating assets and liabilities:		
Accounts receivable	(2,907 )	(1,099 )
Prepaid expenses and other current assets	(552 )	156
Other assets	196	(828 )
Accounts payable and accrued expenses	(129 )	4,460
Other current liabilities	(807 )	(632 )
Other long-term liabilities	285	357
Other	(201 )	328
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(2,775 )</b>	<b>787</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Posting of surety bond	—	(1,405 )
Acquisition of businesses, net of cash acquired	(20,817 )	(101 )
Purchase of property and equipment	(169 )	(245 )
<b>NET CASH USED IN FROM INVESTING ACTIVITIES</b>	<b>(20,986 )</b>	<b>(1,751 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from convertible notes	400	578
Repayment of convertible notes	(6,635 )	(1,589 )
Proceeds from promissory notes	—	700
Repayment of promissory notes	(441 )	(1,506 )

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

Proceeds from term loan - related party	50,165	—
Repayments of term loan - related party	(11,165 )	—
Proceeds from term loan	—	783
Repayments of term loan	(3,811 )	(629 )
Repayment of bonds	(50 )	(949 )
Proceeds from (repayments on) accounts receivable financing, net	5,242	(1,575 )
Proceeds from overadvance of accounts receivable financing	—	1,050
Proceeds from private placement	—	3,347
Proceeds from Series D Preferred Stock	—	2,000
Repayment of Series D Preferred Stock	(1,500 )	—
Dividends paid to related parties	(515 )	—
Proceeds from At-The-Market Facility	208	—
Payments made for earn-outs	(1,094 )	(104 )
Third party financing costs	(2,311 )	(777 )
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>28,493</b>	<b>1,329</b>
<b>NET INCREASE IN CASH</b>	<b>4,732</b>	<b>365</b>
Effect of exchange rates on cash	(2 )	—
Cash - Beginning of period	650	991
Cash - End of period	\$ 5,380	\$ 1,356

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 condensed 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.

This filing includes unaudited condensed consolidated financial statements for the period January 1, 2017 to September 30, 2017 that have been restated, please refer to Note 3 for further details.

These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto for the transition period ended December 31, 2016 and for the years ended May 31, 2016 and 2015, which are included in the Company’s December 31, 2016 Form 10-KT, as amended, filed with the United States Securities and Exchange Commission on April 12, 2017. 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 30, 2017 are not necessarily indicative of results for the entire year ending December 30, 2017.

The accompanying condensed consolidated financial statements have been prepared on a going concern basis which implies the Company will continue to meet its obligations for the next 12 months as of the date these financial statements are issued. On September 15, 2017, the Company completed financing of a \$40,000 term loan with Jackson Investment Group, LLC, which among other outcomes, significantly alters the Company's debt service obligations prospectively. The Company believes it can meet its obligations in the next 12 months from the date these financial statements are issued.

#### Acquisitions

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 acquisition, 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 Longbridge Recruitment 360 Limited ("Longbridge"), 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 options of CBS Butler sold all of their shares and options of CBS Butler to Longbridge (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 December 2018, based upon CBS Butler's operating performance during the period September 1, 2017 through August 31, 2018), and (iv)

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)

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 substantially all other outstanding indebtedness of the Company and (iv) 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. 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. These shares are subject to registration rights in favor of Jackson and were included in a new resale registration statement filed by the Company.

In accordance with ASC 470 "Debt", 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.

Change of Year End

On February 28, 2017, the Board of Directors of the Company (the “Board”) approved the change of the Company’s fiscal year end from May 31 to a 52-53 week year ending on the Saturday closest to the 31st of December. In a 52 week fiscal year, each of the Company’s quarterly periods will comprise 13 weeks. In a 53 week fiscal year, one quarter will consist of 14 weeks. On April 12, 2017, the Company filed a transition report on Form 10-KT, as amended, covering the transition period June 1, 2016 through December 31, 2016. Annual reports on Form 10-K covering 52-53 week years will be filed thereafter. This filing includes comparative unaudited condensed consolidated financial statements for the period January 1, 2017 to September 30, 2017 and January 3, 2016 to October 1, 2016.

#### Reclassifications

Certain reclassifications have been made to conform the prior period data to the current presentations. In accordance with ASU 2015-03, “Imputation of Interest – Simplifying the Presentation of Debt Issuance Costs”, debt issuance costs related to a recognized debt liability are presented in the balance sheet as a direct deduction from the debt liability, consistent with the presentation of a debt discount. These reclassifications had no impact on reported results of operations.

The Company has reclassified the Midcap Additional Term Loan from Long-term debt to Other long-term liabilities, as this represents the long term portion of funds received from the accounts receivable financing facility. These reclassifications had no impact on reported results of operations. The Company paid the Midcap Additional Term Loan in full on September 18, 2017.

#### Income Taxes

The Company uses an estimated annual effective tax rate, which is based on expected annual income and statutory tax rates in the various jurisdictions in which the Company operates, to determine its quarterly provision for income taxes. Certain significant or unusual items are separately recognized in the quarter in which they occur and can be a source of variability in the effective tax rates from quarter to quarter. 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



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)

effective income tax rate for the period July 2, 2017 to September 30, 2017 and July 3, 2016 to October 1, 2016 was 4% and (37.6)%, respectively. The effective income tax rate for the period January 1, 2017 to September 30, 2017 and January 3, 2016 to October 1, 2016, was 2.3% and 4.3%, respectively.

Recent Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04, “Intangibles – Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment”. The amendments in this update modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. The guidance is effective for annual periods fiscal years beginning after December 15, 2019. The Company early adopted this guidance during impairment testing performed on October 1, 2017.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805) Clarifying the Definition of a Business”. The amendments in this update is to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company is currently evaluating the impact of adopting this guidance.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments”. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. ASU 2016-15 is effective for the Company beginning in the first quarter of fiscal 2019. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. The Company is currently evaluating the impact of adopting this guidance.

In March 2016, the FASB issued ASU 2016-09, “Stock Compensation”, regarding the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is to be applied for annual periods beginning after

December 15, 2016 and interim periods within those annual periods, and early adoption is permitted. The guidance requires companies to apply the requirements retrospectively, modified retrospectively, or prospectively depending on the amendment(s) applied. The adoption of this standard had no material financial impact.

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.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities”, which amends the guidance relating to the classification and measurement of financial instruments. Changes to the current guidance primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the ASU clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for sale debt securities. The new standard is effective for fiscal years and interim periods beginning after December 15, 2017, and upon adoption, an entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet at the beginning of the first reporting period in which the guidance is effective. Early adoption is not permitted except for the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. The Company is currently evaluating the impact of adopting this guidance.

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)

In September 2015, the FASB issued ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments". Changes to the accounting for measurement-period adjustments relate to business combinations. Currently, an acquiring entity is required to retrospectively adjust the balance sheet amounts of the acquiree recognized at the acquisition date with a corresponding adjustment to goodwill as a result of changes made to the balance sheet amounts of the acquiree. The measurement period is the period after the acquisition date during which the acquirer may adjust the balance sheet amounts recognized for a business combination (generally up to one year from the date of acquisition). The changes eliminate the requirement to make such retrospective adjustments, and, instead require the acquiring entity to record these adjustments in the reporting period they are determined. The new standard is effective for both public and private companies for annual reporting periods beginning after December 15, 2015. The Adoption of this guidance had no material impact on the Company's financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers". ASU 2014-09 supersedes the revenue recognition requirements of FASB ASC Topic 605, "Revenue Recognition" and most industry-specific guidance throughout the ASC, resulting in the creation of FASB ASC Topic 606, "Revenue from Contracts with Customers". ASU 2014-09 requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This ASU provides alternative methods of adoption. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers, Deferral of the Effective Date". ASU 2015-14 defers the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers, Principal versus Agent Considerations" (Reporting Revenue Gross versus Net) clarifying the implementation guidance on principal versus agent considerations. Specifically, an entity is required to determine whether the nature of a promise is to provide the specified good or service itself (that is, the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (that is, the entity is an agent). The determination influences the timing and amount of revenue recognition. In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers, Identifying Performance Obligations and Licensing", clarifying the implementation guidance on identifying performance obligations and licensing. The amendments in this ASU clarify the two following aspects (a) contracts with customers to transfer goods and services in exchange for consideration and (b) determining whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time). The effective date and transition requirements for ASU 2016-08 and ASU 2016-10 are the same as the effective date and transition requirements for ASU 2014-09. The Company is currently assessing the potential impact of adopting ASU 2014-09, ASU 2016-08 and ASU 2016-10 on its financial statements and related disclosures.

As per ASC 606, Company has two streams of revenue, permanent placement revenue and temporary contractor revenues. Permanent placement revenue is not recognized performance obligations under the agreement is met and the candidate has started employment. Temporary contractor revenue is hourly based, and revenue is recognized as earned.

### NOTE 3 – CORRECTION OF ERRORS IN PREVIOUSLY REPORTED CONSOLIDATED FINANCIAL STATEMENTS

We identified errors in our previously issued financial statements for the interim and annual periods prior to December 30, 2017 related to the recognition of compensation expense associated with shares granted to employees and directors, and the recognition of the beneficial conversion features associated with our Series D Preferred Shares. We assessed the materiality of these errors in accordance with the U.S. Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin (“SAB”) No. 99, Materiality and SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (“SAB 108”), using both the rollover method and the iron curtain method, as defined in SAB 108, and concluded the errors, including other adjustments discussed below, were immaterial to prior years but, if corrected in the current year, would have been material to the current year. Under SAB 108, such prior year misstatements which, if corrected in the current year would be material to the current year, must be corrected by adjusting the prior year financial statements. Correcting prior year financial statements for such immaterial misstatements does not require previously filed reports to be amended.

In addition to the errors noted above, we also noted errors relating to the classification of warrants issued to Jackson and the recognition of closing fees paid to Jackson in connection with the financing on September 15, 2017, that impact the interim periods in Fiscal 2017. On March 29, 2018 the Company filed an Item 4.02(a) Form 8-K disclosing the existence of a material misstatement within the financial statements included in the Company’s Form 10-Q filed for the third quarter ended September 30, 2017. The impact of these errors disclosed in the tables below, have been reflected in this Form 10-Q/A for the period ended September 30, 2017.

## 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 effects of the corrections of the errors on our consolidated balance sheets, statements of operations and statements of cash flows for the periods included in this Form 10-Q/A are presented in the tables below:

	As of September 30, 2017 (unaudited)			As of December 31, 2016		
	Previously		As	Previously		As
	Reported	Adjustments	Restated	Reported	Adjustments	Restated
Current Assets	\$40,351	\$ -	\$40,351	\$23,537	\$ -	\$23,537
Long-Term Assets	53,774	-	53,774	30,420	-	30,420
Total Assets	94,125	-	94,125	53,957	-	53,957
Current Liabilities	46,841	\$ (99 )	46,742	38,628	366	38,994
Long-Term Liabilities	43,189	4,359	47,548	7,051	(366 )	6,685
Total Liabilities	90,030	4,260	94,290	45,679	-	45,679
Mezzanine Equity	-	-	-	612	272	884
Common Stock	-	-	-	-	-	-
Preferred Stock	-	-	-	-	-	-
Additional Paid-In Capital	60,784	(3,793 )	56,991	54,658	(1,468 )	53,190
Accumulated Other Comprehensive Loss	662	-	662	855	-	855
Accumulated Deficit	(57,351)	(467 )	(57,818)	(47,847)	1,196	(46,651)
Total Equity (Deficit)	4,095	(4,260 )	(165 )	7,666	(272 )	7,394
Total Liabilities and Equity (Deficit)	\$94,125	\$ -	\$94,125	\$53,957	\$ -	\$53,957

## 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)

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Previously Reported	Adjustments	As Restated	Previously Reported	Adjustments	As Restated
Revenue	\$50,345	\$ -	\$50,345	\$133,174	\$ -	\$133,174
Gross Profit	9,577	-	9,577	24,827	-	24,827
SG&A	9,140	(340 )	8,800	23,105	(743 )	22,362
Depreciation and amortization	790	-	790	2,310	-	2,310
Other	-	-	-	-	-	-
Total Operating Expenses	9,930	(340 )	9,590	25,415	(743 )	24,672
Income (Loss) From Operations	(353 )	340	(13 )	(588 )	743	155
Other Expenses	(4,803 )	(2,632 )	(7,435 )	(8,553 )	(2,556 )	(11,109 )
Loss Before Provision for Income Taxes	(5,156 )	(2,292 )	(7,448 )	(9,141 )	(1,813 )	(10,954 )
Provision for Income Taxes	(206 )	-	(206 )	(213 )	-	(213 )
Net Loss	(5,362 )	(2,292 )	(7,654 )	(9,354 )	(1,813 )	(11,167 )
Series A Dividend	50	-	50	150	-	150
Series D Deemed Dividend	-	-	-	-	2,009	2,009
Net Loss Attributable to Common Stock Holders	\$(5,412 )	\$(2,292 )	\$(7,704 )	\$(9,504 )	\$(3,822 )	\$(13,326 )
Basic and Diluted Net Loss per Share:						
Net Loss	\$(1.67 )	\$(0.96 )	\$(2.63 )	\$(3.26 )	\$(0.99 )	\$(4.25 )
Net Loss Attributable to Common Stock Holders	\$(1.69 )	\$(0.96 )	\$(2.65 )	\$(3.31 )	\$(1.76 )	\$(5.07 )
Weighted Average Shares Outstanding - Basic and Diluted	3,206,063	(295,924 )	2,910,139	2,868,089	(239,176 )	2,628,913



## 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)

	Three Months Ended October 1, 2016			Nine Months Ended October 1, 2016		
	Previously Reported	Adjustments	As Restated	Previously Reported	Adjustments	As Restated
Revenue	\$45,950	\$ -	\$45,950	\$135,423	\$ -	\$135,423
Gross Profit	8,405	-	8,405	23,621	-	23,621
SG&A	7,795	122	7,917	24,102	92	24,194
Depreciation	727	-	727	2,059	-	2,059
Total Operating Expenses	8,522	122	8,644	26,161	92	26,253
Loss From Operations	(117 )	(122 )	(239 )	(2,540 )	(92 )	(2,632 )
Other Expenses	(1,234 )	-	(1,234 )	(3,420 )	-	(3,420 )
Loss Before Provision for Income Taxes	(1,351 )	(122 )	(1,473 )	(5,960 )	(92 )	(6,052 )
Benefit from (Provision for) Income Taxes	375	-	375	(260 )	-	(260 )
Net Loss	(976 )	(122 )	(1,098 )	(6,220 )	(92 )	(6,312 )
Non-Controlling Interest	-	-	-	(37 )	-	(37 )
Net Loss Before Preferred Share Dividends	(976 )	(122 )	(1,098 )	(6,257 )	(92 )	(6,349 )
Series A Dividend	50	-	50	150	-	150
Series D Deemed Dividend	-	927	927	-	1,660	1,660
Net Loss Attributable to Common Stock Holders	\$(1,026 )	\$(1,049 )	\$(2,075 )	\$(6,407 )	\$(1,752 )	\$(8,159 )
Basic and Diluted Net Loss per Share:						
Net Loss	\$(0.64 )	\$(0.13 )	\$(0.77 )	\$(2.17 )	\$(3.10 )	\$(5.27 )
	\$(0.67 )	\$(0.78 )	\$(1.45 )	\$(2.23 )	\$(4.58 )	\$(6.81 )



Net Loss Attributable to Common  
Stock Holders

Weighted Average Shares

Outstanding - Basic and Diluted	1,529,481	(102,543 )	1,426,938	2,868,089	(1,670,409 )	1,197,680
---------------------------------	-----------	------------	-----------	-----------	--------------	-----------

## 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)

	Nine Months Ended September 30, 2017			Nine Months Ended October 1, 2016		
	Previously Reported	Adjustments	As Restated	Previously Reported	Adjustments	As Restated
Net Loss	\$(9,354 )	\$(1,813 )	\$(11,167)	\$(6,220)	\$(92 )	\$(6,312 )
Adjustments to reconcile net loss to net cash						
Provided by (used in) operating activities:						
Non-cash addbacks	10,529	1,978	12,507	4,265	92	4,357
Changes in operating assets and liabilities	(3,962 )	(153 )	(4,115 )	2,742	-	2,742
Net cash (used in) provided by operating activities	(2,787 )	12	(2,775 )	787	-	787
Net cash used in investing activities	(22,080)	1,094	(20,986)	(1,855)	104	(1,751 )
Net cash provided by financing activities	29,599	(1,106 )	28,493	1,433	(104 )	1,329
Net increase in cash	4,732	-	4,732	365	-	365
Foreign currency translation	(2 )	-	(2 )	-	-	-
Cash - beginning of period	650	-	650	991	-	991
Cash - end of period	\$5,380	\$ -	\$5,380	\$1,356	\$ -	\$1,356

## NOTE 4 – 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 earnings (loss) per share is computed using the two-class method. For the period ended September 30, 2017 and October 1, 2016, pursuant to the two-class method, as a result of the net loss, losses were not allocated to the participating securities.

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 share 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

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

common share equivalent basis and outstanding as of September 30, 2017 and October 1, 2016 have been excluded from the per share computations, since their inclusion would be anti-dilutive:

	September 30, 2017	October 1, 2016
Convertible bonds - Series B	—	1,155
Convertible promissory notes	—	428,215
Convertible preferred shares	43,239	118,438
Warrants	932,234	16,753
Restricted shares - unvested	463,052	77,322
Long term incentive plan (LTIP)	178,728	178,728
Options	122,400	62,760
Total	1,739,653	883,371

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)

As of October 1, 2016, convertible preferred shares include the Company's Series D Preferred Stock which contained both a fixed and variable conversion feature that fluctuated with the Company's stock price. In addition, other restrictions prevented the holders from converting all of the Series D Preferred Stock at the same time. As a result, the Company could not estimate the exact amount of shares of common stock the Series D Preferred Stock could be converted into at any time. As a result, only the fixed portion of the conversion features were included in the amounts above.

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 beneficial conversion feature was quantifiable only at the date of each subsequent conversion. Both beneficial conversion features represent additional value to the holders not known at the date of issuance. 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 calculating Earnings Per Share only and have no net impact on Shareholders' Deficit. In April 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. Deemed Dividends recorded were \$0 and \$2,009 for the three and nine months ended September 30, 2017, respectively, and \$927 and \$1,660 for the three and nine months ended October 1, 2016, respectively.

NOTE 5 – ACCOUNTS RECEIVABLE BASED FINANCING FACILITIES

On September 15, 2017, the Company entered into an amendment with Midcap Financial Trust, pertaining to its accounts receivable based lending facility. The amendment maintains a total facility of \$25,000, with an accordion for an additional \$25,000, and interest of LIBOR plus 400 basis points with a LIBOR floor of 100 basis points. The amendment also provides for incremental borrowing against the Company's unbilled receivables up to 85%, with a borrowing cap of \$1,300, of such eligible receivables. In conjunction with closing of the Jackson Note, the Midcap Additional Term Loan was repaid in full.

In conjunction with the closing of the Jackson Note, the Company's accounts receivable based lending facility with Sterling National Bank was closed.

HSBC Invoice Finance (UK) Ltd

CBS Butler had a revolving accounts receivable financing arrangement with HSBC Invoice Finance (UK) Ltd “HSBC”. The facility, whose maximum capacity was £8,500, had an original expiration of January 2011, and provided for termination by either party with 90 days’ notice. Under the arrangement, CBS Butler could borrow against eligible short-term trade receivables in exchange for cash and a subordinated interest. The Company would receive cash equal to approximately 90% (varies slightly by geographical location of the receivable) of the value of the eligible receivables.

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

On February 8, 2018, CBS Butler, Longbridge and The JM Group, entered into a new arrangement with 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%.

## 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 6 – DEBT

	September 30, 2017	December 31, 2016
<b>Bonds:</b>		
Bonds - Series B	\$ —	\$ 50
<b>Convertible Notes:</b>		
Non-interest Bearing Convertible Note (January 6, 2016)	—	359
Non-interest Bearing Convertible Note (September 10, 2016)	—	477
8% Convertible Note (July 8, 2015)	—	1,960
8% Convertible Note (February 8, 2016)	—	728
Lighthouse- Seller Note #1	—	1,874
Lighthouse - Seller Note #2	—	234
<b>Promissory Notes:</b>		
Staffing (UK) - Seller Note	—	112
PeopleServe - Seller Note	—	329
<b>Term Loans:</b>		
Jackson Investment Group - related party	40,000	—
Midcap Financial Trust	—	2,025
ABN AMRO	377	694
Sterling National Bank	—	168
<b>Total Debt</b>	<b>40,377</b>	<b>9,010</b>
Less Debt Discount and Deferred Financing Costs	(1,380 )	(1,374 )
<b>Total Debt, Net</b>	<b>38,997</b>	<b>7,636</b>
Less: Current Portion, Net	(367 )	(3,639 )
<b>Total Long-Term Debt, Net</b>	<b>\$ 38,630</b>	<b>\$ 3,997</b>

## Series B Bonds

In April 2017, these bonds were paid in full. During the period ended October 1, 2016, the Company paid \$689 in principal.

Non-interest Bearing Convertible Note (January 6, 2016)

This note was paid in full in January 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.

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)

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.

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 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.

During the period ended October 1, 2016, the Company paid \$980 in principal on the 8% Convertible Note (July 8, 2015) note.

Lighthouse Seller Note #1

During the period July 2, 2017 to September 30, 2017 and July 3, 2016 to October 1, 2016, the Company paid \$1,624 and \$125 in principal, respectively. During the period January 1, 2017 to September 30, 2017 and January 3, 2016 to October 1, 2016, the Company paid \$1,874 and \$375 in principal, respectively. The Company paid this in full on September 18, 2017.

Lighthouse Seller Note #2

During the period July 2, 2017 to September 30, 2017 and July 3, 2016 to October 1, 2016, the Company paid \$78 and \$78 in principal, respectively. During the period January 1, 2017 to September 30, 2017 and January 3, 2016 to October 1, 2016, the Company paid \$234 and \$234, respectively.

Staffing (UK) – Sellers Note

The Company paid this note in full in January 2017.



PeopleSERVE – Sellers Note

During the period from July 2, 2017 to September 30, 2017 and July 3, 2016 to October 1, 2016, the Company paid \$0 and \$197 in principal, respectively. During the period from January 1, 2017 to September 30, 2017 and January 3, 2016 to October 1, 2016, the Company paid \$329 and \$592 in principal, respectively.

Jackson Investment Group Term Loan Note #1

On January 26, 2017, the Company entered into a note and warrant purchase agreement with Jackson for \$7,400. Under the terms of this agreement, the Company issued to Jackson 330,000 shares of common stock and a warrant to purchase up to 630,000 shares of common stock at an initial exercise price of \$6.75 per share (the “Warrant”). The note accrues interest on the principal amount at a rate of 6% per annum and has a maturity date of July 25, 2018. No interest or principal is payable until maturity. At any time during the term of the 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 note’s principal is not convertible into shares of common stock; however 50% of the accrued interest on the note may be converted into shares of common stock, at the sole election of Jackson at maturity or upon prepayment by the Company, at a conversion price equal to \$10.00 per share. On March 14, 2017, the Company and Jackson amended the warrant to include a blocker preventing Jackson from owning more than 19.99% of the Company’s shares outstanding as of January 26, 2017, until such ownership is approved by the shareholders consistent with Nasdaq Rule 5635(b). On June 15, 2017, our stockholders approved the issuance of shares of the Company’s common stock under the warrant to Jackson that may result in Jackson owning in excess of 19.99% of the Company’s outstanding shares.

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 warrant is exercisable beginning on July 25, 2017 for a term of four and a half (4.5) years thereafter. The exercise price is subject to anti-dilution protection, including protection in circumstances where common stock is issued pursuant to the terms of certain existing convertible securities, provided that the exercise price shall not be adjusted below a price that is less than the consolidated closing bid price of the common stock. The Company has accounted for these warrants as a liability under ASC 815-40 due to certain anti-dilution protection provisions.

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

Jackson Investment Group Term Loan Note #2

On April 5, 2017, the Company amended the note and warrant purchase agreement with Jackson and entered into a second subordinated secured note with Jackson 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 was 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 (subject to the same shareholder approval for issuance of shares to Jackson in excess of the 19.99% limit), 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 satisfies all of its outstanding obligations with Midcap Financial Trust, the maturity date will be 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 \$2,303 at September 30, 2017.

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

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

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 will be 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

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)

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.

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.

The Jackson Note includes customary covenants including a leverage ration covenant. The threshold for this covenant assumed that the UK borrowing facilities would be treated as a sale of receivables. However, the refinancing of the UK facilities was not completed until February 2018. As such, Jackson permitted the Company to calculate the leverage ratio as of September 30, 2017, on a pro forma basis as if the UK facilities were indeed treated consistent with the covenant threshold, which kept the Company in compliance with such covenant.

#### Midcap Financial Trust – Term Loan

During the period July 2, 2017 to September 30, 2017 and July 3, 2016 to October 1, 2016, the Company paid \$1,425 and \$113 in principal, respectively. During the period January 1, 2017 to September 30, 2017 and January 3, 2016 to October 1, 2016, the Company paid \$2,025 and \$238 in principal, respectively. The Company paid this note in full on September 18, 2017 with the funding received from the Jackson Note. The Company wrote off \$533 in deferred financing costs associated with the settlement of this term loan.

#### ABN AMRO Term Loan

During the period July 2, 2017 to September 30, 2017 and July 3, 2016 to October 1, 2016, the Company paid \$119 and \$131 in principal, respectively. During the period January 1, 2017 to September 30, 2017 and January 3, 2016 to October 1, 2016, the Company paid \$356 and \$391 in principal, respectively. On March 29, 2017, Longbridge Recruitment 360 Limited and The JM Group each received a reservation of rights letter from ABN AMRO bank with

respect to technical noncompliance with certain financial covenants contained in their financing documents with the bank. There was no financial impact of receiving this letter. During the period from January 3, 2016 to October 1, 2016, the Company borrowed an additional £219. Since payments on this term loan are denominated in GBP, the Company is subject to foreign exchange changes.

#### Sterling National Bank Promissory Note

During the period ended July 2, 2017 to September 30, 2017 and July 3, 2016 to October 1, 2016, the Company paid \$70 and \$44 in principal, respectively. During the period January 1, 2017 to September 30, 2017 and January 3, 2016 to October 1, 2016, the Company paid \$168 and \$126 in principal, respectively. The Company paid this note in full on September 18, 2017 with the funding received from the Jackson Note.

## 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 7 – EQUITY

## Common Stock

The Company issued 2,009,805 shares of common stock during the period ended September 30, 2017 as summarized below:

	Number of common shares issued	Fair Value of shares issued	Fair Value at Issuance (per share)	
Shares issued to/for:				
Conversion of Series D Preferred Stock	394,600	\$972	\$2.80	\$3.80
Jackson Investment Group	945,581	2,527	2.75	3.70
Employees	338,240	408	2.75	4.70
Extension of convertible notes	120,000	498	4.15	4.15
CBS Butler Acquisition	100,000	430	4.30	4.30
Board and Committee members	44,900	166	3.10	4.70
At-the-Market Facility	61,984	208	3.15	3.50
Consultants	4,500	20	3.50	4.70
	2,009,805	\$5,229		

As of December 31, 2016, the Company's authorized common stock consists of 20,000,000 shares having par value of \$0.00001. Effective January 26, 2017, after obtaining shareholder approval, the Company amended its Articles of Incorporation to increase the number of authorized shares of common stock from 20,000,000 shares to 40,000,000 shares. The Company had issued and outstanding 3,837,764 and 1,827,959 shares of common stock as of September 30, 2017 and December 31, 2016, respectively.

In May 2017, using its effective shelf registration on Form S-3 (No. 333-208910), the Company entered into an at-the-market offering ("ATM") agreement with Joseph Gunnar & Co., LLC to establish an at-the-market equity offering program pursuant to which they are able, with the Company's authorization, to offer and sell up to \$3 million of the Company's common stock at prevailing market prices from time to time. Subsequent to period end and through to June 2018, the Company had sold 300,501 shares of common stock under this program at a value of \$874.

## 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 vest after three years from issuance. As of September 30, 2017, the Company has a total of 463,053 shares unvested issued to employees and Board and committee members. In accordance 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. For the nine months ended September 30, 2017 and October 1, 2016, the Company recorded compensation expense associated with these restricted shares of \$575 and \$373, respectively. For the three months ended September 30, 2017 and October 1, 2016, the Company recorded compensation expense associated with these restricted shares of \$206 and \$134, respectively.

## Convertible Preferred Shares

### Series A Preferred Stock – Related Party

In the quarter ended September 30, 2017, the Company paid \$515 in dividends to its Series A preferred stock holders.

### Series D Preferred Stock

On June 24, 2016, the Company entered into a Securities Purchase Agreement with certain purchasers pursuant to which the Company sold to the purchasers 211 shares of the Company's Series D Preferred Stock at a face value of \$10 (whole dollars) per share of Series D Preferred, and Original Issue Discount of 5% and a conversion price into common stock of \$2.50 per share, for aggregate proceeds

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)

of approximately \$2,000 before placement fees and estimated offering expenses. The offering of the Series D Preferred Stock was made under the Company's Shelf Registration.

Due to the contingent nature of the cash redemption feature of the Series D Preferred Stock, the Company has classified the shares as mezzanine equity on the consolidated balance sheets.

During the period ended October 1, 2016, holders of this series converted 118 shares of Series D Preferred Stock to 268,192 shares of common stock. During the period ended September 30, 2017, holders converted an additional 31 shares of Series D Preferred Stock to 334,600 shares of common 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 the three and nine months ended September 30, 2017, respectively, and \$927 and \$1,660 for the three and nine months ended October 1, 2016, 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

On January 26, 2017, the Company issued the Warrant to Jackson which entitled Jackson to purchase up to 630,000 shares of common stock at an initial exercise price of \$6.75 per share (subject to adjustment). The Warrant is exercisable beginning on July 25, 2017 for a term of four and a half (4.5) years thereafter. The exercise price is subject to anti-dilution protection, including protection in circumstances where common stock is issued pursuant to the terms of certain existing convertible securities, provided that the exercise price shall not be adjusted below a price that is less than the consolidated closing bid price of the common stock. The Warrant had anti-dilution provisions which provided the holder with additional warrants and adjusted strike price in the event of stock repurchases by the Company or additional shares being issued in connection with the Series D Preferred Shares or Lighthouse promissory notes. As such, the Company has classified the Warrant as a liability.



On April 5, 2017, the Company amended the Warrant and entered into a second subordinated secured note with Jackson for \$1,650. Under the terms of the amended Warrant, Jackson may purchase up to an additional 275,508 shares of common stock at \$5.00 per share. The Warrant was amended to increase the amount of common stock issuable to Jackson pursuant to the anti-dilution clause contained therein, and to adjust the initial exercise price to \$5.00 per share. The modification cost associated with this change was \$91. 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 warrant liability. Therefore, upon execution of this amendment, the Company recorded a mark-to-market gain and reclassified the remaining liability to Additional paid-in capital, based on Black-Scholes valuation as of the amended date.

On September 15, 2017, the Company issued 20,000 three-year cashless warrants with an exercise price of \$5.00 valued at \$28.

Transactions involving the Company's warrant issuances are summarized as follows:

	Number of shares	Weighted Average Price Per Share
Outstanding at December 31, 2016	6,726	\$ 97.62
Issued	925,508	5.00
Exercised	—	—
Expired or cancelled	—	—
Outstanding at September 30, 2017	932,234	\$ 5.67

Stock Options

## 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)

On October 25, 2016, our Board adopted the 2016 Omnibus Incentive Plan (the “2016 Plan”) to, among other things, attract and retain the best available personnel, to provide additional incentive to employees, directors and consultants and to promote the success of the Company’s business. On January 26, 2017, our stockholders approved the 2016 Plan, pursuant to which 500,000 shares of the Company’s common stock will be reserved for issuance under stock and stock option awards. During the period ended September 30, 2017 the Company issued to employees and consultants, 387,640 shares and 62,700 options, with an exercise price of \$6.75 per share to purchase shares of common stock, and therefore has 49,660 remaining under this plan. The fair value of stock options granted was estimated at the date of grant using the Black-Scholes option pricing model. The Company used the following assumptions for determining the fair value of options granted under the Black-Scholes option pricing model:

Exercise price	\$6.75
Market price at date of grant	\$3.10
Volatility	99.38 %
Expected dividend rate	—
Expected term (years)	5
Risk-free interest rate	1.93 %

During the three months ended September 30, 2017 and October 1, 2016, the Company recorded stock compensation expense of \$96 and \$90, respectively, in connection with all options outstanding. During the nine months ended September 30, 2017 and October 1, 2016, the Company recorded stock compensation expense of \$283 and \$270, respectively, in connection with all options outstanding.

## NOTE 8 – COMMITMENTS AND CONTINGENCIES

## Earn-out Liabilities and Stock Value Guarantees

Pursuant to the acquisition of Control Solutions International, Inc. (“CSI”), the purchase price includes monthly cash payments to the former owners and shareholders 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 the period ended September 30, 2017 and October 1, 2016, the Company paid \$68 and \$104, respectively, towards the earn-out liability. This accrual is related to the matter of NewCSI, Inc. vs. Staffing 360 Solutions, Inc. below. Under the settlement agreement, the Company will continue to pay a total of \$45 subsequent to September 30, 2017, with the final payment being made in January 2018.

Pursuant to the acquisition of The JM Group, 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.

#### 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. The Company responded denying the material allegations and interposing numerous affirmative defenses. On October 8, 2014, NewCSI filed a Motion of Summary Judgment (the “Motion”). On March 30,

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)

2015, a Magistrate Judge of the District Court issued a Report and Recommendation that the District Court deny the Motion. The Recommendation became a final decision on April 13, 2015.

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. The final pretrial conference in this matter was held April 22, 2015. A jury was selected on May 14, 2015, and 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. The Court had held that it was not a question for the jury to decide if damages for breach of SPA § 2.7 should include accelerated earn-out payments.

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.

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. As of January 2016, the NewCSI shareholders have claimed they have incurred \$552 in attorney's fees, which could increase during the pendency of the 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. On August 29, 2017 the surety company released the supersedeas bond to the New CSI shareholders' counsel, which was approximately \$5 less than the judgment amount with accumulated interest. Payment of this remaining balance has been made subsequent to period end. The amount of the legal fee award was left for final determination by the trial court.

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 has filed an objection with the trial judge to the magistrate's report and recommendation and awaits a ruling. The Company has fully reserved the amount of 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. The Company intends to pay \$607 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

## 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)

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.

## NOTE 9 – SEGMENTS

The Company's operating segments, which are consistent with its reportable segments, are organized by geography in accordance with its internal management and reporting structure.

For the period ended September 30, 2017 and October 1, 2016, the Company generated revenue and gross profit by segment as follows:

	July 2, 2017 to	July 3, 2016 to	January 1, 2017 to	January 3, 2016 to
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
United States	\$ 37,830	\$ 38,845	\$ 107,441	\$ 112,557
United Kingdom	12,452	7,074	25,634	22,790
Canada	63	31	99	76
Total Revenue	\$ 50,345	\$ 45,950	\$ 133,174	\$ 135,423
United States	\$ 7,033	\$ 6,815	\$ 19,441	\$ 18,842
United Kingdom	2,523	1,581	5,352	4,744
Canada	21	9	34	35
Total Gross Profit	\$ 9,577	\$ 8,405	\$ 24,827	\$ 23,621

Selling, general and administrative expenses,  
excluding

depreciation and amortization stated below	\$ (8,800 )	\$ (7,917 )	\$ (22,362 )	\$ (24,194 )
Depreciation and amortization	(790 )	(727 )	(2,310 )	(2,059 )
Interest expense	(761 )	(615 )	(1,843 )	(2,007 )
Amortization of beneficial conversion feature	—	(183 )	—	(550 )
Amortization of debt discount and deferred financing costs	(1,212 )	(401 )	(2,610 )	(1,310 )

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

Loss on extinguishment of debt, net	(4,764 )	—	(6,132 )	—
Change in fair value of warrants	(688 )	—	(493 )	—
Gain on settlement of warrants	—	—	—	485
Other expense	(10 )	(35 )	(31 )	(38 )
Loss Before Provision for Income Tax	\$ (7,448 )	\$ (1,473 )	\$ (10,954 )	\$ (6,052 )

As of September 30, 2017, and December 31, 2016, the Company has assets in the U.S., the U.K. and Canada as follows:

	September 30, 2017	December 31, 2016
United States	\$ 60,795	\$ 44,990
United Kingdom	33,261	8,936
Canada	69	31
Total Assets	\$ 94,125	\$ 53,957

## 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 10 - ACQUISITIONS

Based upon a preliminary valuation, the Company recorded the following identifiable intangible assets in connection with the acquisition of FirstPro and CBS Butler:

	CBS	
	Butler	FirstPro
Goodwill <sup>(1)</sup>	\$13,754	\$3,829
<b>Intangible assets</b>		
Tradenames	\$1,123	\$35
Non-compete	150	193
Customer Relationships	4,473	3,136
	\$5,746	\$3,364

- (1) Goodwill amounts are shown net of adjustments of \$811 and \$702 for CBS Butler and FirstPro, respectively, for discounting of deferred payment and earnouts and other purchases accounting adjustments.

In connection with the acquisition of CBS Butler and FirstPro, the Company performed a preliminary valuation of identifiable intangible assets of \$5,746 and \$3,364, respectively, representing trade names, customer relationships, and non-compete agreements. These assets are being amortized on a straight line basis over their weighted average estimated useful life of 10 years. The Company acquired a total of \$8,527 in receivables and fair value of these receivables equals the contract value. The Company finalized its' purchase price allocation during the fourth quarter of 2017.

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 January 1, 2016:

July 2, 2017 to	July 3, 2016 to	January 1, 2017 to	January 3, 2016 to
--------------------	--------------------	--------------------	--------------------



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

	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Revenues	\$ 63,854	\$66,944	\$ 184,995	\$ 201,611
Net loss from continuing operations	(7,837 )	(1,311 )	(11,674 )	(8,468 )

The Company recorded \$6,768 in revenues that came from the acquisitions completed during the quarter. The Company recorded a total of \$384 in third party expenses associated with consummating the two acquisitions, which are included in Selling, general and administrative expenses, excluding depreciation and amortization stated below on the Condensed Consolidated Statement of Operations.

NOTE 11 – OTHER RELATED PARTY TRANSACTIONS

Consulting Fees – Related Party

Board and Committee Members

During the period from July 2, 2017 to September 30, 2017 and July 3, 2016 to October 1, 2016, the Company incurred \$19 and \$13, respectively, in board of director fees to Dimitri Villard. During the period from January 1, 2017 to September 30, 2017 and January 3, 2016 to October 1, 2016, the Company incurred \$50 and \$38, respectively, in board of director fees to Dimitri Villard. During the period from January 1, 2017 to September 30, 2017 and January 3, 2016 to October 1, 2016, Mr. Villard also received 1,700 and 1,200 shares of common stock valued at \$6 and \$15, respectively for his services as a board and committee member. During the period ended September 30, 2017, Mr. Villard received 13,200 shares valued at \$54 as a bonus. These shares vest over a three year period and as such the Company has recognized expense of \$56 and \$42 during the period ended September 30, 2017 and period ended October 1, 2016, respectively. The Company has \$0 in accrued in accounts payable and accrued expenses – related parties account, as of September 30, 2017.

## 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)

During the period from July 2, 2017 to September 30, 2017 and July 3, 2016 to October 1, 2016, the Company incurred \$19 and \$13, respectively, in board of director fees to Jeff Grout. During the period from January 1, 2017 to September 30, 2017 and January 3, 2016 to October 1, 2016, the Company incurred \$50 and \$38, respectively, in board of director fees to Jeff Grout. During the period from January 1, 2017 to September 30, 2017 and January 3, 2016 to October 1, 2016, Mr. Grout also received 1,700 and 1,200 shares of common stock valued at \$6 and \$15, respectively, for his service as a board and committee member. Mr. Grout also received 13,200 shares valued at \$54 as a bonus during the period ended September 30, 2017. These shares vest over a three year period and as such the Company has recognized expense of \$56 and \$42 during the period ended September 30, 2017 and period ended October 1, 2016, respectively. The Company has \$0 balance in accrued in accounts payable and accrued expenses – related parties account as of September 30, 2017.

During the period from July 2, 2017 to September 30, 2017 and July 3, 2016 to October 1, 2016, the Company incurred \$19 and \$13, respectively, in board of director fees to Nick Florio. During the period from January 1, 2017 to September 30, 2017 and January 3, 2016 to October 1, 2016, the Company incurred \$50 and \$38, respectively, in board of director fees to Nick Florio. During the period from January 1, 2017 to September 30, 2017 and January 3, 2016 to October 1, 2016, Mr. Florio also received 1,900 and 1,000 shares of common stock valued at \$7 and \$12, respectively for his services as a board and committee member. In addition, during the period ended September 30, 2017, Mr. Florio received 13,200 shares valued at \$54 as a bonus. These shares vest over a three year period and as such the Company has recognized expense of \$54 and \$41 during the period ended September 30, 2017 and period ended October 1, 2016, respectively. At the request of Mr. Florio, all cash payments, common stock issuances and stock option issuances have been made in the name of Citrin Cooperman & Company, LLP. The Company has \$0 balance in accrued in accounts payable and accrued expenses – related parties account as of September 30, 2017.

## NOTE 12 – SUPPLEMENTAL CASH FLOW INFORMATION

	January 1, 2017 to September 30, 2017	January 3, 2016 to October 1, 2016
<b>Cash paid for:</b>		
Interest	\$ 1,827	\$ 1,559
Income taxes	140	132
<b>Non Cash Investing and Financing Activities:</b>		
Shares issued in connection with convertible note	\$ 498	\$ —

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

Shares issued in connection with Jackson term loan	2,527	—
Warrants issued in connection with Jackson term loan	2,303	—
Shares issued in connection with Series D payoff	208	—
Shares issued in connection with CBS Butler acquisition	430	—
Deemed Dividends	2,009	1,660
Dividends - Series A preferred stock - related party	—	150
Conversion of a convertible note payable	—	(1,066 )
Shares issued in connection with convertible notes	—	315
Shares issued in connection with promissory notes	—	65
CSI earnout (payment with surety bond)	1,405	—

NOTE 13 – SUBSEQUENT EVENTS

Where applicable, all material subsequent events have been disclosed in their respective Notes to these financial statements except as follows:

The Company performed its annual goodwill impairment testing as of October 1, 2017 and recognized an impairment with respect to its PeopleServe reporting unit of \$4,790, fully impairing the goodwill of this reporting unit. The impairment resulted from a continued decline in that reporting unit's revenue which has lower margin than other reporting units. To determine the impairment, the Company employed a combination of market approach (valuations using comparable company multiples) and income approach (discounted cash flow analysis) to derive the fair value of the reporting unit. Under ASU 2017-04, which the Company early adopted, the impairment amount represents the excess of the carrying value over the fair value of the reporting unit.

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)

In June 2018, the Company divested its PeopleServe business for an estimated net proceeds of \$1,700. The final net proceeds are subject to a net working capital true up.

## 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

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 accounting and finance, information technology (“IT”), engineering, administration (the “Professional Sector”) and light industrial (the “Light Industrial Sector”) disciplines.

### Business Model, Operating History and Acquisitions

Our business plan is to expand and grow through acquisition, which may require additional financing, while continuing to supplement this with organic growth. The Company generated revenue of \$109.4 million, \$165.6 million, \$128.8 million and \$41.2 million for the transition period ended December 31, 2016 (“Transition Period”) and fiscal years ended May 31, 2016, 2015 and 2014, respectively. This growth has been achieved primarily through acquisitions, while operations continued to grow organically 11.1% during the Transition Period and, on average,

grew 8.8% between the fiscal years ended May 31, 2014 and 2016. Through September 30, 2017, revenue has declined 1.7% as compared to the year to date ended October 1, 2016.

As part of our consolidation model, we pursue staffing companies supporting primarily the Professional and Light Industrial 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.

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 Acquisition, 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.

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)

On September 15, 2017, the Company and Longbridge Recruitment 360 Limited ("Longbridge"), 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 options of CBS Butler sold all of their shares and options of CBS Butler to Longbridge (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 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.

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. These shares are subject to registration rights in favor of Jackson and were included in a new resale registration statement filed by the Company on November 1, 2017.

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. The Company has estimated that the \$11,165 of notes extinguished were replaced by \$11,165 which equals its fair value.

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

For the period July 2, 2017 to September 30, 2017 as compared to the period July 3, 2016 to October 1, 2016

	July 2, 2017 to		July 3, 2016 to		Growth	
	September 30, 2017	% of Revenue	October 1, 2016	% of Revenue		
Revenue	\$ 50,345	100.0	% \$ 45,950	100.0	%	9.6 %
Direct cost of revenue	40,768	81.0	% 37,545	81.7	%	8.6 %
Gross profit	9,577	19.0	% 8,405	18.3	%	13.9 %
Operating expenses	9,590	19.0	% 8,644	18.8	%	10.9 %
Loss from operations	(13 )	(0.0 )%	(239 )	(0.5 )%		(94.6 )%
Other expenses	(7,435 )	(14.8 )%	(1,234 )	(2.7 )%		502.5 %
(Provision) benefit for income taxes	(206 )	(0.4 )%	375	0.8	%	(154.9 )%
Net loss	\$ (7,654 )	(15.2 )%	\$ (1,098 )	(2.4 )%		597.1 %

### Revenue

For the period July 2, 2017 to September 30, 2017, revenue grew 9.6% to \$50,345 as compared to \$45,950 for the period July 3, 2016 to October 1, 2016. Of that growth, \$6,768 came from the acquisitions completed during the quarter, partially offset by an organic decline of \$2,373 primarily from exiting lower margin revenue. Foreign currency translation impact was not material.



## 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)

## Direct cost of revenue

Direct cost of services includes the variable cost of labor and various non-variable costs (e.g., workman's compensation insurance) relating to employees (temporary and permanent) as well as sub-contractors and consultants. For the period July 2, 2017 to September 30, 2017 and the period July 3, 2016 to October 1, 2016, direct cost of revenue was \$40,768 and \$37,545, respectively, or an increase of 8.6%, compared to an increase in revenue of 9.6%, and is further discussed in the gross profit and gross margin comments below.

## Gross profit and gross margin

Gross profit for the period July 2, 2017 to September 30, 2017 and the period July 3, 2016 to October 1, 2016 was \$9,577 and \$8,405, respectively, representing gross margin of 19.0% and 18.3% for each period, respectively. The increase in margin is primarily attributable to stronger margins in the Light Industrial segment, higher margin revenue from the businesses acquired during the quarter, as well as lower worker' compensation insurance.

## Operating expenses

For the period July 2, 2017 to September 30, 2017, operating expenses amounted to \$9,590 as compared to \$8,644 for the period July 3, 2016 to October 1, 2016, an increase of 10.9%. As a percentage of revenue, operating expenses increased from 18.8% of revenue to 19.0% of revenue, mainly due to the inclusion of the two acquired businesses for a portion of the quarter, transaction-related costs of completing the acquisitions and an increase in non-cash compensation expense.

## Other Expenses

For the periods July 2, 2017 to September 30, 2017 and July 3, 2016 to October 1, 2016, Other Expenses includes interest and financing expense of \$1,973 and \$1,199 respectively. The periods July 2, 2017 to September 30, 2017 also includes \$4,764 relating to a Loss on extinguishment of debt for a write off of deferred financing fees, both relating to the re-financing and retirement of notes. A cost of \$688 was incurred in the period July 2, 2017 to September 30, 2017 for Change in fair value of warrant liability

For the period January 1, 2017 to September 30, 2017 as compared to the period January 3, 2016 to October 1, 2016

	January 1, 2017 to		January 3, 2016 to			
	September 30,	% of Revenue	October 1, 2016	% of Revenue	Growth	
	2017					
Revenue	\$ 133,174	100.0	% \$ 135,423	100.0	%	(1.7)%
Direct cost of revenue	108,347	81.4	% 111,802	82.6	%	(3.1)%
Gross profit	24,827	18.6	% 23,621	17.4	%	5.1%

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

Operating expenses	24,672	18.5	%	26,253	19.4	%	(6.0)	)%
Loss from operations	155	0.1	%	(2,632)	(1.9)	)%	(105.9)	)%
Other expenses	(11,109)	(8.3)	)%	(3,420)	(2.5)	)%	224.8	%
Provision for income taxes	(213)	(0.2)	)%	(260)	(0.2)	)%	(18.1)	)%
Net loss	\$ (11,167)	(8.4)	)%	\$ (6,312)	(4.7)	)%	76.9	%

Revenue

For the period January 1, 2017 to September 30, 2017, revenue fell 1.7% to \$133,174 as compared to \$135,423 for the period January 3, 2016 to October 1, 2016. Of that decline, 1.3% (\$1,825) was from foreign currency translation, organic decline of \$7,190, partially offset by \$6,768 of revenue from the acquisitions completed during the quarter. The organic decline was largely due to the exiting of lower margin revenue and a few weather-related work stoppage days in the fiscal first quarter.

Direct cost of revenue

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 the period January 1, 2017 to September 30, 2017 and the period January 3, 2016 to October 1, 2016, direct cost of revenue was \$108,347 and \$111,802,

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)

respectively, or a decline of 3.1%, compared to a decline in revenue of 1.7%, and is further discussed in the gross profit and gross margin comments below.

Gross profit and gross margin

Gross profit for the period January 1, 2017 to September 30, 2017 and the period January 3, 2016 to October 1, 2016 was \$24,827 and \$23,621, respectively, representing gross margin of 18.6% and 17.4% for each period, respectively. The increase in margin is primarily attributable to stronger margins in the Light Industrial segment, higher margin revenue from the businesses acquired during the quarter, as well as lower workers' compensation insurance and payroll costs.

Operating expenses

For the period January 1, 2017 to September 30, 2017, operating expenses amounted to \$24,672 as compared to \$26,253 for the period January 3, 2016 to October 1, 2016, a decrease of 6.0%. As a percentage of revenue, operating expenses declined from 19.4% of revenue to 18.5% of revenue. The dollar decrease is attributable to lower cash compensation expenses on lower revenue, lower non-cash compensation expenses, and lower professional fees, partially offset by the inclusion of the two acquired businesses for a portion of the period, transaction-related costs of completing the acquisitions.

Other Expenses

For the periods January 1, 2017 to September 30, 2017 and January 3, 2016 to October 1, 2016, Other Expenses primarily includes interest and financing expense of \$4,453 and \$3,867 respectively. The period January 1, 2017 to September 30, 2017 also includes \$6,132 for a Loss on extinguishment of debt for write off of deferred financing fees, both relating to the re-financing and retirement of notes. A cost of \$493 was incurred in the period January 1, 2017 to September 30, 2017 for Change in fair value of warrant liability, while \$485 in the period January 3, 2016 to October 1, 2016 primarily related to a gain on the conversion of warrants

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.

## 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)

The following table details Revenue and Gross Profit by Sector for the period July 2, 2017 to September 30, 2017 as compared to the period July 3, 2016 to October 1, 2016, and for the period January 1, 2017 to September 30, 2017 as compared to the period January 3, 2016 to October 1, 2016:

	July 2, 2017 to		July 3, 2016 to		January 1, 2017 to		January 3, 2016 to	
	September 30, 2017	Mix	October 1, 2016	Mix	September 30, 2017	Mix	October 1, 2016	Mix
Light Industrial	\$ 25,635	51%	\$ 25,148	55%	\$ 71,354	54%	\$ 70,036	52%
Professional	24,710	49%	20,802	45%	61,820	46%	65,387	48%
Total Service Revenue	\$ 50,345		\$ 45,950		\$ 133,174		\$ 135,423	
Light Industrial	4,295	45%	3,835	46%	11,648	47%	10,291	44%
Professional	5,282	55%	4,570	54%	13,179	53%	13,330	56%
Total Gross Profit	\$ 9,577		\$ 8,405		\$ 24,827		\$ 23,621	
Light Industrial	16.8	%	15.2	%	16.3	%	14.7	%
Professional	21.4	%	22.0	%	21.3	%	20.4	%
Total Gross Margin	19.0	%	18.3	%	18.6	%	17.4	%

For the period July 2, 2017 to September 30, 2017 as compared to the period July 3, 2016 to October 1, 2016:

While growth in the Light Industrial Sector continued, the decrease in Light Industrial revenue as a percentage of total revenue from 55% for the period July 3, 2016 to October 1, 2016 to 51% for the period July 2, 2017 to September 30, 2017, was attributable to growth in the Professional segment, which was driven by the revenue from the acquisitions completed during the quarter. Professional revenue as a percentage of total revenue increased from 45% for the period July 3, 2016 to October 1, 2016 to 49% for the period July 2, 2017 to September 30, 2017.

Gross margin for the Light Industrial segment increased from 15.2% for the period July 3, 2016 to October 1, 2016 to 16.8% for the period July 2, 2017 to September 30, 2017. The increase was attributable to changes in client mix and pricing, as well as savings on workers' compensation insurance costs.

Gross margin for the Professional segment decreased from 22.0% in the period July 3, 2016 to October 1, 2016 to 21.4% for the period July 2, 2017 to September 30, 2017. The increase was primarily attributable to a higher mix of revenue at lower margins, including the two newly acquired businesses.

For the period January 1, 2017 to September 30, 2017 as compared to the period January 3, 2016 to October 1, 2016:

The increase in Light Industrial revenue as a percentage of total revenue from 52% for the period January 3, 2016 to October 1, 2016 to 54% for the period January 1, 2017 to September 30, 2017 was primarily attributable to growth in that segment (up 1.8%) compared to Total Service Revenue (down 1.7%). Professional revenue as a percentage of total revenue declined from 48% for the period January 3, 2016 to October 1, 2016 to 46% for the period January 1, 2017 to September 30, 2017, as a percentage of total revenue. Of the decline in this segment, \$1,825 was currency related, with the remaining \$1,742 resulting from the decline in some business units as discussed above, partially offset by revenue from the two newly acquired businesses.

Gross margin for the Light Industrial segment increased from 14.7% for the period January 3, 2016 to October 1, 2016 to 16.3% for the period January 1, 2017 to September 30, 2017. The increase was attributable to changes in client mix and pricing, as well as lower workers' compensation insurance and payroll costs.

Gross margin for the Professional segment increased from 20.4% in the period January 3, 2016 to October 1, 2016 to 21.3% for the period January 1, 2017 to September 30, 2017. The increase was primarily attributable to mix of revenue to higher margin business. Higher margin revenue from the acquisitions did not have a material impact.

## 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.

	July 2, 2017 to	July 3, 2016 to	January 1, 2017 to	January 3, 2016 to
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net loss	\$ (7,654 )	\$ (1,098 )	\$ (11,167 )	\$ (6,312 )
Interest expense	761	615	1,843	2,007
Provision for (benefit from) income taxes	206	(375 )	213	260
Depreciation and amortization (1)	2,002	1,311	4,920	3,919
EBITDA	\$ (4,685 )	\$ 453	\$ (4,191 )	\$ (126 )
Acquisition, capital raising and other non-				
recurring expenses (2)	934	872	1,194	3,572
Other non-cash charges (3)	344	285	962	882
Loss on extinguishment of debt, net	4,764	—	6,132	—
Other income / (expense)	698	35	524	(447 )
Adjusted EBITDA	\$ 2,055	\$ 1,645	\$ 4,621	\$ 3,881
Trailing Twelve Months ("TTM") Adjusted EBITDA	\$ 5,814	\$ 5,270	\$ 5,814	\$ 5,270
Pro Forma TTM Adjusted EBITDA (4)	\$ 11,028	N/A	\$ 11,028	N/A
Gross Profit	\$ 9,577	\$ 8,405	\$ 24,827	\$ 23,621
Adjusted operating expenses (5)	\$ 7,522	\$ 6,760	\$ 20,206	\$ 19,740
Adjusted operating expenses percentage of				
gross profit	78.5 %	80.4 %	81.4 %	83.6 %

- (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.
- (5) Adjusted operating expenses are defined as the operating expenses of the Company included in the definition of Adjusted EBITDA.

For all periods presented, the growth in Adjusted EBITDA is primarily attributable to focused management of Adjusted operating expenses and contribution from the acquisitions completed during the quarter.



## 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.

	October 2, 2016, to September 30, 2017	October 4, 2015 to October 1, 2016
Gross Profit - TTM (Current Period)	\$ 32,768	\$ 31,490
Gross Profit - TTM (Prior Period)	31,490	23,488
Gross Profit - Growth	\$ 1,278	\$ 8,002
Adjusted EBITDA - TTM (Current Period)	\$ 5,814	\$ 5,270
Adjusted EBITDA - TTM (Prior Period)	5,270	1,911
Adjusted EBITDA - Growth	\$ 544	\$ 3,359
Operating Leverage	42.6	% 42.0 %

Leverage Ratio Calculated as Total Long-Term Debt, Net, gross of any Original Issue Discount, plus Earnouts, less assets held against Long Term Debt, divided by 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 30, 2017	October 1, 2016
Total Long-Term Debt, Net	\$ 38,630	\$ 2,499
Addback: Total Debt Discount and Deferred Financing Costs	1,380	1,988
Earnouts	5,691	2,453
Less: Surety Bond	—	(1,405)
Total Long-Term Debt	\$ 45,701	\$ 5,535
TTM Adjusted EBITDA	\$ 5,814	\$ 5,270
Pro Forma TTM Adjusted EBITDA	\$ 11,028	N/A
Leverage Ratio	N/A	1.1x

Pro Forma Leverage Ratio	4.1x	N/A
--------------------------	------	-----

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.

	January 1, 2017 to September 30, 2017	January 3, 2016 to October 1, 2016
Net cash (used in) provided by operating activities	\$ (2,775	) \$ 787
Proceeds from (repayments on) accounts receivable financing	5,242	(1,575 )
Net cash provided by (used in) operating activities including proceeds from accounts receivable financing	\$ 2,467	\$ (788 )

32

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)

During the period January 1, 2017 to September 30, 2017, the Company used approximately \$3,500 of the proceeds from Jackson Investment to pay accounts payable and accrued expenses. In addition, cash provided by operating activities includes the cash paid of \$1,582 to settle the Staffing 360 Solutions, Inc. v. Former Officers of Staffing 360 Solutions, Inc. arbitration.

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 September 30, 2017, the Company had a working capital deficiency of \$6,391, an accumulated deficit of \$57,818, for the period January 1, 2017 to September 30, 2017, a net loss of \$11,167, and, as of the date these unaudited condensed consolidated financial statements are issued, the Company has approximately \$1,778 associated with debt and other amortizing obligations, due in the next 12 months.

The amounts due discussed above, are a subset of the Company's total gross debt obligations as of September 30, 2017 of \$40,377, as compared with \$9,010 as of the Company's most recent period ended December 31, 2016. Those balances are comprised of various instruments that can be summarized as follows:

	September 30, 2017	December 31, 2016
Bonds	\$ —	\$ 50
Convertible Notes	—	5,632
Promissory Notes	—	441
Term Loans	40,377	2,887
<b>Total Long-Term Debt</b>	<b>\$ 40,377</b>	<b>\$ 9,010</b>

In January 2017, the Company entered into an amendment agreement in which, the parties refinanced an aggregate amount of \$2,688 of convertible notes and extended all amortization payments (collectively “the Amendment”) to October 1, 2018. The new gross balance of the remaining note was \$3,126. The Amendment had an 8% interest rate, 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 has 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 common stock. Later in January 2017, the amended note was paid in full.

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)

In addition, in January 2017, the Company closed a financing with Jackson in the amount of \$7,400. The financing is a term loan, maturing in July 2018 and carries interest at 6%. No interest or principal is due until maturity. In connection with the transaction, Jackson received 330,000 shares of common stock and a warrant to purchase up to 630,000 shares of common stock (the "Warrant"), exercisable for five years, with an initial cash exercise price of \$6.75. At Jackson's election, 50% of accrued interest paid or payable on the note may be converted into shares of common stock at a conversion price of \$10.00.

In connection with the Jackson financing, in addition to paying \$3,126 to satisfy the Company's obligation under the note issued in connection with the Amendment, the Company satisfied in full the earn-out liability associated with the Company's acquisition of The JM Group of \$1,026 and related interest, as well as approximately, \$562 of debt obligations that were due in January 2017.

On April 5, 2017, the Company amended the note and warrant purchase agreement with Jackson and entered into a second subordinated secured note with Jackson 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 was 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 (subject to the same shareholder approval for issuance of shares to Jackson in excess of the 19.99% limit), 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 satisfies all of its outstanding obligations with Midcap Financial Trust, the maturity date will be 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 \$2,303 at September 30, 2017. 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")

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.

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.

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.

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 and were included in a new resale registration statement which was filed by the Company on November 1, 2017. 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.

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.

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 activities

For the period January 1, 2017 to September 30, 2017, 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.

For the period January 3, 2016 to October 1, 2016, net cash provided by operations of \$787 was primarily attributable non-cash adjustments of \$4,357 and changes in operating assets and liabilities totaling \$2,742 offset by the net loss of \$6,312. Changes in operating assets and liabilities primarily relates to an increase in accounts payable and accrued expenses of \$4,460, increase in other long-term liabilities of \$357, other of \$328 and increase in prepaid expenses and other current assets of \$156; offset by increase in accounts receivable of \$1,099, other assets \$828 and other current liabilities \$632. Non cash adjustments of \$4,370 primarily relates to depreciation and amortization of intangible assets of \$2,059, amortization of deferred financing costs of \$1,860, stock based compensation expense of \$773, interest paid in stock of \$109, other of \$41; offset by a gain on settlement of warrants of \$485.

Investing activities

For the period January 1, 2017 to September 30, 2017, 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.

For the period January 3, 2016 to October 1, 2016, net cash flows used in investing activities was \$1,751 which is primarily due to cash posting of a surety bond of \$1,405 relating to the NewCSI legal proceedings, purchase of property and equipment of \$245 and cash paid to acquire the remaining 51% of PeopleServe PRS, Inc. of \$101.

Financing activities

For the period January 1, 2017 to September 30, 2017, 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-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.

For the period January 3, 2016 to October 1, 2016, net cash flows provided by financing activities totaled \$1,329 which is primarily due to proceeds from private placement of \$3,347, proceeds from Series D Preferred Stock \$2,000, proceeds from overadvance of accounts receivable financing \$1,050, proceeds from term loans \$783, proceeds from promissory notes \$700, proceeds from convertible notes \$578; offset by repayment of convertible notes \$1,589, repayment on accounts receivable financing of \$1,575, repayment of promissory notes of \$1,506, repayment of bonds \$949, repayment of term loans \$629 and third party financing costs of \$777 and payments made towards earnouts of \$104

#### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

#### Critical Accounting Policies and Estimates

Our significant accounting policies are fully described in Note 2 to our consolidated financial statements for the period June 1, 2016 to December 31, 2016, filed on Form 10-KT, as amended, with the SEC on April 12, 2017.



### 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 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 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II-OTHER INFORMATION

### Item 1. Legal Proceedings

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

On July 26, 2017, the Appellate Court affirmed the Court's decision granting a judgment against the Company for \$1,307. 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 subsequent to period end. On May 30, 2018 an order was entered by the trial court fixing the amount of legal fees payable by the Company at \$606. The Company has fully reserved this amount and intends to pay the amount of \$607 in full settlement of this matter in June 2018.

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

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.

### Item 1A. Risk Factors.

There have been no material developments to alter the risk factors disclosed in our Annual Report on Form 10-KT for the transition period ended December 31, 2016, except as set forth below:

The Jackson Note is secured by substantially all of the Company's assets and the terms of the Jackson Note may restrict the Company's current and future operations. Additionally, Jackson may be able to exert significant influence over us as our senior secured and the beneficial owner of in excess of 39.4% of our outstanding shares of common stock

The Jackson Note contains a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interests. The Jackson Note includes covenants limiting or restricting, among other things, our ability to:

- incur or guarantee additional indebtedness;
- pay distributions on, redeem or repurchase shares of the Company's capital stock or redeem or repurchase any of the Company's subordinated debt;
- make certain investments;
- sell assets;
- enter into agreements that restrict distributions or other payments from our restricted subsidiaries to the Company;
- incur or allow the existence of liens;
- consolidate, merge or transfer all or substantially all of the Company's assets;
- engage in transactions with affiliates.

In addition, the Jackson Note contains financial covenants including, among other things, a fixed charge coverage ratio, minimum liquidity requirements and total leverage ratio. A breach of any of these financial covenants could result in a default under the Jackson Note. If any such default occurs, Jackson may elect to declare all outstanding borrowings, together with accrued interest and other amounts payable thereunder, to be immediately due and payable. In addition, following an event of default under the Jackson Note, Jackson will have the right to proceed against the collateral granted to it to secure the debt, which includes our available cash. If the debt under the Jackson

Note was to be accelerated, we cannot assure you that our assets would be sufficient to repay in full our debt.

In addition to being our senior secured lender, the Jackson beneficially owns in excess of 39.4% of the Company's outstanding common stock. Accordingly, Jackson may be able to exert significant influence over the Company.

Our management has identified material weaknesses in our internal control over financial reporting relating to the accounting for complex debt and equity instruments which could, if not remediated, result in material misstatements in our consolidated financial statements. We may be unable to develop, implement and maintain appropriate controls in such areas in future periods. If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results and current and potential stockholders may lose confidence in our financial reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, and the Sarbanes-Oxley Act of 2002 and the Securities and Exchange Commission rules require that our management report annually on the effectiveness of our internal control over financial reporting and our disclosure controls and procedures. Among other things, our management must conduct an assessment of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002.

A “material weakness” is 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 our annual or interim consolidated financial statements will not be prevented or detected on a timely basis. As disclosed in our periodic filings with the Securities and Exchange Commission, we have identified material weaknesses in our internal control over financial reporting relating to the accounting for complex debt and equity instruments. We developed a remediation plan designed to address the material weakness in our internal control over accounting for such instruments. Our plan includes pursuing third party technical accounting consultation in the matter of transactions that involve complex debt and equity instruments.

Although we are working to remedy the material weakness in our internal control over financial reporting relating to the accounting for complex debt and equity instruments, there can be no assurance as to when the remediation plan will be fully developed, when it will be fully implemented or the aggregate cost of implementation. Until our remediation plan is fully implemented, our management will continue to devote significant time and attention to these efforts. If we do not complete our remediation in a timely fashion, or at all, or if our remediation plan is inadequate, there will continue to be an increased risk that we will be unable to timely file future periodic reports with the Securities and Exchange Commission and that our future consolidated financial statements could contain errors that will be undetected. Further and continued determinations that there are material weaknesses in the effectiveness of our internal control over financial reporting relating to the accounting for complex debt and equity instruments could also reduce our ability to obtain financing or could increase the cost of any financing we obtain and require additional expenditures of both money and our management’s time to comply with applicable requirements.

Additional material weaknesses in our internal control over financial reporting may be identified in the future. Any failure to implement or maintain required new or improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses, or could result in material misstatements in our consolidated financial statements. These misstatements could result in a restatement of our consolidated financial statements, cause us to fail to meet our reporting obligations, reduce our ability to obtain financing or cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

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

During the period January 1, 2017 through September 30, 2017, we issued 1,500 shares of common stock, with an aggregate value of \$6, to Wayne Miiller PLLC in return for advisory services provided to our board of directors, and 3,000 shares of common stock with an aggregate value of at \$14, to Greenridge Global for investor relations advisory services. 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.

39

---

Item 6. Exhibits

Exhibit No.	Description
2.1	<u>Asset Purchase Agreement, dated September 15, 2017, by and among Staffing 360 Georgia, LLC, FirstPro Inc., Firstpro Georgia LLC, April F. Nagel and Philip Nagel (incorporated by reference from Exhibit 2.1 to the Company' Form 8-K filed on September 19, 2017)</u>
4.1	<u>10% Subordinated Secured Note, dated August 2, 2017, issued to the Jackson Investment Group, LLC (incorporated by reference from Exhibit 4.1 to the Company' Form 8-K filed on August 8, 2017)</u>
10.1	<u>Second Amended Purchase Agreement, dated August 2, 2017, by and among the Company, Jackson Investment Group, LLC and certain subsidiaries of the Company (incorporated by reference from Exhibit 10.1 to the Company's Form 8-K filed on August 8, 2017)</u>
10.2	<u>Second Amended Subordination Agreement, dated August 2, 2017, by and among Midcap Funding X Trust, Jackson Investment Group, LLC, the Company and certain subsidiaries of the Company (incorporated by reference from Exhibit 10.2 to the Company's Form 8-K filed on August 8, 2017)</u>
10.3	<u>Amended and Restated Note Purchase Agreement, dated September 15, 2017, by and among Staffing 360 Solutions, Inc., certain subsidiaries of Staffing 360 Solutions, Inc. and Jackson Investment Group, LLC (incorporated by reference from Exhibit 10.3 to the Company' Form 8-K filed on September 19, 2017)</u>
10.4	<u>Intercreditor Agreement, dated September 15, 2017, by and among Staffing 360 Solutions, Inc., certain subsidiaries of Staffing 360 Solutions, Inc., MidCap Funding X Trust and Jackson Investment Group, LLC (incorporated by reference from Exhibit 10.4 to the Company' Form 8-K filed on September 19, 2017)</u>
10.5	<u>Share Purchase Agreement, dated September 15, 2017, by and among Staffing 360 Solutions, Inc., Longbridge Recruitment 360 Limited and the holders of outstanding shares of CBS Butler Holdings Limited (incorporated by reference from Exhibit 10.1 to the Company' Form 8-K filed on September 19, 2017)</u>
10.6	<u>Amendment No.8 to the Credit and Security Agreement, dated September 15, 2017, by and among Staffing 360 Solutions, Inc., certain subsidiaries of Staffing 360 Solutions, Inc. and MidCap Funding X Trust (incorporated by reference from Exhibit 10.2 to the Company' Form 8-K filed on September 19, 2017)</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: June 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: June 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)