

Staffing 360 Solutions, Inc.  
Form 10-K  
March 29, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 30, 2017

or

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
COMMISSION FILE NUMBER: 001-37575

STAFFING 360 SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware 68-0680859  
(State of incorporation) (I.R.S. Employer Identification)  
641 Lexington Avenue

Suite 2701

New York, New York 10022

(Address of principal executive offices)

(646) 507-5710

(Registrant's telephone number)

Securities registered under Section 12(b) of the Exchange Act: Common Stock, par value \$0.00001.

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of the chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/T or any amendment to this Form 10-K/T.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting 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: (Check one)

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

As of June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter the aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was approximately \$10,725,974 based on the closing price (last sale of the day) for the registrant's common stock on the Nasdaq exchange on June 30, 2017 of \$3.50 per share.

As of March 28, 2018, 4,058,285 shares of common stock, \$0.00001 par value, were outstanding.



Staffing 360 Solutions, Inc.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report, including Management’s Discussion and Analysis of Financial Condition and Results of Operations, on Form 10-K (“Annual Report”) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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,” “could,” “should,” “intends,” “plans,” “estimates,” “goal,” “target,” “possible,” “potential” 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: 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; the termination of a major customer contract or project; 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; negative outcome of pending and future claims and litigation; government policies, legislation or judicial decisions adverse to our businesses; potential cost overruns and possible rejection of our business model and/or sales methods; 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. 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 entirety of this Annual Report, including the “Risk Factors” in Item 1A of this Annual Report and the other 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.

As used in this Annual Report, the terms “we,” “us,” “our,” “Staffing 360” and the “Company” mean Staffing 360 Solutions, Inc. and its subsidiaries, unless otherwise indicated. All dollar amounts in this Annual Report are expressed in thousands except for share and per share values, unless otherwise indicated.

The disclosures set forth in this report should be read in conjunction with our financial statements and notes thereto for the period ended December 30, 2017.

## PART I

### ITEM 1. BUSINESS

#### General

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 domicile to the State of Delaware. As a rapidly growing public company in the international staffing sector, our high-growth business model is based on finding and acquiring, suitable, mature, profitable, operating, domestic and international staffing companies. Our targeted consolidation model is focused specifically on the accounting and finance, information technology (“IT”), engineering, administration and light industrial disciplines.

All amounts in this Annual Report are expressed in thousands, except share and per share amounts, or unless otherwise indicated.

#### Change of Year End

On February 28, 2017, the board of directors (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 31<sup>st</sup> of December, effective December 31, 2016. On April 12, 2017, the company filed a transition report (“Transition Report”), Form 10-K/T, for the period from June 1, 2016 through December 31, 2016, (“Transition Period”). Following that Transition Report, we will file annual reports for each twelve-month period ending the Saturday closest to December 31 of each year beginning with December 30, 2017. This report is for the period from January 1, 2017 to December 30, 2017, “Fiscal 2017”. The Form 10-K filed prior to this was for the period from June 1, 2015 to May 31, 2016, “Fiscal 2016”.

#### Business Model and Acquisitions

We are a high-growth international staffing company engaged in the acquisition of United States (“U.S.”) and United Kingdom (“U.K.”) based staffing companies. Our services principally consist of providing temporary contractors, and, to a much lesser extent, the recruitment of candidates for permanent placement. As part of our consolidation model, we pursue a broad spectrum of staffing companies supporting primarily accounting and finance, IT, engineering, administration (collectively, the “Professional Sector”) and commercial (“Commercial Sector”) disciplines. 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. To date, we have completed eight acquisitions since November 2013.

#### Operating History

The Company generated revenue of \$192,650, \$109,422, and \$165,552, for Fiscal 2017, the Transition Period, and Fiscal 2016, respectively. This growth has been achieved primarily through acquisitions, while organic growth has been approximately 3% on average from December 2014 through December 2017.

#### firstPro and CBS Butler 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 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) 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.

## Industry Background

The staffing industry is divided into three major segments: temporary staffing services, professional employer organizations (“PEOs”) and placement agencies. Temporary staffing services provide workers for limited periods, often to substitute for absent permanent workers or to help during periods of peak demand. These workers, who are often employees of the temporary staffing agency, will generally fill clerical, technical, or industrial positions. PEOs, sometimes referred to as employee leasing agencies, contract to provide workers to customers for specific functions, often related to human resource management. In many cases, a customer’s employees are hired by a PEO and then contracted back to the customer. Placement agencies, sometimes referred to as executive recruiters or headhunters, find workers to fill permanent positions at customer companies. These agencies may specialize in placing senior managers, mid-level managers, technical workers, or clerical and other support workers.

The Company considers itself a temporary staffing company within the broader staffing industry. However, the Company provides permanent placements at the request of existing clients and some consulting services.

Staffing companies identify potential candidates through online advertising and referrals, and interview, test and counsel workers before sending them to the customer for approval. Pre-employment screening can include skills assessment, drug tests and criminal background checks. The personnel staffing industry has been radically changed by the internet. Many employers list available positions with one or several internet personnel sites like [www.monster.com](http://www.monster.com) or [www.careerbuilder.com](http://www.careerbuilder.com), and on their own sites. Personnel agencies operate their own sites and often still work as intermediaries by helping employers accurately describe job openings and by screening candidates who submit applications.

Major end-use customers include businesses from a wide range of industries such as manufacturing, construction, wholesale and retail. Marketing involves direct sales presentations, referrals from existing clients and advertising. Agencies compete both for customers and workers. Depending on market supply and demand at any given time, agencies may allocate more resources either to finding potential employers or potential workers. Permanent placement agencies work either on a retained or on a contingency basis. Clients may retain an agency for a specific job search or on contract for a specific period. Temporary staffing services charge customers a fixed price per hour or a standard markup on prevailing hourly rates.

For many staffing companies, demand is lower late in the fourth calendar quarter and early in the first calendar quarter, partly because of holidays, and higher during the rest of the year. Staffing companies may have high receivables from customers. Temporary staffing agencies and PEOs must manage a high cash flow because they funnel payroll payments from employers. Cash flow imbalances also occur because agencies must pay workers even though they haven't been paid by clients.

The revenue of staffing companies depends on the number of jobs they fill, which in turn can depend upon the economic environment. During economic slowdowns, many client companies stop hiring altogether. Internet employment sites expand a company’s ability to find workers without the help of traditional agencies. Staffing companies often work as intermediaries, helping employers accurately describe job openings and screen candidates. Increasing the use of sophisticated, automated job description and candidate screening tools could make many traditional functions of personnel agencies obsolete. Free social networking sites such as LinkedIn and Facebook are also becoming a common way for recruiters and employees to connect without the assistance of a staffing agency.

To avoid large placement agency fees, big companies may use in-house personnel staff, current employee referrals, or human resources consulting companies to find and hire new personnel. Because placement agencies typically charge a fee based on a percentage of the first year's salary of a new worker, companies with many jobs to fill have a financial incentive to avoid agencies.



Many staffing companies are small and may depend heavily on a few big customers for a large portion of revenue. Large customers may lead to increased revenue, but also expose agencies to higher risks. When major accounts experience financial hardships, and have less need for temporary employment services, agencies stand to lose large portions of revenue.

The loss of a staff member who handles a large volume of business may result in a large loss of revenue for a staffing company. Individual staff members, rather than the staffing company itself, usually develop strong relationships with customers. Staff members who move to another staffing company are often able to move customers with them.

Some of the best opportunities for temporary employment are in industries traditionally active in seasonal cycles, such as manufacturing, construction, wholesale and retail. However, seasonal demand for workers creates cash flow fluctuations throughout the year.

Staffing companies are regulated by the U.S. Department of Labor and the Equal Employment Opportunity Commission, and often by state authorities. Many federal anti-discrimination rules regulate the type of information that employment firms can request from candidates or provide to customers about candidates. In addition, the relationship between the agency and the temporary employees, or employee candidates may not always be clear, resulting in legal and regulatory uncertainty. PEOs are often considered co-employers

along with the client, but the PEO is responsible for employee wages, taxes and benefits. State regulation aims to ensure that PEOs provide the benefits they promise to workers.

### Trends in the Staffing Business

Start-up costs for a staffing company are very low. Individual offices can be profitable, but consolidation is driven mainly by the opportunity for large agencies to develop national relationships with big customers. Some agencies expand by starting new offices in promising markets, but most prefer to buy existing independent offices with proven staff and an existing customer roster.

At some companies, temporary workers have become such a large part of the workforce that staffing company employees sometimes work at the customer's site to recruit, train, and manage temporary employees. The Company has a number of onsite relationships with its customers. Staffing companies try to match the best qualified employees for the customer's needs, but often provide additional training specific to that company, such as instruction in the use of proprietary software.

Some personnel consulting firms and human resource departments are increasingly using psychological tests to evaluate potential job candidates. Psychological or liability testing has gained popularity, in part, due to recent fraud scandals. In addition to stiffer background checks, headhunters often check the credit history of prospective employees.

We believe the trends of outsourcing entire departments and dependence on temporary and leased workers will expand opportunities for staffing companies. Taking advantage of their expertise in assessing worker capabilities, some staffing companies manage their clients' entire human resource functions. Human resources outsourcing ("HRO") may include management of payroll, tax filings, and benefit administration services. HRO may also include recruitment process outsourcing ("RPO"), whereby an agency manages all recruitment activities for a client.

New online technology is improving staffing efficiency. For example, some online applications coordinate workflow for staffing agencies, their clients and temporary workers, and allow agencies and customers to share work order requests, submit and track candidates, approve timesheets and expenses, and run reports. Interaction between candidates and potential employers is increasingly being handled online.

Initially viewed as rivals, some Internet job-search companies and traditional employment agencies are now collaborating. While some Internet sites do not allow agencies to use their services to post jobs or look through resumes, others find that agencies are their biggest customers, earning the sites a large percentage of their revenue. Some staffing companies contract to help client employers find workers online.

### Competition

The Company's staffing divisions face competition in attracting clients as well as temporary candidates. The staffing industry is highly competitive, with a number of firms offering services similar to those provided by the Company on a national, regional or local basis. In many areas, the local staffing companies are our strongest competitors. The most significant competitive factors in the staffing business are price and reliability of service. The Company believes its competitive advantage stems from its experience in niche markets, and commitment to the specialized employment market, along with its growing global presence.

The staffing industry is characterized by a large number of competing companies in a fragmented sector. Major competitors also exist across the sector, but as the industry affords low barriers to entry, new entrants are constantly introduced to the marketplace.

The top layer of competitors includes large corporate staffing and employment companies which have yearly revenue of \$75 million or more. The next (middle) layer of the competition consists of medium-sized entities with yearly revenue of \$10 million or more. The largest portion of the marketplace is the bottom layer of this competitive landscape consisting of small, individual-sized or family-run operations. As barriers to entry are low, sole proprietors, partnerships and small entities routinely enter the industry.

#### Employees

The Company employs approximately 300 full-time employees as part of our internal operations. Additionally, the Company employs more than 5,000 individuals that are placed directly with our clients through our various operating subsidiaries.

#### ITEM 1A. RISK FACTORS.

There are numerous and varied risks that may prevent us from achieving our goals, including those described below. You should carefully consider the risks described below and the other information included in this Form 10-K, including our consolidated

financial statements and related notes. Our business, financial condition, and results of operations, could be harmed by any of the following risks. If any of the events or circumstances described below were to occur, our business, the financial condition and the results of operations could be materially adversely affected. As a result, the trading price of our common stock could decline, and investors could lose part or all of their investment. The risks below are not the only risks we face. Additional risks not currently known to us or that we currently deem to be immaterial may also adversely affect our business, financial condition or results of operations.

We have incurred significant losses since our inception and may continue to incur losses and thus may never achieve or maintain profitability.

We may incur operating losses for the foreseeable future. Because of the numerous risks and uncertainties associated with the staffing industry, we are unable to predict the extent of any future losses or when we will become profitable, if at all. Expected future operating losses will have an adverse effect on our cash resources, stockholders' equity and working capital.

Our failure to become and remain profitable could depress the value of our stock and impair our ability to raise capital, expand our business, maintain our development efforts, diversify our portfolio of staffing companies, or continue our operations. A decline in our value could also cause you to lose all or part of your investment.

We have significant debt that could adversely affect our financial health and prevent us from fulfilling our obligations or put us at a competitive disadvantage.

Our level of debt and the limitations imposed on us by our lenders could have a material impact on investors, including the requirement to use a portion of our cash flow from operations for debt service rather than for our operations and the need to comply with the various covenants associated with such debt. Additionally, we may not be able to obtain additional debt financing for future working capital, capital expenditures or other corporate purposes or may have to pay more for such financing. We could also be less able to take advantage of significant business opportunities, such as acquisition opportunities, and to react to changes in market or industry conditions, or we may be disadvantaged compared to competitors with less leverage.

Our debt instruments contain covenants that could limit our financing options and liquidity position, which would limit our ability to grow our business.

Covenants in our debt instruments impose operating and financial restrictions on us. These restrictions prohibit or limit our ability to, among other things:

- pay cash dividends to our stockholders;
- redeem or repurchase our common stock or other equity;
- incur additional indebtedness;
- permit liens on assets;
- make certain investments (including through the acquisition of stock, shares, partnership or limited liability company interests, any loan, advance or capital contribution);
- sell, lease, license, lend or otherwise convey an interest in a material portion of our assets; and
- cease making public filings under the Securities Exchange Act of 1934, as amended.

Our failure to comply with the restrictions in our debt instruments could result in an event of default, which, if not cured or waived, could result in us being required to repay these borrowings before their due date. The lenders may require fees and expenses to be paid or other changes to terms in connection with waivers or amendments. If we are forced to refinance these borrowings on less favorable terms, our results of operations and financial condition could be adversely affected by increased costs and rates.

In addition, these restrictions may limit our ability to obtain additional financing, withstand downturns in our business or take advantage of business opportunities. Moreover, additional debt financing we may seek, if permitted, may contain terms that include more restrictive covenants, may require repayment on an accelerated schedule or may impose other obligations that limit our ability to grow our business, acquire needed assets, or take other actions we might otherwise consider appropriate or desirable.

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We have significant working capital needs and if we are unable to satisfy those needs from cash generated from our operations or borrowings under our debt instruments, we may not be able to continue our operations.

We require significant amounts of working capital to operate our business. We often have high receivables from our customers, and as a staffing company, we are prone to cash flow imbalances because we funnel payroll payments from employers to temporary workers. Cash flow imbalances also occur because we must pay temporary workers even when we have not been paid by our customers. If we experience a significant and sustained drop in operating profits, or if there are unanticipated reductions in cash inflows or increases in cash outlays, we may be subject to cash shortfalls. If such a shortfall were to occur for even a brief period of time, it may have a significant adverse effect on our business. In particular, we use working capital to pay expenses relating to our temporary workers and to satisfy our workers' compensation liabilities. As a result, we must maintain sufficient cash availability to pay temporary workers and fund related tax liabilities prior to receiving payment from customers.

In addition, our operating results tend to be unpredictable from quarter to quarter. Demand for our services is typically lower during traditional national vacation periods in the United States and United Kingdom when customers and candidates are on vacation. No single quarter is predictive of results of future periods. Any extended period of time with low operating results or cash flow imbalances could have a material adverse effect on our business, financial condition and results of operations.

We derive working capital for our operations through cash generated by our operating activities and borrowings under our debt instruments. We believe that our current sources of capital are adequate to meet our working capital needs. However, our available sources of capital are limited. If our working capital needs increase in the future, we may be forced to seek additional sources of capital, which may not be available on commercially reasonable terms. The amount we are entitled to borrow under our debt instruments is calculated monthly based on the aggregate value of certain eligible trade accounts receivable generated from our operations, which are affected by financial, business, economic and other factors, as well as by the daily timing of cash collections and cash outflows. The aggregate value of our eligible accounts receivable may not be adequate to allow for borrowings for other corporate purposes, such as capital expenditures or growth opportunities, which could reduce our ability to react to changes in the market or industry conditions.

We will need to raise additional capital to meet our business requirements in the future, which is likely to be challenging, could be highly dilutive and may cause the market price of our common stock to decline.

As of December 30, 2017, the Company had a working capital deficiency of \$11,374, an accumulated deficit of \$65,142, for the twelve months ended December 30, 2017 a net loss of \$18,491. As a result of our recent financings, we believe that we will be able to fund our operations, implement our business plan and pursue the acquisition of broad spectrum staffing companies through the next twelve months. However, we will need to raise additional capital to pursue growth opportunities, improve our infrastructure, finance our operations and otherwise make investments in assets and personnel that will allow us to remain competitive. Additional capital would be used to accomplish the following:

- financing our current operating expenses;
- pursuing growth opportunities;
- making capital improvements to improve our infrastructure;
- hiring and retaining qualified management and key employees;
- responding to competitive pressures;
- complying with regulatory requirements; and
- maintaining compliance with applicable laws.

To the extent that we raise additional capital through the sale of equity or convertible debt securities, the issuance of those securities could result in substantial dilution for our current stockholders. The terms of any securities issued by us in future capital transactions may be more favorable to new investors, and may include preferences, superior voting

rights and the issuance of warrants or other derivative securities, which may have a further dilutive effect on the holders of any of our securities then-outstanding. We may issue additional shares of our common stock or securities convertible into or exchangeable or exercisable for our common stock in connection with hiring or retaining personnel, option or warrant exercises, future acquisitions or future placements of our securities for capital-raising or other business purposes. The issuance of additional securities, whether equity or debt, by us, or the possibility of such issuance, may cause the market price of our common stock to decline further and existing stockholders may not agree with our financing plans or the terms of such financings.

In addition, we may incur substantial costs in pursuing future capital financing, including investment banking fees, legal fees, accounting fees, securities law compliance fees, printing and distribution expenses and other costs. We may also be required to

recognize non-cash expenses in connection with certain securities we issue, such as convertible notes and warrants, which may adversely impact our financial condition.

Furthermore, any additional debt or equity financing that we may need may not be available on terms favorable to us, or at all. If we are unable to obtain such additional financing on a timely basis, we may have to curtail our development activities and growth plans and/or be forced to sell assets, perhaps on unfavorable terms, which would have a material adverse effect on our business, financial condition and results of operations, and ultimately could be forced to discontinue our operations and liquidate, in which event it is unlikely that stockholders would receive any distribution on their shares. Further, we may not be able to continue operating if we do not generate sufficient revenues from operations needed to stay in business.

A more active, liquid trading market for our common stock may not develop, and the price of our common stock may fluctuate significantly.

Although our common stock is listed on the NASDAQ Capital Market, it has only been traded on the NASDAQ Capital Market since September 29, 2015, when our common stock uplisted to the national exchange. Before that time, our common stock was traded on the OTCBB tier of the over-the-counter securities market run by FINRA, as well as OTCQB run by OTC Markets, and it first began trading on February 15, 2013. Historically, the market price of our common stock has fluctuated over a wide range. Between our stock splits occurring on September 17, 2015 and January 3, 2018, our common stock traded in a range from \$0.54 to \$7.74 per share. There has been relatively limited trading volume in the market for our common stock, and a more active, liquid public trading market may not develop or may not be sustained. In addition, on January 25, 2017, we received a letter from the Listing Qualifications Department of the NASDAQ Capital Market notifying us that, based upon the closing bid price of our common stock for the previous 30 consecutive business days, the common stock did not meet the minimum bid price of \$1.00 per share required by NASDAQ Listing Rule 5550(a)(2), initiating an automatic 180 calendar-day grace period for us to regain compliance. On July 25, 2017, we received further notification from the Listing Qualifications Department that, while the Company's common stock had not regained compliance with the minimum \$1.00 per share bid price during the 180 calendar-day period since the date of the initial notice, the Company was eligible for an additional 180 calendar day period, or until January 22, 2018, to regain price compliance. On November 13, 2017, we filed a definitive proxy statement announcing a special meeting of stockholders to be held on January 3, 2018 at which time we sought stockholder approval of a reverse stock split of our common stock in the range of one-for-two to one-for-ten. At that meeting the stockholders approved the proposal, and the Company effected a reverse split effective at 5:00 pm New York time on January 3, 2018 at a ratio of one-for-five. The company regained price compliance as the stock traded at above \$1.00 for the ten subsequent trading days before the compliance date of January 22, 2018. There can be no assurance that the company will continue to meet the Continued Listing Standards contained in NASDAQ Listing Rules 5550(a) and 5550(b). Limited liquidity in the trading market for our common stock may adversely affect a stockholder's ability to sell its shares of common stock at the time it wishes to sell them or at a price that it considers acceptable. If a more active, liquid public trading market does not develop, or if our shares are delisted from the NASDAQ Capital Market, we may be limited in our ability to raise capital by selling shares of common stock and our ability to acquire other companies or assets by using shares of our common stock as consideration. In addition, if there is a thin trading market or "float" for our stock, the market price for our common stock may fluctuate significantly more than the stock market as a whole. Without a large float, our common stock would be less liquid than the stock of companies with broader public ownership and, as a result, the trading prices of our common stock may be more volatile and it would be harder for a stockholder to liquidate any investment in our common stock. Furthermore, the stock market is subject to significant price and volume fluctuations, and the price of our common stock could fluctuate widely in response to several factors, including:

- our quarterly or annual operating results;
- changes in our earnings estimates;
- investment recommendations by securities analysts following our business or our industry;
- additions or departures of key personnel;



• changes in the business, earnings estimates or market perceptions of our competitors;  
• our failure to achieve operating results consistent with securities analysts' projections;  
• changes in industry, general market or economic conditions; and  
• announcements of legislative or regulatory changes.

The stock market has experienced extreme price and volume fluctuations in recent years that have significantly affected the quoted prices of the securities of many companies, including companies in the staffing industry. The changes often appear to occur without regard to specific operating performance. The price of our common stock could fluctuate based upon factors that have little or nothing to do with us and these fluctuations could materially reduce our stock price.

An investment in our common stock should be considered illiquid and high risk.

An investment in our common stock requires a long-term commitment, with no certainty of return. Because we did not become a public reporting company by the traditional means of conducting an underwritten initial public offering of our common stock, we may be unable to establish a liquid market for our common stock. In addition, investment banks may be less likely to agree to underwrite primary or secondary offerings on our behalf or our stockholders in the future than they would if we had become a public reporting company by means of an underwritten initial public offering of common stock. If all or any of the foregoing risks occur, it would have a material adverse effect on us.

The United States Financial Industry Regulatory Authority, or FINRA, sales practice requirements may also limit your ability to buy and sell our common stock, which could depress the price of our shares. FINRA rules require broker-dealers to have reasonable grounds for believing that an investment is suitable for a customer before recommending that investment to the customer. Prior to recommending speculative low-priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status and investment objectives, among other things. Under interpretations of these rules, FINRA believes that there is a high probability such speculative low-priced securities will not be suitable for at least some customers. Thus, FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our shares, have an adverse effect on the market for our shares, and thereby depress our share price.

Our growth of operations could strain our resources and cause our business to suffer.

We plan to continue growing our business organically through expansion, sales efforts, and strategic acquisitions, while maintaining tight controls on our expenses and overhead. Lean overhead functions combined with focused growth may place a strain on our management systems, infrastructure and resources, resulting in internal control failures, missed opportunities, and staff attrition which could impact our business and results of operations.

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.

There are inherent limitations in all control systems, and misstatements due to error or fraud may occur and not be detected.

The ongoing internal control provisions of Section 404 of the Sarbanes-Oxley Act of 2002 require us to identify material weaknesses in internal control over financial reporting, which is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls and disclosure controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, in our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Further, controls can be circumvented by individual acts of some persons, by collusion of two or more persons, or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions. Over time, a control may be inadequate because of changes in conditions, such as growth of the company or increased transaction volume, or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

In addition, discovery and disclosure of a material weakness, by definition, could have a material adverse impact on our financial statements. Such an occurrence could discourage certain customers or suppliers from doing business with us, cause downgrades in our future debt ratings leading to higher borrowing costs and affect how our stock trades. This could, in turn, negatively affect our ability to access public debt or equity markets for capital.

Our strategy of growing through acquisitions may impact our business in unexpected ways.

Our growth strategy involves acquisitions that help us expand our service offerings and diversify our geographic footprint. We continuously evaluate acquisition opportunities, but there are no assurances that we will be able to identify acquisition targets that complement our strategy and are available at valuation levels accretive to our business.

Even if we are successful in acquiring, our acquisitions may subject our business to risks that may impact our results of operation:

- inability to integrate acquired companies effectively and realize anticipated synergies and benefits from the acquisitions;

- diversion of management's attention to the integration of the acquired businesses at the expense of delivering results for the legacy business;

- inability to appropriately scale critical resources to support the business of the expanded enterprise and other unforeseen challenges of operating the acquired business as part of the Company's operations;

inability to retain key employees of the acquired businesses and/or inability of such key employees to be effective as part of the Company's operations;

impact of liabilities of the acquired businesses undiscovered or underestimated as part of the acquisition due diligence;

failure to realize anticipated growth opportunities from a combined business, because existing and potential clients may be unwilling to consolidate business with a single supplier or to stay with the acquirer post acquisition;

impacts of cash on hand and debt incurred to finance acquisitions, thus reducing liquidity for other significant strategic objectives; and

internal controls, disclosure controls, corruption prevention policies, human resources and other key policies and practices of the acquired companies may be inadequate or ineffective.

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We face risks associated with litigation and claims.

We are a party to certain legal proceedings that are currently pending, including *NewCSI, Inc. v. Staffing 360 Solutions, Inc.*, as further described in this Form 10-K. In addition, from time to time, we may become involved in various claims, disputes and legal or regulatory proceedings that arise in the ordinary course of business and relate to contractual and other obligations. Due to the uncertainties of litigation, we can give no assurance that we will prevail on any claims made against us in any such lawsuit. Also, we can give no assurance that any other lawsuits or claims brought in the future will not have an adverse effect on our financial condition, liquidity or operating results. Adverse outcomes in some or all of these claims may result in significant monetary damages that could adversely affect our ability to conduct our business.

The potential U.K. exit from the European Union as a result of the U.K. triggering Article 50 of the Treaty on European Union could harm our business, financial condition or results of operations.

On March 29, 2017, the U.K. triggered Article 50 of the Treaty on European Union by notifying the European Council of its intention to withdraw from the European Union (commonly referred to as “Brexit”). Negotiations have commenced to determine the future terms of the U.K.’s relationship with the European Union, including the terms of trade between the U.K. and the European Union. The effects of Brexit will depend on any agreements the U.K. makes to retain access to European Union markets either during a transitional period or more permanently. Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which European Union laws to replace or replicate.

The announcement of Brexit also created (and the actual exit of the U.K. from the European Union may create future) global economic uncertainty. The actual exit of the U.K. from the European Union could cause disruptions to and create uncertainty surrounding our business. Any of these effects of Brexit (and the announcement thereof), and others we cannot anticipate, could harm our business, financial condition or results of operations.

Our revenue may be adversely affected by fluctuations in currency exchange rates.

A significant portion of our expenditures are expected to be derived or spent in British pounds. However, we report our financial condition and results of operations in U.S. dollars. As a result, fluctuations between the U.S. dollar and the British pound will impact the amount of our revenues and net income. For example, if the British pound appreciates relative to the U.S. dollar, the fluctuation will result in a positive impact on the revenues that we report. However, if the British pound depreciates relative to the U.S. dollar, which was the case during 2016, there will be a negative impact on the revenues we report due to such fluctuation. It is possible that the impact of currency fluctuations will result in a decrease in reported consolidated sales even though we may have experienced an increase in sales transacted in the British pound. Conversely, the impact of currency fluctuations may result in an increase in reported consolidated sales despite declining sales transacted in the British pound. The exchange rate from the U.S. dollar to the British pound has fluctuated substantially in the past and may continue to do so in the future. Though we may choose to hedge our exposure to foreign currency exchange rate changes in the future, there is no guarantee such hedging, if undertaken, will be successful.

We depend on attracting, integrating, managing, and retaining qualified personnel.

Our success is substantially dependent upon our ability to attract, integrate, manage and retain personnel who possess the skills and experience necessary to fulfill our customers’ needs. Our ability to hire and retain qualified personnel could be impaired by any diminution of our reputation, decrease in compensation levels relative to our competitors or modifications to our total compensation philosophy or competitor hiring programs. If we cannot attract, hire and retain qualified personnel, our business, financial condition and results of operations may suffer. Our future success also depends upon our ability to manage the performance of our personnel. Failure to successfully manage the performance of our personnel could affect our profitability by causing operating inefficiencies that could increase operating

expenses and reduce operating income.

We depend on our ability to attract and retain qualified temporary workers.

In addition to the members of our own team, our success is substantially dependent on our ability to recruit and retain qualified temporary workers who possess the skills and experience necessary to meet the staffing requirements of our customers. We are required to continually evaluate our base of available qualified personnel to keep pace with changing customer needs. Competition for individuals with proven professional skills is intense, and demand for these individuals is expected to remain strong for the foreseeable future. There can be no assurance that qualified personnel will continue to be available.

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Our revenue can vary because our customers can terminate their relationship with us at any time with limited or no penalty.

We focus on providing mid-level professional and light industrial personnel on a temporary assignment-by-assignment basis, which customers can generally terminate at any time or reduce their level of use when compared to prior periods. To avoid large placement agency fees, large companies may use in-house personnel staff, current employee referrals, or human resources consulting companies to find and hire new personnel. Because placement agencies typically charge a fee based on a percentage of the first year's salary of a new worker, companies with many jobs to fill have a large financial incentive to avoid agencies.

Our business is also significantly affected by our customers' hiring needs and their views of their future prospects. Our customers may, on very short notice, terminate, reduce or postpone their recruiting assignments with us and, therefore, affect demand for our services. As a result, a significant number of our customers can terminate their agreements with us at any time, making us particularly vulnerable to a significant decrease in revenue within a short period of time that could be difficult to quickly replace. This could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to retain existing customers or attract new customers, our results of operations could suffer.

Increasing the growth and profitability of our business is particularly dependent upon our ability to retain existing customers and capture additional customers. Our ability to do so is dependent upon our ability to provide high quality services and offer competitive prices. If we are unable to execute these tasks effectively, we may not be able to attract a significant number of new customers and our existing customer base could decrease, either or both of which could have an adverse impact on our revenues.

We operate in an intensely competitive and rapidly changing business environment, and there is a substantial risk that our services could become obsolete or uncompetitive.

The markets for our services are highly competitive. Our markets are characterized by pressures to provide high levels of service, incorporate new capabilities and technologies, accelerate job completion schedules and reduce prices. Furthermore, we face competition from a number of sources, including other executive search firms and professional search, staffing and consulting firms. Several of our competitors have greater financial and marketing resources than we do. New and existing competitors are aided by technology, and the market has low barriers to entry. Furthermore, Internet employment sites expand a company's ability to find workers without the help of traditional agencies. Personnel agencies often work as intermediaries, helping employers accurately describe job openings and screen candidates. Increasing the use of sophisticated, automated job description and candidate screening tools could make many traditional functions of staffing companies obsolete. Specifically, the increased use of the internet may attract technology-oriented companies to the professional staffing industry. Free social networking sites such as LinkedIn and Facebook are also becoming a common way for recruiters and employees to connect without the assistance of a staffing company.

Our future success will depend largely upon our ability to anticipate and keep pace with those developments and advances. Current or future competitors could develop alternative capabilities and technologies that are more effective, easier to use or more economical than our services. In addition, we believe that, with continuing development and increased availability of information technology, the industries in which we compete may attract new competitors. If our capabilities and technologies become obsolete or uncompetitive, our related sales and revenue would decrease. Due to competition, we may experience reduced margins on our services, loss of market share, and loss of customers. If we are not able to compete effectively with current or future competitors as a result of these and other factors, our business, financial condition and results of operations could be materially adversely affected.

Our operations may be affected by global economic fluctuations.



Customers' demand for our services may fluctuate widely with changes in economic conditions in the markets in which we operate. Those conditions include slower employment growth or reductions in employment, which directly impact our service offerings. As a staffing company, our revenue depends on the number of jobs we fill, which in turn depends on economic growth. During economic slowdowns, many customer companies stop hiring altogether. For example, in prior economic downturns, many employers in our operating regions reduced their overall workforce to reflect the slowing demand for their products and services. We may face lower demand and increased pricing pressures during these periods, which this could have a material adverse effect on our business, financial condition and results of operations.

We could be adversely affected by risks associated with acquisitions and joint ventures.

We are engaged in the acquisition of U.S. and U.K. based staffing companies, and our typical acquisition model is based on paying consideration in the form of cash, stock, earn-outs and/or promissory notes. To date, we have completed eight acquisitions. We intend to expand our business through acquisitions of complementary businesses, services or products, subject to our business plans and management's ability to identify, acquire and develop suitable investments or acquisition targets in both new and existing service

categories. In certain circumstances, acceptable investments or acquisition targets might not be available. Acquisitions involve a number of risks, including:

- difficulty in integrating the operations, technologies, products and personnel of an acquired business, including consolidating redundant facilities and infrastructure;
- potential disruption of our ongoing business and the distraction of management from our day-to-day operations;
- difficulty entering markets in which we have limited or no prior experience and in which competitors have a stronger market position;
- difficulty maintaining the quality of services that such acquired companies have historically provided;
- potential legal and financial responsibility for liabilities of acquired businesses;
- overpayment for the acquired company or assets or failure to achieve anticipated benefits, such as cost savings and revenue enhancements;
- increased expenses associated with completing an acquisition and amortizing any acquired intangible assets;
- challenges in implementing uniform standards, accounting policies, customs, controls, procedures and policies throughout an acquired business;
- failure to retain, motivate and integrate key management and other employees of the acquired business; and
- loss of customers and a failure to integrate customer bases.

Our business plan for continued growth through acquisitions is subject to certain inherent risks, including accessing capital resources, potential cost overruns and possible rejection of our business model and/or sales methods.

Therefore, we provide no assurance that we will be successful in carrying out our business plan. We continue to pursue additional debt and equity financing to fund our business plan. We have no assurance that future financing will be available to us on acceptable terms or at all.

In addition, if we incur indebtedness to finance an acquisition, it may reduce our capacity to borrow additional amounts and require us to dedicate a greater percentage of our cash flow from operations to payments on our debt, thereby reducing the cash resources available to us to fund capital expenditures, pursue other acquisitions or investments in new business initiatives and meet general corporate and working capital needs. This increased indebtedness may also limit our flexibility in planning for, and reacting to, changes in or challenges relating to our business and industry. The use of our common stock or other securities (including those convertible into or exchangeable or exercisable for our common stock) to finance any such acquisition may also result in dilution of our existing shareholders.

The potential risks associated with future acquisitions could disrupt our ongoing business, result in the loss of key customers or personnel, increase expenses and otherwise have a material adverse effect on our business, results of operations and financial condition.

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

Our business could be interrupted by damage to or disruption of our computer and telecommunications equipment and software systems, and we may lose data. Our customers' businesses may be adversely affected by any system or equipment failure we experience. As a result of any of the foregoing, our relationships with our customers may be impaired, we may lose customers, our ability to attract new customers may be adversely affected and we could be exposed to contractual liability. Precautions in place to protect us from, or minimize the effect of, such events may not be adequate. If an interruption by damage to or disruption of our computer and telecommunications equipment and software systems occurs, we could be liable and the market perception of our services could be harmed.

We could be harmed by improper disclosure or loss of sensitive or confidential company, employee, associate or customer data, including personal data.

In connection with the operation of our business, we store, process and transmit a large amount of data, including personnel and payment information, about our employees, customers, associates and candidates, a portion of which is confidential and/or personally sensitive. In doing so, we rely on our own technology and systems, and those of third party vendors we use for a variety of processes. We and our third party vendors have established policies and procedures to help protect the security and privacy of this information. Unauthorized disclosure or loss of sensitive or confidential data may occur through a variety of methods. These include, but are not limited to, systems failure, employee negligence, fraud or misappropriation, or unauthorized access to or through our information

systems, whether by our employees or third parties, including a cyberattack by computer programmers, hackers, members of organized crime and/or state-sponsored organizations, who may develop and deploy viruses, worms or other malicious software programs.

Such disclosure, loss or breach could harm our reputation and subject us to government sanctions and liability under our contracts and laws that protect sensitive or personal data and confidential information, resulting in increased costs or loss of revenues. It is possible that security controls over sensitive or confidential data and other practices we and our third party vendors follow may not prevent the improper access to, disclosure of, or loss of such information. The potential risk of security breaches and cyberattacks may increase as we introduce new services and offerings, such as mobile technology. Further, data privacy is subject to frequently changing rules and regulations, which sometimes conflict among the various jurisdictions in which we provide services. Any failure or perceived failure to successfully manage the collection, use, disclosure, or security of personal information or other privacy related matters, or any failure to comply with changing regulatory requirements in this area, could result in legal liability or impairment to our reputation in the marketplace.

We may be exposed to employment-related claims and losses, including class action lawsuits, which could have a material adverse effect on our business.

We employ people internally and in the workplaces of other businesses. Many of these individuals have access to customer information systems and confidential information. The risks of these activities include possible claims relating to:

- discrimination and harassment;
- wrongful termination or denial of employment;
- violations of employment rights related to employment screening or privacy issues;
- classification of temporary workers;
- assignment of illegal aliens;
- violations of wage and hour requirements;
- retroactive entitlement to temporary worker benefits;
- errors and omissions by our temporary workers;
- misuse of customer proprietary information;
- misappropriation of funds;
- damage to customer facilities due to negligence of temporary workers; and
- criminal activity.

We may incur fines and other losses or negative publicity with respect to these problems. In addition, these claims may give rise to litigation, which could be time-consuming and expensive. New employment and labor laws and regulations may be proposed or adopted that may increase the potential exposure of employers to employment-related claims and litigation. There can be no assurance that the corporate policies we have in place to help reduce our exposure to these risks will be effective or that we will not experience losses as a result of these risks. There can also be no assurance that the insurance policies we have purchased to insure against certain risks will be adequate or that insurance coverage will remain available on reasonable terms or be sufficient in amount or scope of coverage.

Our compliance with complicated regulations concerning corporate governance and public disclosure has resulted in additional expenses. Moreover, our ability to comply with all applicable laws, rules and regulations is uncertain given our management's relative inexperience with operating public companies.

We are faced with expensive, complicated and evolving disclosure, governance and compliance laws, regulations and standards relating to corporate governance and public disclosure. In addition, as a staffing company, we are regulated by the U.S. Department of Labor, the Equal Employment Opportunity Commission, and often by state authorities. New or changing laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and their application in practice may evolve over time as new guidance is provided by regulatory and

governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing compliance work.

Our failure to comply with all laws, rules and regulations applicable to U.S. public companies could subject us or our management to regulatory scrutiny or sanction, which could harm our reputation and stock price. Our efforts to comply with evolving laws,

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regulations and standards are likely to continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

The requirements of being a public company place significant demands on our resources.

As a public company, we incur significant legal, accounting, and other expenses. In addition, the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as rules subsequently implemented by the Securities and Exchange Commission and the NASDAQ Capital Market, have imposed various requirements on public companies. New laws and regulations as well as changes to existing laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002, and changes in required accounting practices and rules adopted by the Securities and Exchange Commission and the by NASDAQ Capital Market, would likely result in increased costs to us as we respond to their requirements.

Shareholder activism, the current political environment, and the current high level of government intervention and regulatory reform may lead to substantial new regulations and disclosure obligations, which may lead to additional compliance costs and impact the manner in which we operate our business in ways we cannot currently anticipate. Our management and other personnel will need to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased our legal and financial compliance costs and will make some activities more time consuming and costly. For example, these rules and regulations make it more difficult and more expensive for us to obtain and maintain director and officer liability insurance and we may be required to incur substantial costs to maintain our current levels of such coverage.

We do not intend to pay dividends on our common stock. Consequently, your ability to achieve a return on your investment will depend on the appreciation in the price of our common stock.

We have never declared or paid any cash dividend on our common stock. We currently anticipate that we will retain future earnings, if any, for the development, operation, and expansion of our business, and we do not anticipate declaring or paying any cash dividends on our common stock for the foreseeable future. Any return to holders of our common stock would therefore be limited to the appreciation of their stock.

We are limited in our ability to pay dividends by certain of our existing agreements. In addition, so long as any shares of Series A Preferred Stock are outstanding, as they are at this time, we are not able to declare, pay or set apart for payment any dividend on any shares of common stock, unless at the time of such dividend we have paid all accrued and unpaid dividends on the outstanding shares of Series A Preferred Stock. Therefore, we cannot be certain if we will pay any cash dividends to holders of our common stock in the foreseeable future. Consequently, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders have purchased their shares.

Upon our dissolution, you may not recoup all or any portion of your investment.

In the event of a liquidation, dissolution or winding-up of our company, whether voluntary or involuntary, the proceeds and/or assets of our company remaining after giving effect to such transaction, and the payment of all of our debts and liabilities will be distributed to the stockholders of common stock on a pro rata basis. There can be no assurance that we will have available assets to pay to the holders of common stock, or any amounts, upon such a liquidation, dissolution or winding-up of our company. In this event, you could lose some or all of your investment.

Comprehensive tax reform bills could adversely affect our business and financial condition.

The U.S. government has enacted comprehensive tax legislation that includes significant changes to the taxation of business entities. These changes include, among others, (i) a permanent reduction to the corporate income tax rate, (ii)

a partial limitation on the deductibility of business interest expense, (iii) a shift of the U.S. taxation of multinational corporations from a tax on worldwide income to a territorial system (along with certain rules designed to prevent erosion of the U.S. income tax base) and (iv) a one-time tax on accumulated offshore earnings held in cash and illiquid assets, with the latter taxed at a lower rate. Notwithstanding the reduction in the corporate income tax rate, the overall impact of this tax reform is uncertain, and our business and financial condition could be adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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## ITEM 2. PROPERTIES.

The Company leases 4,157 square feet of space at 641 Lexington Avenue, Suite 2701, New York, NY 10022, its headquarters and principal location. The Company's lease for this space will expire in 2022. The Company currently has a total of 16 facilities throughout the U.S. and the U.K. This includes U.K. offices in London and Redhill, England, as well as offices in the following states in the U.S.: New York, Connecticut, Massachusetts, Rhode Island, New Hampshire, Georgia, North Carolina and South Carolina.

All offices are operated from leased space ranging from approximately 500 to 10,100 square feet, typically through operating leases with terms that range from six months to five years, and thus with expirations from 2018 through 2027. We believe that our facilities are adequate for our current requirements and that the Company's leasing strategies provide us with sufficient flexibility to accommodate our business needs.

## ITEM 3. 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, 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 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. On July 26, 2017, the Appellate Court affirmed the Court's decision granting a judgment against the Company for \$1,307, and awarded prejudgment interest in the amount of \$77 and costs and fees in the amount of \$20, for a total judgment of \$1,405, but left the issue of legal fees open for further proceedings at the trial court. The supersedeas bond had accrued interest to \$1,400 and was released to NewCSI's counsel. The Company paid the remaining \$5 directly.

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.

The Company intends to aggressively assert its defenses in the remaining portion of the proceedings with NewCSI. Nevertheless, there can be no assurance that the outcome of this legal fees determination will be favorable to the Company.

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

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

#### Other Matters

On February 17, 2016, a previous law firm filed suit in the Supreme Court of the State of New York alleging that the Company owes \$759, for legal services rendered. The Company disagreed with the quantity and quality of legal services provided by the firm to the Company. On March 17, 2016, the Company reached a settlement with the law firm in the amount of \$505 to be paid in equal installments over 24 months beginning April 2016. The final payment was made on March 1, 2018.

#### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

## Market Information

Shares of the Company's common stock are traded on the Nasdaq Capital Market under the ticker symbol "STAF". The high and low sales price per share of the Company's common stock for each quarter during the last two fiscal years, as well as the Transition Period is shown below. Please note that historical share prices before January 4, 2018, have been adjusted to account for the reverse stock split that took effect at 5:00 p.m. ET on January 3, 2018.

|                                   | High   | Low    |
|-----------------------------------|--------|--------|
| Fiscal 2017, Quarters Ended       |        |        |
| December 30, 2017                 | \$4.25 | \$3.15 |
| September 30, 2017                | 5.25   | 2.55   |
| July 1, 2017                      | 5.10   | 3.05   |
| April 1, 2017                     | 4.75   | 2.50   |
| Transition Period 2016            |        |        |
| June 1, 2016 to December 31, 2016 | 12.60  | 3.45   |
| Fiscal 2016, Quarters Ended       |        |        |
| May 31, 2016                      | 22.75  | 9.75   |
| February 29, 2016                 | 27.00  | 11.65  |
| November 30, 2015                 | 39.50  | 20.00  |
| August 31, 2015                   | 43.50  | 22.50  |

## Holders of Common Stock

As of March 29, 2018, there were approximately 2,175 shareholders of record of the Company's common stock.

## Dividends

The Company has never paid any cash dividends on our common stock, and we do not anticipate paying any cash dividends with respect to those securities in the foreseeable future. The declaration and payment of future dividends will be at the discretion of the Company's Board and will depend upon many factors, including the Company's earnings, cash flow, financial condition and capital requirements. Our current business plan is to retain any future earnings to finance the expansion and development of our business. In addition, under the terms of our Amended and Restated Note Purchase Agreement with the Jackson Investment Group, LLC the Company is generally prohibited from paying cash dividends on shares of our common stock for so long as we remain indebted to the Jackson Investment Group, LLC under the Amended and Restated Note Purchase Agreement.

## Recent Sales of Unregistered Securities

Other than those sales of unregistered securities that have been disclosed by the Company in quarterly reports on Form 10-Q, current reports on Form 8-K, and as described in "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Financings," the following are the only sales of unregistered securities: 7,500 shares to Wayne Müller valued at \$6, and 15,000 shares to Greenridge Global valued at \$14.

ITEM 6. SELECTED FINANCIAL DATA.

Not required for smaller reporting companies.

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

### Overview

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

### Business Model, Operating History and Acquisitions

We are a high-growth international staffing company engaged in the acquisition of U.S. and U.K. based staffing companies. As part of our consolidation model, we pursue a broad spectrum of staffing companies supporting primarily the Professional and Commercial Sectors. Our typical acquisition model is based on paying consideration in the form of cash, stock, earn-outs and/or promissory notes. In furthering our business model, the Company is regularly in discussions and negotiations with various suitable, mature acquisition targets. To date, the company has completed eight acquisitions, the most recent two were consummated in September 2017.

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

On September 15, 2017, Staffing Georgia, a wholly-owned subsidiary of the Company completed the Firstpro Acquisition. The purchase price in connection with the Firstpro 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 completed 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"), a related party, 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, which was made. 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 were subject to registration rights in favor of Jackson and included in a new resale registration statement filed by the Company on November 1, 2018.

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.

### Results of Operations

On February 28, 2017, the board of directors (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, effective December 31, 2016. On April 12, 2017, the Company filed a transition report ("Transition Report"), Form 10-K/T, for the period from June 1, 2016 through December 31, 2016, ("Transition Period"). Following this Transition Report, we will file annual reports for each twelve-month period ending on the

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Saturday closest to December 31 of each year beginning with December 30, 2017. This report is for the period from January 1, 2017 to December 30, 2017 (“Fiscal 2017”). The Form 10-K/T filed prior to this was for the period from June 1, 2015 to May 31, 2016 (“Fiscal 2016”).

During Fiscal 2017, the Transition Period and Fiscal 2016, the Company generated \$192,650, \$109,422 and \$165,552 of revenue, respectively. During the most recent three months ended December 30, 2017, the Company generated \$59,476 of revenue. The Company believes the acquisitions consummated during Fiscal 2017 are performing as expected. We believe that we can continue to grow these businesses and that they will allow us to attract further acquisitions in line with our stated strategic plan of achieving \$500 million of annualized revenue.

The Company operates in three countries and currencies; U.S. (U.S. Dollar), U.K. (Pound Sterling) and Canada (Canadian dollar), although its operations in Canada represent less than 0.1% of total revenues. During Fiscal 2017, revenues generated in the UK were approximately 23% of consolidated revenue, and in the Transition Period and Fiscal 2016, revenues generated in the U.K. were approximately 15% and 13%, respectively, of total consolidated revenue.

During the periods being reported, growth in bill rates can be attributed to wage inflation due to lower unemployment and fewer available candidates. In addition, bill rates in the industrial and office/clerical staffing skill segments have risen due to pass-through of new administrative and health insurance costs related to the Affordable Care Act (ACA) employer mandate which took effect January 1st, 2015. Going forward, minimum wage increases in several states are projected to have a ripple effect of boosting pay and bill rates in the industrial and office/clerical staffing skill segments.

#### Revenue by Segment

The following table details Revenue and Gross Profit by segment for Fiscal 2017, the Transition Period and Fiscal 2016, respectively:

|                            | Fiscal<br>2017 | Mix | Transition<br>Period | Mix | Fiscal<br>2016 | Mix |
|----------------------------|----------------|-----|----------------------|-----|----------------|-----|
| Commercial Staffing - US   | \$96,399       | 50% | \$61,792             | 56% | \$90,331       | 55% |
| Professional Staffing - US | 51,104         | 27% | 31,551               | 29% | 53,226         | 32% |
| Professional Staffing - UK | 45,147         | 23% | 16,079               | 15% | 21,995         | 13% |
| Total Service Revenue      | \$192,650      |     | \$109,422            |     | \$165,552      |     |
| Commercial Staffing - US   | \$16,913       | 46% | \$9,966              | 52% | \$13,602       | 47% |
| Professional Staffing - US | 10,619         | 29% | 5,741                | 30% | 10,282         | 35% |
| Professional Staffing - UK | 9,209          | 25% | 3,430                | 18% | 5,163          | 18% |
| Total Gross Profit         | \$36,741       |     | \$19,137             |     | \$29,047       |     |
| Commercial Staffing - US   | 17.5           | %   | 16.1                 | %   | 15.1           | %   |
| Professional Staffing - US | 20.8           | %   | 18.2                 | %   | 19.3           | %   |
| Professional Staffing - UK | 20.4           | %   | 21.3                 | %   | 23.5           | %   |
| Total Gross Margin         | 19.1           | %   | 17.5                 | %   | 17.5           | %   |

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Fiscal 2017 compared to the unaudited period January 3, 2016 to December 31, 2016

Due to the Company's change in year end, the Transition Period is not a direct comparison to Fiscal 2017 due to it being less than a fiscal year. As such, unaudited results of operations for the period January 3, 2016 to December 31, 2016 are provided here for discussion and analysis purposes only.

For the Period

January 3, 2016 -

|                            | Fiscal<br>2017 | % of Revenue |    | December 31, 2016<br>(Unaudited) | % of Revenue |    | Growth |   |
|----------------------------|----------------|--------------|----|----------------------------------|--------------|----|--------|---|
| Revenue                    | \$192,650      | 100.0        | %  | \$ 181,487                       | 100.0        | %  | 6.2    | % |
| Direct cost of revenue     | 155,909        | 80.9         | %  | 149,925                          | 82.6         | %  | 4.0    | % |
| Gross profit               | 36,741         | 19.1         | %  | 31,562                           | 17.4         | %  | 16.4   | % |
| Operating expenses         | 41,955         | 21.8         | %  | 34,378                           | 18.9         | %  | 22.0   | % |
| Loss from operations       | (5,214 )       | (2.7         | )% | (2,816 )                         | (1.6         | )% | 85.2   | % |
| Other expenses             | (12,345 )      | (6.4         | )% | (4,722 )                         | (2.6         | )% | 161.4  | % |
| Provision for income taxes | (932 )         | (0.5         | )% | (42 )                            | (0.0         | )% | 2119.0 | % |
| Net loss                   | \$(18,491 )    | (9.6         | )% | \$ (7,580 )                      | (4.2         | )% | 143.9  | % |

#### Revenue

For Fiscal 2017, revenue grew 6.2% to \$192,650 as compared to \$181,487 for the period January 3, 2016 to December 31, 2016. Of that growth, 13.5% was from the acquisitions of CBS Butler and Firstpro, organic decline was 6.5% and 0.8% was from unfavorable foreign currency translation.

Revenue in Fiscal 2017 was comprised of \$186,999 of temporary contractor revenue, \$5,401 from permanent placement revenue and \$250 of other revenue; as compared with revenue for the comparable period comprised of \$178,003 temporary contractor revenue, \$3,247 of permanent placement revenue and \$237 of other revenue.

#### Direct cost of revenue

Direct cost of revenue includes the variable cost of labor relating to temporary employees as well as sub-contractors and consultants. For Fiscal 2017 and the period January 3, 2016 to December 31, 2016, direct cost of revenue was \$155,509 and \$149,925, respectively, or growth of 4.0%, compared to growth in revenue of 6.2%, and is further discussed in the gross profit and gross margin comments below.

#### Gross profit and gross margin

For Fiscal 2017 and the period January 3, 2016 to December 31, 2016, gross profit was \$36,741 and \$31,562, respectively, representing gross margin of 19.1% and 17.4% for each period, respectively. Gross profit grew and gross margin improved, driven by higher revenues, lower workmen's compensation insurance as percentage of payroll, and \$2,154 of higher permanent placement revenue, contributed by Firstpro and CBS Butler, which has a 100% gross margin.

#### Operating expenses

Operating expenses are principally comprised of revenue generating personnel costs (recruiters and business development), non-revenue generating personnel costs, facility expenses and supplier costs. In Fiscal 2017, operating expenses grew to \$41,955 from \$34,378 in the comparable period, an increase of 22.0%. Included in that growth are



\$4,803 of operating expenses associated with Firstpro and CBS Butler; \$780 of a restructuring charge associated with reorganizing the Company into three segments and the departure of the former Chief Executive Officer; \$4,790 for a goodwill impairment charge associated with our PeopleServe business resulting from declining revenue attributable to our decision to exit low margin business; \$2,139 of non-recurring cash costs associated primarily with diligence and closing of the two acquisitions, legal defense costs and the Company's change of fiscal year end; and, \$1,015 higher depreciation and amortization, largely driven by the two acquisitions.

Excluding the goodwill impairment, non-cash charges, non-recurring costs and the restructuring charge, operating expenses grew on an absolute basis from \$26,795 to \$29,350, or 9.5%, but improved to 79.9% from 84.1% as a percentage of gross profit, respectively.

#### Other Expenses

Other expenses include interest, amortization of debt discount and deferred financing costs, the change in the fair value of financial instruments and loss on extinguishment of debt. For Fiscal 2017 and for the period January 3, 2016 to December 31, 2016, interest was \$3,745 and \$2,554, respectively, amortization of debt discount and deferred financing costs were \$2,745 and \$2,319, respectively, the change in the fair market value of financial instruments was income of \$383 and nil, respectively, and the loss on extinguishment of debt was \$6,132 and \$162, respectively.

## Fiscal 2017 compared to the Transition Period

Fiscal 2017 represents a full fiscal year while the Transition Period includes only the seven months June 1, 2016 through December 31, 2016. As such, the main driver of change in any line item is principally driven by the difference in period length.

|                            | Fiscal      |              | Transition  |              | Growth |          |
|----------------------------|-------------|--------------|-------------|--------------|--------|----------|
|                            | 2017        | % of Revenue | Period      | % of Revenue |        |          |
| Revenue                    | \$192,650   | 100.0        | % \$109,422 | 100.0        | %      | 76.1 %   |
| Direct cost of revenue     | 155,909     | 80.9         | % 90,285    | 82.5         | %      | 72.7 %   |
| Gross profit               | 36,741      | 19.1         | % 19,137    | 17.5         | %      | 92.0 %   |
| Operating expenses         | 41,955      | 21.8         | % 20,017    | 18.3         | %      | 109.6 %  |
| Loss from operations       | (5,214 )    | (2.7 )%      | (880 )      | (0.8 )%      |        | 492.5 %  |
| Other expenses             | (12,345 )   | (6.4 )%      | (2,965 )    | (2.7 )%      |        | 316.4 %  |
| Provision for income taxes | (932 )      | (0.5 )%      | (16 )       | (0.0 )%      |        | 5725.0 % |
| Net loss                   | \$(18,491 ) | (9.6 )%      | \$(3,861 )  | (3.5 )%      |        | 378.9 %  |

## Revenue

For Fiscal 2017, revenue grew 76.1% to \$192,650 as compared to \$109,422 for the Transition Period. Of that growth, \$66,885 or 61.1% was as a result of Fiscal 2017 containing 12 months compared to seven months in the Transition Period, organic decline was 7.1%, the acquisitions of CBS Butler and Firstpro contributed 22.3%, and 0.3% was from unfavorable foreign currency translation.

Revenue in Fiscal 2017 was comprised of \$186,999 of temporary contractor revenue, \$5,401 from permanent placement revenue and \$250 of other revenue; as compared with revenue for the Transition Period comprised of \$107,429 temporary contractor revenue, \$1,840 of permanent placement revenue and \$153 of other revenue.

## Direct cost of revenue

Direct cost of revenue includes the variable cost of labor relating to temporary employees as well as sub-contractors and consultants. For Fiscal 2017 and the Transition Period, direct cost of revenue was \$155,509 and \$90,285, respectively, or growth of 72.7%, compared to growth in revenue of 76.1%, and is further discussed in the gross profit and gross margin comments below. Of the 72.7% increase in Direct cost of revenue, 60.5% was as a result of Fiscal 2017 containing 12 months compared to seven months in the Transition Period.

## Gross profit and gross margin

For Fiscal 2017 and for the Transition Period, gross profit was \$36,741 and \$19,137, respectively, representing gross margin of 19.1% and 17.5% for each period, respectively. Gross profit grew and gross margin improved, driven by higher revenues, lower workmen's compensation insurance as percentage of payroll, and higher permanent placement revenue as a percentage of the total, which has a 100% gross margin, contributed principally by Firstpro and CBS Butler.

## Operating expenses

For Fiscal 2017 and for the Transition Period, operating expenses amounted to \$41,955 as compared to \$20,017 for the Transition Period, an increase of 109.6%. Of the 109.6% increase, 69.6% was as a result of Fiscal 2017 containing 12 months compared to seven months in the Transition Period. Further increases to Operating expenses

resulted from acquisitions of CBS Butler and Firstpro, the goodwill impairment charge of \$4,790, and restructuring expenses of \$780 in the Fiscal 2017 operating expenses.

Excluding the goodwill impairment, non-cash charges, non-recurring costs and the restructuring charge, operating expenses grew on an absolute basis from \$15,876 to \$29,350, but improved to 79.9% from 83.0% as a percentage of gross profit, respectively.

#### Other Expenses

For Fiscal 2017 and for the Transition Period, interest was \$3,745 and \$1,382, respectively, amortization of debt discount and deferred financing costs were \$2,745 and \$1,409, respectively, the change in the fair market value of financial instruments was income of \$383 and nil, respectively, and the loss on extinguishment of debt was \$6,132 and \$162, respectively.

#### Transition Period compared to the Unaudited Period June 1, 2015 to January 2, 2016

Due to the Company's change in fiscal year, unaudited results of operations for the period June 1, 2015 to December 26, 2015 is provided here for discussion and analysis purposes only.

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|                                      | For the Transition |              | For the Period  |              | June 1, 2015 |         | -  |  |
|--------------------------------------|--------------------|--------------|-----------------|--------------|--------------|---------|----|--|
|                                      | Period Ended       |              | January 2, 2016 |              |              |         |    |  |
|                                      | December 31, 2016  | % of Revenue | (Unaudited)     | % of Revenue | Growth       |         |    |  |
| Revenue                              | \$ 109,422         | 100.0        | % \$ 91,432     | 100.0        | %            | 19.7    | %  |  |
| Direct cost of revenue               | 90,285             | 82.5         | % 75,116        | 82.2         | %            | 20.2    | %  |  |
| Gross profit                         | 19,137             | 17.5         | % 16,316        | 17.8         | %            | 17.3    | %  |  |
| Operating expenses                   | 20,017             | 18.3         | % 17,118        | 18.7         | %            | 16.9    | %  |  |
| Loss from operations                 | (880)              | (0.8)        | )% (802)        | (0.9)        | )%           | 9.7     | %  |  |
| Other expenses                       | (2,965)            | (2.7)        | )% (3,111)      | (3.4)        | )%           | (4.7)   | )% |  |
| (Provision) benefit for income taxes | (16)               | (0.0)        | )% 9            | 0.0          | %            | (280.5) | )% |  |
| Net loss                             | \$ (3,861)         | (3.5)        | )% \$ (3,904)   | (4.3)        | )%           | (1.1)   | )% |  |
| Revenue                              |                    |              |                 |              |              |         |    |  |

For the Transition Period, revenue grew 19.7% to \$109,422 as compared to \$91,432 for the period June 1, 2015 to January 2, 2016. Of that growth, 11.1% was organic, 9.2% was from the acquisitions of Lighthouse Placement Services, LLC (“Lighthouse”), and The JM Group Limited (the “The JM Group”), and 0.6% was from unfavorable foreign currency translation.

Revenue for the Transition Period was comprised of \$107,429 temporary contractor revenue, \$1,840 of permanent placement revenue and \$153 of other revenue; as compared with revenue for the comparable period comprised of \$89,361 temporary contractor revenue, \$1,965 of permanent placement revenue and \$106 of other revenue.

#### Direct cost of revenue

Direct cost of revenue includes the variable cost of labor relating to temporary employees as well as sub-contractors and consultants. For the Transition Period ended December 31, 2016 and the period June 1, 2015 to January 2, 2016, direct cost of revenue was \$90,285 and \$75,116, respectively, or growth of 20.2%, compared to growth in revenue of 19.7%, and is further discussed in the gross profit and gross margin comments below.

#### Gross profit and gross margin

Gross profit for the Transition Period and the period June 1, 2015 to January 2, 2016 was \$19,137 and \$16,316, respectively, representing gross margin of 17.5% and 17.8% for each period, respectively. The decrease in margin is primarily attributable to the acquisition of The JM Group and strong organic growth in the Light Industrial segment (both at lower margins than the Company’s historical average).

#### Operating expenses

For the Transition Period, operating expenses amounted to \$20,017 as compared to \$17,118 for the period June 1, 2015 to January 2, 2016, an increase of \$2,899 or 16.9%. Total operating expenses increased on an absolute basis, mainly resulting from the acquisition of Lighthouse and The JM Group, partially offset by decreases in professional fees and non-cash compensation expenses. However, as a percentage of revenue, these amounts were an improvement from 18.7% for the period June 1, 2015 to January 2, 2016 to 18.3% for the Transition Period.

Excluding the goodwill impairment, non-cash charges, non-recurring costs and the restructuring charge, operating expenses grew on an absolute basis from \$14,082 to \$15,876, an improvement to 83.0% from 86.3% as a percentage of gross profit, respectively.

#### Other Expenses

For the Transition Period and for the period June 1, 2015 to January 2, 2016, Other Expenses primarily includes interest and financing expense of \$2,791 and \$1,947, respectively, other expense (income) of \$162 and \$(39), respectively and other restructuring costs totaling \$10 and \$12, respectively. The restructuring charges incurred during 2016 were residual charges resulting from the Company's implementation of its Restructuring Plan during 2015.

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Fiscal 2016 compared to the fiscal year ended May 31, 2015

As neither Fiscal 2017, nor the Transition Period are comparable to Fiscal 2016 resulting from the Company's change in fiscal year, the fiscal year ended May 31, 2015 is provided here for discussion and analysis purposes only.

|                                       | For the Fiscal Years Ended May 31, |              |    |             |              |    | Growth |    |
|---------------------------------------|------------------------------------|--------------|----|-------------|--------------|----|--------|----|
|                                       | 2016                               | % of Revenue |    | 2015        | % of Revenue |    |        |    |
| Revenue                               | \$ 165,552                         | 100.0        | %  | \$ 128,829  | 100.0        | %  | 28.5   | %  |
| Direct cost of revenue                | 136,505                            | 82.5         | %  | 106,281     | 82.5         | %  | 28.4   | %  |
| Gross profit                          | 29,047                             | 17.5         | %  | 22,548      | 17.5         | %  | 28.8   | %  |
| Operating expenses                    | 32,564                             | 19.7         | %  | 30,017      | 23.3         | %  | 8.5    | %  |
| Loss from operations                  | (3,517 )                           | (2.1         | )% | (7,469 )    | (5.8         | )% | (52.9  | )% |
| Other expenses                        | (4,870 )                           | (2.9         | )% | (10,094 )   | (7.8         | )% | (51.8  | )% |
| (Provision) benefit for income taxes  | (17 )                              | (0.0         | )% | 60          | 0.0          | %  | (128.3 | )% |
| Net Loss From Discontinued Operations | —                                  | 0.0          | %  | (47 )       | (0.0         | )% | (100.0 | )% |
| Net loss                              | \$(8,404 )                         | (5.1         | )% | \$(17,550 ) | (13.6        | )% | (52.1  | )% |

#### Revenue

For Fiscal 2016, revenue grew 28.5% to \$165,552 as compared to \$128,829 for the fiscal year ended May 31, 2015. Of that growth, 7.1% was organic, 21.8% was from the acquisition of The JM Group, and 0.4% was from foreign currency translation.

#### Direct cost of revenue

Direct cost of revenue includes the variable cost of labor relating to temporary employees as well as sub-contractors and consultants. For Fiscal 2016 and the fiscal year ended May 31, 2015, cost of revenue was \$136,505 and \$106,281, respectively, or growth of 28.4%, which is consistent with the change in revenue.

#### Gross profit and gross margin

Gross profit for Fiscal 2016 and the fiscal year ended May 31, 2015 was \$29,047 and \$22,548, respectively, representing gross margin of 17.5% for both years. While business mix changed during the year with the addition of Lighthouse and The JM Group (at higher and lower margins respectively than the Company's historical average), underlying margins were approximately in line with the prior year.

#### Operating expenses

For Fiscal 2016, operating expenses amounted to \$32,564 as compared to \$30,017 for the fiscal year ended May 31, 2015, an increase of \$2,547 or 8.5%. Total operating expenses increased on an absolute basis, mainly resulting from the acquisition of Lighthouse and The JM Group. However, as a percentage of revenue, these amounts were an improvement from 23.3% for the fiscal year ended May 31, 2015 to 19.7% for Fiscal 2016.

While cash operating expenses grew on an absolute basis from \$23,958 to \$28,601 for the fiscal years ended May 31, 2015 and Fiscal 2016, respectively, this represents a significant decline as a percentage of revenue from 18.6% to 17.3% for the same periods.

#### Other Expenses

For Fiscal 2016 and the fiscal year ended May 31, 2015, Other Expenses primarily includes interest and financing expense of \$5,343 and \$5,866, respectively, other income of \$566 and \$142, respectively and other restructuring costs totaling \$21 and \$5,635, respectively. The restructuring charges in 2016 were residual charges resulting from the Company's implementation of its Restructuring Plan during 2015.

#### Non-GAAP Measures and Key Performance Indicators

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:

**Adjusted EBITDA** This measure is defined as net loss before: interest expense, benefit from (provision for) income taxes; 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.

The following table provides a reconciliation of Adjusted EBITDA for Fiscal 2017, the Transition Period and Fiscal 2016 to its most directly comparable GAAP measure:

|   | Fiscal<br>2017 | Transition<br>Period | Fiscal<br>2016 |
|---|----------------|----------------------|----------------|
| Net loss  | \$(18,491)     | \$(3,861)            | \$(8,404)      |
| Interest expense  | 3,745          | 1,382                | 2,699          |
| Provision for income taxes  | 932            | 16                   | 17             |
| Depreciation and amortization (1)                                 | 6,311          | 3,182                | 5,508          |
| EBITDA  | \$(7,503)      | \$ 719               | \$(180)        |
| Acquisition, capital raising and other non-recurring expenses (2) | 2,139          | 1,670                | 3,665          |
| Other non-cash charges (3)  | 1,330          | 698                  | 1,099          |
| Loss (Gain) on extinguishment of debt, net                        | 6,132          | 162                  | (566)          |
| Restructuring charges   | 780            | —                    | —              |
| Impairment of goodwill  | 4,790          | —                    | —              |
| Other income / (expense)  | (277)          | 12                   | 93             |
| Adjusted EBITDA   | \$7,391        | \$ 3,261             | \$4,111        |
| Trailing Twelve Months ("TTM") Adjusted EBITDA                    | \$7,391        | \$ 5,074             | \$4,111        |
| Pro Forma TTM Adjusted EBITDA (4)                                 | \$10,847       | 10,058               | \$9,669        |
| Gross Profit  | \$36,741       | \$ 19,137            | \$29,047       |
| Adjusted operating expenses (5)                                   | \$29,350       | \$ 15,876            | \$24,936       |
| Adjusted operating expenses percentage of gross profit            | 79.9 %         | 83.0 %               | 85.8 %         |

(1) Includes amortization of debt issuance costs 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 stock-based compensation for employees and to directors for board services, in addition to 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 derived from the difference between Gross Profit and Adjusted EBITDA.

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 in converting incremental gross profit into Adjusted EBITDA.

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The following table details the Company's Operating Leverage for the trailing twelve-month periods ended December 30, 2017, December 31, 2016, and May 31, 2016:

|  | Trailing Twelve<br>Months as of<br>December |                      |
|--|---|----------------------|
|  | 30,<br>2017                                 | December<br>31, 2016 |
| Gross Profit - TTM (Current Period)    | \$36,741                                    | \$29,047             |
| Gross Profit - TTM (Prior Period)      | 29,047                                      | 25,276               |
| Gross Profit - Growth                  | \$7,694                                     | \$3,771              |
| Adjusted EBITDA - TTM (Current Period) | \$7,391                                     | \$5,074              |
| Adjusted EBITDA - TTM (Prior Period)   | 5,074                                       | 2,670                |
| Adjusted EBITDA - Growth               | \$2,317                                     | \$2,404              |
| Operating Leverage                     | 30.1 %                                      | 63.7 %               |

Leverage Ratio Calculated as Total Long-Term Debt, Net, gross of any Deferred Financing Cost and Debt Discount, plus Earnouts, less assets held against Long Term Debt, divided by Adjusted EBITDA for the trailing twelve-months. We use this KPI as an indicator of the Company's ability to service its debt prospectively.

The following table details the Company's Leverage Ratio as of December 30, 2017 and December 31, 2016, respectively:

|   | December<br>30, 2017 | December<br>31, 2016 |
|---|----------------------|----------------------|
| Total Long-Term Debt, Net                                 | \$38,994             | \$7,636              |
| Addback: Total Debt Discount and Deferred Financing Costs | 1,260                | 1,374                |
| Earnouts  | 5,029                | 2,347                |
| Less: Surety Bond   | —                    | (1,405 )             |
| Total Long-Term Debt                                      | \$45,283             | \$9,952              |
| TTM Adjusted EBITDA                                       | \$7,391              | \$5,074              |
| Pro Forma TTM Adjusted EBITDA                             | \$10,847             | \$10,058             |
| Leverage Ratio  | 6.13x                | 1.96x                |
| Pro Forma Leverage Ratio                                  | 4.17x                | 0.99x                |

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 promissory notes, bonds, convertible notes, private placement offerings and from advances from our majority shareholders/officers/directors. On May 11, 2017, we entered into an At-The-Market Offering Agreement with Joseph Gunnar & Co., LLC (the “ATM Facility”). The ATM Facility allows us to sell common stock from time to time in an at-the-market public offering pursuant to our shelf registration statement on Form S-3 (File No. 333-208910), which was previously declared effective by the SEC, and a related prospectus. In Fiscal 2017, we raised \$441 pursuant to the ATM Facility. In addition, during Fiscal 2017, we raised a total of \$40,000 from Jackson Investment Group, LLC (see below for further discussion).

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 targeted acquisitions,
- Addition of administrative and sales personnel as the business grows,

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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.

As a result of our recent financings, we believe that we will be able to fund our operations, implement our business plan and pursue the acquisition of a broad spectrum of staffing companies through the next twelve months. However, we may need to raise additional capital to pursue growth opportunities, improve our infrastructure or otherwise make investments in assets and personnel that will allow us to remain competitive. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. However, the trading price of our common stock and a potential downturn in the U.S. equity and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Furthermore, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock.

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

The U.S. government has enacted comprehensive tax legislation that includes significant changes to the taxation of business entities. These changes include, among others, (i) a permanent reduction to the corporate income tax rate, (ii) a partial limitation on the deductibility of business interest expense, (iii) a shift of the U.S. taxation of multinational corporations from a tax on worldwide income to a territorial system (along with certain rules designed to prevent erosion of the U.S. income tax base) and (iv) a one-time tax on accumulated offshore earnings held in cash and illiquid assets, with the latter taxed at a lower rate. Notwithstanding the reduction in the corporate income tax rate, the overall impact of this tax reform is uncertain, and our business and financial condition could be adversely affected.

For Fiscal 2017, the Company had a working capital deficiency of \$11,374, an accumulated deficit of \$65,142, and a net loss of \$18,491. The Company has total debt of \$254 coming due in the next 12 months. The Company has the following debt balances:

|                   | Fiscal<br>2017 | Transition<br>Period |
|-------------------|----------------|----------------------|
| Bonds             | \$—            | \$ 50                |
| Convertible Notes | —              | 5,632                |
| Promissory Notes  | —              | 609                  |
| Term Loans        | 40,254         | 2,719                |
| Total Debt        | \$40,254       | \$ 9,010             |

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

principal or interest due under the Jackson Note will accrue at a rate per annum that is 5% in excess of the rate of interest otherwise payable thereunder.

The Company paid a closing fee of \$1,000 in connection with its entry into the note purchase agreement and agreed to issue 450,000 shares of the Company's common stock as a closing commitment fee. The Jackson Note resulted in the extinguishment of the old notes of \$11,165 and recording of the new debt of \$40,000 and debt issue costs of \$1,251. The Company recorded a \$4,777 loss upon extinguishment. The Company has estimated that the stated value of the new debt approximates fair value as the stated interest rate is consistent with prevailing market rates.

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%. Funds received from this new arrangement were used to pay the \$254 outstanding balance of the ABN AMRO term loan in full.

The accompanying 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. As discussed above, the Company completed financing of a \$40,000 term loan with Jackson, 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.

#### Operating activities

Cash used in operations was \$7,233 for the Fiscal 2017. The Company's principal source of financing for its operation is its accounts receivable lines of credit which is included in financing activities. During Fiscal 2017, net draws from such lines of credit were \$8,079. Net cash used on operating activities was primarily attributable to the net loss of \$18,491, which primarily related to changes in operating assets and liabilities totaling \$6,978, offset by non cash adjustments of \$18,236. Changes in operating assets and liabilities relates to a decrease in accounts payable and accrued expenses of \$4,606, an increase in accounts receivable of \$2,502, a decrease in other current liabilities of \$301 and an increase in prepaid expenses and other current assets of \$821; offset by an increase in other long term liabilities of \$1,003 and decrease in other assets of \$287. Non-cash addbacks of \$18,236 primarily relates to loss on extinguishment of debt of \$6,132, impairment of goodwill of \$4,790, amortization of identifiable intangible assets of \$3,164, amortization of debt discount and deferred financing of \$2,745, stock based compensation of \$1,386, and depreciation expense of \$402, offset by a change in fair value of warrant liability of \$383.

For the Transition Period, net cash used in operations was \$1,208. The Company's principal source of financing for its operation is its accounts receivable lines of credit which is included in financing activities. During the Transition Period, net draws from such lines of credit were \$1,739. Net cash used was primarily attributable to the net loss of \$3,861, changes in operating assets and liabilities totaling (\$1,232), offset by non-cash addbacks of \$3,885. Changes in operating assets and liabilities primarily relate to an increase in accounts receivable of \$1,896, an increase in other assets of \$627, offset by a decrease in prepaid expenses of \$399, an increase in accounts payable and accrued expenses of \$542, and increase in other of \$380. Non-cash addbacks of \$3,885 primarily relates to depreciation and amortization of \$1,773, amortization of debt discount and deferred financing costs of \$1,409, share based compensation totaling \$655, loss on settlement of debt of \$162, offset by other of \$114.

For Fiscal 2016, net cash provided by operations was \$2,094. The Company's principal source of financing for its operation is its accounts receivable lines of credit which is included in financing activities. During Fiscal 2016, net draws from such lines of credit were \$850. Net cash provided by operating activities was primarily attributable to the net loss of \$8,404 offset by changes in operating assets and liabilities totaling \$4,231, offset by non-cash addbacks of \$6,267. Changes in operating assets and liabilities primarily relate to a decrease in accounts receivable of \$2,098, a decrease in prepaid expenses of \$55, an increase in accounts payable and accrued expenses of \$2,800, an increase in other long-term liabilities of \$388; offset by an increase in other assets of \$637, and decrease in accounts payable – related party of \$175. Non-cash addbacks are principally comprised of \$5,508 of depreciation and amortization, share based compensation totaling \$1,171, and other of \$154, offset by gain on settlement of debt of \$566.

#### Investing activities

Net cash flows used in investing activities for Fiscal 2017 was \$21,588 and is due to the acquisitions of CBS Butler and FirstPro, , net of cash acquired, totaling \$20,890 and purchase of property and equipment of \$698.

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For the Transition Period, net cash flows used in investing activities was \$1,167 and was attributable to payments to sellers of Lighthouse and JM Group of \$946 and purchases of property and equipment of \$221.

For Fiscal 2016, net cash flows used in investing activities was \$5,130 and was attributable to purchases of property and equipment of \$205, posting of surety bond of \$1,405, and acquisition of businesses, net of cash acquired, of \$3,520.

### Financing activities

Net cash flows provided by financing activities totaled \$31,273 in Fiscal 2017 and was attributable to proceeds from related party term loans totaling \$50,165, proceeds from net accounts receivable financing of \$8,079, proceeds from convertible notes of \$400 and proceeds from our At-the-Market facility of \$441; offset by repayments on term loans totaling \$15,141 (including related party term loan payments of \$11,165), repayment of convertible notes of \$6,635, third party financing costs of \$2,354, redemption of Series D preferred stock of \$1,500, payments towards earn outs of \$1,125, dividends paid to related party of \$566, repayment of promissory notes of \$441 and repayment of bonds of \$50.

For the Transition Period, net cash flows provided by financing activities totaled \$1,058 and was attributable to proceeds private placements of \$2,495, proceeds from accounts receivable financing of \$1,739, proceeds from promissory notes issued of \$670, offset

by repayments of promissory notes of \$2,607, repayment of accounts receivable over advance of \$863, financing costs associated with private placements of \$274 and payments for earn outs of \$102.

For Fiscal 2016, net cash flows provided by financing activities totaled \$4,986 and was attributable to proceeds private placements of \$2,851, proceeds from accounts receivable financing of \$850, proceeds from promissory notes issued of \$1,990, proceeds from convertible notes of \$4,742, proceeds from accounts receivable over advance of \$863, offset by repayments of promissory notes of \$3,115, repayment of convertible notes of \$664, repayment of bonds of \$1,102, financing costs associated with private placements of \$1,269, and payment of earn outs of \$160.

#### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

#### Critical Accounting Policies and Estimates

Management believes the Company's critical accounting policies and estimates to be:

##### Revenue Recognition

The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the services have been rendered to the customer, (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured.

##### Income Taxes

The Company utilizes Accounting Standards Codification ("ASC") Topic 740, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The Company applies the provisions of ASC 740-10-50, "Accounting for Uncertainty in Income Taxes", which provides clarification related to the process associated with accounting for uncertain tax positions recognized in the financial statements. Audit periods remain open for review until the statute of limitations has passed. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Company's liability for income taxes. Any such adjustment could be material to the Company's results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. As of the date of this filing, the Company is current on all corporate, federal and state tax returns. The Company's policy is to record interest and penalties related to unrecognized tax benefits as income tax expense.

##### Business Combinations

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



## Fair Value of Financial Instruments

In accordance with ASC 820, “Fair Value Measurements and Disclosures”, the Company measures and accounts for certain assets and liabilities at fair value on a recurring basis. ASC 820 establishes a common definition for fair value to be applied to existing generally accepted accounting principles that require the use of fair value measurements, and establishes a framework for measuring fair value and standards for disclosure about such fair value measurements.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1:Observable inputs such as quoted market prices in active markets for identical assets or liabilities

Level 2:Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3:Unobservable inputs for which there is little or no market data, which require the use of the reporting entity’s own assumptions.

Goodwill

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Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations. ASC 350-30-35-4, requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis and between annual tests when circumstances indicate that the recoverability of the carrying amount of goodwill may be in doubt. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit.

In January 2017, the Financial Accounting Standards Board (“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 periods fiscal years beginning after December 15, 2019. Early adoption is permitted for any impairment tests performed after January 1, 2017. The Company early adopted this guidance during impairment testing performed as of October 1, 2017. Refer to Goodwill footnote for details on goodwill impairment recognized

#### Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses in the reporting period. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced the Company may differ materially and adversely from its estimates. To the extent there are material differences between estimates and the actual results, future results of operations will be affected. Significant estimates for Fiscal 2017, the Transition Period and Fiscal 2016, include the valuation of intangible assets, including goodwill, liabilities associated with earn-out obligations, testing long-lived assets for impairment and valuation reserves against deferred tax assets.

#### Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (“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. There is no material impact to the financial statements as a result of the adoption of this pronouncement.

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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.

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” (“ASC 606”). 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. 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 developed an implementation plan to adopt this new guidance, which included an assessment of the impact of the new guidance on our financial position and results of operations. On January 1, 2018, the Company adopted the new accounting standard ASC 606, Revenue from Contracts with Customers for all open contracts and related amendments as of January 1, 2018 using the modified retrospective method. Results for reporting periods beginning after January 1, 2018 will be presented under ASC 606, while the comparative information will not be restated and will continue to be reported under the accounting standards in effect for those periods.

The Company has completed its assessment of the impact of adopting ASC 606 effective January 1, 2018, and concluded there will be no impact on our financial position, results of operations or cash flows and will not have a significant impact on our internal controls over financial reporting. The Company is still assessing the impact the adoption of the standard will have on the new required disclosures, which will be finalized for the first quarter of 2018, which will include enhanced disclosure regarding revenue recognition, including disclosures of revenue streams, performance obligations, variable consideration and the related judgments and estimates necessary to apply the new standard as applicable to the Company's operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not required for smaller reporting companies.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Staffing 360 Solutions, Inc.

New York, New York

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Staffing 360 Solutions, Inc. (the “Company”) as of December 30, 2017, the related consolidated statement of operations and comprehensive loss, stockholders’ deficit, and cash flows for the year then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 30, 2017, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures

included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2017.

New York, New York

March 29, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Staffing 360 Solutions, Inc.:

We have audited the accompanying consolidated balance sheets of Staffing 360 Solutions, Inc. (the “Company”) as of December 31, 2016 and the related consolidated statements of operations, comprehensive loss, statements of changes in equity and cash flows for the transition period ended December 31, 2016 and the year ended May 31, 2016. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Staffing 360 Solutions, Inc. at December 31, 2016, and the consolidated results of its operations and its cash flows for the transition period ended December 31, 2016 and the year ended May 31, 2016, in conformity with U.S. generally accepted accounting principles.

/s/ RBSM LLP

New York, NY

April 12, 2017, except for Note 3 dated March 29, 2018



## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

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

|  | As of<br>Fiscal<br>2017 | As of<br>Transition<br>Period |
|--|-------------------------|-------------------------------|
| <b>ASSETS</b>  |                         |                               |
| Current Assets:  |                         |                               |
| Cash   | \$3,100                 | \$ 650                        |
| Accounts receivable, net   | 33,392                  | 22,274                        |
| Prepaid expenses and other current assets  | 1,443                   | 613                           |
| Total Current Assets   | 37,935                  | 23,537                        |
| Property and equipment, net  | 1,618                   | 919                           |
| Goodwill   | 27,169                  | 15,779                        |
| Identifiable Intangible assets, net  | 17,145                  | 9,149                         |
| Other assets   | 2,881                   | 4,573                         |
| Total Assets   | \$86,748                | \$ 53,957                     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                         |                               |
| Current Liabilities:   |                         |                               |
| Accounts payable and accrued expenses  | \$ 16,709               | \$ 18,110                     |
| Current portion of long term debt  | 245                     | 3,639                         |
| Dividends payable - related party  | —                       | 366                           |
| Accounts receivable financing  | 25,983                  | 15,605                        |
| Other current liabilities  | 6,372                   | 1,274                         |
| Total Current Liabilities  | 49,309                  | 38,994                        |
| Term loan - related party, net   | 38,749                  | 3,997                         |
| Warrant Liability  | 1,426                   | —                             |
| Other long-term liabilities  | 4,049                   | 2,688                         |
| Total Liabilities  | 93,533                  | 45,679                        |
| Series D Preferred Stock, 5,000 designated, \$0.00001 par value, \$10,000 stated value; 0 and 93 shares issued and outstanding, respectively   | —                       | 884                           |
| Commitments and contingencies  | —                       | —                             |
| Stockholders' (Deficit) Equity:  |                         |                               |
| Staffing 360 Solutions, Inc. Equity:   |                         |                               |
| Preferred stock, \$0.00001 par value, 20,000,000 shares authorized;  |                         |                               |
| Series A Preferred Stock, related party, 1,663,008 designated, \$0.00001 par value, \$1.00 stated value, 1,663,008 shares issued and outstanding as of December 30, 2017 and December 31, 2016, respectively | —                       | —                             |

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|   |          |           |
|---|----------|-----------|
| Series B Preferred Stock, 200,000 designated, \$0.00001 par value, \$10.00 stated value, 0 and 0 shares issued and outstanding as of December 30, 2017 and December 31, 2016, respectively  | —        | —         |
| Series C Preferred Stock, 2,000,000 designated, \$0.00001 par value, \$1.00 stated value, 0 and 0 shares issued and outstanding as of December 30, 2017 and December 31, 2016, respectively | —        | —         |
| Common stock, \$0.00001 par value, 40,000,000 shares authorized; 3,909,114 and 1,827,960 shares issued and outstanding as of December 30, 2017 and December 31, 2016, respectively          | —        | —         |
| Additional paid in capital  | 57,574   | 53,190    |
| Accumulated other comprehensive income  | 783      | 855       |
| Accumulated deficit   | (65,142) | (46,651 ) |
| Total Stockholders' (Deficit) Equity  | (6,785 ) | 7,394     |
| Total Liabilities, Mezzanine Equity and (Deficit) Equity  | \$86,748 | \$ 53,957 |

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

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

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

|  | Fiscal 2017 | Transition<br>Period | Fiscal<br>2016 |
|--|-------------|----------------------|----------------|
| Revenue  | \$192,650   | \$109,422            | \$165,552      |
| Cost of revenue  | 155,909     | 90,285               | 136,505        |
| Gross Profit   | 36,741      | 19,137               | 29,047         |
| Operating Expenses:  |             |                      |                |
| Selling, general and administrative expenses               | 32,819      | 18,244               | 29,700         |
| Depreciation and amortization                              | 3,566       | 1,773                | 2,864          |
| Impairment of goodwill                                     | 4,790       | —                    | —              |
| Operating expenses - restructuring                         | 780         | —                    | —              |
| Total Operating Expenses                                   | 41,955      | 20,017               | 32,564         |
| Loss From Operations                                       | (5,214 )    | (880 )               | (3,517 )       |
| Other (Expenses) Income:                                   |             |                      |                |
| Interest expense   | (3,745 )    | (1,382 )             | (2,699 )       |
| Amortization of beneficial conversion feature              | —           | (430 )               | (727 )         |
| Amortization of debt discount and deferred financing costs | (2,745 )    | (979 )               | (1,917 )       |
| Change in fair value of warrant liability                  | 383         | —                    | —              |
| Loss on extinguishment of debt, net                        | (6,132 )    | (162 )               | 566            |
| Other expense  | (106 )      | (12 )                | (93 )          |
| Total Other Expenses                                       | (12,345 )   | (2,965 )             | (4,870 )       |
| Loss Before Provision For Income Tax                       | (17,559 )   | (3,845 )             | (8,387 )       |
| Provision for income taxes                                 | (932 )      | (16 )                | (17 )          |
| Net Loss   | (18,491 )   | (3,861 )             | (8,404 )       |
| Net income attributable to non-controlling interest        | —           | —                    | 28             |
| Net Loss Before Preferred Share Dividends                  | (18,491 )   | (3,861 )             | (8,432 )       |
| Dividends - Series A preferred stock - related party       | 200         | 116                  | 200            |
| Deemed Dividends - Series D preferred stock                | 2,009       | 1,660                | —              |
| Net loss Attributable to Common Stock Holders              | \$(20,700 ) | \$(5,637 )           | \$(8,632 )     |

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Basic and Diluted Net Loss per Share:

|   |           |           |           |   |
|---|-----------|-----------|-----------|---|
| Net Loss  | \$(6.60   | ) \$(2.47 | ) \$(8.78 | ) |
| Net Loss Attributable to Common Stock Holders Per Share | \$(7.39   | ) \$(3.60 | ) \$(8.99 | ) |
| Weighted Average Shares Outstanding – Basic and Diluted | 2,801,831 | 1,564,794 | 959,999   |   |

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

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STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(All amounts in thousands)

|  | Fiscal<br>2017 | Transition<br>Period | Fiscal<br>2016 |
|--|----------------|----------------------|----------------|
| Net Loss                                       | \$(18,491)     | \$(3,861)            | \$(8,404)      |
| Other Comprehensive Income                     |                |                      |                |
| Foreign exchange translation                   | (72)           | 696                  | 186            |
| Comprehensive Loss Attributable to the Company | \$(18,563)     | \$(3,165)            | \$(8,218)      |

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

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' (DEFICIT) EQUITY

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

|   | Par<br>Value<br>Series<br>D | Shares<br>Series A | Par<br>Value<br>Series B | Shares<br>Series C | Par<br>Value<br>Common<br>Stock | Par<br>Value<br>Capital | Additional<br>paid in<br>capital | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Non-contr<br>interest | Accumulated<br>Deficit | Total<br>Equity |
|---|-----------------------------|--------------------|--------------------------|--------------------|---------------------------------|-------------------------|----------------------------------|---|-----------------------|------------------------|-----------------|
| Balance May 1, 2015                                 | —                           | 1,663,008          | —                        | —                  | 873,785                         | —                       | 42,834                           | \$(27 )   | \$1,053               | \$(34,358)             | \$9,502         |
| Changes issued<br>to/for:                           |                             |                    |                          |                    |                                 |                         |                                  |   |                       |                        |                 |
| Employees,<br>directors and<br>consultants          | —                           | —                  | —                        | —                  | 93,353                          | —                       | 1,171                            | —   | —                     | —                      | 1,171           |
| Convertible<br>notes                                | —                           | —                  | —                        | —                  | 25,000                          | —                       | 507                              | —   | —                     | —                      | 507             |
| Acquisition of<br>subsidiary                        | —                           | —                  | —                        | —                  | 20,492                          | —                       | 700                              | —   | —                     | —                      | 700             |
| Beneficial<br>conversion<br>feature                 | —                           | —                  | —                        | —                  | —                               | —                       | 1,105                            | —   | —                     | —                      | 1,105           |
| Fair value of<br>warrants issued                    | —                           | —                  | —                        | —                  | —                               | —                       | 413                              | —   | —                     | —                      | 413             |
| Extensions of<br>convertible<br>bonds - Series<br>A | —                           | —                  | —                        | —                  | 875                             | —                       | 24                               | —   | —                     | —                      | 24              |
| Extensions of<br>convertible<br>bonds - Series<br>B | —                           | —                  | —                        | —                  | 550                             | —                       | 12                               | —   | —                     | —                      | 12              |
| Extension of<br>Series B bond<br>offerings          | —                           | —                  | —                        | —                  | 5,946                           | —                       | 114                              | —   | —                     | —                      | 114             |
| Convertible<br>notes (preferred<br>shares issued)   | —                           | —                  | 133,000                  | —                  | —                               | —                       | 315                              | —   | —                     | —                      | 315             |
| Promissory<br>notes                                 | —                           | —                  | —                        | —                  | 5,000                           | —                       | 65                               | —   | —                     | —                      | 65              |
| Private<br>placement                                | —                           | —                  | —                        | —                  | 177,741                         | —                       | 2,090                            | —   | —                     | —                      | 2,090           |



|  |   |    |           |    |         |         |         |        |           |      |        |     |      |         |          |        |       |
|--|---|----|-----------|----|---------|---------|---------|--------|-----------|------|--------|-----|------|---------|----------|--------|-------|
| Private placement preferred shares issued) | — | —  | —         | —  | —       | 175,439 | —       | —      | —         | —    | —      | —   | 460  |         |          |        |       |
| tender offer                               | — | —  | —         | —  | —       | —       | —       | 32,895 | —         | (18  | )      | —   | —    | (18     |          |        |       |
| Warrant exchange                           | — | —  | —         | —  | —       | —       | —       | 25,711 | —         | (430 | )      | —   | —    | (430    |          |        |       |
| Foreign currency translation gain          | — | —  | —         | —  | —       | —       | —       | —      | —         | —    | —      | 186 | —    | 186     |          |        |       |
| Non-controlling interest                   | — | —  | —         | —  | —       | —       | —       | —      | —         | —    | —      | —   | 28   | 28      |          |        |       |
| Purchase of non-controlling interest       | — | —  | —         | —  | —       | —       | —       | —      | —         | —    | —      | —   | 981  | (1,081) | (100     |        |       |
| Dividends - Preferred Stock Series A       | — | —  | —         | —  | —       | —       | —       | —      | —         | —    | —      | —   | (200 | )       | (200     |        |       |
| Net loss                                   | — | —  | —         | —  | —       | —       | —       | —      | —         | —    | —      | —   | —    | (8,432  | )        | (8,432 |       |
| Balance May 31, 2016                       | — | \$ | 1,663,008 | \$ | 133,000 | \$      | 175,439 | \$     | 1,261,349 | \$   | 50,143 | \$  | 159  | \$      | (42,790) | \$     | 7,512 |

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

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' (DEFICIT) EQUITY

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

|   | Shares   | Value   | Shares    | Par Value | Shares    | Par Value    | Shares    | Par Value | Shares    | Par Value | Additional paid in capital | Accumulated other comprehensive income (loss) | Noncontrolling interest | Deficit    | Total Equity |
|---|----------|---------|-----------|-----------|-----------|--------------|-----------|-----------|-----------|-----------|----------------------------|---|-------------------------|------------|--------------|
|   | Series D |         | Series A  | Series B  | Series C  | Common Stock |           |           |           |           |                            |   |                         |            |              |
| Balance May 1, 2016                       | —        | \$—     | 1,663,008 | \$—       | 133,000   | \$—          | 175,439   | \$—       | 1,261,349 | \$—       | \$50,143                   | \$159   | \$—                     | \$(42,790) | \$7,512      |
| Issued to/for:                            |          |         |           |           |           |              |           |           |           |           |                            |   |                         |            |              |
| Employees, directors and consultants      | —        | —       | —         | —         | —         | —            | 12,170    | —         | 655       | —         | —                          | —   | —                       | —          | 655          |
| Acquisition subsidiary                    | —        | —       | —         | —         | —         | —            | 4,000     | —         | 20        | —         | —                          | —   | —                       | —          | 20           |
| Convertible notes                         | —        | —       | —         | —         | (133,000) | —            | 26,600    | —         | —         | —         | —                          | —   | —                       | —          | —            |
| Extension of convertible notes            | —        | —       | —         | —         | —         | —            | 178,182   | —         | 1,149     | —         | —                          | —   | —                       | —          | 1,149        |
| Extension of convertible notes - Series B | —        | —       | —         | —         | —         | —            | 250       | —         | 2         | —         | —                          | —   | —                       | —          | 2            |
| Private placement                         | —        | —       | —         | —         | —         | —            | 42,129    | —         | 426       | —         | —                          | —   | —                       | —          | 426          |
| Conversion private placement              | —        | —       | —         | —         | —         | —            | (175,439) | —         | 35,088    | —         | —                          | —   | —                       | —          | —            |
| Private placement - Series D              | 211      | 2,000   | —         | —         | —         | —            | —         | —         | (205)     | —         | —                          | —   | —                       | —          | (205)        |
| Conversions                               | (118)    | (1,116) | —         | —         | —         | —            | 94,165    | —         | 1,116     | —         | —                          | —   | —                       | —          | 1,116        |
| Dividends - Series D                      | —        | —       | —         | —         | —         | —            | 174,027   | —         | 1,660     | —         | —                          | —   | —                       | —          | 1,660        |
| Deferred                                  |          |         |           |           |           |              |           |           |           |           |                            |   |                         |            |              |

|             |    |       |           |     |     |     |           |           |       |             |         |
|-------------|----|-------|-----------|-----|-----|-----|-----------|-----------|-------|-------------|---------|
| Stock       |    |       |           |     |     |     |           |           |       |             |         |
| Preferred   |    |       |           |     |     |     |           |           |       |             |         |
| Dividends - |    |       |           |     |     |     |           |           |       |             |         |
| Series D    |    |       |           |     |     |     |           |           |       |             |         |
| Preferred   |    |       |           |     |     |     |           |           |       |             |         |
| Stock       | —  | —     | —         | —   | —   | —   | —         | (1,660)   | —     | —           | (1,660) |
| Foreign     |    |       |           |     |     |     |           |           |       |             |         |
| Currency    |    |       |           |     |     |     |           |           |       |             |         |
| Translation |    |       |           |     |     |     |           |           |       |             |         |
| Gain        | —  | —     | —         | —   | —   | —   | —         | —         | 696   | —           | 696     |
| Dividends - |    |       |           |     |     |     |           |           |       |             |         |
| Series A    |    |       |           |     |     |     |           |           |       |             |         |
| Preferred   |    |       |           |     |     |     |           |           |       |             |         |
| Stock -     |    |       |           |     |     |     |           |           |       |             |         |
| Related     |    |       |           |     |     |     |           |           |       |             |         |
| Party       | —  | —     | —         | —   | —   | —   | —         | (116)     | —     | —           | (116)   |
| Net loss    | —  | —     | —         | —   | —   | —   | —         | —         | —     | (3,861)     | (3,861) |
| Balance     |    |       |           |     |     |     |           |           |       |             |         |
| December    |    |       |           |     |     |     |           |           |       |             |         |
| 31, 2016    | 93 | \$884 | 1,663,008 | \$— | \$— | \$— | 1,827,960 | \$—53,190 | \$855 | \$—(46,651) | \$7,394 |

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

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' (DEFICIT) EQUITY

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

|  | Par      |          | Par       |          |              | Par      | Par       | Par          | Par      | Par      | Par          | Par      | Par      | Par          | Par |
|--|----------|----------|-----------|----------|--------------|----------|-----------|--------------|----------|----------|--------------|----------|----------|--------------|-----|
|  | Shares   | Value    | Shares    | Value    | Shares       | Value    | Shares    | Value        | Shares   | Value    | Value        | Value    | Value    | Value        |     |
|  | Series D | Series A | Series B  | Series C | Common Stock | Series B | Series C  | Common Stock | Series B | Series C | Common Stock | Series B | Series C | Common Stock |     |
| Balance December 31, 2016                            | 93       | \$884    | 1,663,008 | \$—      | \$—          | \$—      | 1,827,960 | \$—          | \$53,190 | \$855    | —            | —        | —        | —            |     |
| Shares issued to/for:                                |          |          |           |          |              |          |           |              |          |          |              |          |          |              |     |
| Employees, directors and consultants                 | —        | —        | —         | —        | —            | —        | 395,720   | —            | 1,386    | —        | —            | —        | —        | 1,386        |     |
| Acquisition of CBS Butler                            | —        | —        | —         | —        | —            | —        | 100,000   | —            | 430      | —        | —            | —        | —        | 430          |     |
| Convertible notes                                    | —        | —        | —         | —        | —            | —        | 120,000   | —            | 498      | —        | —            | —        | —        | 498          |     |
| Term loans   | —        | —        | —         | —        | —            | —        | 945,581   | —            | 2,527    | —        | —            | —        | —        | 2,527        |     |
| At-Market-Facility                                   | —        | —        | —         | —        | —            | —        | 125,253   | —            | 367      | —        | —            | —        | —        | 367          |     |
| Series D   |          |          |           |          |              |          |           |              |          |          |              |          |          |              |     |
| Conversions  | (31)     | (297)    | —         | —        | —            | —        | 25,035    | —            | 297      | —        | —            | —        | —        | 297          |     |
| Paid in capital - Series D Preferred Stock           | —        | —        | —         | —        | —            | —        | 309,565   | —            | 880      | —        | —            | —        | —        | 880          |     |
| Deemed dividends - Series D Preferred Stock          | —        | —        | —         | —        | —            | —        | —         | —            | (2,009)  | —        | —            | —        | —        | (2,009)      |     |
| Redemption - Series D Preferred Stock                | (62)     | (587)    | —         | —        | —            | —        | 60,000    | —            | 208      | —        | —            | —        | —        | 208          |     |
| Dividends - Series A Preferred Stock - Related Party | —        | —        | —         | —        | —            | —        | —         | —            | (200)    | —        | —            | —        | —        | (200)        |     |
| Foreign currency translation gain                    | —        | —        | —         | —        | —            | —        | —         | —            | —        | (72)     | —            | —        | —        | (72)         |     |
| Net loss   | —        | —        | —         | —        | —            | —        | —         | —            | —        | —        | —            | —        | (18,491) | (18,491)     |     |
| Balance December 30, 2017                            | —        | \$—      | 1,663,008 | \$—      | \$—          | \$—      | 3,909,114 | \$—          | \$57,574 | \$783    | \$—          | —        | —        | —            |     |

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

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## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(All amounts in thousands)

|   | Fiscal<br>2017  | Transition<br>Period | Fiscal<br>2016 |
|---|-----------------|----------------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                        |                 |                      |                |
| Net loss  | \$(18,491)      | \$(3,861)            | \$(8,404)      |
| Adjustments to reconcile net loss to net cash (used in) provided by |                 |                      |                |
| operating activities:   |                 |                      |                |
| Depreciation  | 402             | 181                  | 232            |
| Amortization of identifiable intangible assets                      | 3,164           | 1,592                | 2,632          |
| Amortization of debt discount and deferred financing costs          | 2,745           | 1,409                | 2,644          |
| Impairment of goodwill  | 4,790           | —                    | —              |
| Loss (gain) on extinguishment of debt, net                          | 6,132           | 162                  | (566)          |
| Stock based compensation  | 1,386           | 655                  | 1,171          |
| Change in fair value of warrant liability                           | (383)           | —                    | —              |
| Other   | —               | (114)                | 154            |
| Changes in operating assets and liabilities:                        |                 |                      |                |
| Accounts receivable   | (2,502)         | (1,896)              | 2,098          |
| Prepaid expenses and other current assets                           | (821)           | 399                  | 55             |
| Other assets  | 287             | (627)                | (637)          |
| Accounts payable and accrued expenses                               | (4,606)         | 542                  | 2,800          |
| Accounts payable - Related parties                                  | —               | —                    | (175)          |
| Other current liabilities   | (301)           | 30                   | (10)           |
| Other long-term liabilities   | 1,003           | (60)                 | 388            |
| Other, net  | (38)            | 380                  | (288)          |
| <b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>          | <b>(7,233)</b>  | <b>(1,208)</b>       | <b>2,094</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                        |                 |                      |                |
| Acquisition of businesses, net of cash acquired                     | (20,890)        | —                    | (3,520)        |
| Acquisition - payments due to seller                                | —               | (946)                | —              |
| Posting of surety bond  | —               | —                    | (1,405)        |
| Purchase of property and equipment                                  | (698)           | (221)                | (205)          |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                        | <b>(21,588)</b> | <b>(1,167)</b>       | <b>(5,130)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                        |                 |                      |                |
| Third-party financing costs   | (2,354)         | (274)                | (1,269)        |
| Payments for earn-outs  | (1,125)         | (102)                | (160)          |
| Proceeds from term loans - related party                            | 50,165          | —                    | —              |
| Repayment of term loans - related party                             | (11,165)        | —                    | —              |
| Repayment of term loans   | (3,976)         | —                    | —              |
| Proceeds from convertible notes                                     | 400             | —                    | 4,742          |
| Repayment of convertible notes                                      | (6,635)         | —                    | (664)          |

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|   |               |                 |              |
|---|---------------|-----------------|--------------|
| Proceeds from promissory notes  | —             | 670             | 1,990        |
| Repayment of promissory notes   | (441 )        | (2,607 )        | (3,115)      |
| Proceeds from accounts receivable financing, net                        | 8,079         | 1,739           | 850          |
| Proceeds (prepayment) from overadvance of accounts receivable financing | —             | (863 )          | 863          |
| Proceeds from private placements  | —             | 2,495           | 2,851        |
| Dividends - related party   | (566 )        | —               | —            |
| Purchase of Series D Preferred Stock                                    | (1,500 )      | —               | —            |
| Proceeds from At-Market-Facility  | 441           | —               | —            |
| Repayment of bonds  | (50 )         | —               | (1,102)      |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>                        | <b>31,273</b> | <b>1,058</b>    | <b>4,986</b> |
| <b>NET INCREASE (DECREASE) IN CASH</b>                                  | <b>2,452</b>  | <b>(1,317 )</b> | <b>1,950</b> |
| Foreign currency translation  | (2 )          | (2 )            | —            |
| CASH - Beginning of period  | 650           | 1,969           | 19           |
| CASH - End of period  | \$3,100       | \$ 650          | \$1,969      |

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

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

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 reincorporated in the State of Delaware. We are 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, domestic and international staffing companies. Our targeted consolidation model is focused specifically on the accounting and finance, information technology (“IT”), engineering, administration (“Professional”) and light industrial (“Commercial”) disciplines.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

These 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. All amounts are in thousands, except share and par values, unless otherwise indicated.

The accompanying 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. All significant intercompany balances and transactions have been eliminated in consolidation.

Change of Year End

On February 28, 2017, the board of directors (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 31<sup>st</sup> of December, effective December 31, 2016. On April 12, 2017, the Company filed a transition report (“Transition Report”), Form 10-K/T, for the period from June 1, 2016 through December 31, 2016, (“Transition Period”). Following this Transition Report, we will file annual reports



for each twelve-month period ending on the Saturday closest to December 31 of each year beginning with December 30, 2017. This report is for the period from January 1, 2017 to December 30, 2017 (“Fiscal 2017”). The Form 10-K/T filed prior to this was for the period from June 1, 2015 to May 31, 2016 (“Fiscal 2016”).

#### 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 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) 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”), a related party, on September 15, 2017. The Company, as borrower, and certain domestic subsidiaries of the Company, as guarantors,

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STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

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 were subject to registration rights in favor of Jackson and 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.

#### Variable Interest Entities

On May 17, 2014, the Company purchased 49% of the issued and outstanding common stock of PeopleServe PRS, Inc. ("PRS"). At the date of acquisition, the Company concluded that the Company was the primary beneficiary of PRS's results as it would have effective control over the operations of PRS, similarly to PeopleSERVE, Inc. ("PSI"), and expected to absorb the majority of PRS' expected losses and expected residual returns. Accordingly, the Company consolidated the results of PRS. All inter-company transactions have been eliminated. Non-controlling interest in PRS was recorded in accordance with the provisions of Accounting Standards Codification ("ASC") 810 "Consolidation", and reported as a component of equity, separate from the parent company's equity.

On April 29, 2016, the Company entered into an Agreement whereby it purchased the remaining 51% of ownership of PRS. The purchase was recorded in the consolidated balance sheet as a \$981 increase in paid in capital and a \$1,081 reduction in non-controlling interest. On the date of the Agreement, the Company paid cash of \$101 to the PRS shareholder. Upon payment the Company owned 100% of PRS and will no longer report non-controlling interest for PRS.

## Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses in the reporting period. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced the Company may differ materially and adversely from its estimates. To the extent there are material differences between estimates and the actual results, future results of operations will be affected. Significant estimates for Fiscal 2017, the Transition Period and Fiscal 2016, include the valuation of intangible assets, including goodwill, liabilities associated with earn-out obligations, testing long-lived assets for impairment and valuation reserves against deferred tax assets.

## Reclassifications

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

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STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

Revenue Recognition

Through Fiscal 2017, the company recognized revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the services have been rendered to the customer, (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured. Refer to the recent accounting pronouncements below for further details on assessment of the impact of adopting FASB ASC Topic 606.

Taxes Collected from Customers and Remitted to Governmental Agencies

The Company records taxes on customer transactions due to governmental agencies as a receivable and a liability on the consolidated balance sheets. Sales taxes are recorded net on the consolidated statement of operations.

Advertising Costs

Costs for advertising are expensed when incurred. Advertising expenses for the Company were \$815, \$454, and \$771 for Fiscal 2017, the Transition Period, and Fiscal 2016, respectively.

Legal Contingencies and Expenses

From time to time, the Company may become involved in various claims, disputes and legal or regulatory proceedings that arise in the ordinary course of business and relate to contractual and other obligations. The Company assesses its potential contingent and other liabilities by analyzing its claims, disputes and legal and regulatory matters using all available information, and developing its views on estimated losses in consultation with its legal and other advisors. The Company determines whether a loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. If the contingency is not probable or cannot be reasonably estimated, disclosure of the contingency shall be made when there is at least a reasonable possibility that a loss may be incurred. Expenses associated with legal contingencies are expensed as incurred.

Restructuring Charges

The Company records a liability for significant costs associated with exit or disposal activities, including lease termination costs, certain employee severance costs associated with formal restructuring plans, facility closings or other similar activities and related asset impairments, when the liability is incurred.

The determination of when the Company accrues for severance and related costs depends on whether the termination benefits are provided under a one-time benefit arrangement or under an ongoing benefit arrangement. Where the Company has either a formal severance plan or a history of consistently providing severance benefits representing a substantive plan, it recognizes severance costs when they are both probable and estimable. Costs associated with

restructuring actions that include one-time severance benefits are only recorded once a liability has been incurred, including when management with the proper level of authority has committed to a restructuring plan and the plan has been communicated to employees. These charges are included in operational restructuring and other charges on the consolidated statements of operations. Other charges include knowledge transfer costs directly related to the restructuring initiatives and are expensed as incurred. On December 22, 2017, the Company announced the departure of Mr. Briand, former Chief Executive Officer, effective January 31, 2018, as such the company has recorded severance costs in the form of a restructuring charge of \$780 to terminate and exit Mr. Briand's contract.

#### Cash and Cash Equivalents

The Company considers all highly liquid instruments with original maturities of three months or less when acquired, to be cash equivalents. The Company had no cash equivalents at the end of Fiscal 2017 or the Transition Period.

#### Accounts Receivable

Accounts receivable are presented net of an allowance for doubtful accounts for estimated losses. The Company reviews the accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, a customer's historical payment history, its current credit-worthiness and current economic trends. Accounts are written

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

off after all efforts to collect have been exhausted. As of the end of Fiscal 2017 and the Transition Period, the Company had an allowance for doubtful accounts of \$159 and \$372, respectively.

#### Income Taxes

The Company utilizes Accounting Standards Codification (“ASC”) Topic 740, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The Company applies the provisions of ASC 740-10-50, “Accounting for Uncertainty in Income Taxes”, which provides clarification related to the process associated with accounting for uncertain tax positions recognized in the financial statements. Audit periods remain open for review until the statute of limitations has passed. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Company’s liability for income taxes. Any such adjustment could be material to the Company’s results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. As of the date of this filing, the Company is current on all corporate, federal and state tax returns. The Company’s policy is to record interest and penalties related to unrecognized tax benefits as income tax expense.

#### Foreign Currency Translation

Assets and liabilities of subsidiaries operating in foreign countries are translated into U.S. dollars using the exchange rate in effect at the balance sheet date and equity is translated at historical rate. Results of operations are translated using average exchange rates. The effects of exchange rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are included in a separate component of stockholders’ equity (accumulated other comprehensive income), while gains and losses resulting from foreign currency transactions are included in operations.

#### Deferred Financing Costs

Costs incurred in connection with obtaining certain financing are deferred and amortized on an effective interest method basis over the term of the related obligation. In accordance with Accounting Standards Update (“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.

## Business Combinations

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

## Fair Value of Financial Instruments

In accordance with ASC 820, "Fair Value Measurements and Disclosures", the Company measures and accounts for certain assets and liabilities at fair value on a recurring basis. ASC 820 establishes a common definition for fair value to be applied to existing generally accepted accounting principles that require the use of fair value measurements, and establishes a framework for measuring fair value and standards for disclosure about such fair value measurements.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities

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## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

There were no Level 1 or 2 assets or liabilities or Level 3 assets in any period. The Company's Level 3 liabilities were its warrants issued to Jackson and contingent consideration. The Company has accounted for the warrants issued to Jackson as a liability under ASC 815-40 due to certain anti-dilution protection provisions. The tables below represents a rollforward of the Level 3 warrant liability and contingent consideration:

|                                       | Warrant<br>Liability |
|---------------------------------------|----------------------|
| Balance at December 31, 2016          | \$ -                 |
| Fair value at issuance - January 2017 | 1,521                |
| Fair value at issuance - April 2017   | 288                  |
| Change in fair value                  | (383 )               |
| Balance at December 30, 2017          | \$ 1,426             |

|                              | Contingent<br>Consideration |
|------------------------------|-----------------------------|
| Balance at May 31, 2015      | \$ 1,558                    |
| Payments                     | (160 )                      |
| Acquisition of the JM Group  | 1,180                       |
| Translation                  | 63                          |
| Balance at May 31, 2016      | \$ 2,641                    |
| Change in fair value         | 946                         |
| Payments                     | (1,048 )                    |
| Translation                  | (193 )                      |
| Balance at December 31, 2016 | \$ 2,346                    |
| Payments                     | (1,125 )                    |
| Payment with surety bond     | (1,207 )                    |
| Acquisition of CBS Butler    | 4,885                       |
| Change in fair value         | 130                         |
| Balance at December 30, 2017 | \$ 5,029                    |

Cash is considered to be highly liquid and easily tradable and therefore classified as Level 1 within our fair value hierarchy.

ASC 825-10-25, "Fair Value Option" expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. The Company



did not elect the fair value options for any of its qualifying financial instruments.

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## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

## Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization is computed on the straight-line method over the estimated useful lives for each category as follows:

|                        |           |
|------------------------|-----------|
| Computers              | 3-5 years |
| Computer equipment     | 3-5 years |
| Network equipment      | 3-5 years |
| Software               | 3-5 years |
| Office equipment       | 3-7 years |
| Furniture and fixtures | 3-7 years |
| Leasehold improvements | 3-5 years |

Amortization of leasehold improvements is computed using the straight-line method over the shorter of the life of the lease or the estimated useful life of the assets. Maintenance and repairs are charged to expense as incurred. Major improvements are capitalized.

At the time of retirement or disposition of property and equipment, the cost and accumulated depreciation are removed from the accounts and any gains or losses are reflected in Other income/(expenses).

## Long-Lived Assets

In accordance with ASC 360 “Property, Plant, and Equipment”, the Company periodically reviews its long-lived assets, including identifiable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows will not be sufficient to recover an asset’s carrying amount. The amount of impairment is measured as the difference between the estimated fair value and the book value of the underlying asset.

## Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations. ASC 350-30-35-4, requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis and between annual tests when circumstances indicate that the recoverability of the carrying amount of goodwill may be in doubt. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount

rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit.

Due to the Company changing its year end to the Saturday closest to the 31<sup>st</sup> of December, the Company performs impairment testing annually on the first day of its fourth fiscal quarter of every year, to coincide with the Company's annual planning cycle. The Company performed impairment testing as of October 1, 2017.

In January 2017, the Financial Accounting Standards Board ("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. Under the new standard, a Company is required to recognize an impairment charge to goodwill equal to the difference between the carrying value of the reporting unit as compared to its estimated fair value not to exceed the carrying value of goodwill. The guidance is effective for periods fiscal years beginning after December 15, 2019. Early adoption is permitted for any impairment tests performed after January 1, 2017. The Company early adopted this guidance during impairment testing performed as of October 1, 2017. Refer to Goodwill footnote for details on goodwill impairment recognized.

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

Convertible Instruments

The Company evaluates and accounts for conversion options embedded in its convertible instruments in accordance with ASC 815, “Derivative and Hedging”.

Accounting standards generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur, and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. Professional standards also provide an exception to this rule when the host instrument is deemed to be conventional as defined under professional standards as “The Meaning of Conventional Convertible Debt Instrument.”

The Company accounts for convertible instruments (when it has determined that the embedded conversion options should not be bifurcated from their host instruments) in accordance with professional standards when “Accounting for Convertible Securities with Beneficial Conversion Features,” as those professional standards pertain to “Certain Convertible Instruments.” Accordingly, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Original issue discounts (“OID”) under these arrangements are amortized over the term of the related debt to their earliest date of redemption. The Company also records when necessary deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note.

ASC 815-40 provides that, among other things, generally, if an event is not within the entity’s control and could require net cash settlement, then the contract shall be classified as an asset or a liability.

Stock-Based Compensation

The Company accounts for stock-based instruments issued to employees in accordance with ASC Topic 718, “Compensation – Stock Compensation”, which requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity based compensation issued to employees. The Company accounts for non-employee share-based awards in accordance with ASC Topic 505-50, “Equity-Based Payments to Non-Employees”.

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (“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 does not expect this to have a material impact to its financial statements.

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 2018. Early adoption is

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. The Company does not expect this to have a material impact to its financial statements.

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. There was no material impact to the financial statements as a result of the adoption this pronouncement.

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.

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” (“ASC 606”). 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. 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 developed an implementation plan to adopt this new guidance, which included an assessment of the impact of the new guidance on our financial position and results of operations. On January 1, 2018, the Company adopted the new accounting standard ASC 606, Revenue from Contracts with Customers for all open contracts and related amendments as of January 1, 2018 using the modified retrospective method. Results for reporting periods beginning after January 1, 2018 will be presented under ASC 606, while the comparative information will not be restated and will continue to be reported under the accounting standards in effect for those periods.

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

The Company has completed its assessment of the impact of adopting ASC 606 effective January 1, 2018, and concluded there will be no impact on our financial position, results of operations or cash flows and will not have a significant impact on our internal controls over financial reporting. The Company is still assessing the impact the adoption of the standard will have on the new required disclosures, which will be finalized for the first quarter of 2018, which will include enhanced disclosure regarding revenue recognition, including disclosures of revenue streams, performance obligations, variable consideration and the related judgments and estimates necessary to apply the new standard as applicable to the Company's operations.



STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

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.

For the Transition Period, correction of these errors increased our net loss by \$251 and net loss attributable to common stock holders by \$1,911. For Fiscal 2016, correction of these errors decreased our net loss and net loss attributable to common stock holders by \$1,081. The cumulative effect of those adjustments reduced previously reported accumulated deficit as of the Transition Period by \$829.

The effects of the corrections of the errors on our consolidated balance sheets, statements of operations and statements of cash flows for the Transition Period and Fiscal 2016 are presented in the tables below.

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

|  | Transition Period |             |          | Fiscal 2016 |             |          |
|--|-------------------|-------------|----------|-------------|-------------|----------|
|  | Previously        |             | As       | Previously  |             | As       |
|  | Reported          | Adjustments | Revised  | Reported    | Adjustments | Revised  |
| Current Assets                         | \$23,537          | \$ -        | \$23,537 | \$23,359    | \$ -        | \$23,359 |
| Long-Term Assets                       | 30,420            | -           | 30,420   | 30,400      | -           | 30,400   |
| Total Assets                           | \$53,957          | \$ -        | \$53,957 | \$53,759    | \$ -        | \$53,759 |
| Current Liabilities                    | \$38,994          | \$ -        | \$38,994 | \$39,919    | \$ -        | \$39,919 |
| Long-Term Liabilities                  | 6,685             | -           | 6,685    | 6,328       | -           | 6,328    |
| Total Liabilities                      | 45,679            | -           | 45,679   | 46,247      | -           | 46,247   |
| Mezzanine Equity                       | 612               | 272         | 884      | -           | -           | -        |
| Common Stock                           | -                 | -           | -        | -           | -           | -        |
| Preferred Stock                        | -                 | -           | -        | -           | -           | -        |
| Additional Paid-In Capital             | 54,291            | (1,101 )    | 53,190   | 51,224      | (1,081 )    | 50,143   |
| Accumulated Other Comprehensive Loss   | 855               | -           | 855      | 159         | -           | 159      |
| Accumulated Deficit                    | (47,480)          | 829         | (46,651) | (43,871)    | 1,081       | (42,790) |
| Total Equity (Deficit)                 | 7,666             | (272 )      | 7,394    | 7,512       | -           | 7,512    |
| Total Liabilities and Equity (Deficit) | \$53,957          | \$ -        | \$53,957 | \$53,759    | \$ -        | \$53,759 |

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## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

|   | Transition Period |             |            | Fiscal 2016 |             |            |
|---|-------------------|-------------|------------|-------------|-------------|------------|
|   | Previously        |             | As         | Previously  |             | As         |
|   | Reported          | Adjustments | Revised    | Reported    | Adjustments | Revised    |
| Revenue   | \$109,422         | \$ -        | \$109,422  | \$165,552   | \$ -        | \$165,552  |
| Gross Profit  | 19,137            | -           | 19,137     | 29,047      | -           | 29,047     |
| SG&A  | 17,993            | 251         | 18,244     | 30,781      | (1,081 )    | 29,700     |
| Depreciation  | 1,773             | -           | 1,773      | 2,864       | -           | 2,864      |
| Other   | -                 | -           | -          | -           | -           | -          |
| Total Operating Expenses                                | 19,766            | 251         | 20,017     | 33,645      | (1,081 )    | 32,564     |
| Loss From Operations                                    | (629 )            | (251 )      | (880 )     | (4,598 )    | 1,081       | (3,517 )   |
| Other Expenses  | (2,965 )          | -           | (2,965 )   | (4,870 )    | -           | (4,870 )   |
| Loss Before Provision for Income Taxes                  | (3,594 )          | (251 )      | (3,845 )   | (9,468 )    | 1,081       | (8,387 )   |
| Provision for Income Taxes                              | (16 )             | -           | (16 )      | (17 )       | -           | (17 )      |
| Net Loss  | (3,610 )          | (251 )      | (3,861 )   | (9,485 )    | 1,081       | (8,404 )   |
| Non-Controlling Interest                                | -                 | -           | -          | (28 )       | -           | (28 )      |
| Net Loss Before Preferred Share Dividends               | (3,610 )          | (251 )      | (3,861 )   | (9,513 )    | 1,081       | (8,432 )   |
| Series A Dividend                                       | (116 )            | -           | (116 )     | (200 )      | -           | (200 )     |
| Series D Deemed Dividend                                | -                 | (1,660 )    | (1,660 )   | -           | -           | -          |
| Net Loss Attributable to Common Stock Holders           | \$(3,726 )        | \$(1,911 )  | \$(5,637 ) | \$(9,713 )  | \$1,081     | \$(8,632 ) |
| Basic and Diluted Net Loss per Share:                   |                   |             |            |             |             |            |
| Net Loss  | \$(2.23 )         | \$(0.24 )   | \$(2.47 )  | \$(9.69 )   | \$0.90      | \$(8.78 )  |
| Net Loss Attributable to Common Stock Holders           | \$(2.30 )         | \$(1.30 )   | \$(3.60 )  | \$(9.89 )   | \$0.90      | \$(8.99 )  |
| Weighted Average Shares Outstanding - Basic and Diluted | 1,621,047         | (56,253 )   | 1,564,794  | 981,962     | (21,963 )   | 959,999    |



## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

|  | Transition Period      |             |               | Fiscal 2016            |             |               |
|--|------------------------|-------------|---------------|------------------------|-------------|---------------|
|  | Previously<br>Reported | Adjustments | As<br>Revised | Previously<br>Reported | Adjustments | As<br>Revised |
| Net Loss   | \$(3,610)              | \$ (251 )   | \$(3,861)     | \$(9,485)              | \$ 1,081    | \$(8,404)     |
| Adjustments to reconcile net loss to net cash<br>provided by (used in) operating activities: |                        |             |               |                        |             |               |
| Non-cash addbacks  | 3,634                  | 251         | 3,885         | 7,348                  | (1,081 )    | 6,267         |
| Changes in operating assets and liabilities  | (1,232)                | -           | (1,232)       | 4,231                  | -           | 4,231         |
| Net cash (used in) provided by operating<br>activities                                       | (1,208)                | -           | (1,208)       | 2,094                  | -           | 2,094         |
| Net cash used in investing activities  | (1,167)                | -           | (1,167)       | (5,130)                | -           | (5,130)       |
| Net cash provided by financing activities  | 1,058                  | -           | 1,058         | 4,986                  | -           | 4,986         |
| Net (decrease) increase in cash  | (1,317)                | -           | (1,317)       | 1,950                  | -           | 1,950         |
| Foreign currency translation   | (2 )                   | -           | (2 )          | -                      | -           | -             |
| Cash - beginning of period   | 1,969                  | -           | 1,969         | 19                     | -           | 19            |
| Cash - end of period   | \$650                  | \$ -        | \$650         | \$1,969                | \$ -        | \$1,969       |

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

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. While the impact of these errors is disclosed in the tables below, the Company will file an amended Form 10Q for the third quarter ended September 30, 2017 subsequent to this filing of this Form 10-K.

The effects of the corrections of the errors on our consolidated balance sheets, statements of operations and statements of cash flows for the interim periods in Fiscal 2017 are presented in the tables below.

|   | As of September 30, 2017<br>(unaudited) |            |               | As of July 1, 2017 (unaudited) |            |               | As of April 1, 2017 (unaudited) |            |               |
|---|---|------------|---------------|--------------------------------|------------|---------------|---------------------------------|------------|---------------|
|   | Previously<br>Reported                  | Adjustment | As<br>Revised | Previously<br>Reported         | Adjustment | As<br>Revised | Previously<br>Reported          | Adjustment | As<br>Revised |
|   | Current Assets                          | \$40,351   | \$ -          | \$40,351                       | \$21,401   | \$ -          | \$21,401                        | \$20,963   | \$ -          |
| Long-Term<br>Assets                           | 53,774                                  | -          | 53,774        | 28,734                         | -          | 28,734        | 29,319                          | -          | 29,319        |
| Total Assets                                  | \$94,125                                | \$ -       | \$94,125      | \$50,135                       | \$ -       | \$50,135      | \$50,282                        | \$ -       | \$50,282      |
| Current<br>Liabilities                        | \$46,841                                | \$ -       | \$46,841      | \$34,071                       | \$ -       | \$34,071      | \$33,861                        | \$ -       | \$33,861      |
| Long-Term<br>Liabilities                      | 43,189                                  | 4,156      | 47,345        | 9,144                          | 1,628      | 10,772        | 8,390                           | 1,277      | 9,667         |
| Total Liabilities                             | 90,030                                  | 4,156      | 94,186        | 43,215                         | 1,628      | 44,843        | 42,251                          | 1,277      | 43,528        |
| Mezzanine<br>Equity                           | -                                       | -          | -             | -                              | -          | -             | 407                             | 181        | 588           |
| Common Stock                                  | -                                       | -          | -             | -                              | -          | -             | -                               | -          | -             |
| Preferred Stock                               | -                                       | -          | -             | -                              | -          | -             | -                               | -          | -             |
| Additional<br>Paid-In Capital                 | 60,268                                  | (2,527 )   | 57,741        | 57,841                         | (2,168 )   | 55,673        | 57,726                          | (1,787 )   | 55,939        |
| Accumulated<br>Other<br>Comprehensive<br>Loss | 662                                     | -          | 662           | 552                            | -          | 552           | 833                             | -          | 833           |
| Accumulated<br>Deficit                        | (56,835)                                | (1,629 )   | (58,464)      | (51,473)                       | 540        | (50,933)      | (50,935)                        | 329        | (50,606)      |

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|  |          |          |          |          |          |          |          |          |          |
|--|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Total Equity<br>(Deficit)                    | 4,095    | (4,156 ) | (61 )    | 6,920    | (1,628 ) | 5,292    | 7,624    | (1,458 ) | 6,166    |
| Total Liabilities<br>and Equity<br>(Deficit) | \$94,125 | \$ -     | \$94,125 | \$50,135 | \$ -     | \$50,135 | \$50,282 | \$ -     | \$50,282 |

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## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

|   | Three Months Ended April 1, 2017<br>(unaudited) |             |               | Three Months Ended July 1, 2017<br>(unaudited) |             |               | Six Months Ended July 1, 2017<br>(unaudited) |             |               |
|---|---|-------------|---------------|--|-------------|---------------|--|-------------|---------------|
|   | Previously<br>Reported                          | Adjustments | As<br>Revised | Previously<br>Reported                         | Adjustments | As<br>Revised | Previously<br>Reported                       | Adjustments | As<br>Revised |
|   | Revenue   | \$40,712    | \$-           | \$40,712                                       | \$42,117    | \$-           | \$42,117                                     | \$82,829    | \$-           |
| Gross Profit  | 7,326   | -           | 7,326         | 7,924  | -           | 7,924         | 15,250                                       | -           | 15,250        |
| SG&A  | 7,627   | (461 )      | 7,166         | 6,338  | 76          | 6,414         | 13,965                                       | (385 )      | 13,580        |
| Depreciation  | 760   | -           | 760           | 760  | -           | 760           | 1,520  | -           | 1,520         |
| Other   | -   | -           | -             | -  | -           | -             | -  | -           | -             |
| Total<br>Operating<br>Expenses                            | 8,387   | (461 )      | 7,926         | 7,098  | 76          | 7,174         | 15,485                                       | (385 )      | 15,100        |
| Loss From<br>Operations                                   | (1,061 )  | 461         | (600 )        | 826  | (76 )       | 750           | (235 )                                       | 385         | 150           |
| Other<br>Expenses   | (2,387 )  | (132 )      | (2,519 )      | (1,363 )                                       | 287         | (1,076 )      | (3,750 )                                     | 155         | (3,595 )      |
| Loss Before<br>Provision for<br>Income<br>Taxes           | (3,448 )  | 329         | (3,119 )      | (537 )   | 211         | (326 )        | (3,985 )                                     | 540         | (3,445 )      |
| Provision for<br>Income<br>Taxes                          | (5 )  | -           | (5 )          | (2 )   | -           | (2 )          | (7 )   | -           | (7 )          |
| Net Loss  | (3,453 )  | 329         | (3,124 )      | (539 )   | 211         | (328 )        | (3,992 )                                     | 540         | (3,452 )      |
| Series A<br>Dividend                                      | (50 )   | -           | (50 )         | (50 )  | -           | (50 )         | (100 )                                       | -           | (100 )        |
| Series D<br>Deemed<br>Dividend                            | -   | (881 )      | (881 )        | -  | (1,128 )    | (1,128 )      | -  | (2,009 )    | (2,009 )      |
| Net Loss<br>Attributable<br>to Common<br>Stock<br>Holders | \$(3,503 )                                      | \$(552 )    | \$(4,055 )    | \$(589 )                                       | \$(917 )    | \$(1,506 )    | \$(4,092 )                                   | \$(1,469 )  | \$(5,561 )    |



|   |           |           |           |           |           |           |           |           |           |   |         |   |         |         |         |   |         |   |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---|---------|---|---------|---------|---------|---|---------|---|
| Basic and Diluted Net Loss per Share:                   |           |           |           |           |           |           |           |           |           |   |         |   |         |         |         |   |         |   |
| Net Loss  | \$(1.42   | )         | \$0.03    | \$(1.38   | )         | \$(0.18   | )         | \$0.06    | \$(0.12   | ) | \$(1.48 | ) | \$0.09  | \$(1.39 | )       |   |         |   |
| Net Loss Attributable to Common Stock Holders           |           |           |           |           |           |           |           |           |           |   |         |   |         |         |         |   |         |   |
|   | \$(1.44   | )         | \$(0.36   | )         | \$(1.80   | )         | \$(0.20   | )         | \$(0.36   | ) | \$(0.55 | ) | \$(1.52 | )       | \$(0.72 | ) | \$(2.24 | ) |
| Weighted Average Shares Outstanding - Basic and Diluted |           |           |           |           |           |           |           |           |           |   |         |   |         |         |         |   |         |   |
|   | 2,434,031 | (176,705) | 2,257,326 | 2,959,403 | (244,214) | 2,715,189 | 2,698,169 | (210,646) | 2,487,523 |   |         |   |         |         |         |   |         |   |

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

|  | Three Months Ended September 30,<br>2017 (unaudited) |             |            | Nine Months Ended September 30,<br>2017 (unaudited) |             |             |
|--|--|-------------|------------|---|-------------|-------------|
|  | Previously   |             | As         | Previously  |             | As          |
|  | Reported   | Adjustments | Revised    | Reported  | Adjustments | Revised     |
| Revenue  | \$50,345   | \$ -        | \$50,345   | \$133,174   | \$ -        | \$133,174   |
| Gross Profit   | 9,577  | -           | 9,577      | 24,827  | -           | 24,827      |
| SG&A   | 9,140  | (359 )      | 8,781      | 23,105  | (744 )      | 22,361      |
| Depreciation   | 790  | -           | 790        | 2,310   | -           | 2,310       |
| Other  | -  | -           | -          | -   | -           | -           |
| Total Operating Expenses                                   | 9,930  | (359 )      | 9,571      | 25,415  | (744 )      | 24,671      |
| Loss From Operations                                       | (353 )   | 359         | 6          | (588 )  | 744         | 156         |
| Other Expenses   | (4,803 )   | (2,528 )    | (7,331 )   | (8,553 )  | (2,373 )    | (10,926 )   |
| Loss Before Provision for Income<br>Taxes                  | (5,156 )   | (2,169 )    | (7,325 )   | (9,141 )  | (1,629 )    | (10,770 )   |
| Provision for Income Taxes                                 | (206 )   | -           | (206 )     | (213 )  | -           | (213 )      |
| Net Loss   | (5,362 )   | (2,169 )    | (7,531 )   | (9,354 )  | (1,629 )    | (10,983 )   |
| Series A Dividend  | (50 )  | -           | (50 )      | (150 )  | -           | (150 )      |
| Series D Deemed Dividend                                   | -  | -           | -          | -   | (2,009 )    | (2,009 )    |
| Net Loss Attributable to Common<br>Stock Holders           | \$(5,412 )   | \$(2,169 )  | \$(7,581 ) | \$(9,504 )  | \$(3,638 )  | \$(13,142 ) |
| Basic and Diluted Net Loss per<br>Share:                   |  |             |            |   |             |             |
| Net Loss   | \$(1.67 )  | \$(0.92 )   | \$(2.59 )  | \$(3.26 )   | \$(0.92 )   | \$(4.18 )   |
| Net Loss Attributable to Common<br>Stock Holders           | \$(1.69 )  | \$(0.92 )   | \$(2.61 )  | \$(3.31 )   | \$(1.69 )   | \$(5.00 )   |
| Weighted Average Shares<br>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 CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

|  | Three Months Ended April 1,<br>2017 (unaudited) |            |           | Six Months Ended July 1,<br>2017 (unaudited) |            |           | Nine Months Ended September<br>30, 2017 (unaudited) |            |            |
|--|---|------------|-----------|--|------------|-----------|---|------------|------------|
|  | Previously                                      | As         | As        | Previously                                   | As         | As        | Previously  | As         | As         |
|  | Reported  | Adjustment | Revised   | Reported                                     | Adjustment | Revised   | Reported  | Adjustment | Revised    |
| Net Loss   | \$(3,453)                                       | \$ 329     | \$(3,124) | \$(3,992)                                    | \$ 540     | \$(3,452) | \$(9,354 )  | \$(1,629 ) | \$(10,983) |
| Adjustments to<br>reconcile net loss to<br>net cash<br>provided by (used<br>in) operating<br>activities: |   |            |           |  |            |           |   |            |            |
| Non-cash addbacks  | 3,405   | (329 )     | 3,076     | 5,050  | (540 )     | 4,510     | 10,529  | 1,629      | 12,158     |
| Changes in operating<br>assets and liabilities   | 2,451   | -          | 2,451     | 1,046  | -          | 1,046     | (3,962 )  | -          | (3,962 )   |
| Net cash (used in)<br>provided by<br>operating activities  | 2,403   | -          | 2,403     | 2,104  | -          | 2,104     | (2,787 )  | -          | (2,787 )   |
| Net cash used in<br>investing activities   | (1,070)   | -          | (1,070)   | (1,201)                                      | -          | (1,201)   | (22,080)  | -          | (22,080)   |
| Net cash provided by<br>financing activities   | (1,492)   | -          | (1,492)   | (1,025)                                      | -          | (1,025)   | 29,599  | -          | 29,599     |
| Net (decrease)<br>increase in cash   | (159 )  | -          | (159 )    | (122 )                                       | -          | (122 )    | 4,732   | -          | 4,732      |
| Foreign currency<br>translation  | (2 )  | -          | (2 )      | (2 )   | -          | (2 )      | (2 )  | -          | (2 )       |
| Cash - beginning of<br>period  | 650   | -          | 650       | 650  | -          | 650       | 650   | -          | 650        |
| Cash - end of period   | \$489   | \$ -       | \$489     | \$526  | \$ -       | \$526     | \$5,380   | \$ -       | \$5,380    |

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

## 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/loss available to stockholders by the weighted average number of common stock shares outstanding during each period. Our Series A preferred stock holders receive certain dividends or dividend equivalents that are considered participating securities and our loss per share is computed using the two-class method. 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 common share equivalent basis and outstanding as of the end of Fiscal 2017, the Transition Period and Fiscal 2016, have been excluded from the per share computations, since their inclusion would be anti-dilutive:

|                                 | Fiscal<br>2017 | Transition<br>Period | Fiscal<br>2016 |
|---------------------------------|----------------|----------------------|----------------|
| Warrants                        | 925,935        | 6,726                | 16,753         |
| Long term incentive plan (LTIP) | 178,728        | 178,728              | 178,728        |
| Options                         | 122,400        | 63,900               | 64,100         |
| Convertible preferred shares    | 43,239         | 118,439              | 104,926        |
| Restricted shares - unvested    | 471,132        | 79,912               | 75,102         |
| Convertible bonds - Series B    | —              | 1,088                | 1,117          |
| Convertible promissory notes    | —              | 574,792              | 352,276        |
| Total                           | 1,741,434      | 1,023,585            | 793,002        |

Included in the Transition Period and Fiscal 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 determine the exact amount of shares of common stock the Series D Preferred Stock could be converted into at any time, thus 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 \$2,009 and \$1,660 for Fiscal 2017 and the Transition Period, respectively.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

|                                     | Fiscal<br>2017 | Transition<br>Period |
|-------------------------------------|----------------|----------------------|
| Computer software                   | \$ 192         | \$ 90                |
| Office equipment                    | 131            | 33                   |
| Computer equipment                  | 835            | 696                  |
| Furniture and fixtures              | 824            | 278                  |
| Leasehold improvements              | 655            | 472                  |
| Total property and equipment, gross | 2,637          | 1,569                |
| Accumulated depreciation            | (1,019)        | (650 )               |
| Total property and equipment, net   | \$ 1,618       | \$ 919               |

Depreciation expense for Fiscal 2017, the Transition Period and Fiscal 2016, was \$402, \$181, and \$232, respectively.

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

## NOTE 6 – OTHER NON-CURRENT ASSETS

The following provides a breakdown of other non-current assets:

|                          | Fiscal<br>2017 | Transition<br>Period |
|--------------------------|----------------|----------------------|
| Collateral               | \$2,842        | \$ 3,039             |
| Other non-current assets | 39             | 129                  |
| Surety bond              | -              | 1,405                |
| Total                    | \$2,881        | \$ 4,573             |

## NOTE 7 – IDENTIFIABLE INTANGIBLE ASSETS

The following provides a breakdown of identifiable intangible assets as of:

|                                       | Fiscal 2017 |             |               |          |
|---------------------------------------|-------------|-------------|---------------|----------|
|                                       |             |             |               | Customer |
|                                       | Tradename   | Non-Compete | Relationships | Total    |
| Identifiable intangible assets, gross | \$8,849     | \$ 2,368    | \$ 18,490     | \$29,707 |
| Accumulated impairment losses         | (311 )      | (142 )      | (1,084 )      | (1,537 ) |
| Accumulated amortization              | (1,778)     | (2,205 )    | (7,042 )      | (11,025) |
| Identifiable intangible assets, net   | \$6,760     | \$ 21       | \$ 10,364     | \$17,145 |

  

|                                       | Transition Period |             |               |          |
|---------------------------------------|-------------------|-------------|---------------|----------|
|                                       |                   |             |               | Customer |
|                                       | Tradename         | Non-Compete | Relationships | Total    |
| Identifiable intangible assets, gross | \$6,289           | \$ 2,368    | \$ 9,890      | \$18,547 |
| Accumulated impairment losses         | (311 )            | (142 )      | (1,084 )      | (1,537 ) |
| Accumulated amortization              | (1,253)           | (1,661 )    | (4,947 )      | (7,861 ) |

|                                     |         |        |          |         |
|-------------------------------------|---------|--------|----------|---------|
| Identifiable intangible assets, net | \$4,725 | \$ 565 | \$ 3,859 | \$9,149 |
|-------------------------------------|---------|--------|----------|---------|

In connection with the acquisition of CBS Butler and FirstPro, the Company identified intangible assets of \$8,500 and \$2,660, respectively, representing trade names and customer relationships. These assets are being amortized on a straight-line basis over their weighted average estimated useful life of 9.2 years.

As of December 30, 2017, estimated annual amortization expense for each of the next five fiscal years is as follows:

| As of December 30, | Amount   |
|--------------------|----------|
| 2018               | \$2,234  |
| 2019               | 1,936    |
| 2020               | 1,773    |
| 2021               | 1,773    |
| 2022               | 1,773    |
| Thereafter         | 7,656    |
| Total              | \$17,145 |

Amortization of identifiable intangible assets for the period ended Fiscal 2017, the Transition Period, and Fiscal 2016 was \$3,164, \$1,592, and \$2,632, respectively. The weighted average useful life remaining of identifiable intangible assets remaining is 8.5 years.



## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

## NOTE 8 – GOODWILL

The following table provides a roll forward of goodwill:

|                                | Fiscal<br>2017 | Transition<br>Period |
|--------------------------------|----------------|----------------------|
| Beginning balance, gross       | \$17,067       | \$16,121             |
| Accumulated impairment losses  | (1,288)        | (1,288)              |
| Beginning balance, net         | 15,779         | 14,833               |
| Acquisitions                   | 16,180         | —                    |
| Impairment                     | (4,790)        | —                    |
| Purchase accounting adjustment | —              | 946                  |
| Ending balance, net            | \$27,169       | \$15,779             |

The Company recorded goodwill of \$11,633 and \$4,547 related to the acquisition of CBS Butler and FirstPro respectively.

Goodwill by reportable segment is as follows:

|                            | Fiscal<br>2017 | Transition<br>Period |
|----------------------------|----------------|----------------------|
| Commercial Staffing - US   | \$2,756        | \$2,756              |
| Professional Staffing - US | 10,527         | 10,770               |
| Professional Staffing - UK | 13,886         | 2,253                |
| Ending balance, net        | \$27,169       | \$15,779             |

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations. ASC 350-30-35-4, requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis and between annual tests when circumstances indicate that the recoverability of the carrying amount of goodwill may be in doubt. 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.

NOTE 9 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following provides a breakdown of accounts payable and accrued expenses:

|                                    | Fiscal<br>2017 | Transition<br>Period |
|------------------------------------|----------------|----------------------|
| Accounts payable                   | \$4,371        | \$ 5,921             |
| Accrued payroll, taxes and bonuses | 7,061          | 8,398                |
| Severance costs                    | 780            | —                    |
| Interest payable                   | 1,431          | 364                  |
| Legal cost accrual                 | 608            | 2,090                |
| Other accrued expenses             | 2,458          | 1,337                |
| Total                              | \$16,709       | \$ 18,110            |

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

NOTE 10 – ACCOUNTS RECEIVABLE FINANCING

Sterling National Bank

In November 2013, Control Solutions International, Inc. (“CSI”), entered into a financing services agreement by which it assigned accounts receivable to fund working capital with Sterling National Bank (“Sterling”). Pursuant to this agreement, Sterling could advance up to 90% of the face value of eligible accounts receivable. The borrowings carried interest at a rate of 0.025% per day, or 9.0% per annum, from the date of the advance until the date of repayment. There was no ending date to the agreement, only a closing fee of \$500 (whole dollars) upon termination. In conjunction with the closing of the Jackson Note, the Company’s accounts receivable based lending facility with Sterling National Bank was closed.

ABN AMRO Commercial Finance

In February 2014, Longbridge entered into an agreement with ABN AMRO Commercial Finance PLC (“ABN AMRO”) under which it could borrow money against eligible accounts receivable. Under this agreement, the Borrower could receive advances of up to 90% on temporary placements and 75% on permanent placements of the face value of eligible receivables. The borrowings carried interest at a rate of 2.50% above the Sterling Libor rate of 3.90%. The aggregate limit was £1,250, which was cross guaranteed by all of our U.K. subsidiaries and backed by all of the assets of our U.K. entities.

On November 5, 2015, an amendment to the existing agreement with ABN AMRO was entered into, raising the limit on the line from £1.25 million to £3.5 million at a 2.5% interest rate plus the Bank of England base rate of 0.5%. With this new agreement the borrower received advances of 90% on both temporary and permanent placements of the face value of eligible receivables. Additionally, a two-year term loan was entered into with ABN-AMRO Commercial Finance for £750 to partially fund the acquisition of The JM Group Limited (“The JM Group”) and it bore an interest rate of 3% plus the Bank of England base rate of 0.5%. The new facility and the term loan were cross guaranteed by all of our UK subsidiaries and backed by all of the assets of our U.K. entities.

On March 29, 2017, Longbridge 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 as ABN AMRO informed the Company they intended to take no action.

The balance of the ABN AMRO Facility as of Fiscal 2017 was \$1,321 and included in Accounts receivable financing on the Consolidated Balance Sheet.

On February 8, 2018, this facility was terminated and the remaining balance paid in full.

Midcap Funding Trust

Prior to September 15, 2017, certain U.S. subsidiaries of the Company were parties to a \$25,000 revolving loan facility with MidCap Funding X Trust (“MidCap”), with the option to increase the amount by an additional \$25,000,

with a maturity of April 8, 2019. The facility provided for borrowing of 85% against eligible receivables and carried an interest rate of LIBOR plus 4.0%, with a LIBOR floor of 1.0% per annum. The Company could prepay all or any portion of the balance at any time subject to a prepayment premium of: (i) 2.0% if prepaid in the first year of the loan; and (ii) 1.0% if prepaid thereafter. This loan is secured by a first priority lien in favor of MidCap on all of the Company's US based assets except for the CSI assets. The Company entered into customary pledge and guaranty agreements to evidence the security interest in favor of MidCap.

On September 15, 2017, the Company amended the facility with Midcap to allow for additional borrowing against unbilled receivables up to 85% with a cap of \$1,300 borrowing against such receivables. In addition, the maturity date of the facility was extended to April 8, 2020 and the prepayment premiums reset to: (i) 2% if prepaid in the first or second year post the amendment; and (ii) 1.0% if prepaid thereafter. No other material terms were amended.

The availability to the Company under the Midcap Facility is reduced by any outstanding letters of credit. The Midcap Facility allows the Company to issue letters of credit up to \$150. As of December 30, 2017, \$85 letters of credit were issued and outstanding.

The facility provides events of default including: (i) failure to make payment of principal or interest on any MidCap loans when required, (ii) failure to perform obligations under the facility and related documents, (iii) not paying its debts as such debts become due and similar insolvency matters, and (iv) material adverse changes to the Company (subject to a 10-day notice and cure period). Upon an event of default, the Company's obligations under the credit facility may, or in the event of insolvency or bankruptcy will automatically, be accelerated. Upon the occurrence of any event of default, facility will bear interest at a rate equal to the lesser of: (i)

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

3.0% above the rate of interest applicable to such obligations immediately prior to the occurrence of the event of default; and (ii) the maximum rate allowable under law.

Under the terms of this agreement, the Company is subject to affirmative covenants which are customary for financings of this type, including: (i) maintain good standing and governmental authorizations, (ii) provide certain information and notices to MidCap, (iii) deliver monthly reports and quarterly financial statements to MidCap, (iv) maintain insurance, (v) discharge all taxes, (vi) protect their intellectual property, and (vii) generally protect the collateral granted to MidCap. The Company is also subject to negative covenants customary for financings of this type, including that it may not: (i) enter into a merger or consolidation or certain change of control events, (ii) incur liens on the collateral, (iii) except for certain permitted acquisitions, acquire any significant assets other than in the ordinary course of business, (iv) assume certain additional senior debt, or (v) amend any of their organizational documents. During the period August 31, 2015 through May 31, 2016, the Company was not in compliance with one or more of the covenants, however, did receive a waiver from MidCap for such covenants during this period. On July 11, 2016, the Company and MidCap amended the agreement and related covenants prospectively. The Company has since been in compliance with the covenants.

The balance of the Midcap Facility as of Fiscal 2017 was \$16,913 and included in Accounts receivable financing on the Consolidated Balance Sheet.

#### 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.

The balance of the HSBC Facility as of Fiscal 2017 was \$7,481 and included in Accounts receivable financing on the Consolidated Balance Sheet.

#### 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%.

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## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

## NOTE 11 – DEBT

|  | Fiscal<br>2017  | Transition<br>Period |
|--|-----------------|----------------------|
| <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          | —                    |
| Sterling National Bank                                     | —               | 168                  |
| Midcap Financial Trust                                     | —               | 2,025                |
| ABN AMRO   | 254             | 694                  |
| <b>Total Debt</b>  | <b>40,254</b>   | <b>9,010</b>         |
| <b>Less Deferred Financing Costs and/or Debt Discount</b>  | <b>(1,260 )</b> | <b>(1,374 )</b>      |
| <b>Total Debt, Net</b>                                     | <b>38,994</b>   | <b>7,636</b>         |
| <b>Less: Current Portion</b>                               | <b>(245 )</b>   | <b>(3,639 )</b>      |
| <b>Total Long-Term Debt</b>                                | <b>\$38,749</b> | <b>\$ 3,997</b>      |

## Series B Bonds

The balance of \$50 was paid in full in Fiscal 2017.

Non-interest bearing convertible note – January 6, 2016

On January 6, 2016, the Company issued a non-interest bearing \$359 convertible promissory note. The financing had an OID of \$54, a term of six months and was convertible into common stock at a price of \$11.50 per share. As part of the debt raise, other debt issuance costs amounted to \$5 which related to legal fees and \$54 related to the OID. On July 8, 2016, the Company paid \$59 in the form of an extension fee and extended the term for an additional six months. 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.

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.



STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

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

On July 8, 2015, the Company issued an 8% convertible debenture valued at \$3.92 million with a maturity date of April 1, 2017. The financing had an OID of \$280, a term of 21 months and was convertible into common stock at a price of \$10.00 per share at the lender's election. In connection with the financing, the Company issued 5,000 shares of common stock and 78,400 warrants exercisable for a term of five years at an initial exercise price of \$10.00 (subject to adjustment). As part of the debt raise, other debt issuance costs amounted to \$409, of which \$129 related to legal and due diligence fees and \$280 related to the OID. On December 30, 2015, the Company converted the 78,400 warrants to 100,000 Series B preferred shares. As a result of the conversion of warrants to preferred shares, the Company reduced the debt discount by \$855. As a result of the OID, the common shares and preferred shares issued, the Company recorded a debt discount and beneficial conversion expense of \$2,820. During Transition Period and Fiscal 2016, the Company recorded amortization expense totaling \$980 and \$1,619, respectively. On July 1, 2016, the Company paid cash of \$980 in principal and on October 1, 2016, the Company separately converted \$980 in principal into 178,182 shares of common stock.

On February 8, 2016, the Company issued an 8% convertible debenture valued at \$728 with a maturity date of July 1, 2017. The financing had a 12% OID amounting to \$78, a term of 15 months and is convertible into common stock at a price of \$10.00 per share at the lender's election. In connection with the financing, the Company issued 13,000 shares of series B preferred stock.

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 \$3.00 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 24,000 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 Transition Period, the Company paid \$980 in principal on the 8% Convertible Note (July 8, 2015) note.

### Lighthouse Promissory Notes

On July 8, 2015, the Company acquired Lighthouse. In connection with the acquisition, the Company issued an unsecured promissory note of \$2,498 bearing interest at 6% per annum due over three years (“Lighthouse - Seller Note #1”), and an unsecured promissory note of \$625 bearing interest at 6% per annum due over two years (“Lighthouse - Seller Note #2”) (collectively, the “Lighthouse Notes”). The Lighthouse Notes and any unpaid accrued interest are convertible at any time prior to maturity at a conversion price equal to the greater of (i) 80% of the Volume Weighted Average Price (“VWAP”) as of the date of notice given and (ii) the Company’s common stock price as of the date of notice given. During the Transition Period, the Company paid \$406 in principal towards the Lighthouse Notes. The Company paid these notes in full on September 18, 2017.

### Sterling National Bank Promissory Note

On December 16, 2014, the Company issued a promissory note to Sterling National bank in the amount of \$250. The note bears interest at 18% per annum and originally had a maturity date of March 31, 2015 that was subsequently modified to have no maturity date. Through May 31, 2016, the note was paid in full.

On July 24, 2015, the Company, through its wholly owned subsidiary CSI, issued a promissory note to Sterling National Bank in the amount of \$350. The note bears interest at 18% per annum and has a maturity date of October 24, 2017. The remaining principal and interest payments are paid monthly at \$18 per month through maturity. The Company paid this note in full on September 18, 2017 with the funding received from the Jackson Note.

### ABN AMRO Term Loan

On November 5, 2015, the Company entered into a two-year term loan agreement with ABN AMRO Bank in the amount of £750 (\$1,096), Principal payments are made in monthly installments of £31. This loan bears interest at 3.0% plus the Bank of England base rate of 0.5%. In June 2016, the Company borrowed an additional £250. All terms of the original loan remain unchanged. For the

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Transition Period, the Company paid principal totaling \$270. During Fiscal 2017 and Transition Period, the remaining principal balance is £188 and £564. On February 8, 2018, the entire remaining balance was paid off.

Midcap Financial Trust – Term Loan

On April 8, 2015, the Company entered in to a four-year term loan agreement with Midcap Financial Trust in the amount of \$3,000. This loan bears interest at 9.0% plus LIBOR, with a LIBOR floor of 1.0% per annum with principal payments of \$62.5 per month. On February 8, 2016 the Company amended the terms of the agreement to modify the principal amortization and the maturity date to September 1, 2018. Through December 31, 2016, the Company repaid principal of \$975. 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.

Midcap Financial Trust – Additional Term Loan

On April 8, 2015, the Company entered into an additional four-year term loan with Midcap Financial Trust, associated with the accounts receivable financing line of credit, of up to \$1,300 bearing interest at 4.0% plus LIBOR, with a LIBOR floor of 1.0% per annum, provided, that the Additional Term Loan shall be limited to an amount equal to 5.0% of each \$1,000 of the aggregate net amount of the Eligible Accounts (as such term is defined in the S360 Credit Agreement) minus the amount of any reserves and/or adjustments provided for in the S360 Credit Agreement. The initial borrowing of the Additional Term Loan was \$700 and shall be payable in full on April 8, 2019. The Company borrowed an additional \$100 in Fiscal 2016.

On February 8, 2016, the Company amended the terms of the agreement to draw an additional \$500 and adjust the interest rate to 9.0% plus LIBOR, with a LIBOR floor of 1%. The maturity date was unchanged. As part of the amendment, the Company issued Midcap Financial Trust 5,000 shares of common stock and recorded a debt discount of \$65. Net of the remaining unamortized debt discount of \$57, the remaining loan balance is \$1,243. For period ended Transition Period, the outstanding balance is \$1,300.

On January 26, 2017, the payment terms of the Additional Term Loan were amended. Commencing on February 1, 2017 and continuing the first day of each calendar month, the Company shall make principal payments of \$50 each month with the entire remaining balance due on the maturity date. In addition, in the event the Company should raise capital in aggregate of \$2.5 million, the Company must pay \$500 of such capital towards the Additional Term Loan; and if the Company should raise capital cumulatively in aggregate of \$4.0 million, an additional \$500 of such capital must be paid towards the Additional Term Loan.

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.

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").

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Jackson Investment Group Term Loan Note #2 – Related Party

On April 5, 2017, the Company amended the note and warrant purchase agreement and entered into a second subordinated secured note for \$1,650. Under the terms of this amended agreement, the Company issued to Jackson 59,397 shares of common stock, with an additional 74,184 shares of common stock that 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 825,463 shares of common stock, modified the initial exercise price of the Warrant to \$5.00 per share and modified the conversion price of accrued interest on the note issued to Jackson in January 2017 to \$7.50. The Warrant was also amended to increase the amount of common stock issuable to Jackson pursuant to the anti-dilution clause contained therein. The second note accrues interest on the principal amount at a rate of 6% per annum and has a maturity date of June 8, 2019; however, in the event the Company 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 \$1,426 at December 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 – Related Party

In August 2017, the Company entered into a promissory note for \$1,600, with a term of 60 days at interest of 10% per annum and issued 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”).

Jackson Investment Group Term Loan Note #4 – Related Party

On September 1, 2017, the Company entered into a promissory note for \$515, with a term of 31 days at an 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”).

Jackson Note – Related Party

On September 15, 2017, the Company entered into a \$40,000 note agreement with Jackson (refer to Note 2). The proceeds of the sale of the secured note were used to repay the existing subordinated notes previously issued to Jackson pursuant to the existing note purchase agreement in the aggregate principal amount of \$11,165 and to fund a portion of the purchase price consideration of the Firstpro Acquisition and the CBS Butler Acquisition and repay certain other outstanding indebtedness of the Company. The maturity date for the amounts due under the Jackson Note is September 15, 2020. The Jackson Note will accrue interest at 12% per annum, due quarterly on January 1, April 1, July 1 and October 1 in each year, with the first such payment due on January 1, 2018. Interest on any overdue payment of principal or interest due under the Jackson Note will accrue at a rate per annum that is 5% in excess of the rate of interest otherwise payable thereunder.

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

The Jackson Note includes customary covenants including a leverage ratio 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

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

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until February 2018. As such, Jackson permitted the Company to calculate the leverage ratio as of December 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.

## NOTE 12 – STOCKHOLDERS’ EQUITY

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

The issuance of common shares during Fiscal 2017 is summarized below:

|  | Number of<br>Common Shares<br>Issued | Fair<br>Value<br>of<br>Shares<br>Issued | Fair Value<br>at Issuance<br>(minimum<br>and<br>maximum<br>per share) |        |
|--|--------------------------------------|---|---|--------|
| Shares issued to/for:                            |                                      |   |   |        |
| Consultants                                      | 4,500                                | \$20                                    | \$3.50  | \$4.70 |
| Board and committee members                      | 49,100                               | 240                                     | 3.10  | 4.70   |
| Employees  | 342,120                              | 604                                     | 2.75  | 4.70   |
| Shares issued in connection with promissory note | 945,581                              | 2,527                                   | 2.75  | 3.70   |
| Shares issued for extension of convertible note  | 120,000                              | 498                                     | 4.15  | 4.15   |
| Shares issued in connection with acquisition     | 100,000                              | 430                                     | 4.30  | 4.30   |
| Shares sold through At-The-Market facility       | 125,253                              | 367                                     | 3.16  | 4.39   |
| Conversion of Series D Preferred Shares          | 394,600                              | 972                                     | 2.80  | 3.80   |
|  | 2,081,154                            | \$5,658                                 |   |        |

The Company’s authorized common stock consists of 40,000,000 shares having a par value of \$0.00001. As of the end of Fiscal 2017 and the Transition Period, the Company has issued and outstanding 3,909,114 and 1,827,960, common shares, respectively. On January 26, 2017, the Company received shareholder approval to amend the Company’s Articles of Incorporation to increase the number of shares of common stock available for issuance from 20,000,000 to 40,000,000.

The difference between the fair value of shares issued and the change in Additional Paid-In Capital during the period results from the accounting for conversions of Series D Preferred Stock which uses a historical value versus the fair value of common stock issued on the date of conversion.

In May 2017, 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. In Fiscal 2017, the Company sold 125,253 shares of common stock under this program at a value of \$441. Subsequent to December 31, 2017, the Company has sold 134,417 shares of common stock under this program at a value of \$424.

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## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

## 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 Fiscal 2017, the Company has a total of 479,157 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. In Fiscal 2017, the Transition Period and Fiscal 2016, the Company recorded compensation expense associated with these restricted shares of \$844, \$313 and \$329, respectively. The table below is a rollforward of unvested restricted shares issued to employees and board of directors.

|                              | Restricted<br>Shares | Weighted<br>Average<br>Price Per<br>Share |
|------------------------------|----------------------|---|
| Balance at May 31, 2016      | 75,402               | \$ 20.77                                  |
| Granted                      | 4,510                | 5.50                                      |
| Vested                       | -                    | -   |
| Balance at December 31, 2016 | 79,912               | \$ 19.91                                  |
| Granted                      | 391,220              | 3.33                                      |
| Vested                       | -                    | -   |
| Balance at December 30, 2017 | 471,132              | \$ 6.14                                   |

## Series A Preferred Stock – Related Party

On May 29, 2015, the Company filed a Certificate of Designations, Preferences and Rights of Series A Preferred Stock with the Nevada Secretary of State, whereby the Company designated 1,663,008 shares of preferred stock as Series A Preferred Stock, par value \$0.00001 per share. On June 15, 2017, the Company reincorporated in the State of Delaware. The Series A Preferred Stock has a stated value of \$1.00 per share and is entitled to a 12% dividend.

Shares of the Series A Preferred Stock are convertible into shares of common stock at the holder's election at any time prior to December 31, 2018 (the "Redemption Date"), at a conversion rate of one and three tenths (1.3) shares of common stock for every 50 shares of Series A Preferred Stock that the Holder elects to convert. Except as otherwise required by law, the Series A Preferred Stock shall have no voting rights.

In the event of a liquidation, dissolution or winding up of the Company, the holders of the Series A Preferred Stock shall be entitled to receive out of the assets of the Company legally available for distribution, prior to and in preference to distributions to the holders of the Company's common stock, par value \$0.00001 per share or classes and series of securities of the Company which by their terms do not rank senior to the Series A Preferred Stock, and either in preference to or pari passu with the holders of any other series of Preferred Stock that may be issued in the future that is expressly made senior or pari passu, as the case may be, an amount equal to the Stated Value of the Series A Preferred Stock less any dividends previously paid out on the Series A Preferred Stock.

The holders will be entitled to receive cash dividends at the rate of 12% of the Stated Value per annum, payable monthly in cash, prior to and in preference to any declaration or payment of any dividend on the common stock. So long as any shares of Series A Preferred Stock are outstanding, the Company shall not declare, pay or set apart for payment any dividend on any shares of common stock, unless at the time of such dividend the Company shall have paid all accrued and unpaid dividends on the outstanding shares of Series A Preferred Stock.

The Certificate of Designation filed on May 29, 2015, designating the Series A Preferred Stock, was filed in connection with the Company's issuance of an aggregate of 1,663,008 shares of Series A Preferred Stock to Brendan Flood and Matthew Briand for the conversion of the Gross Profit Appreciation Bonus (as defined in each employment agreement) associated with their employment agreements. The Certificate of Designation was approved and related issuances were ratified by the Company's Board and compensation committee on May 29, 2015.

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Up until the Redemption Date, holders may convert their shares into common stock at their election. On the Redemption Date, the Company shall redeem all of the shares of Series A Preferred Stock of each Holder, for cash or for shares of common stock in the Company's sole discretion. If the Redemption Purchase Price is paid in shares of common stock, the holders shall initially receive one and three tenths (1.3) shares of common stock for each \$50.00 of the Redemption Purchase Price. If the Redemption Purchase Price is paid in cash, the redemption price paid to each Holder shall be equal to the Stated Value for each share of Series A Preferred Stock, multiplied by the number of shares of Series A Preferred Stock held by such Holder, less the aggregate amount of dividends paid to such Holder through the Redemption Date.

As of Fiscal 2017 and the Transition Period, we had issued and outstanding 1,663,008 Series A Preferred Stock shares and accrued dividends totaling \$0 and \$366, respectively. In Fiscal 2017, the Company paid dividends of \$566.

Series B Preferred Stock

On December 30, 2015, the Company filed a Certificate of Designations, Preferences and Rights of Series B Preferred Stock with the Nevada Secretary of State, pursuant to which the Company designated 200,000 shares as Series B Preferred Stock, par value \$0.00001 per share. On June 15, 2017, the Company reincorporated in the State of Delaware. The Series B Preferred Stock shall have a stated value of \$10.00 per share. Except as otherwise required by law, the Series B Preferred Stock shall have no voting rights.

In the event of a liquidation, dissolution or winding up of the Company, the remaining assets of the Company available for distribution to its stockholders shall be distributed on a pari passu basis among the holders of shares of the Series B Preferred Stock and the holders of the Company's common stock, par value \$0.00001 per share, pro rata based on the number of shares held by each such holder.

There will be no dividends associated with the Series B Preferred Stock or payable to the holders. If a holder elects to convert the Series B Preferred Stock into common stock, then the holder will have the same rights and receive the same dividends, if any, as the holders of the common Stock.

At any time, each holder may elect to convert the shares of Series B Preferred Stock held by such holder into shares of common stock. Upon the Series B Conversion, a holder shall receive one share of common stock for every one share of Series B Preferred Stock that the holder elects to convert; provided, however, that (i) to the extent that the holder's right to receive such amount of common Stock upon conversion of the shares of Series B Preferred Stock would result in the holder holding in excess of 4.99% of the number of shares of common stock outstanding immediately after giving effect to the issuance of shares of common stock issuable upon exercise of the Series B Preferred Stock, then the holder shall not be entitled to convert such shares of Series B Preferred Stock into a number of common stock that exceeds such beneficial ownership limitation, and (ii) notwithstanding any other provision of the Certificate of Designation to the contrary, in no event can conversion of the Series B Preferred Stock pursuant the Certificate of Designation result in the issuance of shares of common stock that would exceed the "Exchange Cap". The "Exchange Cap" shall be deemed to have been reached if, at any time prior to the shareholders of the Company approving any transaction(s) pursuant to which Series B Preferred Stock, any stock or other securities convertible into or exchangeable for common stock and/or common stock are issuable that may be aggregated with such shares of common stock issuable upon conversion of Series B Preferred Stock, the number of shares of common stock issuable

under outstanding shares of Series B Preferred Stock and other convertible securities and shares of common stock issued pursuant to such transactions(s) would exceed 19.9% of the shares of common stock outstanding as of the date of the earliest transaction(s).

The holders of two-thirds of the Series B Preferred Stock then outstanding, upon notice to the Company, may increase or decrease the beneficial ownership limitation; provided, that the beneficial ownership limitation in no event shall exceed 9.99% of the number of shares of the common stock outstanding immediately after giving effect to the issuance of shares of common stock upon conversion of the outstanding Series B Preferred Stock.

On December 30, 2015, the Company converted 78,400 warrants to 100,000 Series B Preferred Stock. In connection with the February 8, 2016 Note, the Company issued 13,000 shares of Series B Preferred Stock. In April 2016, the Company issued 20,000 shares of Series B Preferred Stock for advisory services rendered.

On July 8, 2016, holders of Series B Preferred Stock elected to convert all 133,000 shares to 26,600 shares of common stock.

As of Fiscal 2017 and Transition Period, the Company has no Series B shares issued and outstanding.

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Series C Preferred Stock

On April 6, 2016, the Company filed a Certificate of Designation of Series C Preferred Shares with the Nevada Secretary of State, whereby the Company designated 500,000 shares as Series C Preferred Shares, par value \$0.00001 per share. On June 15, 2017, the Company reincorporated in the State of Delaware. The Series C Preferred Shares shall have a stated value of \$1.00 per share (the "Stated Value"). The Certificate of Designation sets forth the voting powers, designations, preferences, privileges, limitations, restrictions and relative rights applicable to the Series C Preferred Shares. Except as otherwise required by law, the Series C Preferred Shares shall have no voting rights.

Upon any liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, the holders of shares of the Series C Preferred Shares shall (i) first be entitled to receive out of the assets, whether capital or surplus, of the Company an amount equal to \$0.00001 for each share of Series C Preferred Shares before any distribution or payment shall be made to the holders of any junior securities and (ii) then be entitled to receive out of the assets, whether capital or surplus, of the Company the same amount that a holder of Company's common stock would receive if the Series C Preferred Shares were fully converted (disregarding for such purposes any conversion limitations under the Certificate of Designation) to common stock which amounts shall be paid pari passu with all holders of common stock.

Except for stock dividends or distributions for which adjustments are to be made pursuant to the Certificate of Designation, Holders are entitled to dividends on shares of Series C Preferred Shares equal (on an as-if-converted-to-Common-Stock basis) to and in the same form as dividends actually paid on shares of the common stock when, as and if such dividends are paid on shares of the common stock. No other dividends shall be paid on shares of Series C Preferred Shares.

Each share of Series C Preferred Shares shall be convertible at the option of the Holder thereof, into that number of shares of common stock (subject to the limitations set forth in the Certificate of Designation) determined by dividing the Stated Value of such share of Series C Preferred Shares by the conversion price for the Series C Preferred Shares, which shall equal \$1.00, subject to adjustment in accordance with the Certificate of Designation. Holders may effect conversions by providing the Company with a conversion notice in accordance with form and procedures set forth in the Certificate of Designation.

The "Beneficial Ownership Limitation" with respect to the Series C Preferred Shares is 4.99% of the number of shares of the common stock outstanding immediately after giving effect to the issuance of shares of common stock issuable upon conversion of Series C Preferred Shares held by the applicable Holder. A Holder, upon notice to the Company, may increase or decrease the Beneficial Ownership Limitation applicable to its Series C Preferred Shares; provided, that the Beneficial Ownership Limitation in no event shall exceed 9.99% of the number of shares of the common stock outstanding immediately after giving effect to the issuance of shares of common stock issuable upon conversion of Series C Preferred Shares held by the applicable Holder.

On April 7, 2016 the Company issued 175,439 shares of Series C Preferred Shares at \$2.85 for a total of \$500.

On June 16, 2016, the Company filed an Amendment to the Certificate of Designation for the Series C Preferred Stock, par value \$0.00001 per share. The Amendment increased the number of Series C Preferred Stock from 500,000

shares authorized to 2,000,000 shares authorized.

On June 24, 2016, holders of Series C Preferred Stock elected to convert all 175,439 shares to 35,088 shares of common stock.

As of Fiscal 2017 and Transition Period, the Company has no Series C shares issued and outstanding.

#### Series D Preferred Stock

On June 27, 2016, the Company filed a Certificate of Designation of Series D Preferred Stock with the Nevada Secretary of State, whereby the Company designated 5,000 shares as Series D Preferred, par value \$0.00001 per share (the "Series D Preferred Stock"). On June 15, 2017, the Company reincorporated in the State of Delaware. The Series D Preferred Stock have a face value of \$10 (whole dollars) per share (the "Face Value"), original issue discount of 5% ("OID") and conversion price of \$2.50 per share. The Certificate of Designation sets forth the voting powers, designations, preferences, privileges, limitations, restrictions and relative rights applicable to the Series D Preferred Stock. Except as otherwise required by law, the Series D Preferred Stock shall have no voting rights, except: (a) during a period where a dividend (or part of a dividend) is in arrears; (b) on a proposal to reduce the Company's share capital; (c) on a resolution to approve the terms of a buy-back agreement; (d) on a proposal to wind up the Company; (e) on a proposal for the disposal of all or substantially all the Company's property, business and undertaking; and (f) during the winding-up of the entity.

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Upon any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, after payment or provision for payment of debts and other liabilities of the Company, pari passu with any distribution or payment made to the holders of Preferred Stock and common stock by reason of their ownership thereof, the holders of Series D Preferred Stock (each a "Holder") will be entitled to be paid out of the assets of the Company available for distribution to its stockholders an amount with respect to each share of Series D Preferred Stock equal to \$10 (whole dollars), plus an amount equal to any accrued but unpaid In-Kind Accrual thereon.

Commencing on the date of the issuance of any such shares of Series D Preferred Stock, each outstanding share of Series D Preferred Stock will accrue a cumulative in-kind payment accrual ("In-Kind Accrual"), at a rate equal to 6.50% per annum, subject to adjustment as provided in the Certificate of Designations, of the Face Value. In-Kind Accrual will be payable with respect to any shares of Series D Preferred Stock upon any of the following: (a) upon redemption of such shares in accordance with the Certificate of Designation; (b) upon conversion of such shares in accordance with the Certificate of Designation; and (c) when, as and if otherwise declared by the Board of the Company.

Each share of Series D Preferred Stock shall be convertible at the option of the Company and Holder thereof, in accordance with the Certificate of Designation, into that number of shares of common stock (subject to the limitations set forth in the Certificate of Designation) determined by dividing the Face Value of such share of Series D Preferred Stock by the conversion price per share for the Series D Preferred Stock, which shall equal \$2.50, subject to adjustment in accordance with the Certificate of Designation. Holders may effect conversions by providing the Company with a conversion notice in accordance with form and procedures set forth in the Certificate of Designation. The shares of common stock underlying the Series D Preferred Stock will be fully paid and non-assessable.

The Company may not issue shares of common stock to any Holder which, when aggregated with all other shares of common stock then deemed beneficially owned by such Holder, would result in such Holder owning more than 4.99% of all common stock outstanding immediately after giving effect to such issuance; provided, however, that such Holder may increase such amount to 9.99% upon not less than 61 days prior notice to the Company.

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 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 Transition Period, holders of this series converted 118 shares of Series D Preferred Stock to 268,192 shares of common stock. During Fiscal 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 \$2,009 and \$1,660 for Fiscal 2017 and the Transition Period, 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 March 29, 2016, the Company filed a Tender Offer Statement ("Tender Offer"), offering to certain holders of the Company's outstanding warrants to elect to receive an aggregate of 181,327 shares of the Company's common stock, by agreeing to receive 1 common stock shares in exchange for every 25 warrants tendered by the holders of Warrants.

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STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

The Tender Offer expired on April 26, 2016 and as of that date, a total of 164,445 warrants were validly tendered and not withdrawn. Such tendered warrants represented approximately 91% of the warrants included in the Tender Offer. Under the terms of the Tender Offer, the Company accepted all tendered warrants, and issued an aggregate of 32,896 shares of our common stock in exchange.

In the month of May 2016, in separate agreements, various other warrant holders elected to receive an aggregate of 25,712 shares of the Company's common stock, by agreeing to receive 7 shares of common stock in exchange for every 20 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 not material

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:

|        | Weighted |
|--------|----------|
| Number | Average  |
| of     | Exercise |
| Shares | Price    |

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|                                  |           |          |
|----------------------------------|-----------|----------|
| Outstanding at May 31, 2016      | 16,753    | \$ 98.55 |
| Issued                           | —         | —        |
| Expired or cancelled             | (10,027 ) | 99.17    |
| Outstanding at December 31, 2016 | 6,726     | \$ 97.62 |
| Issued                           | 925,508   | 5.00     |
| Exercised                        | —         | —        |
| Expired or cancelled             | (6,300 )  | 100.00   |
| Outstanding at December 30, 2017 | 925,934   | \$ 5.03  |

The following table summarizes warrants outstanding as of Fiscal 2017:

| Exercise Price   | Number Outstanding and Exercisable | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise price |
|------------------|------------------------------------|---|---------------------------------|
| \$5.00 - \$62.50 | 925,934                            | 4.09  | \$ 5.03                         |

## Incentive Plans

### 2014 Equity Incentive Plan

On January 28, 2014, our Board adopted the 2014 Equity Incentive Plan (the “2014 Plan”). Under the 2014 Plan, we may grant options to employees, directors, senior management of the company and, under certain circumstances, consultants. The purpose of the 2014 Plan is to retain the services of the group of persons eligible to receive option awards, to secure and retain the services of new members of this group and to provide incentives for such persons to exert maximum efforts for the success of the company and its affiliates. A maximum of 50,000 shares of common stock has been reserved for issuance under this plan. The 2014 Plan expires on January 28, 2024. As of Fiscal 2017, all 50,000 shares have been issued.

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## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

## 2015 Omnibus Incentive Plan

On September 23, 2015, our Board adopted the 2015 Omnibus Incentive Plan (the “2015 Plan”). This plan has not been approved by our stockholders. Under the 2015 Plan, we may grant a variety of equity instruments to employees, directors, senior management of the company and, under certain circumstances, consultants. The purpose of the 2015 Plan is to retain the services of the group of persons eligible to receive option awards, to secure and retain the services of new members of this group and to provide incentives for such persons to exert maximum efforts for the success of the company and its affiliates.

The 2015 Plan provides for an aggregate of 90,000 shares of common stock to be available for awards under the 2015 Plan (“Awards”). The number of shares available for grant pursuant to Awards under the 2015 Plan is referred to as the “Available Shares”. If an Award is forfeited, canceled, or if any Option terminates, expires or lapses without being exercised, the common stock subject to such Award will again be made available for future grant. However, shares that are used to pay the exercise price of an Option or that are withheld to satisfy the Participant’s tax withholding obligation will not be available for re-grant under the 2015 Plan.

The Plan will have a term of ten years and no further Awards may be granted under the 2015 Plan after that date.

## 2016 Omnibus Incentive Plan

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. The 2016 Plan’s terms and conditions are similar to that of the 2015 Plan. 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, restricted stock and stock option awards. To date, the Company has issued a total of 456,720 shares, including options to purchase shares of common stock of 62,700 and therefore has 43,260 remaining under this plan. The fair value of stock options granted in Fiscal 2017 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: | \$ 0.62 |
| Volatility:                    | 99.38%  |
| Expected dividend rate:        | —       |
| Expected terms (years):        | 5       |
| Risk-free interest rate:       | 1.93%   |

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A summary of the activity during the Fiscal 2017 and Transition Period of the Company's 2014 Equity Incentive Plan, 2015 Omnibus Incentive Plan and the 2016 Omnibus Incentive Plan is presented below:

|                                  | Options  | Weighted<br>Average<br>Exercise Price |
|----------------------------------|----------|---------------------------------------|
| Outstanding at May 31, 2016      | 62,760   | \$ 82.03                              |
| Granted                          | —        | —                                     |
| Exercised                        | —        | —                                     |
| Expired or cancelled             | —        | —                                     |
| Outstanding at December 31, 2016 | 62,760   | \$ 82.03                              |
| Granted                          | 62,700   | 6.75                                  |
| Exercised                        | —        | —                                     |
| Expired or cancelled             | (3,060 ) | 82.68                                 |
| Outstanding at December 30, 2017 | 122,400  | \$ 43.98                              |

During the Fiscal 2017, Transition Period and Fiscal 2016, the Company recorded total share-based payment expense of \$389, \$210 and \$358, respectively, in connection with all options outstanding.

The total compensation cost related to options not yet amortized is \$297 at Fiscal 2017. The Company will recognize this charge over approximately 4 years.

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

Long-Term Incentive Plan

In May 2016, the Company's Board approved the 2016 Long-Term Incentive Plan (the "2016 LTIP"). This plan was approved by our stockholders on January 26, 2017.

The material features of the 2016 LTIP are:

- The maximum number of shares of common stock to be issued under the 2016 LTIP is 260,000 shares;
- The award of performance units is permitted;
- The term of the 2016 LTIP will expire on December 31, 2018 (unless terminated earlier) at the end of the 2016 LTIP's performance period.

The shares we issue under the 2016 LTIP will be authorized but unissued shares. The Board selected 260,000 shares to adequately motivate the participants and drive performance for the period.

Performance Units

The 2016 LTIP permits the granting of performance units to participants under the 2016 LTIP. The award agreement will set forth the number of performance units granted to a participant. The number of shares issued under an award is determined by multiplying the number of performance units granted to the participant by the vesting rate which is determined by measuring the market cap of the Company. As amended by the Compensation Committee on October, 25, 2016, the below chart summarizes the relationship between performance and the vesting rate for the performance units.

| 2018 Market Cap                 | Vesting Rate |
|---------------------------------|--------------|
| Up to \$54.6M                   | 0.00%        |
| From \$54.6M to below \$82M     | 25.00%       |
| From \$82M to below \$109.3M    | 41.67%       |
| From \$109.3M to below \$136.6M | 66.67%       |
| At \$136.6M or above            | 100.00%      |

If earned, shares of common stock will be issued to a participant within 30 days after the end of the performance period (December 31, 2018) and in no event later than March 15, 2019; provided, that the participant has been continuously employed, as applicable, with the Company through the date of issuance of the shares of common stock. If a participant terminates employment for any reason with the Company before the issuance of the shares described above, the award will be cancelled and forfeited, unless the Compensation Committee elects for special treatment.

The estimated fair value of the 2016 LTIP plan based on third party valuation was \$136. As of Fiscal 2017, all units had been issued and all compensation expense amortized. For Fiscal 2017 and Transition Period, the Company recorded \$91 and \$53 in compensation expense, respectively, associated with the 2016 LTIP. The Company has issued a total of 178,739 shares under this plan.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Employment Agreements

On January 3, 2014, in connection with the acquisition of Initio, the Company entered into a services agreement (the “Flood Employment Agreement”) with Brendan Flood. Pursuant to the Flood Employment Agreement, Mr. Flood serves as Executive Chairman of the Board, as well as, CEO of Initio International Holdings (“Initio”). Mr. Flood was paid a salary of £192 per annum, less statutory deductions, plus other benefits including reimbursement for reasonable expenses, paid vacation and insurance coverage for his roles with both the Company and Staffing (UK). Mr. Flood’s salary will be adjusted (but not decreased) annually based upon

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## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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the change in the Consumer Price Index – Northeast Region (the “CPI Adjustment”). Mr. Flood is also entitled to an annual bonus of up to 50% of his annual base salary based reaching certain financial milestones. Additionally, Mr. Flood is entitled to Gross Profit Appreciation Participation, which entitles the participants to 10% of Initio’s Excess Gross Profit, which is defined as the increase in Initio gross profits in excess of 120% of the base year’s gross profit, up to \$400. Mr. Flood’s participating level is 62.5%. On May 29, 2015, the Gross Profit Appreciation Bonus associated with this employment agreement was converted into Series A Preferred Stock. The Flood Employment Agreement has a term of five years and will automatically renew thereafter unless 12 months written notice is provided by either party. This employment agreement includes customary non-compete/solicitation language for a period of 12 months after termination of employment. On January 1, 2017, the Company amended the Flood Employment Agreement to increase his salary by the CPI Adjustment to an annualized salary of £275, and add an additional bonus of up to 25% of his base salary based upon the Company’s ending leverage ratio. On January 1, 2018 the Company amended the Flood Employment Agreement to increase his salary by CPI Adjustment to an annualized salary of £280. All other terms of Mr. Flood’s employment agreement remained unchanged.

On January 3, 2014, in connection with the acquisition of Initio, the Company entered into an employment agreement (the “Briand Employment Agreement”) with Matthew Briand. Pursuant to the Briand Employment Agreement, Mr. Briand served as Co-CEO of the Company, as well as, CEO of Monroe. Mr. Briand was paid a salary of \$300 per annum, plus other benefits including reimbursement for reasonable expenses, paid vacation and insurance coverage for his roles with both the Company and Monroe. Mr. Briand’s salary was adjusted (but not decreased) annually in connection with the CPI Adjustment as defined in the Briand Employment Agreement. Mr. Briand was also entitled to an annual bonus of up to 50% of his annual base salary based on reaching certain financial milestones. Additionally, Mr. Briand is entitled to Gross Profit Appreciation Participation, which entitles the participants to 10% of Initio’s Excess Gross Profit, which is defined as the increase in Initio gross profits in excess of 120% of the base year’s gross profit, up to \$400. Mr. Briand’s participating level is 37.5%. On May 29, 2015, the Gross Profit Appreciation Bonus associated with this employment agreement was converted into Series A Preferred Stock. The Briand Employment Agreement has a term of five years and will automatically renew thereafter unless 12 months written notice is provided by either party. This employment agreement includes customary non-compete/solicitation language for a period of 12 months after termination of employment. On January 27, 2015, Mr. Briand was given the additional title of President. On January 1, 2016, the Company amended the Briand Employment Agreement to increase his salary to \$350. On January 1, 2017 the Company amended the Briand Employee Agreement to increase his salary by CPI adjustment to an annualized salary of \$371, and add an additional bonus of up to 25% of his base salary based upon the Company’s ending leverage ratio. On December 22, 2017, the Company announced the departure of Mr. Briand effective January 31, 2018. The Briand Employment Agreement was terminated, except with respect to certain provisions of the Briand Employment Agreement relating to competition that remain in effect. The Company additionally agreed to provide Mr. Briand with the following: (a) continued salary payments through the January 31, 2018; (b) a severance payment equal to twelve months’ salary payable over three months in equal installments beginning after the January 31, 2018, (c) performance bonuses for 2017 and 2018 as determined by the Company’s Board of Directors based upon the criteria set forth for its executives; (d) continued health insurance coverage for a period of 12 months following the January 31, 2018 (e) full and immediate vesting of all outstanding stock options and restricted securities granted to Mr. Briand; (f) reimbursement for life insurance and disability benefits for calendar year 2018; and (g) continuation of an automobile allowance for calendar year 2018 in the same amount as Mr. Briand received as an employee of the Company. As a result of this arrangement, the Company recorded a restructuring charge \$780 in Fiscal 2017.

On February 5, 2016, the Company entered into an employment agreement (the “Faiman Employment Agreement”) with David Faiman that appointed him as the Company’s Chief Financial Officer effective March 1, 2016. Mr. Faiman was later appointed the Company’s Treasurer and Executive Vice President. Under the Faiman Employment Agreement, Mr. Faiman received an annual base salary of \$275. Annually, Mr. Faiman’s salary will be adjusted for the CPI Adjustment. Mr. Faiman also received a grant of 10,000 restricted shares of the Company’s common stock, which vest as follows: (i) 5,000 shares on the first-year anniversary, and (ii) 5,000 shares on the second anniversary of Mr. Faiman’s employment start date. Annual adjustments to salary, as well as bonus and additional stock option awards will be granted at the discretion of the Board based on meeting personal and corporate objectives each year. His annual bonus target will be 50% of annual base salary, based upon reaching certain financial milestones, with the potential additional 25% based on the Company’s ending leverage ratio. On January 1, 2017 the Company increased Mr. Faiman’s salary by the CPI adjustment to an annualized salary of \$280. On January 1, 2018 the Company increased his salary to an annualized salary of \$320.

On January 27, 2017, the Company entered into an employment agreement (the “Lutzo Employment Agreement”) with Christopher Lutzo that appointed him as the Company’s General Counsel effective February 13, 2017. Mr. Lutzo was later appointed the Company’s Secretary and Executive Vice President. Under the Lutzo Employment Agreement, Mr. Lutzo received an annual base salary of \$220. Annually, Mr. Lutzo’s salary will be adjusted for the CPI Adjustment. Mr. Lutzo also received a grant of 10,000 restricted shares of the Company’s common stock, which vest as follows: (i) 5,000 shares on the first-year anniversary, and (ii) 5,000



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shares on the second anniversary of Mr. Lutzo's employment start date. Annual adjustments to salary, as well as bonus and additional stock option awards will be granted at the discretion of the Board based on meeting personal and corporate objectives each year. His annual bonus target will be 50% of annual base salary, based reaching certain financial milestones. On January 1, 2018 the Company increased Mr. Lutzo's salary by the CPI adjustment to annualized salary of \$224.

Earn-out Liabilities and Stock Value Guarantees

The earn-out liability is comprised of contractual contingent liabilities resulting from the Company's acquisitions. The provisions state that the seller of a business may receive additional future compensation based upon the business achieving certain future financial performance levels. The earn-out transactions were accounted for under the purchase method in accordance with ASC 805.

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 Fiscal 2017 and Transition Period, the Company paid \$98 and \$79, 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 made the final payments of \$14 in January 2018.

At closing, the Company estimated the performance-based compensation would be \$2,100. During Fiscal 2017, Transition Period and Fiscal 2016, the Company paid \$98, \$79, \$159, respectively, towards the earn-out liability. At December 31, 2016, the remaining balance was \$1,320 of which \$138 is recorded in other current liabilities and \$1,182 is recorded in other long-term liabilities. At December 30, 2017, the company had the remaining balance of \$15 recorded as an accrued expense.

Pursuant to the acquisition of Lighthouse, the sellers received 62,460 shares of common stock. In the event that the VWAP price for the 90 days prior to the anniversary of the acquisition date, is less than \$10.00 per share, then the Company shall pay to the sellers an amount equal to \$10.00 per share less the VWAP price multiplied by each share. On the anniversary of the acquisition date, the Company calculated the amount as \$500 which was paid during the Transition Period with a corresponding increase to Goodwill.

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 January 2017.

In addition, the Company will issue an aggregate of 20,000 shares of common stock valued at \$4.70 totaling \$94, if the Anniversary Gross Profit (defined) of The JM Group is 100% or more the Completion Gross Profit (defined). If the Anniversary Gross Profit is greater than or equal to 75% of the Completion Gross Profit, but less than 100% of The JM Group's Completion Gross Profit, an amount of shares equal to the product of (i) the Anniversary Gross Profit divided by the Completion Gross Profit and (ii) 20,000. If the Anniversary Gross Profit is less than 75% of the Completion Gross Profit, no shares are due. Pursuant to the acquisition of The JM Group, in addition to the 20,000 contingent shares discussed above, the sellers received 40,000 shares of common stock. In the event that the VWAP price for the 90 days prior to the anniversary of the acquisition date, is less than \$10.00 per share, then the Company shall pay to the sellers an amount equal to \$10.00 per share less the VWAP price multiplied by each share. As a result of the lower stock price, on November 14, 2016 the Company paid \$346 in relation to the 40,000 shares issued and recorded an increase of \$346 to Goodwill. On September 8, 2016, the Company paid \$100 in relation to the 20,000 shares issued with a corresponding increase to Goodwill of \$100.

#### Lease Obligations

The Company is party to multiple lease agreements for office space. The agreements require monthly rental payments through September 2027. Total minimum obligations are approximately \$1,511, \$1,385, \$1,209, \$1,114, \$426 and \$735 for the twelve months ended fiscal 2018, 2019, 2020, 2021, 2022 and beyond, respectively. For Fiscal 2017, Transition Period, and Fiscal 2016 rent expense amounted to \$1,268, \$571 and \$1,067 respectively.

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STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

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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, 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 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. On July 26, 2017, the Appellate Court affirmed the Court's decision granting a judgment against the Company for \$1,307, and awarded prejudgment interest in the amount of \$77 and costs and fees in the amount of \$20, for a total judgment of \$1,405, but left the issue of legal fees open for further proceedings at the trial court. The supersedeas bond had accrued interest to \$1,400 and was released to NewCSI's counsel. The Company paid the remaining \$5 directly.

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.

The Company intends to aggressively assert its defenses in the remaining portion of the proceedings with NewCSI. Nevertheless, there can be no assurance that the outcome of this legal fees determination will be favorable to the Company.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Other Matters

On February 17, 2016, a previous law firm filed suit in the Supreme Court of the State of New York alleging that the Company owes \$759, for legal services rendered. The Company disagreed with the quantity and quality of legal services provided by the firm to the Company. On March 17, 2016, the Company reached a settlement with the law firm in the amount of \$505 to be paid in equal installments over 24 months beginning April 2016. The final payment was made on March 1, 2018.

NOTE 14 – SEGMENT INFORMATION

In December 2017, following the acquisitions of FirstPro and CBS Butler, the Company reorganized its operations into three reportable segments: Commercial – US; Professional – US and Professional - UK.

|                            | Fiscal<br>2017 | Transition<br>Period | Fiscal<br>2016 |
|----------------------------|----------------|----------------------|----------------|
| Commercial Staffing - US   | \$96,399       | \$61,792             | \$90,331       |
| Professional Staffing - US | 51,104         | 31,551               | 53,226         |
| Professional Staffing - UK | 45,147         | 16,079               | 21,995         |
| Total Revenue              | \$192,650      | \$109,422            | \$165,552      |
| Commercial Staffing - US   | \$16,913       | \$9,966              | \$13,602       |
| Professional Staffing - US | 10,619         | 5,741                | 10,282         |
| Professional Staffing - UK | 9,209          | 3,430                | 5,163          |

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|   |             |             |             |
|---|-------------|-------------|-------------|
| Total Gross Profit                            | \$36,741    | \$19,137    | \$29,047    |
| Selling, general and administrative expenses  | \$(32,819 ) | \$(18,244 ) | \$(29,700 ) |
| Depreciation and amortization                 | (3,566 )    | (1,773 )    | (2,864 )    |
| Impairment of goodwill                        | (4,790 )    | -           | -           |
| Operating expenses - restructuring            | (780 )      | -           | -           |
| Interest expense                              | (3,745 )    | (1,382 )    | (2,699 )    |
| Amortization of beneficial conversion feature | -           | (430 )      | (727 )      |
| Amortization of debt discount and deferred    |             |             |             |
| financing costs                               | (2,745 )    | (979 )      | (1,917 )    |
| Change in fair value of warrant liability     | 383         | -           | -           |
| Loss on extinguishment of debt, net           | (6,132 )    | (162 )      | 566         |
| Other expense                                 | (106 )      | (12 )       | (93 )       |
| Loss Before Provision for Income Tax          | \$(17,559 ) | \$(3,845 )  | \$(8,387 )  |

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## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

For Fiscal 2017, the Transition Period and Fiscal 2016, the Company generated revenue in the U.S., the U.K. and Canada as follows:

|                | Fiscal<br>2017 | Transition<br>Period | Fiscal<br>2016 |
|----------------|----------------|----------------------|----------------|
| United States  | \$ 147,373     | \$ 93,257            | \$ 143,460     |
| United Kingdom | 45,147         | 16,080               | 21,994         |
| Canada         | 130            | 85                   | 98             |
| Total Revenue  | \$ 192,650     | \$ 109,422           | \$ 165,552     |

For the period ended Fiscal 2017 and Transition Period, the Company has assets in the U.S., the U.K. and Canada as follows:

|                | Fiscal<br>2017 | Transition<br>Period |
|----------------|----------------|----------------------|
| United States  | \$ 53,814      | \$ 44,990            |
| United Kingdom | 32,861         | 8,936                |
| Canada         | 73             | 31                   |
| Total Assets   | \$ 86,748      | \$ 53,957            |

Total assets by segment is not presented as it is not reviewed by the Chief Operating Decision Maker in his evaluation of how to allocate capital and resources.

For the period ended Fiscal 2017 and Transition Period, the Company has goodwill in the U.S., the U.K. and Canada as follows:

|                | Fiscal<br>2017 | Transition<br>Period |
|----------------|----------------|----------------------|
| United States  | \$ 13,283      | \$ 13,027            |
| United Kingdom | 13,886         | 2,752                |

|                |          |           |
|----------------|----------|-----------|
| Canada         | —        | —         |
| Total Goodwill | \$27,169 | \$ 15,779 |

#### NOTE 15 – ACQUISITIONS

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

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## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

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 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) deferred consideration of £150 less the aggregate amount of each CBS Butler Shareholder’s portion of the net asset shortfall amount, if any, as determined pursuant to the Share Purchase Agreement and the Option Purchase Agreement.

In connection with the acquisition of FirstPro and CBS Butler, the Company recorded the following identifiable intangible assets, based on preliminary valuation.

|                        | CBS<br>Butler | FirstPro |
|------------------------|---------------|----------|
| Goodwill               | \$11,633      | \$4,547  |
| Intangible assets      |               |          |
| Tradenames             | 2,100         | 460      |
| Customer Relationships | 6,400         | 2,200    |
|                        | \$8,500       | \$2,660  |

Goodwill of CBS Butler and FirstPro are included in the Company’s Professional-UK and Professional-US reportable segments, respectively.

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

|                               | CBS      |          |
|-------------------------------|----------|----------|
|                               | Butler   | FirstPro |
| Purchase price <sup>(1)</sup> | \$24,414 | \$7,298  |
| Less:                         |          |          |
| Net assets acquired           | (4,281 ) | (91 )    |
| Intangibles                   | (8,500 ) | (2,660 ) |
| Goodwill                      | \$11,633 | \$4,547  |

<sup>(1)</sup>Goodwill amounts are shown net of adjustments of \$811 and \$702 for CBS Butler and FirstPro, respectively, for discounting of deferred payments and earnouts and other purchase accounting adjustments.

The Company identified intangible assets of \$8,500 and \$2,660, for CBS Butler and FirstPro respectively, representing trade names, and customer relationships. These assets are being amortized on a straight-line basis over their weighted average estimated useful life of approximately 9.2 years. The Company acquired a total of \$8,527 in receivables and fair value of these receivables equals the contract value; and recorded contingent consideration associated with CBS Butler of £4,214 (\$5,689).

The following unaudited pro forma consolidated results of operations have been prepared, as if the acquisitions of CBS Butler and FirstPro has occurred as of June 1, 2016:

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

|  | Fiscal 2017 | Transition<br>Period |
|--|-------------|----------------------|
| Revenues   | \$244,471   | \$157,351            |
| Net loss from continuing operations                                | (19,122 )   | (3,748 )             |
| Weighted average number of common stock shares - basic and diluted | 3,220,426   | 2,114,794            |
| Net loss per share from continuing operations                      | \$(0.01 )   | \$(0.00 )            |

The Company recorded revenues of \$24,454 from the acquisitions completed during Fiscal 2017.

The Company recorded a total of \$469 in third party expenses associated with consummating the two acquisitions, which are included in Selling, general and administrative expenses, excluding depreciation and amortization stated on the Consolidated Statement of Operations.

## NOTE 16 – RELATED PARTY TRANSACTIONS

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

## Board and Committee Members

During Fiscal 2017, the Transition Period and Fiscal 2016, the Company incurred \$69, \$29 and \$50, respectively, in fees to Dimitri Villard for his role as Board member and Chairman of the Nominating and Corporate Governance. In addition, during Fiscal 2017, the Transition Period and Fiscal 2016, Mr. Villard received 4,500, 900, and 1,200 common shares valued at \$19, \$7, and \$29, respectively, for his services as a Board and Committee member. During Fiscal 2017, the Transition Period and Fiscal 2016, Mr. Villard received 11,800, 0 and 6,000 common shares valued at \$48, \$0, and \$150, respectively, as a bonus. These shares vest over a three year period and as such the Company has recognized expense of \$75, 33 and \$49 during Fiscal 2017, the Transition Period and Fiscal 2016, respectively. Mr. Villard also received stock options valued at \$1 in Fiscal 2017. For Fiscal 2017, the Company has \$0 accrued in accounts payable and accrued expenses – related parties account.

During Fiscal 2017, the Transition Period and Fiscal 2016, the Company incurred \$69, \$29, and \$50, respectively, in fees to Jeff Grout for his role as Board member and the Chairman of the Compensation Committee. In addition, during Fiscal 2017, the Transition Period and Fiscal 2016, Mr. Grout received 4,500, 900, and 1,200 common shares valued at \$19, \$7, and \$29, respectively, for his service as a Board and Committee member. During Fiscal 2017, the Transition Period and Fiscal 2016, Mr. Grout received 11,800, 0 and 6,000 common shares valued at \$48, \$0 and \$150, respectively, as a bonus. These shares vest over a three year period and as such the Company has recognized expense of \$75, 33 and \$47 during Fiscal 2017, Transition Period and Fiscal 2016, respectively. Mr. Grout also received stock options valued at \$1 in Fiscal 2017. For Fiscal 2017, the Company has \$0 accrued in accounts payable

and accrued expenses – related parties account.

During Fiscal 2017, the Transition Period and Fiscal 2016, the Company incurred \$69, \$29, and \$50, respectively in fees to Nick Florio for his services as Board member, Chairman of the Audit Committee and Chairman of the Restructuring Committee. In addition, during Fiscal 2017, the Transition Period and Fiscal 2016, Mr. Florio received 4,700, 750, and 1,000 common shares valued at \$19, \$6, and \$24, respectively, for his services as a Board and Committee member. During Fiscal 2017, the Transition Period and Fiscal 2016, Mr. Florio received 11,800, 0 and 6,000 shares valued \$48, \$0 and at \$150, respectively, as a bonus. These shares vest over a three year period and as such the Company has recognized expense of \$74, 33 and \$46 during Fiscal 2017, Transition Period and Fiscal 2016, respectively. Mr. Florio also received stock options valued at \$1 in Fiscal 2017. 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. For Fiscal 2017, the Company has accrued \$0 in accounts payable and accrued expenses – related parties account.

#### The Briand Separation Agreement

The Company's former employee, board member and officer resigned from his positions with the Company and subsidiaries. The Company entered into an agreement (the "Briand Separation Agreement") with Mr. Briand dated December 21, 2017, with an effective date ("Separation Date") of January 31, 2018, pursuant to which Mr. Briand may provide advisory services, if requested by the Company, through the effective date. Pursuant to the Briand Separation Agreement, the Company agreed to provide, among other things: (a) pay through January 31, 2018 in the same amount and manner in which Mr. Briand was paid immediately prior to this Agreement; (b) severance pay in the amount of \$362 (as of January 31, 2018) for twelve (12) months, payable over three (3) months

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## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

in equal installments in accordance with the normal payroll policies of the Company, with the first installment being paid on the Company's first regular pay date on or after January 31, 2018, which initial payment shall include all installment amounts that would have been paid during the first thirty (30) days following the Separation Agreement had installments commenced immediately following the Separation Date; (c) performance bonuses for 2017 and 2018, in the amounts, if any, as determined by the Company's Board of Directors based upon the criteria set forth for its executives, payable in cash at the time any such performance bonuses are ordinarily paid to the Company's executives; (d) for a period of twelve (12) months following the Separation Date, all health insurance plan benefits to which Mr. Briand and his family was entitled prior to the Separation Date under any such benefit plans or arrangements maintained by the Company in which Mr. Briand and his family participated, shall be provided to the same extent of coverage, pursuant to COBRA, to be paid directly by the Company; (e) any unvested stock options and restricted securities granted to Mr. Briand shall be fully and immediately exercisable or non-forfeitable, as applicable; (f) reimbursement for life insurance benefits, payable in the calendar year 2018 in the same amount as Mr. Briand received as an active employee of the Company; (g) reimbursement of disability insurance premiums, payable in the calendar year 2018 in the same amount as Mr. Briand received as an active employee of the Company; and (h) an automobile allowance, payable in the calendar year 2018 in the same amount as Mr. Briand received as an active employee of the Company.

## NOTE 17 – SUPPLEMENTAL CASH FLOW INFORMATION

|   | Fiscal<br>2017 | Transition<br>Period |
|---|----------------|----------------------|
| <b>Cash paid for:</b>   |                |                      |
| Interest  | \$1,861        | \$ 1,010             |
| Income taxes  | 342            | 84                   |
| <b>Non Cash Investing and Financing Activities:</b>           |                |                      |
| Shares issued as purchase consideration                       | \$430          | \$ 20                |
| Conversion of a convertible note payable                      | -              | 980                  |
| Deemed dividend   | 2,009          | 1,660                |
| Warrants issued in connection with Jackson term loan          | 1,426          | -                    |
| Shares issued in connection with convertible note             | 498            | -                    |
| Shares issued in connection with Jackson term loan            | 2,527          | -                    |
| Shares issued in connection with Series D redemption          | 208            | -                    |
| CSI earnout (payment with surety bond)                        | 1,305          | 1,336                |
| Beneficial conversion feature in relation to issuance of debt | -              | 1,105                |

## NOTE 18 – INCOME TAXES

The components of loss before provision for income taxes for Fiscal 2017, the Transition Period and Fiscal 2016 are as follows:

|  | Fiscal<br>2017 | Transition<br>Period | Fiscal<br>2016 |
|--|----------------|----------------------|----------------|
| Domestic                               | \$(17,667)     | \$(5,000 )           | \$(8,032)      |
| Foreign                                | 108            | 1,155                | (355 )         |
| Loss before provision for income taxes | \$(17,559)     | \$(3,845 )           | \$(8,387)      |

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## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

The provision for income taxes consisted of the following:

|                                   | Fiscal<br>2017 | Transition<br>Period | Fiscal<br>2016 |
|-----------------------------------|----------------|----------------------|----------------|
| <b>Current:</b>                   |                |                      |                |
| Federal                           | \$ 152         | \$ —                 | \$ —           |
| State                             | 250            | —                    | —              |
| Foreign                           | 62             | 16                   | 17             |
| <b>Total current tax expense</b>  | <b>464</b>     | <b>16</b>            | <b>17</b>      |
| <b>Deferred:</b>                  |                |                      |                |
| Federal                           | 41             | —                    | —              |
| State                             | 8              | —                    | —              |
| Foreign                           | 419            | —                    | —              |
| <b>Total deferred tax expense</b> | <b>468</b>     | <b>—</b>             | <b>—</b>       |
| <b>Total Tax Expense</b>          | <b>\$ 932</b>  | <b>\$ 16</b>         | <b>\$ 17</b>   |

The difference between the income tax provision on income (loss) and the amount computed at the U.S. federal statutory rate is due to:

|  | Fiscal 2017  |               | Transition<br>Period |            | Fiscal 2016  |                |
|--|--------------|---------------|----------------------|------------|--------------|----------------|
| Income benefit provision at Federal statutory rate | \$(5,953)    | 34.0 %        | \$(1,222)            | 34.0 %     | \$(3,242)    | 34.0 %         |
| State income taxes, net of Federal Benefit         | (383 )       | 2.2 %         | (188 )               | 5.2 %      | (363 )       | 3.8 %          |
| Foreign permanent differences                      | —            | — %           | 17                   | (0.5 %)    | 84           | (0.9 %)        |
| International tax rate differentials               | 231          | -1.3 %        | 180                  | (5.0 %)    | 64           | (0.7 %)        |
| U.S. Permanent differences                         | 142          | (0.8 %)       | 488                  | (13.6 %)   | 966          | (10.1 %)       |
| Goodwill impairment                                | 1,628        | (903.0 %)     | —                    | — %        | —            | — %            |
| Other True-Ups                                     | 1,035        | (5.9 %)       | —                    | — %        | —            | — %            |
| Impact of Federal Rate change                      | 3,665        | (20.9 %)      | —                    | — %        | —            | — %            |
| Change in valuation allowance                      | 567          | (3.3 %)       | 741                  | (81.2 %)   | 2,508        | (26.3 %)       |
| <b>Tax provision</b>                               | <b>\$932</b> | <b>-5.3 %</b> | <b>\$ 16</b>         | <b>— %</b> | <b>\$ 17</b> | <b>(0.2 %)</b> |

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code which has impacted our year ended December 30, 2017 including, but not limited to reducing the U.S. federal corporate tax rate

to 21%, requiring a one-time transition tax on certain unremitted earnings of foreign subsidiaries that may electively be paid over eight years, and accelerated first year expensing of certain capital expenditures.

Effective January 1, 2018 the Tax Act generally eliminates U.S. federal income taxes on dividends from foreign subsidiaries, imposes a new minimum tax on global intangible low taxed income (“GILTI”), limits the amount of deductible interest expense, and imposes new limitations on the deductibility of certain executive compensation.

Shortly after the Tax Act was enacted, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118), which provides guidance on accounting for the Tax Act’s impact. SAB 118 provides a measurement period, which in no case should extend beyond one year from the Tax Act enactment date, during which a company acting in good faith may complete the accounting for the impacts of the Tax Act under ASC Topic 740. In accordance with SAB 118, the Company must reflect the income tax effects of the Tax Act in the reporting period in which the accounting under ASC Topic 740 is complete.

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



## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

At December 30, 2017, in accordance with SAB 118 the Company has not completed its accounting for the tax effects of the one-time transition tax imposed by the Tax Act. In order to determine the amount of the liability with respect to the one-time transition tax, the Company must determine, in addition to other factors, the amount of post-1986 Earnings & Profits of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. In order to quantify the liability, we are awaiting further interpretative guidance, continuing to assess available tax methods and elections, and continuing to gather additional information to more precisely compute the amount of the transition tax. Therefore, we have not recorded an estimate of the transition tax in our financial statements. In addition, the Company is continuing to evaluate whether Global Intangible Low Tax Income taxes (“GILTI”) are recorded as a current period expense when incurred or whether such amounts should be factored into a company’s measurement of its deferred taxes. As a result, the Company has not included an estimate of the tax impacts related to GILTI for Fiscal 2017.

The Company has not provided for additional income or withholding taxes for any undistributed foreign earnings, including those subject to the one-time transition tax nor have any taxes been provided for the outside basis difference inherent in these entities as the Company’s assertion is to indefinitely reinvest in foreign operations. Additionally, due to withholding tax, basis computations, and other related tax considerations, it is not practicable to estimate any taxes to be provided on outside basis differences at this time.

Our deferred tax assets (liabilities) are as follows:

|   | Fiscal<br>2017 | Transition<br>Period |
|---|----------------|----------------------|
| Deferred tax assets                                 |                |                      |
| Net operating loss carryforward                     | \$7,103        | \$ 7,439             |
| Tax credit, deduction and capital loss carryforward | 764            | 1,038                |
| Share-based compensation                            | 862            | 151                  |
| Depreciation and other amortization                 | -              | 1,422                |
| Debt issuance costs                                 | 1,234          | —                    |
| Accrued expenses and other liabilities              | 812            | 761                  |
| Total deferred tax assets                           | 10,775         | 10,811               |
| Less: valuation allowance                           | (9,424 )       | (8,843 )             |
| Deferred tax assets, net of valuation allowance     | 1,351          | 1,968                |
| Deferred tax liabilities:                           |                |                      |
| Depreciation  | 1,443          | 21                   |
| Basis differences in acquired intangibles           | 1,807          | 1,947                |
| Total deferred tax liabilities                      | 3,250          | 1,968                |
| Deferred tax liability                              | \$(1,899 )     | \$ —                 |

The Company has federal net operating losses (“NOLs”) of \$23,743 that begin to expire in 2029. The Company has state operating losses of \$30,332 that begin to expire in 2030, and foreign NOLs totaling \$2,958 with an indefinite life. The Company also has general business credit carryforwards of \$227.

In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in those periods in which temporary differences become deductible and/or net operating loss carryforwards can be utilized. We consider the level of historical taxable income, scheduled reversal of temporary differences, tax planning strategies, and projected future taxable income in determining whether a valuation allowance is warranted.

During Fiscal 2017, the Company maintained a valuation allowance against its U.S. deferred tax assets and certain foreign jurisdictions. The Company’s valuation allowance increased by \$560 during Fiscal 2017. This increase was primarily attributable to the adjustment of certain deferred balances.

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

During 2017, we reduced our federal and state tax attributes for unrecognized tax benefits related primarily to the treatment of stock compensation and stock options. If recognized, \$1,136 of the unrecognized tax benefits are likely to attract a full valuation allowance, thereby offsetting the favorable impact to the effective rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

It is reasonably possible that the amount of the unrecognized tax benefits with respect to our unrecognized tax positions will increase or decrease in the next 12 months. These changes may be the result of, among other things, method changes. However, quantification of an estimated range cannot be made at this time. The Company has accrued zero interest and penalties as of December 30, 2017 and December 31, 2016.

|  | Fiscal<br>2017 | Transition<br>Period | Fiscal<br>2016 |
|--|----------------|----------------------|----------------|
| Beginning balance  | \$—            | \$ —                 | \$ —           |
| Additions based on tax positions related to current year | —              | —                    | —              |
| Additions for tax positions of prior years               | 1,136          | —                    | —              |
| Reductions for tax positions of prior years              | —              | —                    | —              |
| Loss before provision for income taxes                   | \$1,136        | \$ —                 | \$ —           |

The Company, or one of its subsidiaries, files its tax returns in the U.S., United Kingdom, Canada and certain state tax jurisdictions with varying statutes of limitations. The Company's 2014 through 2017 tax years remain open to examination. Additional years may be open to the extent attributes are being carried forward to an open year.

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except share and par values, unless otherwise indicated)

NOTE 19 – COMPARATIVE FINANCIAL INFORMATION FOR SEVEN MONTHS ENDED JANUARY 2, 2016  
(UNAUDITED)

The following unaudited condensed consolidated statement of operations for the seven months ended January 2, 2016 is provided for comparison purposes to the Transition Period:

|  | For the<br>Period  |
|--|--------------------|
|  | June 1,<br>2015 -  |
|  | January<br>2, 2016 |
| Revenue  | \$91,432           |
| Cost of revenue, excluding depreciation and amortization stated below                              | 75,116             |
| Gross Profit   | 16,316             |
| Operating Expenses:  |                    |
| Selling, general and administrative expenses, excluding depreciation and amortization stated below | 15,301             |
| Depreciation and amortization  | 1,817              |
| Total Operating Expenses   | 17,118             |
| Loss from Operations   | (802 )             |
| Other Expense:   |                    |
| Interest expense   | (1,527 )           |
| Amortization of beneficial conversion feature  | (421 )             |
| Amortization of debt discount and deferred financing costs   | (1,150 )           |
| Other loss   | (13 )              |
| Loss before Provision for Income Tax   | (3,913 )           |
| Benefit for income taxes   | 9                  |
| Net Loss   | (3,904 )           |
| Net income attributable to non-controlling interest  | 9                  |
| Net Loss Before Preferred Share Dividends  | (3,913 )           |
| Dividends - Series A preferred stock   | 116                |

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|   |            |
|---|------------|
| Net loss attributable to common stock holders           | \$(4,029 ) |
| Basic and Diluted Net Loss per Share:                   |            |
| Net Loss  | \$(4.24 )  |
| Net Loss Attributable to Common Stock Holders           | \$(4.37 )  |
| Weighted Average Shares Outstanding – Basic and Diluted | 920,984    |

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES.

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

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that

- a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- b) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of our management and directors; and
- c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

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

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

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

A system of controls, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the system of controls are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Based on our evaluation under the framework described above, aside from the material weakness discussed above, our management concluded that our internal controls over financial reporting were effective in accordance with Item 308(a)(3) of Regulation S-K.

Attestation report of the registered public accounting firm

This Annual 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

Other than the material weakness identified above, there has been no change in our system of internal control over financial reporting occurred during the fiscal year ended December 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.



## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

## Board Composition

As of December 30, 2017, and the issuance date of this Annual Report, our board of directors consists of four directors. Under the Company's Amended and Restated Certificate of Incorporation and Bylaws, the board is divided into Class I and Class II directors, and any directors not classified are non-classified directors. Each Class I director seat is up for election at the annual meeting of stockholders occurring in calendar year 2019 and every two years thereafter, each Class II director seat is up for election at the annual meeting of stockholders occurring in calendar year 2018 and every two years thereafter, and any non-classified directors are up for election at every annual meeting of stockholders and, in each case, until his or her successor shall be elected and qualified, unless sooner displaced. Our shareholders approved the appointment of our four directors at our annual shareholder meeting on January 26, 2017.

## Executive Officers and Directors

The name, age and position of our executive officers and directors are set forth below.

| Name and Address  | Age | Positions   |
|-------------------|-----|---|
| Brendan Flood     | 53  | Chairman, Chief Executive Officer, President and Director       |
| David Faiman      | 45  | Chief Financial Officer, Executive Vice President and Treasurer |
| Christopher Lutzo | 51  | General Counsel, Executive Vice President and Secretary         |
| Dimitri Villard   | 75  | Director  |
| Jeff Grout        | 65  | Director  |
| Nicholas Florio   | 54  | Director  |

Brendan Flood, Chairman, Chief Executive Officer, President and Director. Mr. Flood has been the Chairman or Executive Chairman and a Director of the Company since January 7, 2014. He assumed the role of Chairman and Chief Executive Officer ("CEO") on December 19, 2017, and has been in the staffing industry for 20 years. Mr. Flood joined the company upon the sale of his business, Initio International Holdings ("Initio"), on January 3, 2014, where he was the Chairman and CEO, to the Company. He acquired Initio as part of a management buy-out, which he led, in January 2010. Prior to Initio, Mr. Flood worked in several staffing companies including Hudson Global Resources Inc. which he brought to the Nasdaq National Market on April 1, 2003, as a spin-off from Monsterworldwide Inc. His experience while at Monsterworldwide included numerous M&A transactions, operational management in both London and New York, and various senior financial roles. Mr. Flood graduated from Dublin City University in Ireland with a Bachelor of Arts Degree in Accounting and Finance. Mr. Flood's strong financial background and years of experience at major staffing firms like Monsterworldwide and Hudson Global Resources qualifies him to be the Chairman and Chief Executive Officer and a director given the Company's core business in the staffing industry. On December 22, 2017, in connection with the realignment of the Company into three operating segments: Professional Staffing (US), Professional Staffing (UK), and Commercial Staffing, the Company announced the departure of Matthew Briand from the company effective as of January 31, 2018, and the appointment by the Independent members of the Board of Directors of the Company of Mr. Flood to serve as CEO and President of the Company. Mr. Flood will also continue his role as Chairman of the Board of Directors.

David Faiman, Chief Financial Officer, Executive Vice President and Treasurer. Mr. Faiman has served as the Chief Financial Officer since March 1, 2016, and was later appointed Treasurer and Executive Vice President. Mr. Faiman has over 20 years of finance and accounting experience at both private and public companies, bringing a high degree of knowledge and proficiency to his role as Chief Financial Officer. From 2013 to 2015, Mr. Faiman was Vice President of Financial Planning & Analysis as well as Chief Accounting Officer of Novitex Enterprise Solutions, Inc. (“Novitex”), a leading provider of solutions in the document outsourcing industry and which is owned by the private equity firm Apollo Global Management, LLC. Prior to Novitex, Mr. Faiman served in various senior financial roles, including acting Chief Financial Officer, during his almost 10-year tenure from 2004 to 2013 at Cengage Learning, Inc. (formerly Thomson Learning of Thomson Reuters). During this time, Mr. Faiman was part of the management team responsible for the coordination of a multi-billion private equity buyout of Cengage Learning by Apax Partners LLP, a private equity firm. Mr. Faiman began his career at PricewaterhouseCoopers LLP in its Assurance and Business Advisory practice. Mr. Faiman is a Certified Public Accountant and graduated summa cum laude with a Bachelor of Science in Business Administration from the University of Connecticut.

Christopher Lutzo, General Counsel, Executive Vice President and Secretary. Mr. Lutzo has served as General Counsel of the Company since February 13, 2017, and was later appointed Secretary and Executive Vice President. Mr. Lutzo has practiced for over 25 years, with a particular emphasis in the areas of compliance, business operations, financial transactions, mergers & acquisitions, and securities law. From 2015 to 2017, Mr. Lutzo focused on corporate governance and M&A activity at Axiom Global, Inc., a

leading provider of tech-enabled legal services with a predominantly Fortune 500 clientele. Prior to that, from 2012 to 2015, Mr. Lutzo was Assistant General Counsel for American Outdoor Brands Corporation, where he handled mergers and acquisitions transactions, commercial and compliance matters, and managed integration of business, legal and regulatory functions, enabling accretive value to be realized from acquisition targets. Mr. Lutzo has also prepared and filed SEC filings and annual reports for Nasdaq-listed companies. Mr. Lutzo is admitted in the states of New York and Connecticut and received his J.D. from Quinnipiac University Law School in Connecticut, and a Bachelor of Arts from Duquesne University in Pittsburgh, Pennsylvania

Dimitri Villard, Director. Dimitri Villard has been a Director of the Company since July 2012. Mr. Villard was Chairman and CEO of Peer Media Technologies, Inc., a public company Internet technology business, from February 2009 to December 2012. Peer Media Technologies, Inc. changed its name from ARTISTdirect, Inc. in May 2010. Prior to that, Mr. Villard served as Interim CEO since March 6, 2008 and as a Director since January 2005 until 2012. Mr. Villard has also served as President and a Director of Pivotal BioSciences, Inc., a biotechnology company, since September 1998 to present. In addition, since January 1982 to present, he has served as President and Director of Byzantine Productions, Inc. Previously, Mr. Villard was a Director at the investment banking firm of SG Cowen and affiliated entities, a position he held from January 1997 to July 1999. From 2004 to 2008, Mr. Villard served as Chairman of the Board of Directors of Dax Solutions, Inc., an entertainment industry digital asset management venture, and from July 2012 until September 2013, was a member of the Board of Directors of The Grilled Cheese Truck Company, a public company. He is also a member of the Executive Committee of the Los Angeles chapter of the Tech Coast Angels, a private venture capital group. Mr. Villard received a Bachelor of Arts from Harvard University and a Master of Science degree from China International Medical University. He is the Chairman of the Company's Nominating and Corporate Governance Committee and also serves on the Compensation Committee and on the Audit Committee. Mr. Villard's experience as an officer and/or director of several public companies, as well as an investment banker, qualifies him to be a Director of the Company.

Jeff Grout, Director. Jeff Grout has been a Director of the Company since February 2014. He is a successful business speaker, consultant and coach. His clients include Amazon, Deloitte, LinkedIn, British Airways, Barclays, Ernst & Young, Virgin, etc. Listed in the '100 Best Business Speakers in Britain', Jeff Grout is in considerable demand as a motivational business speaker, conference chairman and interviewer. Formerly U.K. Managing Director of Robert Half International, a leading international recruitment consultancy, and Business Manager to Sir Clive Woodward, Head Coach of the England Rugby Team, Mr. Grout is now an independent business consultant specializing in leadership, people management, team building, peak performance, recruitment and retention issues. He has spoken at Henley Business School, Ashridge Management College, Cardiff Business School and the Danish Centre for Leadership. He holds several corporate advisory and executive coaching appointments and is also a successful business author. Jeff has written books on leadership, recruitment, career success, the psychology of peak performance and his Police detective father's first murder case. His eighth book entitled "What You Need to Know about Leadership" was published in May 2011. Mr. Grout holds a Bachelor of Science (Economics) Degree from the London School of Economics and Political Science. Mr. Grout brings valuable operational experience within the staffing industry having grown the U.K. business of Robert Half International from \$1 million to \$100 million in sales and from 12 to 365 employees. He also identified and integrated several acquisitions of staffing businesses in the U.K. and continental Europe. He is the Chairman of the Company's Compensation Committee and serves on the Nominating and Corporate Governance Committee and on the Audit Committee. Mr. Grout's extensive staffing industry experience, including his role as former Managing Director of Robert Half International, qualifies him to be a director of the Company.

Nicholas Florio, Director. Nicholas Florio has been a Director of the Company since May 2014. Mr. Florio provides business consulting and financial advice to a variety of closely held private businesses. He is an audit and accounting partner for Citrin Cooperman & Company, LLP ("Citrin Cooperman") based in the firm's New York City office. Mr. Florio has been with Citrin Cooperman for over 23 years. With over 25 years of experience in the staffing and employment arena, Mr. Florio serves as the Practice Leader of the firm's Employment and staffing area. Mr. Florio's

experience in this area includes providing advice on corporate structuring; design of stock incentive and deferred compensation plans; merger and acquisition due diligence and consulting; among general business and tax advice. He is also a current member of the Board of Directors of both the New York Staffing Association (“NYSA”) and New Jersey Staffing Association (“NJSA”) and has been the President of the Industry Partner Group of NYSA for over 15 years. Mr. Florio is also a long-standing member of the Citrin Cooperman’s Executive Committee. A graduate of Pace University, Mr. Florio is a member of the New York State Society of Certified Public Accountants (“NYSSCPA”) as well as the American Institute of CPAs (“AICPA”). He is the Chairman of the Company’s Audit Committee and serves on the Nominating and Corporate Governance Committee and on the Compensation Committee. Mr. Florio's acute knowledge of financial and accounting matters, with an emphasis in the staffing industry through his role as audit and accounting partner for Citrin Cooperman, qualifies him to be a director of the Company.

#### Director Independence

Our Board has reviewed the materiality of any relationship that each of our directors has with us, either directly or indirectly. Based on this review, the Board has determined that the following directors are “independent directors” as defined by The Nasdaq Stock Market, Inc. (“Nasdaq”) and SEC rules: Dimitri Villard, Jeff Grout and Nicholas Florio.

### Meetings of the Board of Directors

The Board convened thirteen times during Fiscal 2017. Each director attended at least 90% of the total number of meetings of the Board. Directors are encouraged, but are not required, to attend our annual meeting of stockholders. At the Company's annual meeting of stockholders on January 26, 2017, all directors were in attendance.

### Committees of the Board of Directors

Our Board currently has three standing committees: the Audit Committee, the Nominating and Corporate Governance Committee, and the Compensation Committee, each of which is described below. All standing committees operate under a charter that has been approved by the Board. Copies of the charters of the Audit Committee, Compensation Committee and the Nominating and Governance Committee can be found on our Internet site [www.staffing360solutions.com](http://www.staffing360solutions.com).

**Audit Committee.** On April 30, 2014, the Board designated an Audit Committee in accordance with section 3(a)(58)(A) of the Exchange Act (the "Audit Committee"). The Audit Committee is composed of Messrs. Nicholas Florio (Chairman), Dimitri Villard and Jeff Grout. All members of our audit committee are independent as defined in the rules and regulations of the SEC and Nasdaq, and the Board has determined that Mr. Nicholas Florio is the qualified financial expert (see credentials listed above). The Audit Committee formally met ten times during Fiscal 2017. The purpose of the Audit Committee is to assist the Board in its oversight of: (1) the integrity of the Company's financial reporting and systems of internal accounting control, (2) the independence, qualifications and performance of the Company's independent registered public accounting firm, and (3) the Company's compliance with legal and regulatory requirements.

Our Audit Committee's primary responsibilities and obligations are to:

- Appoint, compensate, retain and oversee the work of the independent auditor (including resolution of disagreements between management and the auditor regarding financial reporting). In this regard, the Audit Committee shall appoint and retain, subject to approval by the Company's stockholders, compensate, evaluate and terminate, when appropriate, the independent auditor, which shall report directly to the Audit Committee.
- Pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditor and establish policies and procedures for the engagement of the independent auditor to provide auditing and permitted nonaudit services.
- Review the annual audited financial statements with management and the independent auditor, including the Company's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations. Also included in such review shall be significant issues and judgments regarding accounting and auditing principles and practices, and the effect of regulatory and accounting initiatives on the Company's financial statements. The Committee shall recommend to the board whether the financial statements should be included in the Form 10-K.
- Review and discuss with management and the independent auditor the Company's quarterly financial statements prior to filing the Form 10-Q, including the results of the independent auditor's review of them and the Company's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations.
- Review and discuss with management the Company's quarterly earnings announcements and other public announcements regarding the Company's results of operations.
- Prepare any report required to be prepared by it for inclusion in the Company's proxy statement under SEC rules and regulations.
- Review and approve all related party transactions.
- Review major changes to the Company's accounting and auditing principles and practices as suggested by management or the independent auditor.

Meet periodically with management to review the Company's major financial and business risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.

Oversee any internal audit functions of the Company.

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Obtain and review, at least annually, a report by the independent auditor describing the independent auditor's internal quality-control procedures, and any material issues raised by the most recent internal quality-control review, or peer review, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditor, and any steps taken to deal with any such issues.

Consider, at least annually, the independence of the independent auditor, and receive from and discuss with the independent auditor the auditor's report regarding its independence, setting forth all relationships between the auditor and the Company. The Audit Committee shall actively engage in a dialogue with the auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditor and for taking, or recommending that the full Board take, appropriate action to oversee the independence of the outside auditor.

Meet with the independent auditor prior to the audit to review the scope and planning of the audit.

Review with the independent auditor the results of the annual audit examination, and any issues the auditor may have encountered in the course of its audit work and management's response. This review should include, among other things, any management letter, any restrictions on the scope of activities or access to required information.

Discuss with management the Company's earnings releases and corporate policies with respect to releases and financial information and earnings guidance provided to analysts and rating agencies.

Receive reports from the Company's independent registered public accounting firm and management regarding, and review the adequacy and effectiveness of, the Company's internal controls over financial reporting and significant changes in such controls reported to the Audit Committee by the Company's independent registered public accounting firm or management.

Receive reports from the Company's independent registered public accounting firm and management regarding, and review the adequacy and effectiveness of, the Company's disclosure controls and procedures.

Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.

Review candidates for the positions of chief financial officer and controller of the Company.

Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

Establish policies for hiring employees and former employees of the independent auditor.

- Advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's policies for Code of Ethical Conduct.

Review with the Company's counsel and independent registered public accounting firm (1) legal matters that may have a material impact on the financial statements, (2) any fraud involving management or other employees who have a significant role in the Company's internal controls, (3) compliance policies, and (4) any material reports or inquiries received from regulators, governmental agencies or employees that raise material issues regarding the Company's financial statements and accounting or compliance policies.

Review the Audit Committee Charter annually and recommend any changes for approval by the Board.

Review the Audit Committee's own performance annually.

Consider such other matters in relation to the financial affairs of the Company, its accounts and the independent audit of the Company, as the Committee may, in its discretion, determine to be advisable.

Compensation Committee. On April 30, 2014, the Board designated a Compensation Committee (the "Compensation Committee"). Our Compensation Committee is composed of Messrs. Jeff Grout (Chairman), Dimitri Villard and Nicholas Florio. Pursuant to its charter, the Compensation Committee shall be comprised of at least two (2) "independent" members of the Board who shall also

satisfy such other criteria imposed on members of the Compensation Committee pursuant to the federal securities laws and the rules and regulations of the SEC and Nasdaq. With regards to the Compensation Committee, the term “independent” refers to a member of the Compensation Committee who (i) meets the definition of “independence” under the rules and regulations of the SEC and Nasdaq, (ii) is a “non-employee director” within the meaning of Rule 16b-3 of the Exchange Act and (iii) is an “outside director” under the regulations promulgated under Section 162(m) of the Internal Revenue Code of 1986, as amended. The Compensation Committee formally met five times during Fiscal 2017.

Our Compensation Committee’s primary responsibilities and obligations are to:

- Determine, in executive session at which none of: (i) the Chief Executive Officer of the Company (the “CEO”); (ii) the Executive Chairman of the Company, if a person is acting in the capacity of Executive Chairman (the “Executive Chairman”) or (iii) the Vice Chairman of the Company (the “Vice Chairman”) are present and voting, the compensation for, respectively, the CEO, Executive Chairman and Vice Chairman, in each case with reference to applicable employment or similar agreements and utilizing such customary factors that the Compensation Committee deems necessary or appropriate.
- Review and determine the compensation of the executive officers of the Company other than the CEO and the Executive Chairman with reference to applicable employment or similar agreements and based upon the recommendations of the CEO and Executive Chairman and such other customary factors that the Compensation Committee deems necessary or appropriate.
- Recommend awards and/or bonuses to be granted to executive officers of the Company under the Company’s equity plans and other compensation or benefit plans or policies as approved by the Board or the Compensation Committee.
- Approve the overall amount or percentage of plan and/or bonus awards to be granted to all Company employees and delegate to the Company’s executive management the right and power to specifically grant such awards to each Company employee within the aggregate limits and parameters set by the Compensation Committee.
- Review and evaluate the performance of the other executive officers of the Company.
- Review and approve the design of other benefit plans pertaining to executives and employees of the Company.
- Approve such reports on compensation as are necessary for filing with the SEC and other government bodies.
- Review, recommend to the Board, and administer all plans that require “disinterested administration” under Rule 16b-3 under the Securities Exchange Act of 1934, as amended.
- Approve the amendment or modification of any compensation or benefit plan pertaining to executives or employees of the Company that does not require stockholder approval.
- Review and recommend to the Board the adoption of or changes to the compensation of the Company’s independent directors.
- Retain outside consultants and obtain assistance from members of management as the Compensation Committee deems appropriate in the exercise of its authority.
- Make reports and recommendations to the Board within the scope of its functions and advise the officers of the Company regarding various personnel matters.
- Approve all special perquisites, special cash payments and other special compensation and benefit arrangements for the Company’s executive officers and employees.
- Review the form, terms and provisions of employment and similar agreements with the Company’s executive officers and any amendments thereto.
- To the extent the same has been adopted, review, at least annually, the compensation philosophy of the Company.
- Review the Compensation Committee’s own performance annually.



Review the Compensation Committee's Charter annually and recommend any changes thereto to the Board. Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee of the Board (the "Nominating and Corporate Governance Committee") was formed on April 30, 2014. The committee is composed of Messrs. Dimitri Villard (Chairman), Nicholas Florio and Jeff Grout. The committee shall be comprised of at least two (2) "independent" members of the board of directors as defined by the rules and regulations of the SEC and Nasdaq. All current members of the Nominating and Corporate Governance Committee are independent within this definition.

The Nominating and Corporate Governance Committee is charged with the responsibility of reviewing our corporate governance policies and with proposing potential director nominees to the Board for consideration. The Nominating and Corporate Governance Committee formally met twice time during Fiscal 2017. The Nominating and Corporate Governance Committee will consider director nominees recommended by security holders. To recommend a nominee please write to the Nominating and Corporate Governance Committee c/o Dimitri Villard, Staffing 360 Solutions, Inc., 641 Lexington Avenue, Suite 2701, New York, New York 10022.

Our Nominating and Corporate Governance Committee's primary responsibilities and obligations are to:

Nomination Matters:

- Recommend to the Board candidates for election or reelection to the Board at each annual meeting of stockholders of the Company or any other meeting of Company stockholders where the election of a class of directors is to be considered. Nominees for director shall be selected on the basis of experience, integrity, ability to make independent analytical inquiries, understanding of the Company's business environment, willingness to devote adequate time to Board duties and such other specific criteria as may be established by the Nominating and Corporate Governance Committee from time to time. In establishing these criteria, the Nominating and Corporate Governance Committee shall make every effort to ensure that the Board and its Committees include at least the required number of independent directors, as that term is defined by applicable standards promulgated by Nasdaq and by the SEC.
- Recommend to the Board candidates for election by the Board to fill vacancies occurring on the Board.
- Consider stockholders' nominees in accordance with applicable rules and regulations and develop procedures regarding the nomination process as required by the federal securities laws and the rules and regulations of the SEC and Nasdaq.
- Make recommendations to the Board concerning the selection criteria to be used by the Nominating and Corporate Governance Committee in seeking nominees for election to the Board.
- Aid in attracting qualified candidates to serve on the Board and interview and otherwise assist in the screening of such candidates.
  - Evaluate and make recommendations to the Board concerning the structure, composition and functioning of the Board and all Board committees.

Corporate Governance Matters:

- Develop and recommend to the Board from time to time corporate governance guidelines applicable to the Company. The Nominating and Corporate Governance Committee shall, from time to time as it deems appropriate, review and reassess the adequacy of such guidelines and recommend and propose changes to the Board for approval.
- Review any issues relating to conflicts of interests and (in conjunction with the Audit Committee of the Board as necessary or appropriate) all related party transactions in accordance with SEC and Nasdaq requirements, and report the same to the Board.
- Review and recommend changes to Board meeting procedures.
-

Monitor any requests made by the directors to engage outside advisors with respect to corporate governance issues, at the Company's expense.

Review and recommend retirement policies for Company directors as may be adopted from time to time.

Review any outside directorships in other public companies held by senior company officials.

Periodically receive and consider recommendations from the Company's Executive Chairman regarding succession of the Executive Chairman and other senior officer levels.

Make reports and recommendations to the Board within the scope of its functions.

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Review the Nominating and Corporate Governance Committee Charter from time to time and recommend any changes thereto to the Board.

#### Section 16 (a) Beneficial Ownership Reporting Compliance

Based solely upon a review of the Forms 3, 4 and 5 and amendments thereto furnished to the Company during Fiscal 2017, the following directors, officers and persons beneficially owning greater than 10% of the Company's equity securities failed to timely file reports required by Section 16(a) of the Exchange Act during Fiscal 2017 and most recent fiscal years.

Brendan Flood and Matthew Briand failed to timely file their Form 4 upon the exchange of warrants for common stock. David Faiman failed to timely file his Form 3 upon becoming an officer and his Form 4 upon the issuance of shares relating to his employment with the Company. The number of Forms 3, 4 and 5 and the number of transaction that were not filed timely are as follows: Brendan Flood (1 form, 1 transaction); Matthew Briand (1 form, 1 transaction); David Faiman (2 forms, 1 transaction).

As of December 30, 2017, the Company believes that all historical and current Section 16(a) filings have now been filed with the Securities Exchange Commission.

#### Family Relationships

There are no family relationships among any of our executive officers or any of our directors.

#### Code of Ethics

We adopted a code of ethics that applies to our executive officers, Directors and employees and our subsidiaries. Our code of ethics is posted to our web site at [www.staffing360solutions.com](http://www.staffing360solutions.com). We will disclose any amendments to or any waivers from a provision of the code of ethics, if they occur, in a Current Report on Form 8-K.

### ITEM 11. EXECUTIVE COMPENSATION

#### Compensation of Executive Officers

The following table sets forth the compensation paid to our named executive officers for Fiscal 2017, the Transition Period and Fiscal 2016. Individuals we refer to as our "named executive officers" include our CEO and our most highly compensated executive officers whose salary and bonus for services rendered in all capacities exceeded \$100,000 during the Fiscal 2017.

All amounts presented in Item 11 are in whole dollar amounts. All compensation amounts presented in British pounds have been translated using the foreign currency average exchange rates, unless otherwise indicated. All share numbers have been adjusted for the one-for-five reverse stock split effective January 3, 2018.

#### Summary Compensation Table

| Name and Principal Position | Fiscal Year | Salary (\$) | Bonus (\$) | Stock Awards (4) | Option Awards (4) | Non-Equity Incentive | Nonqualified Deferred Compensation | Total (\$) |
|-----------------------------|-------------|-------------|------------|------------------|-------------------|----------------------|------------------------------------|------------|
|-----------------------------|-------------|-------------|------------|------------------|-------------------|----------------------|------------------------------------|------------|

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|                    |             | (\$)    | (\$)    | Plan    | Compensation | Compensation | Earnings (\$) |        |         |
|--------------------|-------------|---------|---------|---------|--------------|--------------|---------------|--------|---------|
|                    |             |         |         |         |              |              |               |        |         |
|                    |             |         |         |         |              |              |               |        |         |
|                    |             |         |         |         |              |              |               |        |         |
|                    |             |         |         |         |              |              |               |        |         |
| Brendan Flood      | Fiscal 2017 | 354,615 | 177,308 | 354,375 | 18,896       | —            | —             | 29,925 | 935,119 |
| Chairman and Chief | Transition  |         |         |         |              |              |               |        |         |
| Executive Officer  | Period      | 204,404 | 102,202 | —       | —            | —            | —             | 21,294 | 327,900 |
| (1)                | Fiscal 2016 | 335,574 | 292,511 | 300,000 | —            | —            | —             | 20,746 | 948,831 |
| Matthew Briand     | Fiscal 2017 | 356,787 | 178,394 | 276,875 | 18,896       | —            | —             | 68,549 | 899,501 |
| Chief Executive    | Transition  |         |         |         |              |              |               |        |         |
| Officer (2)        | Period      | 204,167 | 102,083 | —       | —            | —            | —             | 39,854 | 346,104 |
|                    | Fiscal 2016 | 320,833 | 235,252 | 150,000 | —            | —            | —             | 68,027 | 774,112 |
| David Faiman       | Fiscal 2017 | 280,225 | 140,113 | 197,500 | —            | —            | —             | 11,532 | 629,370 |
| Chief Financial    | Transition  |         |         |         |              |              |               |        |         |
| Officer (3)        | Period      | 160,417 | 80,208  | -       | —            | —            | —             | 11,825 | 252,450 |
|                    | Fiscal 2016 | 68,750  | 57,292  | 120,000 | —            | —            | —             | 3,554  | 249,596 |
| Christopher Lutzo  | Fiscal 2017 | 196,130 | 82,500  | 74,500  | —            | —            | —             | 5,047  | 358,177 |
| General Counsel    |             | —       | —       | —       | —            | —            | —             | —      | —       |

- (1) The column “All Other Compensation” includes car allowance, pensions and life insurance premiums. Stock awards and stock option awards above are valued at the aggregate grant date fair value, Stock option awards vest over their respective vesting schedules. Stock awards vest over a three-year period.
- (2) The column “All Other Compensation” includes car allowance, 401K match, health and life insurance premiums paid. Stock awards and stock option awards above are valued at the aggregate grant date fair value. Stock option awards vest over their respective vesting schedules. Stock awards vest over a three-year period. On December 22, 2017, the Company announced the departure of Mr. Briand effective January 31, 2018.
- (3) The column “All Other Compensation” includes 401K match and health and life insurance premiums paid. Stock awards and stock option awards above are valued at the aggregate grant date fair value. Stock option awards vest over their respective vesting schedules. Stock awards vest over a three-year period.
- (4) Refer to Note 11 for further details on restricted stock issuances and option awards.

#### Employment Agreements

##### The Flood Employment Agreement

On January 3, 2014, in connection with the acquisition of Initio International Holdings (“Initio”), the Company entered into a services agreement (the “Flood Employment Agreement”) with Brendan Flood. Pursuant to the Flood Employment Agreement, Mr. Flood would serve as Executive Chairman of the Board. Mr. Flood was paid a salary of £192,000 per annum, less statutory deductions, plus other benefits including reimbursement for reasonable expenses, paid vacation and insurance coverage for his roles with both the Company and Staffing (UK). Mr. Flood’s salary will be adjusted (but not decreased) annually in connection with the CPI Adjustment (as defined in the Flood Employment Agreement). Mr. Flood is also entitled to an annual bonus of up to 50% of his annual base salary based reaching certain financial milestones. Additionally, Mr. Flood was entitled to Gross Profit Appreciation Participation, which entitled the participants to 10% of Initio’s Excess Gross Profit, which is defined as the increase in Initio gross profits in excess of 120% of the base year’s gross profit, up to \$400,000. Mr. Flood’s participating level was 62.5%. On May 29, 2015, the Gross Profit Appreciation Bonus associated with this employment agreement was converted into Series A Preferred Stock. The Flood Employment Agreement has a term of five years and will automatically renew thereafter unless 12 months written notice is provided by either party. This employment agreement includes customary non-compete/solicitation language for a period of 12 months after termination of employment, and in the event of a change in control, the Company may request that Mr. Flood continue employment with the new control entity. On January 1, 2017 the Company increased his salary by the CPI Adjustment to an annualized salary of £275,130 and provided an additional bonus of up to 25% of his base salary based upon achieving a certain leverage ratio. In December 2017, upon the reorganization of the Company and departure of Mr. Briand, Mr. Flood’s title was changed to Chairman and he assumed the roles of Chief Executive Officer and President of the Company. On January 1, 2018 the Company increased his salary by the CPI Adjustment to an annualized salary of £279,807. All other terms of Mr. Flood’s employment agreement remained unchanged.

##### The Briand Employment Agreement

On January 3, 2014, in connection with the acquisition of Initio, the Company entered into an employment agreement (the “Briand Employment Agreement”) with Matthew Briand. Pursuant to the Briand Employment Agreement, Mr. Briand served as Co-CEO of the Company, as well as, CEO of Monroe. Mr. Briand was paid a salary of \$300,000 per annum, plus other benefits including reimbursement for reasonable expenses, paid vacation and insurance coverage for his roles with both the Company and Monroe. Mr. Briand’s salary may be increased (but not decreased) annually in connection with the CPI Adjustment as defined in the Briand Employment Agreement. Mr. Briand was also entitled to an annual bonus of up to 50% of his annual base salary based on reaching certain financial milestones. Additionally, Mr. Briand was entitled to Gross Profit Appreciation Participation, which entitled the participants to

10% of Initio's Excess Gross Profit, which is defined as the increase in Initio gross profits in excess of 120% of the base year's gross profit, up to \$400,000. Mr. Briand's participating level was 37.5%. On May 29, 2015, the Gross Profit Appreciation Bonus associated with this employment agreement was converted into Series A Preferred Stock. The Briand Employment Agreement has a term of five years and will automatically renew thereafter unless 12 months written notice is provided by either party. This employment agreement includes customary non-compete/solicitation language for a period of 12 months after termination of employment. On January 27, 2015, Mr. Briand was given the additional title of President. On January 1, 2016, the Company amended the Briand Employment Agreement to increase his salary to \$350,000. On January 1, 2017 the Company amended the Briand Employment Agreement to increase his salary by the CPI Adjustment to an annualized salary of \$371,155 and provided an additional bonus of up to 25% of his base salary based upon achieving a certain leverage ratio. On December 22, 2017, the Company announced the departure of Mr. Briand effective January 31, 2018. The Briand Employment Agreement was terminated, except with respect to certain provisions of the Briand Employment Agreement relating to competition that remain in effect. The Company additionally agreed to provide Mr. Briand with the following: (a) continued salary payments through the January 31, 2018; (b) a severance payment equal to twelve months' salary payable over three months in equal installments beginning after the January 31, 2018, (c)

performance bonuses for 2017 and 2018 as determined by the Company’s Board of Directors based upon the criteria set forth for its executives; (d) continued health insurance coverage for a period of 12 months following the January 31, 2018 (e) full and immediate vesting of all outstanding stock options and restricted securities granted to Mr. Briand; (f) reimbursement for life insurance and disability benefits for calendar year 2018; and (g) continuation of an automobile allowance for calendar year 2018 in the same amount as Mr. Briand received as an employee of the Company.

#### The Faiman Employment Agreement

On February 5, 2016, the Company entered into an employment agreement (the “Faiman Employment Agreement”) with David Faiman. Pursuant to the Faiman Employment Agreement, Mr. Faiman was appointed as Chief Financial Officer effective March 1, 2016 and received a base salary of \$275,000 per annum. Mr. Faiman was later appointed Treasurer and Executive Vice President of the Company. The Faiman Employment Agreement provides for severance payments of continued regular salary through the end of the year in the event of a termination by the Company not for cause or a resignation by the employee for good reason, which includes a change in title, duties, responsibilities or direct report superior. Mr. Faiman’s salary will be increased (but not decreased) annually in connection with the CPI Adjustment as defined in the Faiman Employment Agreement. Mr. Faiman also received a grant of 10,000 restricted shares of the Company’s common stock, which vest as follows: (i) 5,000 shares on the first-year anniversary, and (ii) 5,000 shares on the second anniversary of Mr. Faiman’s employment start date. Annual adjustments to salary, as well as bonus and additional stock option awards will be granted at the discretion of the Board based on meeting personal and corporate objectives each year. His annual bonus target is 50% of annual base salary. On January 1, 2017 the Company increased his salary by the CPI Adjustment to an annualized salary of \$275,000 and provided an additional bonus of up to 25% of his base salary based upon achieving a certain leverage ratio. On January 1, 2018 the Company increased his salary to an annualized salary of \$320,000.

#### The Lutzo Employment Agreement

On January 27, 2017, the Company entered into an employment agreement (the “Lutzo Employment Agreement”) with Christopher Lutzo. Pursuant to the Lutzo Employment Agreement, Mr. Lutzo was appointed as General Counsel effective February 13, 2017 and received a base salary of \$220,000 per annum. Mr. Lutzo was later appointed Secretary and Executive Vice President of the Company. The Lutzo Employment Agreement provides for severance payments of continued regular salary through the end of the year in the event of a termination by the Company not for cause or a resignation by the employee for good reason, which includes a change in title, duties, responsibilities or direct report superior. Mr. Lutzo’s salary will be increased (but not decreased) annually in connection with the CPI Adjustment as defined in the Lutzo Employment Agreement. Mr. Lutzo also received a grant of 10,000 restricted shares of the Company’s common stock, which vest as follows: (i) 5,000 shares on the first-year anniversary, and (ii) 5,000 shares on the second anniversary of Mr. Lutzo’s employment start date. Annual adjustments to salary, as well as bonus and additional stock option awards will be granted at the discretion of the Board based on meeting personal and corporate objectives each year. His annual bonus target is 50% of annual base salary. On January 1, 2018 the Company increased his salary by the CPI Adjustment to an annualized salary of \$223,960.

#### Outstanding Equity Awards at December 30, 2017

| Name | Number of securities underlying unexercised options | Number of securities underlying exercisable securities | Equity incentive plan awards; Number of securities | Option Exercise Price (\$) | Option Expiration Date | Number of shares or units that have not | Market value of shares or units of stock that have not | Equity incentive plan awards; Number of | Equity incentive plan awards; Market or |
|------|---|--|--|----------------------------|------------------------|---|--|---|---|
|------|---|--|--|----------------------------|------------------------|---|--|---|---|

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| (#)                   | exercisable   | underlying unexercised unearned options (#) | vested (#) | vested (\$)  | unearned shares, units or other rights that have not vested (#) | payout value of unearned shares, units or other rights that have not vested (\$) |     |
|-----------------------|---------------|---|------------|--------------|---|--|-----|
|                       | Option awards |   |            | Stock awards |   |  |     |
| Brendan Flood (1)     | 6,600         | — 6,600                                     | \$ 100.00  | 01/07/2024   | 131,000   | \$ 384,765   | — — |
| Brendan Flood (2)     | 3,000         | — 3,000                                     | 50.00      | 03/01/2025   | —   | —  | — — |
| Brendan Flood (3)     | 9,600         | — 9,600                                     | 6.75       | 02/28/2027   | —   | —  | — — |
| Matthew Briand (1)    | 6,600         | — 6,600                                     | 100.00     | 01/07/2024   | 92,500  | 226,250  | — — |
| Matthew Briand (2)    | 3,000         | — 3,000                                     | 50.00      | 03/01/2025   | —   | —  | — — |
| Matthew Briand (3)    | 9,600         | — 9,600                                     | 6.75       | 02/28/2027   | —   | —  | — — |
| David Faiman (4)      | —             | — —   | —          | —            | 67,000  | 146,667  | — — |
| Christopher Lutzo (5) | —             | — —   | —          | —            | 20,000  | 41,833   | — — |



- (1) These options were issued pursuant to the 2014 Equity Incentive Plan and are exercisable for a period of 10 years
- (2) These options were issued pursuant to the 2015 Equity Incentive Plan and are exercisable for a period of 10 years
- (3) These options were issued pursuant to the 2016 Equity Incentive Plan and are exercisable for a period of 10 years
- (4) Pursuant to the Faiman Employment Agreement, Mr. Faiman received a grant of 10,000 restricted shares of the Company's common stock, which vest as follows: (i) 5,000 shares on the first-year anniversary, and (ii) 5,000 shares on the second anniversary of Mr. Faiman's employment start date.
- (5) Pursuant to the Lutzko Employment Agreement, Mr. Lutzko received a grant of 10,000 restricted shares of the Company's common stock, which vest as follows: (i) 5,000 shares on the first-year anniversary, and (ii) 5,000 shares on the second anniversary of Mr. Lutzko's employment start date.

Compensation of Directors

| Name                | Fiscal Year | Fees earned or paid in cash (\$) | Stock awards (\$) | Option Awards (\$) | Incentive Plan Compensation | Change in Pension Value and Nonqualified Non-Equity Deferred Compensation |   | All Other Compensation | Total (\$) |
|---------------------|-------------|----------------------------------|-------------------|--------------------|-----------------------------|---|---|------------------------|------------|
|                     |             |                                  |                   |                    |                             | Change in Pension Value   | Change in Nonqualified Non-Equity Deferred Compensation |                        |            |
| Dimitri Villard (2) | Fiscal 2017 | \$ 68,751                        | \$66,430          | \$ 984             | —                           | —   | —   | —                      | \$ 136,165 |
| Jeff Grout (3)      | Fiscal 2017 | 68,751                           | 66,430            | 984                | —                           | —   | —   | —                      | 136,165    |
| Nicholas Florio (4) | Fiscal 2017 | 68,751                           | 67,130            | 984                | —                           | —   | —   | —                      | 136,865    |

(\*) Refers to the Transition Period.

- (1) The Company accounts for stock-based instruments issued to employees in accordance with ASC Topic 718. The Company has issued these shares under its 2015 Omnibus Incentive Plan and 2016 Omnibus Incentive Plan, whereby these shares vest after three years from issuance. A nonemployee who sits on the Board and is compensated by the Company solely for the individual's role as a Director will be treated as an employee under ASC 718.
- (2) Dimitri Villard. In May 2014, Mr. Villard was named the Chairman of the Nominating and Corporate Governance Committee and was named as a member of the Audit Committee and of the Compensation Committee. As a member of our Board, Mr. Villard receives an annual payment of \$75,000, effective April 1, 2017, payable in monthly installments \$6,250. In addition, for his services, Mr. Villard receives 1,400 shares of restricted common stock per quarter. During Fiscal 2017, the Transition Period and Fiscal 2016, Mr. Villard received 4,500, 900, and 1,200 common shares valued at \$19, \$7, and \$29, respectively, for his services as a Board and Committee member. During Fiscal 2017, the Transition Period and Fiscal 2016, Mr. Villard received 11,800, 0 and 6,000 common shares valued at \$48, \$0, and \$150, respectively, as a bonus.
- (3) Jeff Grout. In February 2014, Mr. Grout was named the Chairman of the Compensation Committee and was also named as a member of the Nominating and Corporate Governance Committee. In June 2015, Mr. Grout was also named as a member of the Audit Committee. As a member of our Board, Mr. Grout receives an annual payment of

\$75,000, effective April 1, 2017, payable in monthly instalments of \$6,250. In addition, for his service, Mr. Grout receives 1,400 shares of restricted common stock per quarter. During Fiscal 2017, the Transition Period and Fiscal 2016, Mr. Grout received 4,500, 900, and 1,200 common shares valued at \$19, \$7, and \$29, respectively, for his service as a Board and Committee member. During Fiscal 2017, the Transition Period and Fiscal 2016, Mr. Grout received 11,800, 0 and 6,000 common shares valued at \$48, \$0 and \$150, respectively, as a bonus.

- (4) Nicholas Florio. In May 2014, Mr. Florio was named the Chairman of the Audit Committee and was also named as a member of the Nominating and Corporate Governance Committee and of the Compensation Committee. As a member of our Board, Mr. Florio receives an annual payment of \$75,000, effective April 1, 2017, payable in monthly instalments of \$6,250. 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. In addition, for his service, Mr. Florio receives 1,400 shares of restricted common stock per quarter. During Fiscal 2017, the Transition Period and Fiscal 2016, Mr. Florio received 4,700, 750, and 1,000 common shares valued at \$19, \$6, and \$24, respectively, for his services as a Board and Committee member. During Fiscal 2017, the Transition Period and Fiscal 2016, Mr. Florio received 11,800, 0 and 6,000 shares valued \$48, \$0 and at \$150, respectively, as a bonus.

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

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of March 9, 2018 for: (i) each of our directors; (ii) each of our executive officers; (iii) all of our directors and executive officers as a group; and (iv) all persons, to our knowledge, are the beneficial owners of more than 5% of the outstanding shares of common stock. Beneficial ownership is determined in accordance with the rules of the SEC, and includes voting or investment power with respect to the securities.

Except as indicated in footnotes to this table, we believe each person named in this table has sole voting and investment power with respect to the shares of common stock set forth opposite such person's name. Percentage ownership is based on 4,012,440 shares of common stock outstanding on March 29, 2018.

| Name of Beneficial Owner | Address  | Common Stock<br>Beneficially Owned | Percent of<br>Common Stock |   |
|--------------------------|--|------------------------------------|----------------------------|---|
| Brendan Flood (1)        | 3 London<br>Wall<br>Buildings,<br><br>London<br>Wall,<br>London,<br>EC2M 5SY | 174,512                            | 4.1                        | % |
| Matthew Briand (1)       | 641<br>Lexington<br>Avenue,<br>Suite 2701<br><br>New York,<br>NY 10022       | 63,048                             | 1.5                        | % |
| David Faiman             | 641<br>Lexington<br>Avenue,<br>Suite 2701<br><br>New York,<br>NY 10022       | 10,000                             | 0.2                        | % |
| Christopher Lutzo        | 641<br>Lexington<br>Avenue,<br>Suite 2701<br><br>New York,<br>NY 10022       | —                                  | —                          |   |
| Dimitri Villard (2)      | 8721 Santa<br>Monica   | 150                                | 0.0                        | % |

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|                                   |   |           |      |   |
|-----------------------------------|---|-----------|------|---|
|                                   | Blvd, Suite<br>100                      |           |      |   |
|                                   | Los<br>Angeles, CA<br>90069             |           |      |   |
| Jeff Grout                        | 3 London<br>Wall<br>Buildings,          | 2,317     | 0.1  | % |
|                                   | London<br>Wall,<br>London,<br>EC2M 5SY  |           |      |   |
| Nicholas Florio                   | Citrin<br>Cooperman<br>& Company<br>LLP | 3,032     | 0.1  | % |
|                                   | 529 Fifth<br>Avenue                     |           |      |   |
|                                   | New York,<br>NY 10017                   |           |      |   |
| Directors and officers as a group |   | 253,059   | 6.0  | % |
| Greater than 5% Holders:          |   |           |      |   |
| Jackson Investment Group, LLC (3) | 2655<br>Northwinds<br>Parkway           | 1,882,204 | 31.7 | % |
|                                   | Alpharetta,<br>GA 30009                 |           |      |   |

(1) Includes 27,024 shares of common stock issuable to Mr. Flood within 60 days of March 30, 2018, pursuant to the conversion of Series A Preferred Stock. Mr. Flood and Mr. Briand own 1,039,380 and 623,628 of the Series A Preferred Shares, respectively, which may convert into 1.3 shares of common stock per 50 shares of Series A Preferred Shares, or 27,024 and 16,215 shares of common stock, respectively.

(2) Includes 16,215 shares of common stock issuable to Mr. Briand within 60 days of March 30, 2018, pursuant to the conversion of Series A Preferred Stock.

(3) 1,350 shares are held personally by Mr. Villard and 25,200 shares are held through Byzantine Productions, Inc.

(4) Includes 905,508 warrants with a strike price of \$5.00 issuable to Jackson Investment Group, LLC within 60 days of March 30, 2018.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 30, 2017 about the common stock that may be issued upon the exercise of outstanding options, warrants and rights under the Company's equity compensation plans:

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| Plan Category  | Number of Securities to be issued upon exercising outstanding options, warrants, and rights | Weighted-average price of outstanding options and rights | Number of securities remaining available for future issuance under equity compensation plans (including securities reflected in column (a)) |
|--|---|--|---|
| Equity compensation plans approved by security holders         | 65,700  | \$ 6.75  | 36,060  |
| Equity compensation plans not approved by security holders (1) | 62,760  | \$ 65.80   | 3,639   |

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(1) At December 31, 2017, the Company had two equity compensation plans not approved by security holders, which are more fully described below. Subsequent to December 31, 2016, two additional equity compensation plans were approved by stockholders at the Company's annual shareholder meeting on January 26, 2017, which are also described below.

#### 2014 Equity Incentive Plan

On January 28, 2014, our Board adopted the 2014 Equity Incentive Plan (the "2014 Plan"). Under the 2014 Plan, we may grant options to employees, directors, senior management of the company and, under certain circumstances, consultants. The purpose of the 2014 Plan is to retain the services of the group of persons eligible to receive option awards, to secure and retain the services of new members of this group and to provide incentives for such persons to exert maximum efforts for the success of the company and its affiliates. A maximum of 50,000 shares of common stock has been reserved for issuance under this plan. The plan expires on January 28, 2024. At December 31, 2017, the Company had issued 50,000 options and shares of common stock and therefore there is nothing remaining under this plan.

The authority to administer the 2014 Plan currently resides with the Compensation Committee. They have the power to determine which persons eligible under the plan will be granted option awards.

#### Transferability

Option awards are not transferable other than by will or by the laws of descent and distribution unless otherwise provided in the individual option agreement.

#### Change of Control Event

In the event of a change in control, then, without the consent or action required of any holder of an option award (in such holder's capacity as such):

(i) Any surviving corporation or acquiring corporation or any parent or affiliate thereof, as determined by the Board in its discretion, will assume or continue any option awards outstanding under the plan in all or in part or shall substitute to similar stock awards in all or in part; or

(ii) In the event any surviving corporation or acquiring corporation does not assume or continue any option awards or substitute to similar stock awards, for those outstanding under the plan, then: (a) all unvested option awards will expire (b) vested options will terminate if not exercised at or prior to such change in control; or

(iii) Upon change in control, the Board may, in its sole discretion, accelerate the vesting, partially or in full, in the sole discretion of the Board and on a case-by-case basis of one or more option awards as the board of directors may determine to be appropriate prior to such events.

Notwithstanding the above, in case of change in control, in the event all or substantially all of the shares of common stock of the company are to be exchanged for securities of another company, then each holder of an option award shall be obliged to sell or exchange, as the case may be, any shares such holder holds or purchased under the plan, in accordance with the instructions issued by the Board, whose determination shall be final.

#### Termination of Employment/Relationship

In the event of termination of the option holders employment with the Company or any of its affiliates, or if applicable, the termination of services given to the Company or any of its affiliates by consultants of the Company or any of its affiliates for cause (as defined in the plan), all outstanding option awards granted to such option holder (whether vested or not) will immediately expire and terminate on the date of such termination and the holder of option awards will not have any right in connection to such outstanding option awards, unless otherwise determined by the Board. The shares of common stock covered by such option awards will revert to the plan.

#### 2015 Omnibus Incentive Plan

On September 23, 2015, our Board adopted the 2015 Omnibus Incentive Plan (the “2015 Plan”). Under the 2015 Plan, the Company may grant options to employees, directors, senior management of the company and, under certain circumstances, consultants. The purpose of the 2015 Plan is to retain the services of the group of persons eligible to receive option awards, to secure and retain the

services of new members of this group and to provide incentives for such persons to exert maximum efforts for the success of the company and its affiliates.

The 2015 Plan provides for an aggregate of 90,000 shares of common stock to be available for awards. The number of shares available for grant pursuant to awards under the Plan is referred to as the “Available Shares”. If an award is forfeited, canceled, or if any option terminates, expires or lapses without being exercised, the common stock subject to such award will again be made available for future grant. However, shares that are used to pay the exercise price of an option or that are withheld to satisfy the participant’s tax withholding obligation will not be available for re-grant under the 2015 Plan.

The 2015 Plan will have a term of ten years and no further awards may be granted under the 2015 Plan after that date. At December 31, 2017, the Company had issued 86,361 options to purchase shares of common stock and had 3,639 unissued securities remaining under this plan.

#### Awards Available for Grant

The Compensation Committee may grant awards of Non-Qualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Restricted Stock Units, Stock Bonus Awards, Performance Compensation Awards (including cash bonus awards) or any combination of the foregoing. Notwithstanding, the Compensation Committee may not grant to any one person in any one calendar year awards (i) for more than 30,000 common shares in the aggregate or (ii) payable in cash in an amount exceeding \$600 in the aggregate.

#### Transferability

Each award may be exercised during the participant’s lifetime only by the participant or, if permissible under applicable law, by the participant’s guardian or legal representative and may not be otherwise transferred or encumbered by a participant other than by will or by the laws of descent and distribution. The Compensation Committee, however, may permit awards (other than Incentive Stock Options) to be transferred to family members, a trust for the benefit of such family members, a partnership or limited liability company whose partners or stockholders are the participant and his or her family members or anyone else approved by it.

#### Change in Control

Except to the extent otherwise provided in an award, in the event of a change in control, all outstanding options and equity awards (other than performance compensation awards) issued under the Plan will become fully vested and performance compensation awards will vest, as determined by the Compensation Committee, based on the level of attainment of the specified performance goals. In general, the Compensation Committee may, in its discretion, cancel outstanding awards and pay the value of such awards to the participants in connection with a change in control. The Compensation Committee can also provide otherwise in an award under the 2015 Plan.

#### 2016 Omnibus Incentive Plan

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. To date, the Company has issued 456,740 shares and options to purchase shares of common stock and therefore has 43,260 remaining under this plan.



The Compensation Committee will administer the 2016 Plan. The Compensation Committee will have the authority, without limitation to (i) designate Participants; (ii) determine the type or types of awards to be granted to a participant; (iii) determine the number of Common Shares to be covered by, or with respect to which payments, rights, or other matters are to be calculated in connection with, awards; (iv) determine the terms and conditions of any award; (v) determine whether, to what extent, and under what circumstances awards may be settled or exercised in cash, Common Shares, other securities, other awards or other property, or canceled, forfeited, or suspended and the method or methods by which awards may be settled, exercised, canceled, forfeited, or suspended; (vi) determine whether, to what extent, and under what circumstances the delivery of cash, common shares, other securities, other awards or other property and other amounts payable with respect to an award; (vii) interpret, administer, reconcile any inconsistency in, settle any controversy regarding, correct any defect in and/or complete any omission in this Plan and any instrument or agreement relating to, or award granted under, this Plan; (viii) establish, amend, suspend, or waive any rules and regulations and appoint such agents as the Compensation Committee shall deem appropriate for the proper administration of this Plan; (ix) accelerate the vesting or exercisability of, payment for or lapse of restrictions on, awards; and (x) make any other determination and take any other action that the Compensation Committee deems necessary or desirable for the administration of this Plan The Compensation

Committee will have full discretion to administer and interpret the 2016 Plan and to adopt such rules, regulations and procedures as it deems necessary or advisable and to determine, among other things, the time or times at which the awards may be exercised and whether and under what circumstances an award may be exercised.

#### Eligibility

Employees, directors, officers, advisors and consultants of the Company or its affiliates are eligible to participate in the 2016 Plan. The Compensation Committee has the sole and complete authority to determine who will be granted an award under the 2016 Plan, however, it may delegate such authority to one or more officers of the Company under the circumstances set forth in the 2016 Plan.

#### Number of Shares Authorized

The 2016 Plan provides for an aggregate of 500,000 shares of common stock to be available for awards. The Board and Committee selected this number of available shares in order to provide for awards to be granted for the 2017 and 2018 fiscal years assuming recent trends of awarding equity were to continue.

The 2016 Plan will have a term of ten years and no further awards may be granted under the 2016 Plan after that date.

#### Awards Available for Grant

The Compensation Committee may grant awards of Non-Qualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Restricted Stock Units, Stock Bonus Awards, Performance Compensation Awards (including cash bonus awards) (each defined under the 2016 Plan) or any combination of the foregoing subject to the number of available shares. Notwithstanding anything to the contrary in the 2016 Plan, the Compensation Committee may not grant to any one participants under the plan in any one calendar year awards (i) for more than 80,000 Common Shares in the aggregate or (ii) payable in cash in an amount exceeding \$750,000 in the aggregate.

#### Options

Under the terms of the 2016 Plan, unless the Compensation Committee determines otherwise in the case of an option substituted for another option in connection with a corporate transaction, the exercise price of the options will not be less than the fair market value (as determined under the 2016 Plan) of the shares of common stock on the date of grant. Options granted under the 2016 Plan will be subject to such terms, including the exercise price and the conditions and timing of exercise, as may be determined by the Compensation Committee and specified in the applicable award agreement. The maximum term of an option granted under the 2016 Plan will be ten years from the date of grant (or five years in the case of an Incentive Stock Option granted to a 10% stockholder).

#### Stock Appreciation Rights

The Compensation Committee will be authorized to award Stock Appreciation Rights (“SARs”) under the 2016 Plan. SARs will be subject to such terms and conditions as established by the Compensation Committee. A SAR is a contractual right that allows a participant to receive, either in the form of cash, shares or any combination of cash and shares, the appreciation, if any, in the value of a share over a certain period of time. A SAR granted under the 2016 Plan may be granted in tandem with an option and SARs may also be awarded to a participant independent of the grant of an option. SARs granted in connection with an option shall be subject to terms similar to the option which corresponds to such SARs. SARs shall be subject to terms established by the Compensation Committee and reflected in the award agreement.

Restricted Stock

The Compensation Committee will be authorized to award restricted stock under the 2016 Plan. Unless otherwise provided by the Compensation Committee and specified in an award agreement, restrictions on restricted stock will lapse after three years of service with the Company. The Compensation Committee will determine the terms of such restricted stock awards. Shares of restricted stock are shares of common stock that generally are non-transferable and subject to other restrictions determined by the Compensation Committee for a specified period. Unless the Compensation Committee determines otherwise or specifies otherwise in an award agreement, if the participant terminates employment or services during the restricted period, then any unvested restricted stock will be forfeited.

#### Restricted Stock Unit Awards

The Compensation Committee will be authorized to award restricted stock unit awards under the 2016 Plan. Unless otherwise provided by the Compensation Committee and specified in an award agreement, restricted stock units vest after three years of service with the Company. The Compensation Committee will determine the terms of such restricted stock units. Unless the Compensation Committee determines otherwise or specifies otherwise in an award agreement, if the participant terminates employment or services during the period of time over which all or a portion of the units are to be earned, then any unvested units will be forfeited. At the election of the Compensation Committee, the participant will receive a number of shares of common stock equal to the number of units earned or an amount in cash equal to the fair market value of that number of shares at the expiration of the period over which the units are to be earned or at a later date selected by the Compensation Committee.

#### Stock Bonus Awards

The Compensation Committee will be authorized to grant awards of unrestricted shares of common stock or other awards denominated in shares of common stock, either alone or in tandem with other awards, under such terms and conditions as the Compensation Committee may determine.

#### Performance Compensation Awards

The Compensation Committee will be authorized to grant any award under the 2016 Plan in the form of a performance compensation awards. The Compensation Committee will select the performance criteria based on one or more of the following factors: (i) revenue; (ii) sales; (iii) profit (net profit, gross profit, operating profit, economic profit, profit margins or other corporate profit measures); (iv) earnings (EBIT, EBITDA, earnings per share, or other corporate earnings measures); (v) net income (before or after taxes, operating income or other income measures); (vi) cash (cash flow, cash generation or other cash measures); (vii) stock price or performance; (viii) total stockholder return (stock price appreciation plus reinvested dividends divided by beginning share price); (ix) economic value added; (x) return measures (including, but not limited to, return on assets, capital, equity, investments or sales, and cash flow return on assets, capital, equity, or sales); (xi) market share; (xii) improvements in capital structure; (xiii) expenses (expense management, expense ratio, expense efficiency ratios or other expense measures); (xiv) business expansion or consolidation (acquisitions and divestitures); (xv) internal rate of return or increase in net present value; (xvi) working capital targets relating to inventory and/or accounts receivable; (xvii) inventory management; (xviii) service or product delivery or quality; (xix) customer satisfaction; (xx) employee retention; (xxi) safety standards; (xxii) productivity measures; (xxiii) cost reduction measures; and/or (xxiv) strategic plan development and implementation.

#### Transferability

Each award may be exercised during the participant's lifetime only by the participant or, if permissible under applicable law, by the participant's guardian or legal representative. No award may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a participant other than by will or by the laws of descent and distribution and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. The Compensation Committee, however, may permit awards (other than incentive stock options) to be transferred to family members, a trust for the benefit of such family members, a partnership or limited liability company whose partners or stockholders are the participant and his or her family members or anyone else approved by it.

#### Amendment

The 2016 Plan will have a term of ten years from the effective date of the 2016 Plan. The Board may amend, suspend or terminate the 2016 Plan at any time; however, shareholder approval to amend the 2016 Plan may be necessary if applicable law or listing rule so requires. No amendment, suspension or termination will impair the rights of any participant or recipient of any award without the consent of the participant or recipient.

#### Change in Control

Except to the extent otherwise provided in an award, in the event of a change in control, all outstanding options and equity awards (other than performance compensation awards) issued under the 2016 Plan will become fully vested or the period of restriction will expire and performance compensation awards vest, as determined by the Compensation Committee, based on the level of attainment of the specified performance goals or assuming that that the applicable “target” levels of performance have been obtained or on such other basis as determined by the Compensation Committee.

## Long-Term Incentive Plan

In May 2016, the Board approved the 2016 Long-Term Incentive Plan (the “2016 LTIP”). This plan was approved by our stockholders on January 26, 2017.

The material features of the 2016 LTIP are:

- The maximum number of shares of common stock to be issued under the 2016 LTIP is 260,000 shares;
- The award of performance units is permitted;
- The term of the 2016 LTIP will expire on December 31, 2018 (unless terminated earlier) at the end of the 2016 LTIP’s performance period.

The shares we issue under the 2016 LTIP will be authorized but unissued shares. The Board selected 260,000 shares to adequately motivate the participants and drive performance for the period.

## 2016 LTIP Administration

The 2016 LTIP will be administered by the Compensation Committee. The Compensation Committee has full power to select, from among the individuals eligible for awards, the individuals to whom awards will be granted, and to determine the specific terms and conditions of each award, subject to the provisions of the 2016 LTIP.

## Eligibility

Persons eligible to participate in the 2016 LTIP will be those officers, employees, consultants and independent contractors of the Company and its subsidiaries as selected from time to time by the Compensation Committee in its discretion. The Compensation Committee has full power to select, from among the individuals eligible for awards, the individuals to whom awards will be granted, and to determine the specific terms and conditions of each award, subject to the provisions of the 2016 LTIP.

## Amendment and Termination

The Board may, without shareholder approval, modify, revise or terminate the 2016 LTIP at any time and from time to time. The Board will seek shareholder approval to increase the amount of shares of common stock which may be issued under the 2016 LTIP or to make any “material amendment” to the 2016 LTIP. Unless the Board elects to terminate the 2016 LTIP earlier, the 2016 LTIP will terminate on December 31, 2018.

## Performance Units

The 2016 LTIP permits the granting of performance units to participants under the 2016 LTIP. The award agreement will set forth the number of performance units granted to a participant. The number of shares issued under an award is determined by multiplying the number of performance units granted to the participant by the vesting rate which is determined by measuring the market cap of the Company. As amended by the Compensation Committee on October, 25, 2016, the below chart summarizes the relationship between performance and the vesting rate for the performance units.

| 2018 Market Cap             | Vesting Rate |
|-----------------------------|--------------|
| Up to \$54.6M               | 0.00%        |
| From \$54.6M to below \$82M | 25.00%       |

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|                                 |         |
|---------------------------------|---------|
| From \$82M to below \$109.3M    | 41.67%  |
| From \$109.3M to below \$136.6M | 66.67%  |
| At \$136.6M or above            | 100.00% |

If earned, shares of common stock will be issued to a participant within 30 days after the end of the performance period (December 31, 2018) and in no event later than March 15, 2019; provided, that the participant has been continuously employed, as applicable,

with the Company through the date of issuance of the shares of common stock. If a participant terminates employment for any reason with the Company before the issuance of the shares described above, the award will be cancelled and forfeited, unless the Compensation Committee elects for special treatment.

The estimated fair value of the 2016 LTIP plan based on third party valuation is approximately \$136,000. As of Fiscal 2017, all units had been issued and all compensation expense amortized. For Fiscal 2017 and Transition Period, the Company recorded approximately \$91,000 and \$53,000 in compensation expense, respectively, associated with the 2016 LTIP. The Company has issued a total of 178,739 shares under this plan.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

#### The Briand Separation Agreement

In connection with his resignation as officer and director of the Company, the Company entered into an agreement (the "Briand Separation Agreement") with Mr. Briand dated December 21, 2017, with an effective date ("Separation Date") of January 31, 2018, pursuant to which Mr. Briand may provide advisory services, if requested by the Company, through the Separation Date. Pursuant to the Briand Separation Agreement, the Company agreed to provide, among other things: (a) pay through January 31, 2018 in the same amount and manner in which Mr. Briand was paid immediately prior to this Agreement; (b) severance pay in the amount of \$362,000 (as of January 31, 2018) for twelve (12) months, payable over three (3) months in equal installments in accordance with the normal payroll policies of the Company, with the first installment being paid on the Company's first regular pay date on or after January 31, 2018, which initial payment shall include all installment amounts that would have been paid during the first thirty (30) days following the Separation Agreement had installments commenced immediately following the Separation Date; (c) performance bonuses for 2017 and 2018, in the amounts, if any, as determined by the Company's Board of Directors based upon the criteria set forth for its executives, payable in cash at the time any such performance bonuses are ordinarily paid to the Company's executives; (d) for a period of twelve (12) months following the Separation Date, all health insurance plan benefits to which Mr. Briand and his family was entitled prior to the Separation Date under any such benefit plans or arrangements maintained by the Company in which Mr. Briand and his family participated, shall be provided to the same extent of coverage, pursuant to COBRA, to be paid directly by the Company; (e) any unvested stock options and restricted securities granted to Mr. Briand shall be fully and immediately exercisable or non-forfeitable, as applicable; (f) reimbursement for life insurance benefits, payable in the calendar year 2018 in the same amount as Mr. Briand received as an active employee of the Company; (g) reimbursement of disability insurance premiums, payable in the calendar year 2018 in the same amount as Mr. Briand received as an active employee of the Company; and (h) an automobile allowance, payable in the calendar year 2018 in the same amount as Mr. Briand received as an active employee of the Company.

#### The Jackson transactions

Term Loan Note #1. On January 26, 2017, the Company entered into a note and warrant purchase agreement with Jackson Investment Group ("Jackson") for \$7,400,000. 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 \$100,000 of the outstanding principal (and in multiples of \$100,000), 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. 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 the anti-dilution protection provisions.

Term Loan Note #2. On April 5, 2017, the Company amended the note and warrant purchase agreement and entered into a second subordinated secured note for \$1,650,000. 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 825,463 shares of common stock, modified the initial exercise price of the Warrant to \$5.00 per share and modified the conversion price of accrued interest on the note issued to Jackson in January 2017 to \$7.50. The Warrant

was also amended to increase the amount of common stock issuable to Jackson pursuant to the anti-dilution clause contained therein. The second note accrues interest on the principal amount at a rate of 6% per annum and has a maturity date of June 8, 2019; however, in the event the Company 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 \$100,000 of the outstanding principal (and in multiples of \$100,000), 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.

Term Loan Note #3. In August 2017, the Company entered into a promissory note for \$1,600,000, with a term of 60 days at interest of 10% per annum and issued 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.

Term Loan Note #4. On September 1, 2017, the Company entered into a promissory note for \$515,000, with a term of 31 days at an interest of 12% per annum. The proceeds of the note were used to fund other debt obligations.

The Jackson Note. On September 15, 2017, the Company entered into a \$40,000,000 secured note agreement with Jackson (the "Jackson Note"). The proceeds of the sale of the secured note were used to repay the existing subordinated notes previously issued to Jackson pursuant to the existing note purchase agreement in the aggregate principal amount of \$11,165,000 and to fund a portion of the purchase price consideration of the Firstpro Acquisition and the CBS Butler Acquisition and repay certain other outstanding indebtedness of the Company. The maturity date for the amounts due under the Jackson Note is September 15, 2020. The Jackson Note will accrue interest at 12% per annum, due quarterly on January 1, April 1, July 1 and October 1 in each year, with the first such payment due on January 1, 2018. Interest on any overdue payment of principal or interest due under the Jackson Note will accrue at a rate per annum that is 5% in excess of the rate of interest otherwise payable thereunder. The Company paid a closing fee of \$1,000,000 in connection with its entry into the amended and restated note purchase agreement in connection with the Jackson Note 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 Jackson Note resulted in the extinguishment of the old notes in favor of Jackson in the amounts of \$11,165,000 and recording of the new debt of \$40,000,000 at fair value. Immediately prior to closing the Jackson Note, Jackson owned 526,697 shares of common stock and 905,508 warrants.

#### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Through December 13, 2017, the Company's principal independent registered accountant was RBSM LLP. On December 13, 2017, the Company changed its principal independent registered accountant to BDO USA, LLP on December 13, 2017. The aggregate fees billed for Fiscal 2017, Transition Period, and Fiscal 2016 for professional services rendered by the principal accountant are as follows:

| Fiscal 2017 | Transition Period | Fiscal 2016 |
|-------------|-------------------|-------------|
|-------------|-------------------|-------------|

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|                    | BDO<br>USA,<br>LLP | RBSM<br>LLP | BDO<br>USA,<br>LLP | RBSM<br>LLP | RBSM<br>LLP |
|--------------------|--------------------|-------------|--------------------|-------------|-------------|
| Audit Fees         | \$357,540          | \$250,000   | \$—                | \$187,000   | \$273,000   |
| Audit Related Fees | —                  | 56,000      | 49,000             | —           | —           |
| Tax Fees           | 116,000            | —           | 58,000             | 4,000       | 144,000     |
| Total              | \$473,540          | \$306,000   | \$107,000          | \$191,000   | \$417,000   |

Audit Fees were for professional services necessary to perform an annual audit of the financial statements, review of quarterly reports and other services required to be performed by our independent auditors.

Audit-Related Fees, if incurred, were for services that are reasonably related to the performance of the audit or review of our financial statements including the support of business acquisition and divestiture activities, independent assessment of controls related to outsourcing services, audit and review of certain benefit-related programs.

Tax Fees were for tax compliance, tax planning, and tax advice. Corporate tax services encompass a variety of permissible services, including technical tax advice related to United States and international tax matters; assistance with foreign income and withholding tax matters, assistance with sales tax, value added tax and equivalent tax related matters in local jurisdictions; preparation of reports to comply with local tax authority transfer pricing documentation requirements; and assistance with tax audits.

Pre-Approval Policies and Procedure for Audit Services

The audit committee has developed policies and procedures regarding the approval of all services that are to be rendered by our independent registered public accounting firm, as permitted under applicable laws, and the corresponding fees for such services. Consistent with these policies and procedures, all audit services and non-audit services and all fees associated with such services performed by our independent registered public accounting firm in Fiscal 2017, the Transition Period and Fiscal 2016 were pre-approved by audit committee.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) The following documents are filed as part of this report:

(1) Financial Statements and Report of Independent Registered Public Accounting Firm, which are set forth in the index to Consolidated Financial Statements on pages F-1 through F-55 of this report.

|  |              |
|--|--------------|
| <u>Reports of Independent Registered Public Accounting Firm</u>            | F-1          |
| <u>Consolidated Balance Sheets</u>   | F-3          |
| <u>Consolidated Statements of Operations</u>                               | F-4          |
| <u>Consolidated Statements of Comprehensive Loss</u>                       | F-5          |
| <u>Consolidated Statements of Changes in Shareholders (Deficit) Equity</u> | F-7          |
| <u>Consolidated Statements of Cash Flows</u>                               | F-9          |
| <u>Notes to Consolidated Financial Statements</u>                          | F-10 to F-55 |

(2) Financial Statement Schedule: None.

(3) Exhibits

Exhibit

| No.  | Description   |
|------|---|
| 2.1  | <u>Agreement and Plan of Merger, by and between Staffing 360 Solutions, Inc., a Delaware corporation, and Staffing 360 Solutions, Inc., a Nevada corporation (1)</u>        |
| 2.2  | <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 (2)</u> |
| 3.1  | <u>Amended and Restated Certificate of Incorporation (3)</u>  |
| 3.2  | <u>Amended and Restated Bylaws (4)</u>  |
| 3.3  | <u>Certificate of Amendment to Amended and Restated Certificate of Incorporation (5)</u>  |
| 3.4  | <u>Certificate of Designations, Preferences and Rights of Series A Preferred Stock (6)</u>  |
| 3.5  | <u>Certificate of Designations, Preferences and Rights of Series B Preferred Stock (7)</u>  |
| 3.6  | <u>Certificate of Designations, Preferences and Rights of Series C Preferred Stock (8)</u>  |
| 3.7  | <u>Amendment to Certificate of Designation After Issuance of Class or Series increasing the number of authorized Series C Preferred Stock (9)</u>                           |
| 3.8  | <u>Certificate of Designations, Preferences and Rights of Series D Preferred Stock (10)</u>   |
| 3.9  | <u>Certificate of Designations, Preferences and Rights of Series E-1 Preferred Stock (11)</u>   |
| 3.10 | <u>Certificate of Designations, Preferences and Rights of Series E-2 Preferred Stock (12)</u>   |
| 3.11 | <u>Certificate of Correction for the Series D Preferred Stock, dated January 25, 2017 (13)</u>  |
| 3.12 | <u>Certificate of Withdrawal of Series E-1 Preferred Stock (14)</u>   |
| 3.13 | <u>Certificate of Withdrawal of Series E-2 Preferred Stock (15)</u>   |
| 3.14 | <u>Certificate of Withdrawal of Series D Preferred Stock (16)</u>   |
| 4.1  | <u>Form of Promissory Note (17)</u>   |
| 4.2  | <u>Form of Warrant (18)</u>   |
| 4.3  | <u>Form of Subscription Agreement (19)</u>  |
| 4.4  | <u>Form of Warrant (20)</u>   |
| 4.5  | <u>Form of Series A Bond (21)</u>   |
| 4.6  | <u>Form of Warrant (22)</u>   |
| 4.7  | <u>Revolving Loan Note issued pursuant to PRS Credit Agreement (23)</u>   |
| 4.8  | <u>Registration Rights Agreement (24)</u>   |
| 4.9  | <u>Debenture issued pursuant to Securities Purchase Agreement (25)</u>  |
| 4.10 | <u>A Warrant issued pursuant to Securities Purchase Agreement (26)</u>  |
| 4.11 | <u>B Warrant issued pursuant to Securities Purchase Agreement (27)</u>  |
| 4.12 | <u>Three Year Note issued pursuant to Equity Purchase Agreement (28)</u>  |
| 4.13 | <u>Two Year Note issued pursuant to Equity Purchase Agreement (29)</u>  |
| 4.14 | <u>Form of Six Month Promissory Note (30)</u>   |
| 4.15 | <u>Offer to Exchange Common Stock for Certain Outstanding Warrants (31)</u>   |
| 4.16 | <u>Subordinated Secured Note issued to Jackson Investment Group LLC (32)</u>  |
| 4.17 | <u>Warrant issued to Jackson Investment Group LLC (33)</u>  |
| 4.18 | <u>April Note, dated April 5, 2017, issued to Jackson Investment Group LLC (34)</u>   |
| 4.19 | <u>10% Subordinated Secured Note, dated August 2, 2017, issued to Jackson Investment Group, LLC (35)</u>  |
| 10.1 | <u>Assignment of Employment Agreement by and between TRIG Capital Partners, LLC and the Company, dated February 21, 2012 (36)</u>   |



Exhibit

| No.   | Description   |
|-------|---|
| 10.2  | <u>Form of Note Purchase Agreement (37)</u>   |
| 10.3  | <u>Acquisition Agreement by and among IDC Technologies, Inc., Prateek Gattani and the Company, dated February 11, 2013 (38)</u>   |
| 10.4  | <u>Employment Agreement with Alfonso J. Cervantes dated February 15, 2013 (39)</u>  |
| 10.5  | <u>Letter Agreement by and among the Company and Chord Advisors, LLC dated February 15, 2013 (40)</u>   |
| 10.6  | <u>Advisory Agreement by and among the Company and Grandview Capital Partners, Inc. dated February 16, 2013 (41)</u>  |
| 10.7  | <u>Corporate Services Agreement by and between Pylon Management, Inc. and the Company dated February 14, 2013 (42)</u>  |
| 10.8  | <u>Advisory Agreement by and between the Company and Joshua Capital, LLC dated February 15, 2013 (43)</u>   |
| 10.9  | <u>Form of Subscription Agreement (44)</u>  |
| 10.10 | <u>Stock Purchase Agreement by and among the Company, The Revolution Group, Ltd. and the shareholders of The Revolution Group, Ltd. dated March 21, 2013 (45)</u>                               |
| 10.11 | <u>Employment Agreement between the Company and Mark Aiello dated March 21, 2013 (46)</u>   |
| 10.12 | <u>Stock Purchase Agreement by and among the Company, NewCSI, Inc. and the shareholders of NewCSI, Inc. dated August 14, 2013 (47)</u>  |
| 10.13 | <u>Share Purchase Agreement, dated October 30, 2013, by and among Staffing 360 Solutions, Inc. and the shareholders of Initio International Holdings Limited (48)</u>                           |
| 10.14 | <u>Amendment No. 1 to the Share Purchase Agreement, dated December 10, 2013, by and among Staffing 360 Solutions, Inc. and the shareholders of Initio International Holdings Limited (49)</u>   |
| 10.15 | <u>Form of Promissory Note (50)</u>   |
| 10.16 | <u>Form of Deed of Warranties (51)</u>  |
| 10.17 | <u>Disclosure Letter (52)</u>   |
| 10.18 | <u>Form of Deed of Restrictive Covenant by and between Brendan Flood and the Company (53)</u>   |
| 10.19 | <u>Form of Deed of Restrictive Covenant by and between Matthew Briand and the Company (54)</u>  |
| 10.20 | <u>Amendment No. 1 to Employment Agreement, dated December 31, 2013, by and among Staffing 360 Solutions, Inc. and Alfonso J. Cervantes (55)</u>  |
| 10.21 | <u>Employment Agreement, dated December 31, 2013, by and among Staffing 360 Solutions, Inc. and Allan Hartley (56)</u>  |
| 10.22 | <u>Employment Agreement, dated January 3, 2014, by and among Monroe Staffing Services, LLC and Matthew Briand (57)</u>  |
| 10.23 | <u>Employment Agreement, dated January 3, 2014, by and among Staffing 360 Solutions Limited (f/k/a Initio International Holdings Limited) and Brendan Flood (58)</u>                            |
| 10.24 | <u>Asset Purchase Agreement, by and among Staffing 360 Solutions (UK) Limited, Poolia UK Ltd. and Poolia UK (59)</u>  |
| 10.25 | <u>Stock Purchase Agreement, by and among Linda Moraski, PeopleSERVE, Inc., PeopleSERVE PRS, Inc. and the Company, dated May 17, 2014 (60)</u>  |
| 10.26 | <u>Form of Promissory Note (61)</u>   |
| 10.27 | <u>Form of Employment Agreement with PS (62)</u>  |
| 10.28 | <u>Form of Employment Agreement with PRS (63)</u>   |
| 10.29 | <u>Form of Noncompetition Agreement (64)</u>  |
| 10.30 | <u>Amended and Restated Credit and Security Agreement, by and among Monroe Staffing Services, LLC, PeopleSERVE, Inc., and Wells Fargo Bank, National Association, dated July 25, 2014. (65)</u> |
| 10.31 | <u>Employment Agreement, dated July 29, 2014, by and between the Jeff R. Mitchell and the Company (66)</u>  |
| 10.32 | <u>2014 Equity Compensation Plan (67)</u>   |
| 10.33 | <u>Form of Series A Bond Purchase Agreement (68)</u>  |



- 10.34 Share Purchase Agreement, dated February 27, 2015, between the Company, Cyber 360, Inc. and Mark P. Aiello, Michael A. Consolazio and Heather D. Haughey (69)
- 10.35 Credit and Security Agreement, dated April 8, 2015, by and among PeopleSERVE, Inc. and Monroe Staffing Services, LLC, as borrowers, the Company, as a credit party, MidCap Financial Trust, as agent and lender, and certain other lenders as the case may be (70)
- 10.36 Credit and Security Agreement, dated April 8, 2015, by and among PeopleSERVE PRS, Inc., as borrower, MidCap Financial Trust, as agent and lender, and certain other lenders as the case may be (71)
- 10.37 Securities Purchase Agreement, dated July 8, 2015, by and among the Company, Hillair Capital Investments L.P. and each purchaser identified on the signature pages thereto (72)
- 10.38 Security Agreement, dated July 8, 2015, by and among the Company, certain U.S. subsidiaries of the Company, and each purchaser identified on the signature pages thereto (73)
- 10.39 Equity Purchase Agreement, dated July 8, 2015, by and among the Company, Lighthouse Placement Services, LLC, and Alison Fogel and David Fogel (74)
- 10.40 Employment Agreement, dated July 8, 2015, by and between Alison Fogel and Lighthouse Placement Services, LLC (75)

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Exhibit

| No.   | Description   |
|-------|---|
| 10.41 | <u>Employment Agreement, dated July 8, 2015, by and between David Fogel and Lighthouse Placement Services, LLC (76)</u>   |
| 10.42 | <u>Non-Competition and Non-Solicitation Agreement, dated July 8, 2015, by Alison and David Fogel for the benefit of the Company and Lighthouse Placement Services, LLC (77)</u>   |
| 10.43 | <u>Amendment No. 2 to the Credit and Security Agreement, effective August 31, 2015, by and among PeopleSERVE, Inc., Monroe Staffing Services, LLC, Faro Recruitment America, Inc. and Lighthouse Placement Services, LLC as borrowers, the Company, as a credit party, MidCap Financial Trust, as agent and lender, and certain other lenders as the case may be (78)</u> |
| 10.44 | <u>Amendment No. 1 to the Credit and Security Agreement, effective August 31, 2015, by and among PeopleSERVE PRS, Inc. as borrower, MidCap Financial Trust, as agent and lender, and certain other lenders as the case may be (79)</u>  |
| 10.45 | <u>2015 Omnibus Incentive Plan (80)</u>   |
| 10.46 | <u>Form of Amendment No. 1 to 12% Series B Convertible Bond (81)</u>  |
| 10.47 | <u>Form of Amendment No. 1A to 12% Series B Convertible Bond (82)</u>   |
| 10.48 | <u>Form of Amendment No. 1B to 12% Series B Convertible Bond (83)</u>   |
| 10.49 | <u>Purchase Agreement, dated November 4, 2015, by and among Longbridge Recruitment 360 Limited, Staffing 360 Solutions, Inc. and the Sellers named therein (84)</u>   |
| 10.50 | <u>Form of Purchase Agreement by and among Longbridge Recruitment 360 Limited, Staffing 360 Solutions, Inc. and Minority Shareholder (85)</u>   |
| 10.51 | <u>Securities Purchase Agreement dated April 3, 2016 (86)</u>   |
| 10.52 | <u>Placement Agency Agreement dated April 1, 2016, between the Company and Joseph Gunnar &amp; Co., LLC (87)</u>  |
| 10.53 | <u>Securities Purchase Agreement dated June 24, 2016, by and between the Company and the Purchasers of the Series D Preferred Stock (88)</u>  |
| 10.54 | <u>Placement Agency Agreement dated June 23, 2016, between the Company and Source Capital Group, Inc. (89)</u>  |
| 10.55 | <u>Letter Agreement, dated October 3, 2016, between the Company and Hillair Capital Investments L.P. (90)</u>   |
| 10.56 | <u>Amended Letter Agreement, dated October 14, 2016, between the Company and Hillair Capital Investments L.P., and described in the Company's Form 8-K/A filed on October 20, 2016 (91)</u>   |
| 10.57 | <u>Amendment Agreement, dated January 3, 2017, between the Company and Hillair Capital Investments L.P. (92)</u>  |
| 10.58 | <u>2016 Omnibus Incentive Plan (93)</u>   |
| 10.59 | <u>2016 Long Term Incentive Plan (94)</u>   |
| 10.60 | <u>Note and Warrant Purchase Agreement, dated January 25, 2017, by and among the Company, Jackson Investment Group LLC and the Subsidiary Guarantors (95)</u>   |
| 10.61 | <u>Warrant Agreement, dated January 25, 2017, by and among the Company and Jackson Investment Group LLC (96)</u>  |
| 10.62 | <u>Security Agreement, dated January 25, 2017, by and among the Company, Jackson Investment Group LLC and the U.S. Subsidiary Guarantors (97)</u>   |
| 10.63 | <u>Pledge Agreement, dated January 25, 2017 by and the Company, Jackson Investment Group LLC and the U.S. Subsidiary Guarantors (98)</u>  |
| 10.64 | <u>Subordination Agreement, dated January 25, 2017, by and among Midcap Funding X Trust, Jackson Investment Group LLC, the Company and the U.S. Subsidiary Guarantors (99)</u>  |
| 10.65 | <u>Amended Warrant Agreement, dated March 14, 2017, between the Company and Jackson Investment Group LLC (100)</u>  |
| 10.66 |   |

- Amended Purchase Agreement, dated April 5, 2017, by and among the Company, Jackson Investment Group LLC and certain subsidiaries of the Company (101)
- 10.67 Second Amendment, dated April 5, 2017, by and among the Company and Jackson Investment Group LLC (102)
- 10.68 Amended Subordination Agreement, dated April 5, 2017, by and among Midcap Funding X Trust, Jackson Investment Group LLC, the Company and certain subsidiaries of the Company (103)
- 10.69 Amended SPA, dated April 5, 2017, by and among the Company and the holder of the Series D Shares (104)
- 10.70 Employment Agreement with David Faiman dated February 5, 2016 (105)
- 10.71\* Employment Agreement with Christopher Lutzo dated January 27, 2017
- 10.72 Second Amended Purchase Agreement, dated August 2, 2017, by and among the Company, Jackson Investment Group, LLC and certain subsidiaries of the Company (106)
- 10.73 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 (107)
- 10.74 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 (108)
- 10.75 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 (109)
- 10.76 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 (110)

Exhibit

| No.     | Description  |
|---------|--|
| 10.77   | <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 (111)</u> |
| 10.78   | <u>Agreement for Purchase of Debt, dated February 8, 2018, between CBS Butler Limited and HSBC Invoice Finance (UK) Limited (112)</u>  |
| 10.79   | <u>Agreement for Purchase of Debt, dated February 8, 2018, between The JM Group (IT Recruitment) Limited and HSBC Invoice Finance (UK) Limited (113)</u>   |
| 10.80   | <u>Agreement for Purchase of Debt, dated February 8, 2018, between Longbridge Recruitment 360 Ltd and HSBC Invoice Finance (UK) Limited (114)</u>  |
| 21.1*   | <u>Subsidiaries of Staffing 360 Solutions, Inc.</u>  |
| 23.1*   | <u>Consent of Independent Registered Public Accounting Firm</u>  |
| 23.2*   | <u>Consent of Independent Registered Public Accounting Firm</u>  |
| 31.1*   | <u>Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the 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 906 of the Sarbanes-Oxley Act of 2002</u>   |
| 32.1#   | <u>Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the 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  |

\* Filed herewith

# Furnished herewith. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

- (1) Previously filed as Exhibit 2.1 to the Company's Form 8-K, filed with the SEC on June 15, 2017.
- (2) Previously filed as Exhibit 2.1 to the Company's Form 8-K, filed with the SEC on September 19, 2017.
- (3) Previously filed as Exhibit 3.3 to the Company's Form 8-K, filed with the SEC on June 15, 2017.
- (4) Previously filed as Exhibit 3.4 to the Company's Form 8-K, filed with the SEC on June 15, 2017.
- (5) Previously filed as Exhibit 3.1 to the Company's Form 8-K, filed with the SEC on January 3, 2018.
- (6) Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on June 4, 2015.
- (7) Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on December 31, 2015.
- (8) Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 7, 2016.
- (9) Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on June 22, 2016.
- (10)

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- Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on June 27, 2016.
- (11) Previously filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, filed with the SEC on January 13, 2017.
  - (12) Previously filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q, filed with the SEC on January 13, 2017.
  - (13) Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on January 27, 2017.
  - (14) Previously filed as Exhibit 3.13 to the Company's Quarterly Report on Form 10-Q, filed with the SEC on May 16, 2017.
  - (15) Previously filed as Exhibit 3.14 to the Company's Quarterly Report on Form 10-Q, filed with the SEC on May 16, 2017.
  - (16) Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on May 11, 2017.
  - (17) Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on February 7, 2013.
  - (18) Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 24, 2013.
  - (19) Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on January 7, 2014.
  - (20) Previously filed as Exhibit 4.2 to the Company's Current Report on Form 8-K, filed with the SEC on January 7, 2014.
  - (21) Previously filed as Exhibit 4.2 to the Company's Current Report on Form 8-K, filed with the SEC on August 4, 2014.
  - (22) Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 9, 2015.
  - (23) Previously filed as Exhibit 4.5 to the Company's Current Report on Form 8-K, filed with the SEC on April 9, 2015.
  - (24) Previously filed as Exhibit 4.6 to the Company's Current Report on Form 8-K, filed with the SEC on April 9, 2015.
  - (25) Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 14, 2015.
  - (26) Previously filed as Exhibit 4.2 to the Company's Current Report on Form 8-K, filed with the SEC on July 14, 2015.
  - (27) Previously filed as Exhibit 4.3 to the Company's Current Report on Form 8-K, filed with the SEC on July 14, 2015.
  - (28) Previously filed as Exhibit 4.4 to the Company's Current Report on Form 8-K, filed with the SEC on July 14, 2015.

- (29) Previously filed as Exhibit 4.5 to the Company's Current Report on Form 8-K, filed with the SEC on July 14, 2015.
- (30) Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on November 10, 2015.
- (31) Previously filed as Exhibit (A)(1)(A) to the Company's Form SC TO-1, filed with the SEC on March 29, 2016.
- (32) Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on January 31, 2017.
- (33) Previously filed as Exhibit 4.2 to the Company's Current Report on Form 8-K, filed with the SEC on January 31, 2017.
- (34) Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 6, 2017.
- (35) Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on August 8, 2017.
- (36) Previously filed as Exhibit 10.2 to the Company's Annual Report on Form 10-K, filed with the SEC on September 13, 2012.
- (37) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on February 7, 2013.
- (38) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on February 13, 2013.
- (39) Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on February 20, 2013.
- (40) Previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the SEC on February 20, 2013.
- (41) Previously filed as Exhibit 10.4 to the Company's Current Report on Form 8-K, filed with the SEC on February 20, 2013.
- (42) Previously filed as Exhibit 10.5 to the Company's Current Report on Form 8-K, filed with the SEC on February 20, 2013.
- (43) Previously filed as Exhibit 10.6 to the Company's Current Report on Form 8-K, filed with the SEC on February 20, 2013.
- (44) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 24, 2013.
- (45) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on May 2, 2013.
- (46) Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on May 2, 2013.
- (47) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on August 19, 2013.
- (48) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on January 7, 2014.
- (49) Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on January 7, 2014.
- (50) Previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the SEC on January 7, 2014.
- (51) Previously filed as Exhibit 10.4 to the Company's Current Report on Form 8-K, filed with the SEC on January 7, 2014.
- (52) Previously filed as Exhibit 10.5 to the Company's Current Report on Form 8-K, filed with the SEC on January 7, 2014.
- (53) Previously filed as Exhibit 10.6 to the Company's Current Report on Form 8-K, filed with the SEC on January 7, 2014.

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- (54) Previously filed as Exhibit 10.7 to the Company's Current Report on Form 8-K, filed with the SEC on January 7, 2014.
- (55) Previously filed as Exhibit 10.8 to the Company's Current Report on Form 8-K, filed with the SEC on January 7, 2014.
- (56) Previously filed as Exhibit 10.9 to the Company's Current Report on Form 8-K, filed with the SEC on January 7, 2014.
- (57) Previously filed as Exhibit 10.10 to the Company's Current Report on Form 8-K, filed with the SEC on January 7, 2014.
- (58) Previously filed as Exhibit 10.11 to the Company's Current Report on Form 8-K, filed with the SEC on January 7, 2014.
- (59) Previously filed as Exhibit 10.26 to the Company's Annual Report on Form 10-K, filed with the SEC on September 15, 2014.
- (60) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on May 20, 2014.
- (61) Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on May 20, 2014.
- (62) Previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the SEC on May 20, 2014.
- (63) Previously filed as Exhibit 10.4 to the Company's Current Report on Form 8-K, filed with the SEC on May 20, 2014.
- (64) Previously filed as Exhibit 10.5 to the Company's Current Report on Form 8-K, filed with the SEC on May 20, 2014.
- (65) Previously filed as Exhibit 10.32 to the Company's Annual Report on Form 10-K, filed with the SEC on September 15, 2014.
- (66) Previously filed as Exhibit 10.33 to the Company's Annual Report on Form 10-K, filed with the SEC on September 15, 2014.
- (67) Previously filed as Exhibit 10.35 to the Company's Annual Report on Form 10-K, filed with the SEC on September 15, 2014.
- (68) Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on August 4, 2014.
- (69) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on March 5, 2015.
- (70) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 9, 2015.
- (71) Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on April 9, 2015.
- (72) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 14, 2015.
- (73) Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on July 14, 2015.
- (74) Previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the SEC on July 14, 2015.
- (75) Previously filed as Exhibit 10.4 to the Company's Current Report on Form 8-K, filed with the SEC on July 14, 2015.
- (76) Previously filed as Exhibit 10.5 to the Company's Current Report on Form 8-K, filed with the SEC on July 14, 2015.
- (77) Previously filed as Exhibit 10.6 to the Company's Current Report on Form 8-K, filed with the SEC on July 14, 2015.
- (78) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on September 4, 2015.
- (79)

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Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on September 4, 2015.

- (80) Previously filed as Exhibit 4.1 to the Company's Form S-8, filed with the SEC on October 2, 2015.
- (81) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on November 5, 2015.
- (82) Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on November 5, 2015.
- (83) Previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the SEC on November 5, 2015.
- (84) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on November 10, 2015.
- (85) Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on November 10, 2015.
- (86) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 7, 2016.
- (87) Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on April 7, 2016.

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- (88) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on June 27, 2016.
- (89) Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on June 27, 2016.
- (90) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on October 7, 2016.
- (91) Previously filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed with the SEC on January 13, 2017, and described in the Company's Form 8-K/A filed on October 20, 2016.
- (92) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on January 5, 2017.
- (93) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on January 27, 2017 (through an incorporation by reference from Appendix D to the Company's Definitive Proxy Statement on Schedule 14A, filed on December 21, 2016).
- (94) Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on January 27, 2017 (through an incorporation by reference from Appendix E to the Company's Definitive Proxy Statement on Schedule 14A, filed on December 21, 2016).
- (95) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on January 31, 2017.
- (96) Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on January 31, 2017.
- (97) Previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the SEC on January 31, 2017.
- (98) Previously filed as Exhibit 10.4 to the Company's Current Report on Form 8-K, filed with the SEC on January 31, 2017.
- (99) Previously filed as Exhibit 10.5 to the Company's Current Report on Form 8-K, filed with the SEC on January 31, 2017.
- (100) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on March 20, 2017.
- (101) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 6, 2017.
- (102) Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on April 6, 2017.
- (103) Previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the SEC on April 6, 2017.
- (104) Previously filed as Exhibit 10.4 to the Company's Current Report on Form 8-K, filed with the SEC on April 6, 2017.
- (105) Previously filed as Exhibit 10.70 to the Company's Transition Report on Form 10-KT, filed with the SEC on April 12, 2017.
- (106) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on August 8, 2017.
- (107) Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on August 8, 2017.
- (108) Previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the SEC on September 19, 2017.
- (109) Previously filed as Exhibit 10.4 to the Company's Current Report on Form 8-K, filed with the SEC on September 19, 2017.
- (110) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on September 19, 2017.
- (111)

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Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on September 19, 2017.

- (112) Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on February 13, 2018.
- (113) Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on February 13, 2018.
- (114) Previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the SEC on February 13, 2018.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

SIGNATURES

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

STAFFING 360 SOLUTIONS, INC.

Date: March 29, 2018 By: /s/ Brendan Flood  
Brendan Flood  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

Date: March 29, 2018 By: /s/ David Faiman  
David Faiman  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Name                                   | Title  | Date           |
|--|--|----------------|
| /s/ Brendan Flood<br>Brendan Flood     | Chairman, Chief Executive Officer and Director | March 29, 2018 |
| /s/ Dimitri Villard<br>Dimitri Villard | Director                                       | March 29, 2018 |
| /s/ Nicholas Florio<br>Nicholas Florio | Director                                       | March 29, 2018 |

/s/ Jeff Grout      Director  
Jeff Grout

March 29, 2018