

Staffing 360 Solutions, Inc.  
Form 10-Q  
May 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

or

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

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

Commission File Number: 001-37575

STAFFING 360 SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

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

incorporation or organization) Identification No.)

641 Lexington Avenue, Suite 2701

New York, New York 10022

(Address of principal executive offices) (Zip Code)

(646) 507-5710

(Registrant's telephone number, including area code)

N/A

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company)

Smaller Reporting Company

Emerging Growth Company

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

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

As of May 14, 2018, there were 4,169,172 outstanding common stock shares, par value \$0.00001 per share, of the issuer.

Form 10-Q Quarterly Report

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## PART I-FINANCIAL INFORMATION

## Item 1. Financial Statements

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

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

	March 31, 2018 (Unaudited)	December 30, 2017
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 3,458	\$ 3,100
Accounts receivable, net	25,097	33,392
Prepaid expenses and other current assets	1,490	1,443
Total Current Assets	30,045	37,935
Property and equipment, net	1,499	1,618
Identifiable intangible assets, net	16,494	17,145
Goodwill	27,169	27,169
Other assets	2,890	2,881
Total Assets	\$ 78,097	\$ 86,748
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 19,476	\$ 16,709
Current portion of debt, net	—	245
Accounts receivable financing	16,269	25,983
Other current liabilities	6,819	6,372
Total Current Liabilities	42,564	49,309
Term loan - related party, net	38,862	38,749
Warrant Liability	888	1,426
Other long-term liabilities	4,024	4,049
Total Liabilities	86,338	93,533
Commitments and contingencies	—	—
Stockholders' Deficit:		
Staffing 360 Solutions, Inc. Equity:		
Preferred stock, \$0.00001 par value, 20,000,000 shares authorized;		
Series A Preferred Stock - Related Party, 1,663,008 shares designated, \$1.00 stated value, 1,663,008 shares issued and outstanding, as of March 31, 2018 and December 30, 2017		
	—	—
Series B Preferred Stock, 200,000 shares designated, \$10.00 stated value, 0 shares issued		
	—	—

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and outstanding, as of March 31, 2018 and December 30, 2017		
Series C Preferred Stock, 2,000,000 shares designated, \$1.00 stated value, 0 shares issued		
and outstanding, as of March 31, 2018 and December 30, 2017	—	—
Common stock, \$0.00001 par value, 40,000,000 and 20,000,000 shares authorized as of		
March 31, 2018 and December 30, 2017, respectively; 4,058,285 and 3,909,114 shares		
issued and outstanding, as of March 31, 2018 and December 30, 2017, respectively	—	—
Additional paid in capital	58,305	57,574
Accumulated other comprehensive (loss) income	(133 )	783
Accumulated deficit	(66,413 )	(65,142 )
Total Stockholders' Deficit	(8,241 )	(6,785 )
Total Liabilities Stockholders' Deficit	\$ 78,097	\$ 86,748

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

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(UNAUDITED)

	Q1 2018	Q1 2017
Revenue	\$55,791	\$40,712
Cost of Revenue, excluding depreciation and amortization stated below	44,210	33,386
Gross Profit	11,581	7,326
Operating Expenses:		
Selling, general and administrative expenses	11,188	7,123
Depreciation and amortization	798	760
Total Operating Expenses	11,986	7,883
Loss From Operations	(405 )	(557 )
Other Expenses (Income):		
Interest expense	(1,955 )	(502 )
Amortization of debt discount and deferred financing costs	(122 )	(559 )
Loss on extinguishment of debt, net	—	(1,368 )
Change in fair value of warrant liability	538	(92 )
Foreign currency re-measurement gain on intercompany note	575	—
Other income	250	2
Total Other Expenses	(714 )	(2,519 )
Loss Before Provision for Income Tax	(1,119 )	(3,076 )
Provision for income taxes	(152 )	(5 )
Net Loss	(1,271 )	(3,081 )
Dividends - Series A preferred stock - related party	50	50
Deemed Dividends - Series D preferred stock	—	880
Net Loss Attributable to Common Stock Holders	\$(1,321 )	\$(4,011 )
Basic and Diluted Net Loss per Share:		
Net Loss	\$(0.32 )	\$(1.36 )
Net Loss Attributable to Common Stock Holders	\$(0.33 )	\$(1.78 )
Weighted Average Shares Outstanding – Basic and Diluted	3,988,624	2,257,326

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

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(All amounts in thousands)

(UNAUDITED)

	Q1 2018	Q1 2017
Net Loss	\$(1,271)	\$(3,081)
Other Comprehensive loss		
Foreign exchange translation adjustment	(916 )	(22 )
Comprehensive Loss Attributable to the Company	\$(2,187)	\$(3,103)

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



## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(All amounts in thousands)

(UNAUDITED)

	Q1 2018	Q1 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(1,271)	\$(3,081)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	147	78
Amortization of identifiable intangible assets	651	682
Amortization of debt discount and deferred financing costs	122	559
Loss on extinguishment of debt, net	—	1,368
(Gain) loss in fair value of warrants	(538 )	92
Stock based compensation	373	294
Foreign currency re-measurement gain on intercompany note	(575 )	—
Other	—	52
Changes in operating assets and liabilities:		
Accounts receivable	7,026	2,658
Prepaid expenses and other current assets	(47 )	(245 )
Other assets	(9 )	360
Accounts payable and accrued expenses	2,795	(397 )
Interest payable - related party	(160 )	—
Other current liabilities	447	36
Other long-term liabilities	50	(45 )
Other	(164 )	(10 )
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>8,847</b>	<b>2,401</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(56 )	(20 )
Collection of UK factoring facility deferred purchase price	1,269	—
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>1,213</b>	<b>(20 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of term loan	(254 )	—
Repayments on accounts receivable financing, net	(9,714)	(3,489)
Dividends paid to related parties	(50 )	—
Proceeds from At-The-Market Facility	415	—
Repayment of promissory notes	—	(4,561)
Proceeds from term loan - related party	—	7,400
Payments made for earn-outs	(90 )	(1,050)
Third party financing costs	(7 )	(842 )
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(9,700)</b>	<b>(2,542)</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>360</b>	<b>(161 )</b>

Effect of exchange rates on cash	(2 )	—
Cash - Beginning of period	3,100	650
Cash - End of period	\$3,458	\$489

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

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(UNAUDITED)

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

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

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

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

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

not necessarily indicative of results for the entire year ending December 29, 2018. This report is for the periods January 1, 2017 to April 1, 2017 (“Q1 2017”) and December 31, 2017 to March 31, 2018 (“Q1 2018”).

#### Revenue Recognition

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

The Company has primarily two main forms of revenue – temporary contractor revenue and permanent placement revenue. Temporary contractor revenue is accounted for as a single performance obligation satisfied over time because the customer simultaneously receives and consumes the benefits of the Company’s performance on an hourly basis. The contracts stipulate weekly billing and the Company has elected the “as invoiced” practical expedient to recognize revenue based on the hours incurred at the contractual rate as we have the right to payment in an amount that corresponds directly with the value of performance completed to date. Permanent placement revenue is recognized on the date the candidate’s full-time employment with the customer has commenced. The customer is invoiced on the start date, and the contract stipulates payment due under varying terms, typically 30 days. The contract with the customer stipulates a guarantee period whereby the customer may be refunded if the employee is terminated within a short period time, however this has historically been infrequent, and immaterial upon occurrence. As such, the Company’s performance obligations are satisfied upon commencement of the employment, at which control has transferred to the customer. Revenue in Q1 2018 was comprised of \$52,997 of temporary contractor revenue and \$2,794 of permanent placement revenue, compared with \$39,927 and \$785 for Q1 2017, respectively. Refer to Note 8 for further details on breakdown by segments.

#### Reclassifications

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

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(UNAUDITED)

Income Taxes

The Company's provision for income taxes is based upon an estimated annual tax rate for the year applied to federal, state and foreign income. On a quarterly basis, the annual effective tax rate is adjusted, as appropriate, based upon changed facts and circumstances, if any, as compared to those forecasted at the beginning of the fiscal year and each interim period thereafter. The Company's effective tax rate may change from period to period based on recurring and non-recurring factors including the geographical mix of earnings, enacted tax legislation, state and local income taxes, and tax audit settlements. The effective income tax rate was (8.8%) and 16.3% for Q1 2018 and Q1 2017, respectively.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Act") was signed into law making significant changes to the Internal Revenue Code. The changes include, but are not limited to, a U.S. corporate tax rate decrease from 35% to 21%, the transition of U.S. international taxation from a worldwide tax system to a territorial system, allowing for immediate expensing of certain qualified property, modifications to many business deductions and credits, and providing various tax incentives. Shortly after the Tax Act was enacted, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. SAB 118 provides that in these cases a registrant should continue to apply Financial Accounting Standards Board ("FASB") Accounting Standards Update No. 2009-06, Income Taxes ("Topic 740") based on the provisions of the tax laws that were in effect immediately prior to the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for registrants to complete the accounting under Topic 740

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

At March 31, 2018, in accordance with SAB 118, the Company has not completed its accounting for the tax effects of the one-time transition tax imposed by the Tax Act. In order to determine the amount of the liability with respect to the one-time transition tax, the Company must determine, in addition to other factors, the amount of post-1986 Earnings & Profits of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. In order to quantify the liability, we are awaiting further interpretative guidance, continuing to assess available tax methods and elections, and continuing to gather additional information to more precisely compute the amount of the transition tax. Therefore, we have not recorded an estimate of the transition tax in our financial statements.

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

analysis of the GILTI provisions.

#### Foreign Currency

Staffing 360 Solutions, Inc. has an intercompany note due from Longbridge Recruitment 360 (U.K.) Limited (“Longbridge”), denominated in U.S. dollars. The note matures in September 15, 2022, bears interest at a rate of interest equal to the mid-term monthly Applicable Federal Rate (AFR), as published each month by the U.S. Internal Revenue Service pursuant to Section 1274(d) of the Internal Revenue Code, compounded semiannually. Interest is payable in cash quarterly on the first business day of each calendar quarter. Longbridge may prepay all or any portion of the principal amount of this Note at any time, in whole or in part, without premium or penalty. As the note is denominated in U.S. dollars, the Company recorded a foreign currency remeasurement gain in Q1 2018 of \$575.

#### Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, “Leases” (Topic 842). This guidance will be effective for public entities for fiscal years beginning after December 15, 2018 including the interim periods within those fiscal years. Early application is permitted. Under the new provisions, all lessees will report a right-of-use asset and a liability for the obligation to make payments for all leases with the exception of those leases with a term of 12 months or less. All other leases will fall into one of two categories: (i) Financing leases, similar to capital leases, which will require the recognition of an asset and liability, measured at the present value of the lease payments and (ii) Operating leases which will require the recognition of an asset and liability measured at the present value of the lease payments. Lessor accounting remains substantially unchanged with the exception that no leases entered into after the effective

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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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 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.

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

NOTE 3 – LOSS PER COMMON SHARE

The Company utilizes the guidance per ASC 260, "Earnings per Share". Basic earnings per share are calculated by dividing income available to stockholders by the weighted average number of common stock shares outstanding during each period. Our Series A preferred stock holders (related parties) receive certain dividends or dividend equivalents that are considered participating securities and our loss per share is computed using the two-class method. For Q1 2018 and Q1 2017, pursuant to the two-class method, as a result of the net loss, losses were not allocated to the participating securities.

Diluted earnings per share are computed using the weighted average number of common stock shares and dilutive common share equivalents outstanding during the period. Dilutive common stock 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 March 31, 2018 and April 1, 2017 have been excluded from the per share computations, since their inclusion would be anti-dilutive:

	March 31, 2018	April 1, 2017
Convertible bonds - Series B	—	1,117
Convertible promissory notes	—	184,138
Convertible preferred shares	43,239	692,838
Warrants	925,935	636,726
Restricted shares - unvested	475,332	246,252
Long term incentive plan (LTIP)	178,728	178,728
Options	125,400	122,400
Total	1,748,634	2,062,199

As of October 1, 2016, convertible preferred shares include the Company's Series D Preferred Stock which contained both a fixed and variable conversion feature that fluctuated with the Company's stock price. In addition, other restrictions prevented the holders from converting all of the Series D Preferred Stock at the same time. As a result, the Company could not determine the exact amount of



STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(UNAUDITED)

shares of common stock the Series D Preferred Stock could be converted into at any time. As a result, only the fixed portion of the conversion features were included in the amounts above.

The Series D Preferred Stock contained beneficial conversion features; a portion was quantifiable at the date of issuance in the amount of \$615, which was recognized immediately due to the immediate convertibility of the Series D Preferred Stock and that it had no true redemption date. The additional beneficial conversion feature was quantifiable only at the date of each subsequent conversion. Both beneficial conversion features represent additional value to the holders not known at the date of issuance. As such, they represent a dividend on the Series D Preferred Stock and recorded as a Deemed Dividend. These Deemed Dividends are presented on the Statement of Operations for purposes of calculating Earnings Per Share only and have no net impact on Shareholders' Deficit. In April 2017, the Company entered into an agreement with Holders of the Series D Preferred shares to redeem the remaining 62 shares of Series D Preferred Stock and terminate all future conversion rights, in return for \$1,500 in cash and 60,000 shares of common stock. Deemed Dividends recorded were \$0 and \$880 for the period ended March 31, 2018 and April 1, 2017, respectively.

NOTE 4 – ACCOUNTS RECEIVABLE BASED FINANCING FACILITIES

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

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

ABN AMRO Commercial Finance

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

## CBS Butler

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

## NOTE 5 – DEBT

	March 31, 2018	December 31, 2017
Jackson Investment Group - related party	\$40,000	\$ 40,000
ABN AMRO	—	254
Total Debt, Gross	40,000	40,254
Less: Debt Discount and Deferred Financing Costs	(1,138 )	(1,260 )
Total Debt, Net	38,862	38,994
Less: Current Portion, Net	—	(245 )
Total Long-Term Debt, Net	\$38,862	\$ 38,749

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

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

The Amendment had a new face value of \$3,126, and an 8% interest rate per annum, with no interest payments due until October 1, 2017, payable quarterly thereafter, and an overall term of 21 months with principal due at maturity. The Amendment was convertible into shares of common stock at a price of \$3.00 per share at holder’s election, and the holder agreed to eliminate the 20% pre-payment

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(UNAUDITED)

penalty for an early redemption. In connection with the refinancing, the Company issued the holder 600,000 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.

## NOTE 6 – EQUITY

## Common Stock

The Company issued the following shares of common stock during the period ended Q1 2018:

	Number of common shares issued	Fair Value of shares issued	Fair Value at Issuance (minimum and maximum per share)	
Shares issued to/for:				
At-the-Market Facility	130,545	\$ 415	\$2.35	\$3.50
Consultants	14,000	46	3.22	3.42
Board and Committee members	4,200	15	3.25	3.25
Reverse stock split (rounding up shares)	426	-	-	-
	149,171	\$ 476		

Subsequent to March 31, 2018, the Company had sold 106,687 shares of common stock through its at-the-market facility at a value of \$213, and granted 4,200 shares of common stock valued \$8 to the board of directors.

## 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 March 31, 2018, the Company has a total of 475,322 shares unvested issued to employees and Board and committee members. In accordance with ASC 718, Compensation – Stock Compensation, the Company recognizes stock based compensation from restricted stock based upon the fair value of the award at issuance over the vesting term on a

straight-line basis. The fair value of the award is calculated by multiplying the number of restricted shares by the Company's stock price on the date of issuance. The impact of forfeitures has historically been immaterial to the financial statements. For the period ended Q1 2018 and Q1 2017, the Company recorded compensation expense associated with these restricted shares of \$245 and \$173, respectively.

#### Stock Options

During the period Q1 2018 and Q1 2017, the Company recorded share based payment expense of \$82 and \$93, respectively, in connection with all options outstanding.

#### Convertible Preferred Shares

##### Series A Preferred Stock – Related Party

In the period ended March 31, 2018 and April 1, 2017, the Company paid \$50 and \$0, respectively, in dividends to its Series A preferred stock holders.

##### Series D Preferred Stock

The Series D Preferred Stock contained beneficial conversion features; a portion was quantifiable at the date of issuance in the amount of \$615, which was recognized immediately due to the immediate convertibility of the Series D Preferred Stock and that it had no true redemption date. The additional contingent beneficial conversion feature was quantifiable only at the date of each subsequent conversion. Both beneficial conversion features represent additional value to the holders. As such, they represent a dividend on the Series D Preferred Stock and recorded as a Deemed Dividend. These Deemed Dividends are presented on the Statement of Operations for purposes of calculation Earnings Per Share only and have no net impact on Shareholders' Deficit. Deemed Dividends recorded were \$0 and \$880 for Q1 2018 and Q1 2017, 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.

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(UNAUDITED)

Warrants

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 Company recorded a change in fair value of the warrant liability of \$538 in Q1 2018 using Black-Scholes valuation model. The warrants issued to Jackson are considered to be Level 3 liabilities under ASC 820. On April 25, 2018, the Company and Jackson amended the Warrant to remove the anti-dilution clauses. No economic terms were adjusted. These clauses were the basis for recording the warrants as a liability. Therefore, upon execution of this amendment, the Company will record a mark-to-market gain and reclass the remaining liability to Additional paid-in capital. These amounts will be finalized once the Company performs a final Black-Scholes valuation as of the amendment date.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Earn-out Liabilities and Stock Value Guarantees

Pursuant to the acquisition of Control Solutions International, Inc. (“CSI”) on November 4, 2013, the purchase price 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 Q1 2018 and Q1 2017, the Company paid \$15 and \$24, respectively, towards the earn-out liability. No further payments are due.

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

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

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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judgment against NewCSI on the jury's finding that the Company had not complied with SPA § 2.7, or, in the alternative, for a reduction of damages to \$154 and to hold that NewCSI may not be awarded accelerated earn-out payments as that would result in an illegal penalty.

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

On January 26, 2016, the District Court set the bond in respect of the NewCSI litigation at \$1,384. The Company has filed a notice of appeal to the United States Court of Appeals for the Fifth Circuit ("Appellate Court") seeking reversal of the judgment and posted a supersedeas bond to stay the execution of the judgment pending appeal. On April 18, 2016, the Court granted the NewCSI shareholders' request for payment of attorneys' fees, but reserved judgment on the amount of fees to award pending the outcome of the Company's appeal. As of January 2016, the NewCSI shareholders have claimed they have incurred \$552 in attorney's fees, which could increase during the pendency of the appeal. On November 3, 2016, oral arguments for the appeal were heard and on July 26, 2017, the Appellate Court affirmed the trial Court's decision but left the legal fee award open for determination by further proceedings in the trial court. On August 29, 2017 the surety company released the supersedeas bond to the New CSI shareholders' counsel, which was amount was approximately \$5 less than the judgment amount with accumulated interest. Payment of this remaining balance has been made by the Company.

On September 29, 2017 NewCSI filed a Supplemental Motion in the United States District Court for the Western District of Texas, Austin Division, seeking \$629 in attorneys' fees. The Company opposed this motion but the magistrate judge issued a report and recommendation on November 17, 2017 recommending an award of fees in the amount of \$606. The Company 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, Staffing 360 initiated an arbitration before JAMS entitled Staffing 360 Solutions, Inc. v. Former Officers of Staffing 360 Solutions, Inc., against three officers of Staffing 360, each a former Staffing 360 officer and employee. In its demand for arbitration and statement of claim, Staffing 360 alleged that these individuals breached their employment agreements with Staffing 360 and the fiduciary duties each owed to the Company. The three respondents responded with a counterclaim alleging wrongful termination and have moved to dismiss the arbitration, as well as moved for severance in relation to the remainder of their contracts. On July 20, 2016, the arbitrator decided in favor of both of the respondents' motions. Further on September 21, 2016 the arbitrator rendered the final award, which was set at \$1,433. The former officers brought an action in US District Court in New York City under the caption Dealy et al., v. Staffing 360 Solutions, Inc., requesting that the Court convert this arbitration award into a judgment. On July 11, 2017, the Court entered an order confirming the arbitrator's award and granting judgement against the Company. In August 2017, the Company paid \$1,582 in full satisfaction of this matter.



## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(UNAUDITED)

## NOTE 8 – SEGMENTS

For the period ended Q1 2018 and Q1 2017, the Company generated revenue and gross profit by segment as follows:

	Q1	
	Q1 2018	2017
Commercial Staffing - US	\$21,396	\$22,411
Professional Staffing - US	14,667	11,696
Professional Staffing - UK	19,728	6,605
Total Revenue	\$55,791	\$40,712
Commercial Staffing - US	\$3,679	\$3,802
Professional Staffing - US	4,204	2,086
Professional Staffing - UK	3,698	1,438
Total Gross Profit	\$11,581	\$7,326
Selling, general and administrative expenses	\$(11,188)	\$(7,123)
Depreciation and amortization	(798)	(760)
Interest expense	(1,955)	(502)
Amortization of debt discount and deferred financing costs	(122)	(559)
Loss on extinguishment of debt, net	-	(1,368)
Change in fair value of warrant liability	538	(92)
Foreign currency re-measurement gain on intercompany note	575	-
Other expense	250	2
Loss Before Provision for Income Tax	\$(1,119)	\$(3,076)

The following table disaggregates revenues by segments for Q1 2018 and Q1 2017:

	Q1 2018			
	Commercial Staffing - US	Professional Staffing - US	Professional Staffing - UK	Total
Permanent Revenue	\$72	\$ 1,507	\$ 1,215	\$2,794
Temporary Revenue	21,324	13,160	18,513	52,997
Total	\$21,396	\$ 14,667	\$ 19,728	\$55,791

Q1 2017

Total

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	Commercial Staffing - US	Professional Staffing - US	Professional Staffing - UK	
Permanent Revenue	\$32	\$ 126	\$ 627	\$785
Temporary Revenue	22,379	11,570	5,978	39,927
Total	\$22,411	\$ 11,696	\$ 6,605	\$40,712

As of March 31, 2018 and April 1, 2017, the Company has assets in the U.S., the U.K. and Canada as follows:

	March 31, 2018	December 30, 2017
United States	\$47,446	\$ 53,814
United Kingdom	30,603	32,861
Canada	48	73
Total Assets	\$78,097	\$ 86,748

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(UNAUDITED)

## NOTE 9 – ACQUISITIONS

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

	Q1 2017
Revenues	\$60,320
Net loss from continuing operations	(3,487)

## NOTE 10 – OTHER RELATED PARTY TRANSACTIONS

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

## Board and Committee Members

During Q1 2018 and Q1 2017 the Company incurred the following for Board and Committee Members:

	Q1 2018				Q1 2017			
	Cash	Shares	Value of Shares Issued	Compensation Expense Recognized	Cash	Shares	Value of Shares Issued	Compensation Expense Recognized
Dimitri Villard	\$19	1,400	\$ 5	\$ 20	\$13	8,300	\$ 31	\$ 17
Jeff Grout	19	1,400	5	20	13	8,300	31	17
Nick Florio	19	1,400	5	20	13	8,300	31	17
	\$57	4,200	\$ 15	\$ 60	\$39	24,900	\$ 93	\$ 51

The Company has no balances within accrued in accounts payable and accrued expenses – related parties account as of March 31, 2018.

## The Briand Separation Agreement

The Company's former employee, board member and officer resigned from his positions with the Company and subsidiaries. The Company entered into an agreement (the "Briand Separation Agreement") with Mr. Briand dated December 21, 2017, with an effective date ("Separation Date") of January 31, 2018, pursuant to which Mr. Briand may provide advisory services, if requested by the Company, through the effective date. The Company paid \$462 in Q1 2018 to Mr. Briand as part of this separation agreement. The accrued balance due to Mr. Briand as of March 31, 2018 is \$318.

## NOTE 11 – SUPPLEMENTAL CASH FLOW INFORMATION

	Q1 2018	Q1 2017
<b>Cash paid for:</b>		
Interest	\$1,710	\$402
Income taxes	22	110
<b>Non-Cash Investing and Financing Activities:</b>		
Deferred purchase price of UK factoring facility	\$1,144	\$—
Shares issued in connection with convertible note	—	498
Shares issued in connection with Jackson term loan	—	822
Warrants issued in connection with Jackson term loan	—	1,613
Deemed Dividends		880

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

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

### Overview

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

### Business Model, Operating History and Acquisitions

We are a high-growth international staffing company engaged in the acquisition of U.S. and U.K. based staffing companies. As part of our consolidation model, we pursue a broad spectrum of staffing companies supporting primarily the Professional and Commercial Sectors. Our typical acquisition model is based on paying consideration in the form of cash, stock, earn-outs and/or promissory notes. In furthering our business model, the Company is regularly in discussions and negotiations with various suitable, mature acquisition targets. 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 360 Georgia, LLC (“Staffing Georgia”), a wholly-owned subsidiary of the Company entered into an asset purchase agreement with Firstpro Inc. (“FPI”), Firstpro Georgia, LLC (“FPL”), and certain individuals, pursuant to which the FPI and FPL sold substantially all of their assets to Staffing Georgia (“Firstpro Acquisition”). The purchase price in connection with the Staffing Georgia, was \$8,000, of which, (a) \$4,500 was paid at closing, (b) \$825 is payable in quarterly installments of \$75 beginning on October 1, 2017, and (c) \$2,675 is payable annually in three equal installments beginning on September 15, 2018.

On September 15, 2017, the Company and 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

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

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

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

2018 based upon CBS Butler's operating performance during the period September 1, 2017 through August 31, 2018), and (iv) deferred consideration of £150 less the aggregate amount of each CBS Butler Shareholder's portion of the net asset shortfall amount, if any, as determined pursuant to the Share Purchase Agreement and the Option Purchase Agreement.

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

The Company paid a closing fee of \$1,000 in connection with its entry into the A&R Note Purchase Agreement and agreed to issue 450,000 shares of the Company's common stock as a closing commitment fee.

For the period ended March 31, 2018 and April 1, 2017

	Q1 2018		Q1 2017		Growth	
		% of Revenue		% of Revenue		
Revenue	\$55,791	100.0	% \$40,712	100.0	%	37.0 %
Direct cost of revenue	44,210	79.2	% 33,386	82.0	%	32.4 %
Gross profit	11,581	20.8	% 7,326	18.0	%	58.1 %
Operating expenses	11,986	21.5	% 7,883	19.4	%	52.0 %
Loss from operations	(405 )	(0.7 )%	(557 )	(1.4 )%		(27.3 )%
Other expenses	(714 )	(1.3 )%	(2,519 )	(6.2 )%		(71.7 )%
Provision for income taxes	(152 )	(0.3 )%	(5 )	(0.0 )%		2940.0 %

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Net loss	\$ (1,271 )	(2.3 )%	\$ (3,081 )	(7.6 )%	(58.7 )%
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Revenue

For Q1 2018, revenue increased by 37% to \$55,791 as compared to \$40,712 for Q1 2017. Of that growth, \$17,870 was from the acquisitions of CBS Butler and Firstpro, and \$815 was from favorable foreign currency translation. This was partially offset by an organic decline \$3,606 largely due to the exiting of lower margin revenue and a greater number of weather-related work stoppage days in Q1 2018 versus Q1 2017.

Revenue in Q1 2018 was comprised of \$52,997 of temporary contractor revenue and \$2,794 of permanent placement revenue, compared with \$39,927 and \$785 for Q1 2017, respectively.

Direct cost of revenue

Direct cost of services includes the variable cost of labor and various non-variable costs (e.g., workmans' compensation insurance) relating to employees (temporary and permanent) as well as sub-contractors and consultants. For Q1 2018, direct cost of revenue was \$44,210, an increase of 32.4% from \$33,386 in Q1 2017, compared with revenue growth of 37%. Further discussion is included in the gross profit and gross margin comments below.

Gross profit and gross margin

Gross profit for Q1 2018 was \$11,581, and increase of 58.1% over \$7,326 for Q1 2017, representing gross margin of 20.8% and 18% for each period, respectively. Gross profit growth can be attributed to higher revenues, a higher mix and absolute dollar amount of permanent placement revenue, as well as continued savings on workers' compensation insurance.



STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

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

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

Operating expenses

Operating expenses for Q1 2018 was \$11,986, an increase of 52% over \$7,883 for Q1 2017. Of that increase, 47% can be attributed to acquisition of CBS Butler and Firstpro, with the remainder primarily stemming from higher commissions on the higher gross profit.

Other Expenses

Other expenses for Q1 2018 was \$714, a decrease of 71.7% from \$2,519 in Q1 2017. For Q1 2018 compared with Q1 2017, other expenses primarily reflects higher interest of \$1,453 driven mainly by the higher debt and cost of capital resulting from the refinancing in September 2017; lower amortization of debt discount and deferred financing costs by \$437 also attributable to the refinancing; a loss on extinguishment of debt in Q1 2017 of \$1,368 attributable to the refinancing of convertible notes in January 2017, with no corresponding loss in Q1 2018; a gain of \$538 from fair valuing warrants in Q1 2018 compared with a loss of \$92 in Q1 2017; a gain of \$575 from remeasuring the Company’s intercompany note; and, other income in Q1 2018 \$250 primarily from investment income on the Company’s workers’ compensation collateral.

Non-GAAP Measures

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

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

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

The following table details Revenue and Gross Profit by Sector for the period Q1 2018 as compared to the Q1 2017:

Q1 2018	Mix	Q1 2017	Mix
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Commercial Staffing - US	\$21,396	38%	\$22,411	55%
Professional Staffing - US	14,667	26%	11,696	29%
Professional Staffing - UK	19,728	36%	6,605	16%
Total Revenue	\$55,791		\$40,712	
Commercial Staffing - US	\$3,679	32%	\$3,802	52%
Professional Staffing - US	4,204	36%	2,086	28%
Professional Staffing - UK	3,698	32%	1,438	20%
Total Gross Profit	\$11,581		\$7,326	
Commercial Staffing - US	17.2	%	17.0	%
Professional Staffing - US	28.7	%	17.8	%
Professional Staffing - UK	18.7	%	21.8	%
Total Gross Margin	20.8	%	18.0	%

Adjusted EBITDA This measure is defined as net loss attributable to common stock before: interest expense, benefit from (provision for) income taxes; income (loss) from discontinued operations, net of tax; other (income) expense, net, in operating income (loss); amortization and impairment of identifiable intangible assets; impairment of goodwill; depreciation; operational restructuring and other charges; other income (expense), net, below operating income (loss); non-cash expenses associated with stock compensation; and charges the Company considers to be non-recurring in nature such as legal expenses associated with litigation, professional fees

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

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

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.

	Q1 2018	Q1 2017
Net loss	\$(1,271 )	\$(3,081 )
Interest expense	1,955	502
Provision for income taxes	152	5
Depreciation and amortization (1)	920	1,319
EBITDA	\$1,756	\$(1,255)
Acquisition, capital raising and other non-		
recurring expenses (2)	847	531
Other non-cash charges (3)	373	294
Loss on extinguishment of debt, net	—	1,368
Change in fair value of warrant liability	(538 )	92
Foreign currency re-measurement gain on intercompany note	(575 )	—
Other income	(250 )	(2 )
Adjusted EBITDA	\$1,613	\$1,028
Trailing Twelve Months ("TTM") Adjusted EBITDA	\$7,976	\$5,390
Pro Forma TTM Adjusted EBITDA (4)	\$10,340	N/A
Gross Profit	\$11,581	\$7,326
Adjusted operating expenses (5)	\$9,968	\$6,298
Adjusted operating expenses percentage of		
gross profit	86.1 %	86.0 %

(1) Includes amortization included in other expenses.

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

(3) Other non-cash charges primarily relate to staff option and share compensation expense, expense for shares issued to directors for board services, and consideration paid for consulting services.

- (4) Pro Forma TTM Adjusted EBITDA includes the Adjusted EBITDA of acquisitions for the period prior to the acquisition date.
- (5) Adjusted operating expenses are defined as the operating expenses of the Company included in the definition of Adjusted EBITDA.

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

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

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

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

	Twelve Months Ended	
	March 31, 2018	April 1, 2017
Gross Profit - TTM (Current Period)	\$40,996	\$31,662
Gross Profit - TTM (Prior Period)	31,662	27,331
Gross Profit - Growth	\$9,334	\$4,331
Adjusted EBITDA - TTM (Current Period)	\$7,976	\$5,390
Adjusted EBITDA - TTM (Prior Period)	5,390	3,392
Adjusted EBITDA - Growth	\$2,586	\$1,998
Operating Leverage	27.7 %	46.1 %

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

	March 31, 2018	December 30, 2017
Total Long-Term Debt, Net	\$38,862	\$38,749
Addback: Total Debt Discount and Deferred Financing Costs	1,138	1,251
Total Long-Term Debt	\$40,000	\$40,000
TTM Adjusted EBITDA	\$7,976	\$7,391
Pro Forma TTM Adjusted EBITDA	\$10,340	\$10,847
Pro Forma Leverage Ratio	3.9x	3.7x

**Operating Cash Flow Including Proceeds from Accounts Receivable Financing** calculated as net cash (used in) provided by operating activities plus net proceeds from accounts receivable financing. Because much of the

Company's temporary payroll expense is paid weekly and in advance of clients remitting payment for invoices, operating cash flow is often weaker in staffing companies where revenue and accounts receivable are growing. Accounts receivable financing is essentially an advance on client remittances and is primarily used to fund temporary payroll. As such, we believe this measure is helpful to investors as an indicator of the Company's underlying operating cash flow.

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

## STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

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

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

	Q1 2018	Q1 2017
Net cash provided by operating activities	\$8,847	\$2,401
Collection of UK factoring facility deferred purchase price	1,269	—
Repayments on accounts receivable financing	(9,714)	(3,489)
Net cash provided by (used in) operating activities including proceeds from accounts receivable financing	\$402	\$(1,088)

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

## Liquidity and Capital Resources

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

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

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

Our liquidity may be negatively impacted by the significant costs associated with our public company reporting requirements, costs associated with newly applicable corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 and other rules implemented by the Securities and Exchange Commission. We expect all of these applicable rules and regulations could significantly increase our legal and financial compliance costs and increase the use of resources.

As of and for the period ended March 31, 2018, the Company had a working capital deficiency of \$12,519, an accumulated deficit of \$66,413, and a net loss of \$1,271.

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

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



STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

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

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

Operating activities

For Q1 2018, net cash provided by operations of \$8,847 was primarily attributable changes in operating assets and liabilities totaling \$9,938, non-cash adjustments of \$180, offset by net loss of \$1,271. Changes in operating assets and liabilities primarily relates decrease in accounts receivable of \$7,026 (see further discussion below), increase in accounts payable and accrued expenses of \$2,795, increase in other current liabilities of \$447, increase in other long-term liabilities of \$50, offset by decrease in related party interest payable of \$160, increase in prepaids and other current assets of \$47, and other of \$164. Total non-cash adjustments of \$180 primarily includes amortization of debt discounts and deferred financing of \$122, stock based compensation of \$373, depreciation and amortization of intangible assets of \$798; offset by gain on fair value of warrants of \$538 and foreign currency re-measurement gain on intercompany loan of \$575.

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

For Q1 2017, net cash provided by operations of \$2,401 was primarily attributable changes in operating assets and liabilities totaling \$2,357 and non-cash adjustments of \$3,125 offset by net loss of \$3,081. Changes in operating assets and liabilities primarily relates to a decrease in accounts receivable of \$2,658, a decrease in other assets of \$360, an increase in other liabilities of \$36; offset by a decrease accounts payable and accrued expenses of \$397, an increase in prepaid expenses and other current asset of \$245, decrease in other long-term liabilities of \$45, and other of \$10. Total non-cash adjustments of \$3,125 primarily includes costs related to the extinguishment of debt of \$1,368, amortization of debt discounts and deferred financing of \$559, amortization of intangible assets of \$682, stock based compensation of \$294 and depreciation of \$78. During the period ended April 1, 2017, the Company used a portion of the proceeds from Jackson Investment Group, LLC to pay accounts payable and accrued expenses.

Investing activities

For Q1 2018, net cash flows provided by investing activities was \$1,213, of which \$1,269 is collection of the beneficial interest from HSBC (see discussion above, partially offset by purchase of property and equipment of \$56.

For Q1 2017, net cash flows used in investing activities was \$20 which relates to purchase of property and equipment.

Financing activities

For Q1 2018, net cash flows used in financing activities totaled \$9,700, of which \$9,714 primarily relates to settlement of the prior U.K. secured borrowing facilities in connection with the new HSBC facility (see discussion

above), \$254 is for the repayment of the ABN AMRO term loan, \$90 is for deferred payments associated with the Firstpro acquisition and CSI earnout, third party financing costs of \$7, partially offset by proceeds from the At-market facility of \$415.

For Q1 2017, net cash flows used in financing activities totaled \$2,542, which is primarily related to accounts receivable financing net of \$3,489, repayment of promissory notes \$4,561, payments made on earn outs of \$1,050, third party financing costs of \$842, offset by proceeds from term loan from related party of \$7,400.

#### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

#### Critical Accounting Policies and Estimates

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

#### Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, "Leases" (Topic 842). This guidance will be effective for public entities for fiscal years beginning after December 15, 2018 including the interim periods within those fiscal years. Early application is permitted. Under

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

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

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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 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Evaluation of Disclosure Controls and Procedures

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

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

Management's Annual Report on Internal Control over Financial Reporting

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

- a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- b) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of our management and directors; and
- c)

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

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

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

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

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

Attestation report of the registered public accounting firm

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

Changes in Internal Control over Financial Reporting

No change in our system of internal control over financial reporting occurred during the period ended March 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II-OTHER INFORMATION

Item 1. Legal Proceedings

No material developments.

Item 1A. Risk Factors.

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

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

During the period December 31, 2017 through March 31, 2018, we issued 14,000 shares of common stock, with an aggregate value of \$45 to Greenridge Global LLC and SP Padda in return for investor relations advisory services and construction of leasehold improvements. The shares were issued in reliance upon an exemption pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

Exhibit No.	Description
3.1	<u>Amended and Restated Certificate of Incorporation (previously filed as Exhibit 3.3 to the Company's Form 8-K, filed with the SEC on June 15, 2017)</u>
3.2	<u>Amendment to Amended and Restated Certificate of Incorporation (previously filed as Exhibit 3.1 to the Company's Form 8-K, filed with the SEC on January 3, 2018)</u>
3.3	<u>Amended and Restated By-Laws (previously filed as Exhibit 3.1 to the Company's Form 8-K, filed with the SEC on March 29, 2018)</u>
10.1	<u>Agreement for Purchase of Debt, dated February 8, 2018, between CBS Butler Limited and HSBC Invoice Finance (UK) Limited (previously filed as Exhibit 10.1 to the Company's Form 8-K, filed with the SEC on February 13, 2018)</u>
10.2	<u>Agreement for Purchase of Debt, dated February 8, 2018, between The JM Group (IT Recruitment) Limited and HSBC Invoice Finance (UK) Limited (previously filed as Exhibit 10.2 to the Company's Form 8-K, filed with the SEC on February 13, 2018)</u>
10.3	<u>Agreement for Purchase of Debt, dated February 8, 2018, between Longbridge Recruitment 360 Ltd and HSBC Invoice Finance (UK) Limited (previously filed as Exhibit 10.3 to the Company's Form 8-K, filed with the SEC on February 13, 2018)</u>
31.1	<u>Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of Sarbanes Oxley Act of 2002</u>
31.2	<u>Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of Sarbanes Oxley Act of 2002</u>
32.1†	<u>Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes Oxley Act of 2002</u>
32.2†	<u>Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes Oxley Act of 2002</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema
101.CAL	XBRL Taxonomy Calculation Linkbase
101.DEF	XBRL Taxonomy Definition Linkbase
101.LAB	XBRL Taxonomy Label Linkbase
101.PRE	XBRL Taxonomy Presentation Linkbase

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



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 14, 2018      STAFFING 360 SOLUTIONS, INC.

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

Date: May 14, 2018      STAFFING 360 SOLUTIONS, INC.

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