

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 2019
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: 001-36704



BG STAFFING, INC.

(exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

26-0656684
(I.R.S. Employer
Identification No.)

5850 Granite Parkway, Suite 730
Plano, Texas 75024
(972) 692-2400

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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 Regulation S-T (§ 232.405 of this 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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 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 ☒
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	BGSF	NYSE American

The number of shares outstanding of the registrant's common stock as of November 5, 2019 was 10,242,114.

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Forward-Looking Statements

This Quarterly Report on Form-10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements relate to our expectations for future events and time periods. All statements other than statements of historical fact are statements that could be deemed to be forward-looking statements, including, but not limited to, statements regarding:

- future financial performance and growth targets or expectations;
- market and industry trends and developments; and
- the benefits of our completed and future merger, acquisition and disposition transactions.

You can identify these and other forward-looking statements by the use of words such as “aim,” “potential,” “may,” “could,” “can,” “would,” “might,” “likely,” “will,” “expect,” “intend,” “plan,” “budget,” “scheduled,” “estimate,” “anticipate,” “believe,” “forecast,” “committed,” “future” or “continue” or the negative thereof or similar variations.

These forward-looking statements are based on information available to us as of the date of this Quarterly Report on Form 10-Q and our current expectations, forecasts and assumptions and involve a number of risks and uncertainties. Accordingly, forward-looking statements should not be relied upon as representing our views as of any subsequent date. Future performance cannot be ensured. Actual results may differ materially from those in the forward-looking statements. Some factors that could cause actual results to differ include:

- the availability of field talents’ compensation insurance coverage at commercially reasonable terms;
- the availability of qualified field talent;
- compliance with federal, state and local labor and employment laws and regulations and changes in such laws and regulations;
- the ability to compete with new competitors and competitors with superior marketing and financial resources;
- management team changes;
- the favorable resolution of current or future litigation;
- the impact of outstanding indebtedness on the ability to fund operations or obtain additional financing;
- the ability to leverage the benefits of recent acquisitions and successfully integrate newly acquired operations;
- adverse changes in the economic conditions of the industries or markets that we serve;
- disturbances in world financial, credit, and stock markets;
- unanticipated changes in regulations affecting the company’s business;
- a decline in consumer confidence and discretionary spending;
- the general performance of the U.S. and global economies;
- continued or escalated conflict in the Middle East or elsewhere; and
- other risks referenced from time to time in our past and future filings with the Securities and Exchange Commission (“SEC”), including in our Annual Report on Form 10-K for the fiscal year ended December 30, 2018.

You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by law, we do not undertake any obligation to update or release any revisions to these forward-looking statements to reflect any events or circumstances, whether as a result of new information, future events, changes in assumptions or otherwise, after the date hereof.

Where You Can Find Other Information

Our website is www.bgstaffing.com. Information contained on our website is not part of this Quarterly Report on Form 10-Q. Information that we file with or furnish to the SEC, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to or exhibits included in these reports are available for download, free of charge, on our website soon after such reports are filed with or furnished to the SEC. These reports and other information, including exhibits filed or furnished therewith, are also available at the SEC’s website at www.sec.gov. You may also obtain and copy any document we file with or furnish to the SEC at the SEC’s public reference room at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the SEC’s public reference facilities by calling the SEC at 1-800-SEC-0330. You may request copies of these documents, upon payment of a duplicating fee, by writing to the SEC at its principal office at 100 F Street, NE, Washington, D.C. 20549.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

BG Staffing, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED BALANCE SHEETS

	September 29, 2019	December 30, 2018
ASSETS		
Current assets		
Accounts receivable (net of allowance for doubtful accounts of \$468,233 at 2019 and 2018)	\$ 40,399,213	\$ 37,606,721
Prepaid expenses	1,709,978	984,219
Other current assets	38,933	22,733
Total current assets	42,148,124	38,613,673
Property and equipment, net	3,099,489	2,556,992
Other assets		
Deposits	3,700,754	3,209,419
Deferred income taxes, net	4,408,099	4,870,997
Right-of-use asset - operating leases	4,113,793	—
Intangible assets, net	30,539,442	33,034,173
Goodwill	17,983,549	17,983,549
Total other assets	60,745,637	59,098,138
Total assets	\$ 105,993,250	\$ 100,268,803
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Long-term debt, current portion (net of deferred finance fees of \$-0- and \$44,920 for 2019 and 2018, respectively)	\$ —	\$ 4,242,580
Accrued interest	203,620	308,547
Accounts payable	140,541	146,257
Accrued payroll and expenses	11,992,541	10,411,374
Accrued workers' compensation	447,650	530,980
Contingent consideration, current portion	—	2,363,512
Lease liability, current portion	1,271,711	—
Income taxes payable	279,607	55,841
Total current liabilities	14,335,670	18,059,091
Line of credit (net of deferred finance fees of \$357,528 and \$571,782 for 2019 and 2018, respectively)	20,196,123	10,078,507
Long-term debt, less current portion (net of deferred finance fees of \$-0- and \$65,850 for 2019 and 2018, respectively)	—	5,767,650
Lease liability, less current portion	3,875,349	—
Other long-term liabilities	—	661,542
Total liabilities	38,407,142	34,566,790
Commitments and contingencies		
Preferred stock, \$0.01 par value per share, 500,000 shares authorized, -0- shares issued and outstanding	—	—
Common stock, \$0.01 par value per share; 19,500,000 shares authorized, 10,242,114 and 10,227,247 shares issued and outstanding for 2019 and 2018, respectively, net of treasury stock, at cost, 1,004 and 828 shares for 2019 and 2018, respectively	75,103	78,246
Additional paid in capital	58,416,884	57,624,379
Retained earnings	9,094,121	7,999,388
Total stockholders' equity	67,586,108	65,702,013
Total liabilities and stockholders' equity	\$ 105,993,250	\$ 100,268,803

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

BG Staffing, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

For the Thirteen and Thirty-nine Week Periods Ended September 29, 2019 and September 30, 2018

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	2019	2018	2019	2018
Revenues	\$ 79,364,306	\$ 77,062,137	\$ 221,998,263	\$ 214,863,045
Cost of services	57,187,684	55,689,112	160,520,167	156,987,810
Gross profit	22,176,622	21,373,025	61,478,096	57,875,235
Selling, general and administrative expenses	14,502,757	14,022,464	42,361,018	38,530,315
Gain on contingent consideration	—	(988,303)	—	(2,160,307)
Depreciation and amortization	1,196,753	1,247,537	3,632,500	3,801,425
Operating income	6,477,112	7,091,327	15,484,578	17,703,802
Loss on extinguishment of debt	540,705	—	540,705	—
Interest expense, net	395,448	661,683	1,244,795	2,274,575
Income before income taxes	5,540,959	6,429,644	13,699,078	15,429,227
Income tax expense	1,333,789	1,368,258	3,194,055	2,732,386
Net income	\$ 4,207,170	\$ 5,061,386	\$ 10,505,023	\$ 12,696,841
Net income per share:				
Basic	\$ 0.41	\$ 0.50	\$ 1.03	\$ 1.36
Diluted	\$ 0.41	\$ 0.49	\$ 1.01	\$ 1.32
Weighted-average shares outstanding:				
Basic	10,239,126	10,109,791	10,233,725	9,368,840
Diluted	10,343,673	10,342,559	10,365,871	9,638,616
Cash dividends declared per common share	\$ 0.30	\$ 0.30	\$ 0.90	\$ 0.85

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

BG Staffing, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Thirty-nine Week Period Ended September 30, 2018

	Preferred Stock	Common Stock		Treasury Stock Amount	Additional Paid in Capital	Retained Earnings	Total
		Shares	Par Value				
Stockholders' equity, December 31, 2017	\$ —	8,759,376	\$ 87,594	\$ —	\$ 37,675,329	\$ 1,371,756	\$ 39,134,679
Share-based compensation	—	—	—	—	67,029	—	67,029
Exercise of common stock options and warrants	—	4,589	46	—	(7,546)	—	(7,500)
Cash dividend declared	—	—	—	—	—	(2,189,844)	(2,189,844)
Net income	—	—	—	—	—	2,465,571	2,465,571
Stockholders' equity, April 1, 2018	—	8,763,965	87,640	—	37,734,812	1,647,483	39,469,935
Share-based compensation	—	—	—	—	47,807	—	47,807
Issuance of shares, net of offering costs	—	1,293,750	12,938	—	21,373,075	—	21,386,013
Exercise of common stock options and warrants	—	31,314	312	—	10,757	—	11,069
Option cancellation agreement	—	—	—	—	(3,335,169)	—	(3,335,169)
Cash dividends declared	—	—	—	—	—	(2,638,232)	(2,638,232)
Net income	—	—	—	—	—	5,169,884	5,169,884
Stockholders' equity, July 1, 2018	—	10,089,029	100,890	—	55,831,282	4,179,135	60,111,307
Share-based compensation	—	—	—	—	758,350	—	758,350
Issuance of shares, net of offering costs	—	—	—	—	(25,875)	—	(25,875)
Issuance of restricted shares, net of 828 shares of treasury stock	—	41,172	412	(24,027)	(412)	—	(24,027)
Exercise of common stock options and warrants	—	27,676	277	—	(277)	—	—
Cash dividends declared	—	—	—	—	—	(3,026,709)	(3,026,709)
Net income	—	—	—	—	—	5,061,386	5,061,386
Stockholders' equity, September 30, 2018	\$ —	10,157,877	\$ 101,579	\$ (24,027)	\$ 56,563,068	\$ 6,213,812	\$ 62,854,432

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

BG Staffing, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Thirty-nine Week Period Ended September 29, 2019

	Preferred Stock	Common Stock		Treasury Stock Amount	Additional Paid in Capital	Retained Earnings	Total
		Shares	Par Value				
Stockholders' equity, December 30, 2018	\$ —	10,227,247	\$ 102,273	\$ (24,027)	\$ 57,624,379	\$ 7,999,388	\$ 65,702,013
Share-based compensation	—	—	—	—	320,084	—	320,084
Cancellation of restricted shares	—	(2,250)	(23)	—	23	—	—
Exercise of common stock options and warrants	—	4,916	49	—	(49)	—	—
Change in accounting principal - operating leases	—	—	—	—	—	(200,607)	(200,607)
Cash dividend declared	—	—	—	—	—	(3,068,847)	(3,068,847)
Net income	—	—	—	—	—	2,496,024	2,496,024
Stockholders' equity, March 31, 2019	—	10,229,913	102,299	(24,027)	57,944,437	7,225,958	65,248,667
Share-based compensation	—	—	—	—	186,629	—	186,629
Exercise of common stock options and warrants	—	4,805	48	—	(48)	—	—
Cash dividend declared	—	—	—	—	—	(3,068,974)	(3,068,974)
Net income	—	—	—	—	—	3,801,829	3,801,829
Stockholders' equity, June 30, 2019	—	10,234,718	102,347	(24,027)	58,131,018	7,958,813	66,168,151
Share-based compensation	—	—	—	—	244,450	—	244,450
Exercise of common stock options and warrants, net	—	7,396	74	(3,291)	41,416	—	38,199
Cash dividend declared	—	—	—	—	—	(3,071,862)	(3,071,862)
Net income	—	—	—	—	—	4,207,170	4,207,170
Stockholders' equity, September 29, 2019	\$ —	10,242,114	\$ 102,421	\$ (27,318)	\$ 58,416,884	\$ 9,094,121	\$ 67,586,108

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

BG Staffing, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Thirty-nine Week Periods Ended September 29, 2019 and September 30, 2018

	2019	2018
Cash flows from operating activities		
Net income	\$ 10,505,023	\$ 12,696,841
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	608,119	545,751
Amortization	3,024,381	3,255,674
Loss on disposal of property and equipment	6,954	15,554
Loss on extinguishment of debt, net	540,705	—
Contingent consideration adjustment	—	(2,160,307)
Amortization of deferred financing fees	154,127	382,025
Interest expense on contingent consideration payable	110,903	515,932
Provision for doubtful accounts	6,065	39,389
Share-based compensation	751,163	873,186
Deferred income taxes	462,898	1,085,142
Net changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(2,798,557)	(3,022,783)
Prepaid expenses	(725,759)	(391,795)
Other current assets	(16,200)	(565,821)
Deposits	(491,333)	(287,636)
Accrued interest	(104,927)	18,190
Accounts payable	(5,716)	(1,648,529)
Accrued payroll and expenses	1,830,278	180,308
Accrued workers' compensation	(83,330)	(161,956)
Other current liabilities	—	(87,552)
Income taxes payable	223,766	217,437
Operating leases	(33,612)	—
Other long-term liabilities	—	(118,062)
Net cash provided by operating activities	<u>13,964,948</u>	<u>11,380,988</u>
Cash flows from investing activities		
Capital expenditures	<u>(1,534,016)</u>	<u>(681,333)</u>
Net cash used in investing activities	<u>(1,534,016)</u>	<u>(681,333)</u>

	2019	2018
Cash flows from financing activities		
Net borrowings (payments) under line of credit	9,891,079	(7,670,117)
Principal payments on long-term debt	(10,121,000)	(12,847,750)
Payments of dividends	(9,209,683)	(7,854,785)
Issuance of shares under the 2013 Long-Term Incentive Plan and Form S-3 registration statement, net of exercises	38,199	21,339,680
Option cancellation agreement	—	(3,335,169)
Contingent consideration paid	(2,672,000)	(327,996)
Deferred financing costs	(357,527)	(3,518)
Net cash used in financing activities	(12,430,932)	(10,699,655)
Net change in cash and cash equivalents	—	—
Cash and cash equivalents, beginning of period	—	—
Cash and cash equivalents, end of period	\$ —	\$ —
Supplemental cash flow information:		
Cash paid for interest	\$ 1,003,190	\$ 1,396,182
Cash paid for taxes, net of refunds	\$ 2,462,325	\$ 1,378,890
Non-cash transactions:		
Leasehold improvements funded by landlord incentives	\$ —	\$ 366,202

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

BG Staffing, Inc. and Subsidiaries
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS

BG Staffing, Inc. is a national provider of temporary staffing services that operates, along with its wholly owned subsidiaries BG Staffing, LLC, B G Staff Services Inc., BG Personnel, LP, BG Finance and Accounting, Inc., BG California IT Staffing, Inc., BG California Multifamily Staffing, Inc., and BG California Finance & Accounting Staffing, Inc. (collectively, the "Company"), primarily within the United States of America in three industry segments: Real Estate, Professional, and Light Industrial.

The Real Estate segment provides office and maintenance field talent to various apartment communities and commercial buildings, in 30 states, via property management companies responsible for the apartment communities' and commercial buildings' day-to-day operations.

The Professional segment provides skilled field talent on a nationwide basis for information technology ("IT") and finance and accounting client partner projects.

The Light Industrial segment provides field talent primarily to logistics, distribution, and call center client partners needing a flexible workforce in Illinois, Wisconsin, New Mexico, Texas, Tennessee and Mississippi.

Our business experiences seasonal fluctuations. Our quarterly operating results are affected by the number of billing days in a quarter, as well as the seasonality of our client partners' business. Demand for our Real Estate staffing services increase in the second and is highest during the third quarter of the year due to the increased turns in multifamily units during the summer months when schools are not in session. Demand for our Light Industrial staffing services increases during the third quarter of the year and peaks in the fourth quarter due to increases in the demand for holiday help. Overall demand can be affected by adverse weather conditions in the winter months as well as fluctuations in client partner demand. In addition, our cost of services typically increases in the first quarter primarily due to the reset of payroll taxes.

The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles in the United States ("GAAP"), pursuant to the applicable rules and regulations of the SEC. The information furnished herein reflects all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary to present a fair statement of the financial position and operating results of the Company as of and for the respective periods. However, these operating results are not necessarily indicative of the results expected for a full fiscal year or any other future period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted pursuant to such rules and regulations. However, management of the Company believes, to the best of its knowledge, that the disclosures herein are adequate to make the information presented not misleading. The Company has determined that there were no subsequent events that would require disclosure or adjustments to the accompanying consolidated financial statements through the date the financial statements were issued. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the fiscal year ended December 30, 2018, included in its Annual Report on Form 10-K.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of the Company. All significant intercompany transactions and balances have been eliminated in consolidation.

Fiscal Periods

The Company has a 52/53 week fiscal year. Fiscal periods for the consolidated financial statements included herein are as of September 29, 2019 and December 30, 2018, and include the thirteen and thirty-nine week periods ended September 29, 2019 and September 30, 2018, referred to herein as Fiscal 2019 and 2018, respectively.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform with the 2019 presentation.

BG Staffing, Inc. and Subsidiaries
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Management Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates affecting the financial statements include goodwill, intangible assets and contingent consideration obligations related to acquisitions. Additionally, the valuation of share-based compensation option expense uses a model based upon interest rates, stock prices, maturity estimates, volatility and other factors. The Company believes these estimates and assumptions are reliable. However, these estimates and assumptions may change in the future based on actual experience as well as market conditions.

Financial Instruments

The Company uses fair value measurements in areas that include, but are not limited to, the allocation of purchase price consideration to tangible and identifiable intangible assets and contingent consideration. The carrying values of cash and cash equivalents, accounts receivables, prepaid expenses, accounts payable, accrued liabilities, and other current assets and liabilities approximate their fair values because of the short-term nature of these instruments. The carrying value of bank debt approximates fair value due to the variable nature of the interest rates under the credit agreement with BMO Harris Bank, N.A. ("BMO") that provided for a revolving credit facility and term loan and current rates available to the Company for debt with similar terms and risk.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

Concentration of Credit Risk

Concentration of credit risk is limited due to the Company's diverse client partner base and their dispersion across many different industries and geographic locations nationwide. No single client partner accounted for more than 10% of the Company's accounts receivable as of September 29, 2019 and December 30, 2018 or revenue for the thirty-nine week periods ended September 29, 2019 and September 30, 2018. Geographic revenue in excess of 10% of the Company's consolidated revenue in Fiscal 2019 and the related percentage for Fiscal 2018 was generated in the following areas:

	Thirty-nine Weeks Ended	
	September 29, 2019	September 30, 2018
Maryland	10%	11%
Tennessee	16%	14%
Texas	29%	29%

Consequently, weakness in economic conditions in these regions could have a material adverse effect on the Company's financial position and results of future operations.

Accounts Receivable

The Company extends credit to its client partners in the normal course of business. Accounts receivable represents unpaid balances due from client partners. The Company maintains an allowance for doubtful accounts for expected losses resulting from client partners' non-payment of balances due to the Company. The Company's determination of the allowance for uncollectible amounts is based on management's judgments and assumptions, including general economic conditions, portfolio composition, prior loss experience, evaluation of credit risk related to certain individual client partners and the Company's ongoing examination process. Receivables are written off after they are deemed to be uncollectible after all reasonable means of collection have been exhausted. Recoveries of receivables previously written off are recorded when received.

BG Staffing, Inc. and Subsidiaries
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Changes in the allowance for doubtful accounts are as follows:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Beginning balance	\$ 468,233	\$ 473,573	\$ 468,233	\$ 473,573
Provision for (recovery of) doubtful accounts, net	34,667	21,514	6,065	39,389
Amounts written off, net	(34,667)	(21,514)	(6,065)	(39,389)
Ending balance	<u>\$ 468,233</u>	<u>\$ 473,573</u>	<u>\$ 468,233</u>	<u>\$ 473,573</u>

Property and Equipment

Property and equipment are stated net of accumulated depreciation and amortization of \$2.7 million and \$2.1 million at September 29, 2019 and December 30, 2018, respectively.

Deposits

The Company maintains guaranteed costs policies for workers' compensation coverage in Texas, Washington, and Ohio and minimal loss retention coverage for team members and field talent in the Light Industrial segment and other non-Texas employees. Under these policies, the Company is required to maintain refundable deposits of \$3.4 million and \$2.9 million, which are included in Deposits in the accompanying consolidated balance sheets as of September 29, 2019 and December 30, 2018, respectively.

Long-Lived Assets

The Company reviews its long-lived assets, primarily fixed assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Company looks primarily to the undiscounted future cash flows in its assessment of whether or not long-lived assets have been impaired. There were no impairments during Fiscal 2019 or Fiscal 2018.

Leases

The Company leases all their office space through operating leases, which expire at various dates through 2025. Many of the lease agreements obligate the Company to pay real estate taxes, insurance and certain maintenance costs, which are accounted for separately. Certain of the Company's lease arrangements contain renewal provisions from 1 to 10 years, exercisable at the Company's option. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company determines if an arrangement is an operating lease at inception. Leases with an initial term of 12 months or less are not recorded on the balance sheet. All other leases are recorded on the balance sheet as right-of-use assets and lease liabilities for the lease term.

Right of use lease assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term and include options to extend or terminate the lease when they are reasonably certain to be exercised. The present value of lease payments is determined primarily using the incremental borrowing rate based on the information available at lease commencement date. The Company's operating lease expense is recognized on a straight-line basis over the lease term and is recorded in Selling, general and administrative expenses.

Intangible Assets

The Company holds intangible assets with indefinite and finite lives. Intangible assets with indefinite useful lives are not amortized. Intangible assets with finite useful lives are amortized over their respective estimated useful lives, ranging from three to ten years, based on a pattern in which the economic benefit of the respective intangible asset is realized.

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Identifiable intangible assets recognized in conjunction with acquisitions are recorded at fair value. Significant unobservable inputs are used to determine the fair value of the identifiable intangible assets based on the income approach valuation model whereby the present worth and anticipated future benefits of the identifiable intangible assets are discounted back to their net present value.

The Company capitalizes purchased software and internal payroll costs directly incurred in the modification of software for internal use. Software maintenance and training costs are expensed in the period incurred.

The Company evaluates the recoverability of intangible assets whenever events or changes in circumstances indicate that an intangible asset's carrying amount may not be recoverable. The Company annually evaluates the remaining useful lives of all intangible assets to determine whether events and circumstances warrant a revision to the remaining period of amortization.

Goodwill

Goodwill is not amortized, but instead is evaluated at the reporting unit level for impairment annually at the end of each fiscal year, or more frequently, if conditions indicate an earlier review is necessary. If the Company has determined that it is more likely than not that the fair value for one or more reporting units is greater than their carrying value, the Company may use a qualitative assessment for the annual impairment test.

Deferred Financing Fees

Deferred financing fees are amortized using the effective interest method over the term of the respective loans. Debt issuance costs related to a recognized debt liability are presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability.

Contingent Consideration

The Company had obligations, to be paid in cash, related to its acquisitions if certain operating and financial goals were met. The fair value of this contingent consideration is determined using expected cash flows and present value technique. The fair value calculation of the expected future payments uses a discount rate commensurate with the risks of the expected cash flow. The resulting discount is amortized as interest expense over the outstanding period using the effective interest method.

Revenue Recognition

The Company derives its revenues from three segments: Real Estate, Professional, and Light Industrial. The Company provides temporary staffing and permanent placement services. Revenues are recognized when promised services are delivered to client partners, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. Revenues as presented on the consolidated statements of operations represent services rendered to client partners less sales adjustments and allowances. Reimbursements, including those related to out-of-pocket expenses, are also included in revenues, and the related amounts of reimbursable expenses are included in cost of services.

The Company records revenue on a gross basis as a principal versus on a net basis as an agent in the presentation of revenues and expenses. The Company has concluded that gross reporting is appropriate because the Company (i) has the risk of identifying and hiring qualified field talent, (ii) has the discretion to select the field talent and establish their price and duties and (iii) bears the risk for services that are not fully paid for by client partners.

Temporary staffing revenues - Field talent revenues from contracts with client partners are recognized in the amount to which the Company has a right to invoice, when the services are rendered by the Company's field talent.

Permanent placement staffing revenues - Permanent placement staffing revenues are recognized when employment candidates start their permanent employment. The Company estimates the effect of permanent placement candidates who do not remain with its client partners through the guarantee period (generally 90 days) based on historical experience. Allowances, recorded as a liability, are established to estimate these losses. Fees to client partners are generally calculated as a percentage of the new worker's annual compensation. No fees for permanent placement services are charged to employment candidates.

Refer to Note 11 for disaggregated revenues by segment.

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Payment terms in our contracts vary by the type and location of our client partner and the services offered. The term between invoicing and when payment is due is not significant. There were no unsatisfied performance obligations as of September 29, 2019. There were no revenues recognized during the thirty-nine week period ended September 29, 2019 related to performance obligations satisfied or partially satisfied in previous periods. There are no contract costs capitalized. The Company did not recognize any contract impairments during the thirty-nine week period ended September 29, 2019.

Share-Based Compensation

The Company recognizes compensation expense in selling, general and administrative expenses over the service period for options or restricted stock that are expected to vest and records adjustments to compensation expense at the end of the service period if actual forfeitures differ from original estimates.

Earnings Per Share

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period adjusted to reflect potentially dilutive securities. Antidilutive shares are excluded from the calculation of earnings per share.

The following is a reconciliation of the number of shares used in the calculation of basic and diluted earnings per share for the respective periods:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Weighted-average number of common shares outstanding:	10,239,126	10,109,791	10,233,725	9,368,840
Effect of dilutive securities:				
Stock options and restricted stock	69,684	181,012	90,853	227,846
Warrants	34,863	51,756	41,293	41,930
Weighted-average number of diluted common shares outstanding	10,343,673	10,342,559	10,365,871	9,638,616
Stock options and restricted stock	306,750	175,000	306,750	175,000
Warrants	—	—	—	—
Antidilutive shares	306,750	175,000	306,750	175,000

Income Taxes

The effective tax rates of 24.1% and 23.3% for the thirteen and thirty-nine week periods ended September 29, 2019, respectively, and 21.3% and 17.7% for the thirteen and thirty-nine week periods ended September 30, 2018, respectively, were primarily due to state taxes, the Work Opportunity Tax Credit, and the deductibility in Fiscal 2018 related to the Option Cancellation Agreement for tax purposes.

Deferred tax assets and liabilities are recorded for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts are classified as noncurrent in the consolidated balance sheets. Deferred tax assets are also recognized for net operating loss and tax credit carryovers. The overall change in deferred tax assets and liabilities for the period measures the deferred tax expense or benefit for the period. Effects of changes in enacted tax laws on deferred tax assets and liabilities are reflected as adjustments to tax expense in the period of enactment.

When appropriate, the Company records a valuation allowance against net deferred tax assets to offset future tax benefits that may not be realized. In determining whether a valuation allowance is appropriate, the Company considers whether it is more likely

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than not that all or some portion of our deferred tax assets will not be realized, based in part upon management's judgments regarding future events and past operating results.

The Company recognizes any penalties when necessary as part of Selling, general and administrative expenses. Goodwill is deductible for tax purposes.

The Company follows the guidance of Accounting Standards Codification ("ASC") Topic 740, Accounting for Uncertainty in Income Taxes. ASC Topic 740 prescribes a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13 Financial Instruments-Credit Losses, which amends how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income, which applies to trade accounts receivable and the calculation of the allowance for uncollectible accounts receivable. The new standard will become effective for the Company for annual and interim periods beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this accounting guidance will have on the consolidated financial statements. Since the Company currently uses an expected losses from customers method, the Company does not anticipate the adoption of ASU 2016-13 will have a material impact on the Company's financial condition or results of operations.

In January 2017, the FASB issued ASU No. 2017-04 Intangibles-Goodwill and Other Simplifying the Test for Goodwill Impairment, which provides guidance to simplify the subsequent measurement of goodwill by eliminating the Step 2 procedure from the goodwill impairment test. The new guidance is effective for the Company beginning with the fourth quarter of 2020. The Company does not anticipate the adoption of ASU 2017-04 will have a material impact on the Company's financial condition or results of operations.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The new standard is part of the disclosure framework project and eliminates certain disclosure requirements for fair value measurements, requires entities to disclose new information, and modifies existing disclosure requirements. The new guidance is effective after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact this change will have on its consolidated financial statements and disclosures.

NOTE 3 - LEASES

At September 29, 2019, the weighted average remaining lease term and weighted average discount rate for operating leases was 4.2 years and 5.6%, respectively. The Company's future operating lease obligations that have not yet commenced are immaterial. For the thirteen week period ended September 29, 2019, the Company's cash paid for operating leases was \$405,332, and operating lease and short-term lease costs were \$399,828 and \$187,934, respectively. For the thirty-nine week period ended September 29, 2019, the Company's cash paid for operating leases was \$1,215,848, and operating lease and short-term lease costs were \$1,138,542 and \$532,621, respectively.

The undiscounted annual future minimum lease payments consist of the following at:

	September 29, 2019
2019	\$ 1,614,555
2020	1,409,909
2021	1,390,554
2022	1,120,340
2023	657,095
Thereafter	301,203
Total lease payments	6,493,656
Interest	(1,346,596)
Present value of lease liabilities	\$ 5,147,060

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NOTE 4 - INTANGIBLE ASSETS

Intangible assets are stated net of accumulated amortization of \$43.3 million and \$40.3 million at September 29, 2019 and December 30, 2018, respectively. Amortization expense for the fiscal years are comprised of following:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Client partner lists	\$ 881,525	\$ 944,093	\$ 2,671,149	\$ 2,937,716
Covenant not to compete	39,936	42,250	124,436	167,000
Acquisition intangibles	921,461	986,343	2,795,585	3,104,716
Computer software - amortization expense	71,019	66,553	228,796	150,958
Amortization expense	992,480	1,052,896	3,024,381	3,255,674
Computer software - selling, general and administrative expense	19,490	—	44,382	—
Total expense	<u>\$ 1,011,970</u>	<u>\$ 1,052,896</u>	<u>\$ 3,068,763</u>	<u>\$ 3,255,674</u>

NOTE 5 - ACCRUED PAYROLL AND EXPENSES

Accrued payroll and expenses consist of the following at:

	September 29, 2019	December 30, 2018
Field talent payroll	\$ 6,074,655	\$ 4,236,534
Field talent payroll related	1,618,702	1,402,926
Accrued bonuses and commissions	2,012,793	1,673,130
Other	2,286,391	3,098,784
Accrued payroll and expenses	<u>\$ 11,992,541</u>	<u>\$ 10,411,374</u>

NOTE 6 - DEBT

On July 16, 2019, the Company entered into a Credit Agreement (the “Credit Agreement”), maturing July 16, 2024, with BMO, as lead administrative agent, lender, letters of credit issuer, and swing line lender. The Credit Agreement provides for a revolving credit facility (the “Revolving Facility”) permitting the Company to borrow funds from time to time in an aggregate amount up to \$35 million. The Credit Agreement also provides for a term loan commitment (the “Term Loan”) permitting the Company to borrow funds from time to time in an aggregate amount not to exceed \$30 million. The Company may from time to time, with a maximum of two, request an increase in the aggregate Term Loan by \$40 million, with minimum increases of \$10 million. The Company’s obligations under the Credit Agreement are secured by a first priority security interest in substantially all tangible and intangible property of the Company and its subsidiaries. The Credit Agreement bears interest either at the Base Rate plus the Applicable Margin or LIBOR plus the Applicable Margin (as such terms are defined in the Credit Agreement). The Company also pays an unused commitment fee on the daily average unused amount of Revolving Facility and Term Loan.

The Credit Agreement contains customary affirmative covenants and negative covenants. The Company is subject to a maximum Leverage Ratio and a minimum Fixed Charge Coverage Ratio as defined in the Credit Agreement. The Company was in compliance with these covenants as of September 29, 2019.

The Company borrowed \$20 million under the Revolving Facility to pay off existing indebtedness of the Company under the Amended Credit Agreement (as defined below) and such agreement (and related ancillary documentation) was terminated on July 16, 2019 in connection with such repayment. The Company recognized a loss on extinguishment of debt of approximately \$0.5 million related to the unamortized deferred finance fees.

In April 2017, the Company entered into an Amended and Restated Credit Agreement (the “Amended Credit Agreement”) with TCB with an aggregate commitment of \$55.0 million. The Amended Credit Agreement provided for a revolving credit facility (the “Revolving Facility with TCB”), permitting the Company to borrow funds from time to time in an aggregate amount equal to the lesser of the borrowing base amount, which was 85% of eligible accounts receivable, and \$35.0 million and also provided

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for a term loan (the “Term Loan with TCB”) in the amount of \$20.0 million with principal payable quarterly, based on an annual percentage of the original principal amount as defined in the Amended Credit Agreement.

The Revolving Facility with TCB and Term Loan with TCB bore interest either at the Base Rate plus the Applicable Margin or LIBOR plus the Applicable Margin (as such terms were defined in the Amended Credit Agreement). All interest and commitment fees were paid quarterly. Additionally, the Company paid an unused commitment fee on the unfunded portion of the Revolving Facility. The Company’s obligations under the Amended Credit Agreement were secured by a first priority security interest in substantially all tangible and intangible property of the Company and its subsidiaries.

Line of Credit

At September 29, 2019 and December 30, 2018, \$20.6 million and \$10.7 million, respectively, was outstanding on the revolving facilities. Average daily balance for the thirteen week periods ended September 29, 2019 and September 30, 2018 was \$21.0 million and \$13.3 million, respectively. Average daily balance for the thirty-nine week periods ended September 29, 2019 and September 30, 2018 was \$15.3 million and \$17.1 million, respectively.

Borrowings under the revolving facilities consisted of and bore interest at:

	September 29, 2019		December 30, 2018	
Base Rate	\$	2,053,651	5.50%	\$ 650,289 6.50%
LIBOR		8,500,000	3.67%	5,000,000 5.16%
LIBOR		10,000,000	3.66%	5,000,000 5.16%
Total	\$	20,553,651		\$ 10,650,289

Long-Term Debt

Long-term debt consists of and bore interest at:

	September 29, 2019		December 30, 2018	
Base Rate	\$	— —%	\$ 1,121,000	6.50%
LIBOR		— —%	6,500,000	5.41%
LIBOR		— —%	2,500,000	5.41%
Long-term debt	\$	—	\$ 10,121,000	

NOTE 7 - FAIR VALUE MEASUREMENTS

The accounting standard for fair value measurements defines fair value, and establishes a market-based framework or hierarchy for measuring fair value. The standard is applicable whenever assets and liabilities are measured at fair value. The fair value hierarchy established prioritizes the inputs used in valuation techniques into three levels as follows:

Level 1 - Observable inputs - quoted prices in active markets for identical assets and liabilities;

Level 2 - Observable inputs other than the quoted prices in active markets for identical assets and liabilities - includes quoted prices for similar instruments, quoted prices for identical or similar instruments in inactive markets, and amounts derived from valuation models where all significant inputs are observable in active markets, for substantially the full term of the financial instrument; and

Level 3 - Unobservable inputs - includes amounts derived from valuation models where one or more significant inputs are unobservable and require us to develop relevant assumptions.

The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis and the level they fall within the fair value hierarchy:

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Amounts Recorded at Fair Value	Financial Statement Classification	Fair Value Hierarchy	September 29, 2019	December 30, 2018
Contingent consideration, net	Contingent consideration, net - current and long-term	Level 3	\$ —	\$ 2,363,512

The changes in the Level 3 fair value measurements from December 30, 2018 to September 29, 2019 relates to the \$2.7 million in payments, which included \$0.2 million in an extension of the Zycron acquisition covenant not to compete intangible asset, and \$0.1 million in accretion. The key inputs in determining the fair value of the contingent consideration as of September 29, 2019 and December 30, 2018 include management's estimates of future sales volumes and EBITDA.

NOTE 8 - CONTINGENCIES

The Company is engaged from time to time in legal matters and proceedings arising out of its normal course of business. The Company establishes a liability related to its legal proceedings and claims when it has determined that it is probable that the Company has incurred a liability and the related amount can be reasonably estimated. If the Company determines that an obligation is reasonably possible, the Company will, if material, disclose the nature of the loss contingency and the estimated range of possible loss, or include a statement that no estimate of the loss can be made.

The Company is not currently a party to any material litigation; however, in the ordinary course of our business the Company is periodically threatened with or named as a defendant in various lawsuits or actions. The principal risks that the Company insures against, subject to and upon the terms and conditions of various insurance policies, are workers' compensation, general liability, automobile liability, property damage, professional liability, employment practices, fiduciary liability, fidelity losses and director and officer liability. Under the Company's bylaws, the Company's directors and officers are indemnified against certain liabilities arising out of the performance of their duties to the Company. The Company also has an insurance policy for our directors and officers to insure them against liabilities arising from the performance of their positions with the Company or its subsidiaries. The Company has also entered into indemnification agreements with its directors and certain officers.

NOTE 9 – SHARE-BASED COMPENSATION

Stock Options and Restricted Stock

For the thirteen week periods ended September 29, 2019 and September 30, 2018, the Company recognized \$0.2 million and \$0.8 million of compensation expense related to stock awards, respectively. For the thirty-nine week periods ended September 29, 2019 and September 30, 2018, the Company recognized \$0.8 million and \$0.9 million of compensation expense related to stock awards, respectively. Unamortized share-based compensation expense as of September 29, 2019 amounted to \$2.0 million which is expected to be recognized over the next 3.0 years.

A summary of stock option and restricted stock activity is presented as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Total Intrinsic Value of Awards (in thousands)
Awards outstanding at December 30, 2018	526,985	\$ 16.49	7.7	\$ 2,932
Granted	138,750	\$ 21.49		
Exercised	(47,790)	\$ 10.19		
Forfeited / Canceled	(34,700)	\$ 14.39		
Awards outstanding at September 29, 2019	583,245	\$ 18.32	7.8	\$ 2,109
Awards exercisable at December 30, 2018	238,085	\$ 13.96	7.2	\$ 1,684
Awards exercisable at September 29, 2019	295,045	\$ 16.37	7.1	\$ 1,379

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	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested outstanding at December 30, 2018	288,900	\$ 8.34
Nonvested outstanding at September 29, 2019	288,200	\$ 7.73

For the thirty-nine week period ended September 29, 2019, the Company issued 16,694 shares of common stock upon the cashless exercise of 38,614 stock options.

Included in awards outstanding are 27,000 shares of restricted stock issued in August 2018, at a grant date price per share of \$28.61. For the thirteen and thirty-nine week period ended September 29, 2019, the Company recognized \$0.1 million and \$0.2 million of compensation expense related to restricted stock, respectively.

Warrant Activity

For the thirteen and thirty-nine week periods ended September 29, 2019 and September 30, 2018, the Company did not recognize compensation cost related to warrants. There was no unamortized stock compensation expense to be recognized as of September 29, 2019.

A summary of warrant activity is presented as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Total Intrinsic Value of Options (in thousands)
Warrants outstanding at December 30, 2018	93,216	\$ 11.59	1.3	\$ 805
Exercised	(1,020)	\$ 14.86		
Warrants outstanding at September 29, 2019	92,196	\$ 11.56	0.8	\$ 703
Warrants exercisable at December 30, 2018	93,216	\$ 11.59	1.3	\$ 805
Warrants exercisable at September 29, 2019	92,196	\$ 11.56	0.8	\$ 703

There were no nonvested warrants outstanding at September 29, 2019 and December 30, 2018.

For the thirty-nine week period ended September 29, 2019, the Company issued 423 shares of common stock upon the cashless exercise of 1,020 warrants.

The intrinsic value in the tables above is the amount by which the market value of the underlying stock exceeded the exercise price of outstanding options or warrants, before applicable income taxes and represents the amount holders would have realized if all in-the-money options or warrants had been exercised on the last business day of the period indicated.

NOTE 10 - TEAM MEMBER BENEFIT PLAN

The Company provides a defined contribution plan (the “401(k) Plan”) for the benefit of its eligible team members and field talent. The 401(k) Plan allows participants to make contributions subject to applicable statutory limitations. The Company matches participants contributions 100% up to the first 3% and 50% of the next 2% of a team member or field talent’s compensation. The Company contributed \$0.3 million and \$0.3 million to the 401(k) Plan for the thirteen week periods ended September 29, 2019 and September 30, 2018, respectively. The Company contributed \$0.9 million and \$0.8 million to the 401(k) Plan for the thirty-nine week periods ended September 29, 2019 and September 30, 2018, respectively.

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NOTE 11 - BUSINESS SEGMENTS

The Company operates within three industry segments: Real Estate, Professional, and Light Industrial. The Real Estate segment provides office and maintenance field talent to various apartment communities and commercial buildings via property management companies responsible for the apartment communities' and commercial buildings' day-to-day operations. The Professional segment provides skilled field talent on a nationwide basis for IT and finance and accounting client partner projects. The Light Industrial segment provides field talent primarily to logistics, distribution, and call center client partners needing a flexible workforce.

Segment operating income includes all revenue and cost of services, direct selling expenses, depreciation and amortization expense and excludes all general and administrative (corporate) expenses. Assets of corporate include cash, unallocated prepaid expenses, deferred tax assets, and other assets.

The following table provides a reconciliation of revenue and operating income by reportable segment to consolidated results for the periods indicated:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Revenue:				
Real Estate	\$ 29,470,693	\$ 26,531,283	\$ 73,043,258	\$ 65,864,097
Professional	31,506,017	29,171,990	93,421,017	90,394,110
Light Industrial	18,387,596	21,358,864	55,533,988	58,604,838
Total	\$ 79,364,306	\$ 77,062,137	\$ 221,998,263	\$ 214,863,045
Depreciation:				
Real Estate	\$ 50,957	\$ 44,784	\$ 140,490	\$ 125,820
Professional	82,201	74,488	251,152	190,952
Light Industrial	23,663	23,446	73,673	76,372
Corporate	47,452	51,923	142,804	152,607
Total	\$ 204,273	\$ 194,641	\$ 608,119	\$ 545,751
Amortization:				
Professional	\$ 986,274	\$ 1,047,510	\$ 3,005,618	\$ 3,132,372
Light Industrial	—	—	—	110,251
Corporate	6,206	5,386	18,763	13,051
Total	\$ 992,480	\$ 1,052,896	\$ 3,024,381	\$ 3,255,674
Operating income:				
Real Estate	\$ 5,523,769	\$ 4,958,373	\$ 12,464,689	\$ 11,285,951
Professional	2,144,549	2,143,426	6,190,331	6,499,285
Light Industrial	1,174,142	1,560,895	3,514,758	3,948,874
Corporate - selling	(131,389)	(212,877)	(399,370)	(541,467)
Corporate - general and administrative	(2,233,959)	(2,346,793)	(6,285,830)	(5,649,148)
Corporate - gain on contingent consideration	—	988,303	—	2,160,307
Total	\$ 6,477,112	\$ 7,091,327	\$ 15,484,578	\$ 17,703,802

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	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Capital expenditures:				
Real Estate	\$ 204,442	\$ 37,681	\$ 244,321	\$ 114,990
Professional	77,809	121,170	474,668	382,925
Light Industrial	76,103	44,018	83,734	87,990
Corporate	501,910	25,945	731,293	95,428
Total	<u>\$ 860,264</u>	<u>\$ 228,814</u>	<u>\$ 1,534,016</u>	<u>\$ 681,333</u>
			September 29, 2019	December 30, 2018
Total Assets:				
Real Estate			\$ 19,341,023	\$ 12,647,505
Professional			61,100,018	62,403,104
Light Industrial			18,765,095	18,992,392
Corporate			6,787,114	6,225,802
Total			<u>\$ 105,993,250</u>	<u>\$ 100,268,803</u>

NOTE 12 - SUBSEQUENT EVENTS

Dividend

On October 29, 2019, the Company's board of directors declared a cash dividend in the amount of \$0.30 per share of common stock to be paid on November 18, 2019 to all shareholders of record as of the close of business on November 11, 2019.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our accompanying Unaudited Consolidated Financial Statements and related notes thereto and our Annual Report on Form 10-K for the fiscal year ended December 30, 2018. Comparative segment revenues and related financial information are discussed herein and are presented in Note 11 to our Unaudited Consolidated Financial Statements. See "Forward Looking Statements" on page 3 of this report and "Risk Factors" included in our filings with the SEC, including our Annual Report on Form 10-K for the fiscal year ended December 30, 2018, for a description of important factors that could cause actual results to differ from expected results.

Overview

We are a leading national provider of temporary staffing services and have completed a series of acquisitions including the acquisition of BG Personnel, LP and B G Staff Services Inc. in June 2010, and substantially all of the assets of JNA Staffing, Inc. in December 2010, Extrinsic, LLC in December 2011, American Partners, Inc. in December 2012, InStaff Holding Corporation and InStaff Personnel, LLC in June 2013, D&W Talent, LLC in March 2015, Vision Technology Services, Inc., Vision Technology Services, LLC, and VTS-VM, LLC in October 2015, Zycron, Inc. in April 2017, and Smart Resources, Inc. and Accountable Search, LLC in September 2017. We operate within three industry segments: Real Estate, Professional, and Light Industrial. We provide services to client partners primarily within the United States of America. We operate in 78 branch offices and 14 on-site locations providing services in 43 states.

The Real Estate segment provides office and maintenance field talent to various apartment communities and commercial buildings, in 30 states, via property management companies responsible for the apartment communities' and commercial buildings' day-to-day operations.

The Professional segment provides skilled field talent on a nationwide basis for information technology ("IT") and finance and accounting client partner projects.

The Light Industrial segment provides field talent primarily to logistics, distribution, and call center client partners needing a flexible workforce in Illinois, Wisconsin, New Mexico, Texas, Tennessee and Mississippi.

Our business experiences seasonal fluctuations. Our quarterly operating results are affected by the number of billing days in a quarter, as well as the seasonality of our client partners' business. Demand for our Real Estate staffing services increase in the second and is highest during the third quarter of the year due to the increased turns in multifamily units during the summer months when schools are not in session. Demand for our Light Industrial staffing services increases during the third quarter of the year and peaks in the fourth quarter due to increases in the demand for holiday help. Overall demand can be affected by adverse weather conditions in the winter months as well as fluctuations in client partner demand. In addition, our cost of services typically increases in the first quarter primarily due to the reset of payroll taxes.

Results of Operations

The following tables summarize key components of our results of operations for the periods indicated, both in dollars and as a percentage of revenues, and have been derived from our unaudited consolidated financial statements.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
	(dollars in thousands)			
Revenues	\$ 79,364	\$ 77,062	\$ 221,998	\$ 214,863
Cost of services	57,188	55,689	160,520	156,988
Gross profit	22,176	21,373	61,478	57,875
Selling, general and administrative expenses	14,502	14,022	42,360	38,530
Gain on contingent consideration	—	(988)	—	(2,160)
Depreciation and amortization	1,197	1,248	3,633	3,801
Operating income	6,477	7,091	15,485	17,704
Loss on extinguishment of debt	541	—	541	—
Interest expense, net	395	662	1,245	2,275
Income before income tax	5,541	6,429	13,699	15,429
Income tax expense	1,334	1,368	3,194	2,732
Net income	\$ 4,207	\$ 5,061	\$ 10,505	\$ 12,697
Revenues	100.0%	100.0 %	100.0%	100.0 %
Cost of services	72.1%	72.3 %	72.3%	73.1 %
Gross profit	27.9%	27.7 %	27.7%	26.9 %
Selling, general and administrative expenses	18.3%	18.2 %	19.1%	17.9 %
Gain on contingent consideration	—%	(1.3)%	—%	(1.0)%
Depreciation and amortization	1.5%	1.6 %	1.6%	1.8 %
Operating income	8.2%	9.2 %	7.0%	8.2 %
Loss on extinguishment of debt	0.7%	— %	0.2%	— %
Interest expense, net	0.5%	0.9 %	0.6%	1.1 %
Income before income tax	7.0%	8.3 %	6.2%	7.2 %
Income tax expense	1.7%	1.8 %	1.4%	1.3 %
Net income	5.3%	6.6 %	4.7%	5.9 %

Thirteen Week Fiscal Period Ended September 29, 2019 ("Fiscal 2019") Compared with Thirteen Week Fiscal Period Ended September 30, 2018 ("Fiscal 2018")

Revenues:

Revenues:	Thirteen Weeks Ended			
	September 29, 2019		September 30, 2018	
	(dollars in thousands)			
Revenues by segment:				
Real Estate	\$	29,470	37.1%	\$ 26,531 34.4%
Professional		31,506	39.7%	29,172 37.9%
Light Industrial		18,388	23.2%	21,359 27.7%
Total Revenues	\$	79,364	100.0%	\$ 77,062 100.0%

Real Estate Revenues: Real Estate revenues increased approximately \$3.0 million (11.1%), due to our continued geographic expansion plan and growth in existing offices. The increase was due to a 5.9% increase in billed hours and a 4.6% increase in average bill rate. Revenue from new offices provided approximately \$0.7 million of the increase. Revenues from the commercial buildings group were flat.

Professional Revenues: Professional revenues increased approximately \$2.3 million (8.0%). The IT group increased \$4.0 million and the finance and accounting group decreased \$1.7 million. The overall increase was due a 11.2% increase in average bill rate, which was partially offset by \$0.4 million of a decrease in permanent placements and 5.3% decrease in billed hours. The IT group increased 12.9% in billed hours and the finance and accounting group decreased 39.9% in billed hours.

Light Industrial Revenues: Light Industrial revenues decreased approximately \$3.0 million (13.9%). The overall revenue decrease was due to a 17.6% decrease in billed hours, which was offset by an 4.4% increase in average bill rate.

Gross Profit:

Gross profit represents revenues from services less cost of services expenses, which consist of payroll, payroll taxes, payroll-related insurance, field talent costs, and reimbursable costs.

			Thirteen Weeks Ended			
			September 29, 2019		September 30, 2018	
			(dollars in thousands)			
Gross Profit by segment:						
Real Estate	\$	11,265	50.8%	\$	10,045	47.0%
Professional		8,264	37.3%		8,110	37.9%
Light Industrial		2,647	11.9%		3,218	15.1%
Total Gross Profit	\$	22,176	100.0%	\$	21,373	100.0%

	Thirteen Weeks Ended	
	September 29, 2019	September 30, 2018
Gross Profit Percentage by segment:		
Real Estate	38.2%	37.9%
Professional	26.2%	27.8%
Light Industrial	14.4%	15.1%
Company Gross Profit	27.9%	27.7%

Overall, our gross profit increased approximately \$0.8 million (3.8%). As a percentage of revenue, gross profit has increased to 27.9% from 27.7% due to growth in our Real Estate segment.

We determine spread as the difference between average bill rate and average pay rate.

Real Estate Gross Profit: Real Estate gross profit increased approximately \$1.2 million (12.1%) in line with the increase in revenue. The increase in gross profit was due primarily to 4.5% increase in average spread.

Professional Gross Profit: Professional gross profit increased approximately \$0.2 million (1.9%) due to a 10.6% increase in average spread. The IT group increased by \$0.9 million and the finance and accounting group decreased by \$0.7 million.

Light Industrial Gross Profit: Light Industrial gross profit decreased approximately \$0.6 million (17.7%) in line with decreased revenue which was offset by a 2.2% increase in average spread.

Selling, General and Administrative Expenses: Selling, general and administrative expenses increased approximately \$0.5 million (3.4%) primarily related to various costs associated with our revenue growth and geographic expansion including increased headcount, commissions and bonuses as detailed in the following table.

	Thirteen Weeks Ended					
	September 29, 2019			September 30, 2018		
	Amount	% of Revenue		Amount	% of Revenue	
	(dollars in thousands)					
Compensation and related	\$ 10,726	14%	\$ 10,320	13%	\$ 406	4 %
Advertising and recruitment	508	1%	513	1%	(5)	(1)%
Occupancy and office operations	1,052	1%	891	1%	161	18 %
Client engagement	364	—%	284	—%	80	28 %
Software	511	1%	316	—%	195	62 %
Professional fees	427	1%	282	—%	145	51 %
Public company related costs	180	—%	143	—%	37	26 %
Bad debt	35	—%	22	—%	13	59 %
Share-based compensation	244	—%	758	1%	(514)	(68)%
Transaction fees	37	—%	135	—%	(98)	(73)%
Other	418	1%	358	—%	60	17 %
	<u>\$ 14,502</u>	<u>18%</u>	<u>\$ 14,022</u>	<u>18%</u>	<u>\$ 480</u>	<u>3 %</u>

Depreciation and Amortization: Depreciation and amortization charges decreased approximately \$0.1 million (4.1%). The decrease in depreciation and amortization is primarily due to the Professional segment related to the 2015 D&W acquisition.

Interest Expense, net: Interest expense, net decreased \$0.3 million (40.3%) primarily due to amortization of contingent consideration discounts related to the 2017 Zycron and Smart acquisitions and due to the pay down on the existing indebtedness of the Company.

Income Taxes: Income tax expense was flat primarily due to the share-based compensation exercises in 2018 that are deductible for tax purposes, which resulted in a decrease in the effective rate, offset by higher pre tax 2018 income.

Thirty-nine Week Fiscal Period Ended September 29, 2019 ("Fiscal 2019") Compared with Thirty-nine Week Fiscal Period Ended September 30, 2018 ("Fiscal 2018")

Revenues:

Revenues:		Thirty-nine Weeks Ended				
		September 29, 2019		September 30, 2018		
		(dollars in thousands)				
Revenues by segment:						
Real Estate	\$	73,043	32.9%	\$	65,864	30.6%
Professional		93,421	42.1%		90,394	42.1%
Light Industrial		55,534	25.0%		58,605	27.3%
Total Revenues	\$	221,998	100.0%	\$	214,863	100.0%

Real Estate Revenues: Real Estate revenues increased approximately \$7.1 million (10.9%) due to our continued geographic expansion plan and continued growth in existing offices. The increase was due to a 4.7% increase in billed hours and a 5.5% increase in average bill rate. Revenue from new offices provided approximately \$1.0 million of the increase. Revenues from the commercial buildings group contributed \$0.8 million of the increase.

Professional Revenues: Professional revenues increased approximately \$3.0 million (3.3%). The IT group increased \$4.8 million, which was partially offset by the finance and accounting group decrease of \$1.8 million. The overall increase was due to an increase of 5.3% in average bill rate and an increase in permanent placements of \$0.2 million that was offset by a 2.7% decrease in billed hours. The IT group increased 4.8% in billed hours and the finance and accounting group decreased 18.5% in billed hours.

Light Industrial Revenues: Light Industrial revenues decreased approximately \$3.1 million (5.2%). The decrease was due to a 8.6% decrease in billed hours that was offset by a 3.7% increase in average bill rate.

Gross Profit:

Gross profit represents revenues from services less cost of services expenses, which consist of payroll, payroll taxes, payroll-related insurance, field talent costs, and reimbursable costs.

		Thirty-nine Weeks Ended			
		September 29, 2019		September 30, 2018	
		(dollars in thousands)			
Gross Profit by segment:					
Real Estate	\$	28,038	45.6%	\$ 25,044	43.2%
Professional		25,334	41.2%	24,056	41.6%
Light Industrial		8,106	13.2%	8,775	15.2%
Total Gross Profit	\$	61,478	100.0%	\$ 57,875	100.0%

	Thirty-nine Weeks Ended	
	September 29, 2019	September 30, 2018
Gross Profit Percentage by segment:		
Real Estate	38.4%	38.0%
Professional	27.1%	26.6%
Light Industrial	14.6%	15.0%
Company Gross Profit	27.7%	26.9%

Overall, our gross profit has increased approximately \$3.6 million (6.2%) due primarily to our Real Estate segment of \$3.0 million and our Professional segment of \$1.3 million. As a percentage of revenue, gross profit has increased to 27.7% from 26.9% primarily due to higher gross profits across our Real Estate and Professional segments.

We determine spread as the difference between average bill rate and average pay rate.

Real Estate Gross Profit: Real Estate gross profit increased approximately \$3.0 million (12.0%) consistent with the increase in revenue. The increase in gross profit was due primarily to 5.5% increase in average spread.

Professional Gross Profit: Professional gross profit increased approximately \$1.3 million (5.3%) due to 6.8% increase in average spread. The IT group increased \$1.4 million with \$0.1 million from permanent placements and the finance and accounting group decreased \$0.1 million with an increase of \$0.1 million from permanent placements.

Light Industrial Gross Profit: Light Industrial gross profit decreased approximately \$0.7 million (7.6%) consistent with the decrease in revenue which was offset by a 2.5% increase in average spread.

Selling, General and Administrative Expenses: Selling, general and administrative expenses increased approximately \$3.8 million (9.9%) primarily related to various costs associated with our revenue growth and geographic expansion including increased headcount, commissions and bonuses as detailed in the following table.

Thirty-nine Weeks Ended						
September 29, 2019			September 30, 2018			
	Amount	% of Revenue	Amount	% of Revenue	\$ Change	% Change
(dollars in thousands)						
Compensation and related	\$ 31,680	14%	\$ 28,948	13%	\$ 2,732	9 %
Advertising and recruitment	1,679	1%	1,581	1%	98	6 %
Occupancy and office operations	3,009	1%	2,767	1%	242	9 %
Client engagement	1,141	1%	934	—%	207	22 %
Software	1,530	1%	931	—%	599	64 %
Professional fees	1,141	1%	909	—%	232	26 %
Public company related costs	533	—%	396	—%	137	35 %
Bad debt	6	—%	39	—%	(33)	(85)%
Share-based compensation	751	—%	873	—%	(122)	(14)%
Transaction fees	94	—%	472	—%	(378)	(80)%
Other	796	—%	680	—%	116	17 %
	<u>\$ 42,360</u>	<u>19%</u>	<u>\$ 38,530</u>	<u>18%</u>	<u>\$ 3,830</u>	<u>10 %</u>

Depreciation and Amortization: Depreciation and amortization charges decreased approximately \$0.2 million (4.4%). The decrease in depreciation and amortization is primarily due to fully amortized intangible assets in the Light Industrial segment related to the 2013 InStaff acquisition and in the Professional segment related to the 2015 D&W acquisition.

Interest Expense, net: Interest expense, net decreased \$1.0 million (45.3%) primarily due to the May 2018 offering of common stock which proceeds were used to pay down on the existing indebtedness of the Company and the decrease in contingent consideration discounts related to the 2017 Zycron and Smart acquisitions.

Income Taxes: Income tax expense increased \$0.5 million (16.9%) primarily due to the 2018 Option Cancellation Agreement and the share-based compensation exercises that are deductible for tax purposes that resulted in a reduced 2018 effective rate, which was partially offset by higher pre tax 2018 income.

Use of Non-GAAP Financial Measures

We present Adjusted EBITDA (defined below), a measure that is not in accordance with generally accepted accounting principles ("non-GAAP"), in this Quarterly Report to provide investors with a supplemental measure of our operating performance. We believe that Adjusted EBITDA is a useful performance measure and is used by us to facilitate a comparison of our operating performance on a consistent basis from period-to-period and to provide for a more complete understanding of factors and trends affecting our business than measures under GAAP can provide alone. Our board and management also use Adjusted EBITDA as one of the primary methods for planning and forecasting overall expected performance and for evaluating on a quarterly and annual basis actual results against such expectations, and as a performance evaluation metric in determining achievement of certain compensation programs and plans for our management. In addition, the financial covenants in our credit agreement are based on EBITDA as defined in the credit agreement.

We define "Adjusted EBITDA" as earnings before interest expense, income taxes, depreciation and amortization expense, transaction fees, and the non capital information technology improvement project ("IT roadmap") and other non-cash expenses such as share-based compensation expense. Omitting interest, taxes and the other items provides a financial measure that facilitates comparisons of our results of operations with those of companies having different capital structures. Since the levels of indebtedness and tax structures that other companies have are different from ours, we omit these amounts to facilitate investors' ability to make these comparisons. Similarly, we omit depreciation and amortization because other companies may employ a greater or lesser amount of property and intangible assets. We also believe that investors, analysts and other interested parties view our ability to generate Adjusted EBITDA as an important measure of our operating performance and that of other companies in our industry. In addition, the financial covenants in our credit agreement are based on adjusted EBITDA as defined in the credit agreement. Adjusted EBITDA should not be considered as an alternative to net income for the periods indicated as a measure of our performance. Other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

The use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider this performance measure in isolation from, or as an alternative to, GAAP measures such as net income. Adjusted EBITDA is not a measure of liquidity under GAAP or otherwise, and is not an alternative to cash flow from continuing operating activities. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by the expenses that are excluded from that term or by unusual or non-recurring items. The limitations of Adjusted EBITDA include: (i) it does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments; (ii) it does not reflect changes in, or cash requirements for, our working capital needs; (iii) it does not reflect income tax payments we may be required to make; and (iv) it does not reflect the cash requirements necessary to service interest or principal payments associated with indebtedness.

To properly and prudently evaluate our business, we encourage you to review our unaudited consolidated financial statements included elsewhere in this report and the reconciliation to Adjusted EBITDA from net income, the most directly comparable financial measure presented in accordance with GAAP, set forth in the following table. All of the items included in the reconciliation from net income to Adjusted EBITDA are either (i) non-cash items or (ii) items that management does not consider in assessing our on-going operating performance. In the case of the non-cash items, management believes that investors may find it useful to assess our comparative operating performance because the measures without such items are less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges and more reflective of other factors that affect operating performance. In the case of the other items that management does not consider in assessing our on-going operating performance, management believes that investors may find it useful to assess our operating performance if the measures are presented without these items because their financial impact may not reflect ongoing operating performance.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended		Trailing Twelve Months Ended
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018	September 29, 2019
(dollars in thousands)					
Net income	\$ 4,207	\$ 5,061	\$ 10,505	\$ 12,697	\$ 15,358
Interest expense, net	395	662	1,245	2,275	1,821
Income tax expense	1,334	1,368	3,194	2,732	4,321
Loss on extinguishment of debt	541	—	541	—	541
Operating income	6,477	7,091	15,485	17,704	22,041
Depreciation and amortization	1,197	1,248	3,633	3,801	4,876
Contingent consideration adjustment	—	(988)	—	(2,160)	(1,615)
Share-based compensation	244	758	751	873	947
Transaction fees	37	135	94	472	130
IT roadmap	341	—	369	—	369
Adjusted EBITDA	\$ 8,296	\$ 8,244	\$ 20,332	\$ 20,690	\$ 26,748

Liquidity and Capital Resources

Our working capital requirements are primarily driven by field talent payments, tax payments and client partner accounts receivable receipts. Since receipts from client partners lag payments to field talent, working capital requirements increase substantially in periods of growth.

Our primary sources of liquidity are cash generated from operations and borrowings under our credit agreement with BMO Harris Bank, N.A. ("BMO"), that provides for a revolving credit facility maturing July 16, 2024 (the "Revolving Facility"). Our primary uses of cash are payments to field talent, team members, related payroll liabilities, operating expenses, capital expenditures, cash interest, cash taxes, dividends, contingent consideration and debt payments. We believe that the cash generated from operations, together with the borrowing availability under our Revolving Facility, will be sufficient to meet our normal working capital needs for at least the next twelve months, including investments made, and expenses incurred, in connection with opening new branches throughout the next year. Our ability to continue to fund these items may be affected by general economic, competitive and other factors, many of which are outside of our control. If our future cash flow from operations and other capital resources are insufficient to fund our liquidity needs, we may be forced to obtain additional debt or equity capital or refinance all or a portion of our debt.

While we believe we have sufficient liquidity and capital resources to meet our current operating requirements and expansion plans, we may elect to pursue additional growth opportunities within the next year that could require additional debt or equity financing. If we are unable to secure additional financing at favorable terms in order to pursue such additional growth opportunities, our ability to pursue such opportunities could be materially adversely affected.

The Company has an effective Form S-3 shelf registration statement allowing for the offer and sale of up to approximately \$13 million of common stock. There is no guarantee that we will be able to consummate any offering on terms we consider acceptable or at all.

A summary of our operating, investing and financing activities are shown in the following table:

	Thirty-nine Weeks Ended	
	September 29, 2019	September 30, 2018
	(dollars in thousands)	
Net cash provided by operating activities	\$ 13,965	\$ 11,381
Net cash used in investing activities	(1,534)	(681)
Net cash used in financing activities	(12,431)	(10,700)
Net change in cash and cash equivalents	\$ —	\$ —

Operating Activities

Cash provided by operating activities consists of net income adjusted for non-cash items, including depreciation and amortization, share-based compensation expense, interest expense on contingent consideration payable, and the effect of working capital changes. The primary drivers of cash inflows and outflows are accounts receivable and accrued payroll and expenses.

During Fiscal 2019, net cash provided by operating activities was \$14.0 million an increase of \$2.6 million compared with \$11.4 million for Fiscal 2018. This increase is primarily attributable to changes in contingent consideration adjustments, accrued payroll and related expenses, accounts payable.

Investing Activities

Cash used in investing activities consists primarily of cash paid for businesses acquired and capital expenditures.

In Fiscal 2019, we made capital expenditures of \$1.5 million mainly related to software and computer equipment purchased in the ordinary course of business and for the IT roadmap. In Fiscal 2018, we made capital expenditures of \$0.7 million mainly related to furniture and fixtures and computer equipment purchased in the ordinary course of business.

Financing Activities

Cash flows from financing activities consisted principally of borrowings and payments under our credit agreement, payment of dividends and contingent consideration paid.

For Fiscal 2019, we paid \$9.2 million in cash dividends on our common stock, paid down \$10.1 million on the term loan with TCB, we borrowed \$9.9 million on our revolving line of credit, and we paid \$2.7 million of contingent consideration related to the Zycron acquisition.

For Fiscal 2018, we paid \$7.9 million in cash dividends on our common stock, paid down \$12.8 million in principal payments on the term loan with TCB, and we reduced our revolving line of credit by \$7.7 million, paid \$3.3 million for the Option Cancellation Agreement, and we paid \$0.3 million of contingent consideration related to the Zycron acquisition. We received net proceeds from issuance of common stock of \$21.3 million and used the net proceeds mainly to reduce outstanding indebtedness under our revolving facility and term loan with TCB and to cancel outstanding options pursuant to the Option Cancellation Agreement.

Credit Agreements

On July 16, 2019, we entered into a Credit Agreement (the “Credit Agreement”), maturing July 16, 2024, with BMO Harris Bank, N.A. (“BMO”), as lead administrative agent, lender, letters of credit issuer, and swing line lender. The Credit Agreement provides for a revolving credit facility (the “Revolving Facility”) permitting us to borrow funds from time to time in an aggregate

amount up to \$35 million. The Credit Agreement also provides for a term loan commitment (the “Term Loan”) permitting us to borrow funds from time to time in an aggregate amount not to exceed \$30 million. We may from time to time, with a maximum of two, request an increase in the aggregate Term Loan by \$40 million, with minimum increases of \$10 million. Our obligations under the Credit Agreement are secured by a first priority security interest in substantially all tangible and intangible property of the Company and its subsidiaries. The Credit Agreement bears interest either at the Base Rate plus the Applicable Margin or LIBOR plus the Applicable Margin (as such terms are defined in the Credit Agreement). We also pay an unused commitment fee on the daily average unused amount of Revolving Facility and Term Loan.

The Credit Agreement contains customary affirmative covenants as well as negative covenants restricting our ability to, among other things (with certain exceptions): (i) incur indebtedness; (ii) incur liens; (iii) enter into mergers, consolidations, or similar transactions; (iv) make restricted distributions; (v) make loans; (vi) dispose of assets; (vii) enter into transactions with affiliates; or (viii) change the nature of their business. In addition, we may not permit the Leverage Ratio, as of the last day of any fiscal quarter subject to a Covenant Holiday adjustment period for an approved Covenant Holiday Acquisition (as such terms are defined in the Credit Agreement) to be greater than the following: 3.00 to 1.0 (July 16, 2019 to June 30, 2021), 2.75 to 1.0 (July 1, 2021 to June 30, 2022), 2.50 to 1.0 (from and after July 1, 2022). Moreover, we may not permit, for any four fiscal quarter period, the Fixed Charge Coverage Ratio (as defined in the Credit Agreement) on a consolidated basis to be less than 1.20 to 1.00.

We borrowed \$20 million under the Revolving Facility to pay off our existing indebtedness under the Amended Credit Agreement and such agreement (and related ancillary documentation) was terminated on July 16, 2019 in connection with such repayment. We recognized loss on extinguishment of debt of approximately \$0.5 million related to the unamortized deferred finance fees.

Off-Balance Sheet Arrangements

We are not party to any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP. In connection with the preparation of our consolidated financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect the reported amount of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends, and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, management reviews the accounting policies, estimates, assumptions and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in Note 2, Summary of Significant Accounting Policies, of the Notes to Unaudited Consolidated Financial Statements included in “Item 1. Financial Statements.” Please also refer to our Annual Report on Form 10-K for the fiscal year ended December 30, 2018 for a more detailed discussion of our critical accounting policies.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements and their potential effect on our results of operations and financial condition, refer to Note 2 in the Notes to the Unaudited Consolidated Financial Statements in this Quarterly Report on Form 10-Q and Note 2 in the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 30, 2018.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks from transactions we enter into in the normal course of business. Our primary market risk exposure relates to interest rate risk.

Interest Rates

Our Revolving Facility and Term Loan are priced at variable interest rates. Accordingly, future interest rate increases could potentially put us at risk for an adverse impact on future earnings and cash flows.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based on such evaluation, our CEO and CFO have concluded that, as of the end of such period, our disclosure controls and procedures are effective, at a reasonable assurance level, in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls Over Financial Reporting

For the fiscal quarter ended September 29, 2019, there have been no changes in our internal control over financial reporting identified in connection with the evaluations required by Rule 13a-15(d) or Rule 15d-15(d) under the Exchange Act that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our CEO and our CFO, do not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, 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 error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

No change from the information provided in ITEM 3. LEGAL PROCEEDINGS included in our Annual Report on Form 10-K for the fiscal year ended December 30, 2018.

ITEM 1A. RISK FACTORS

In evaluating us and our common stock, we urge you to carefully consider the risks and other information in this Quarterly Report on Form 10-Q, as well as the risk factors disclosed in Item 1A. of Part I of our Annual Report on Form 10-K for the fiscal year ended December 30, 2018 (our “2018 Form 10-K”), and filed with the SEC on March 12, 2019. There have been no material changes from the risk factors as previously disclosed in our 2018 Form 10-K. Any of the risks discussed in this Quarterly Report on Form 10-Q or any of the risks disclosed in Item 1A. of Part I of our 2018 Form 10-K, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, could materially and adversely affect our results of operations or financial condition.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

Item 6. Exhibits

The following exhibits are filed or furnished with this Quarterly Report on Form 10-Q.

Exhibit Number	Description
3.1	<u>Certificate of Incorporation of BG Staffing, Inc. (incorporated by reference from Amendment No. 2 to the registrant's registration statement on Form S-1 (File No. 333-191683) filed on November 4, 2013).</u>
3.2	<u>Bylaws of BG Staffing, Inc. (incorporated by reference from Amendment No. 2 to the registrant's registration statement on Form S-1 (File No. 333-191683) filed on November 4, 2013).</u>
4.1	<u>Form of Common Stock Certificate (incorporated by reference from Amendment No. 1 to the registrant's registration statement on Form S-1 (File No. 333-191683) filed on October 28, 2013).</u>
10.1	<u>Credit Agreement, dated as of July 16, 2019, among BG Staffing, Inc., as borrower, the lenders from time to time party thereto, and BMO Harris Bank, National Association, as administrative agent, letters of credit issuer, swing line lender, sole lead arranger, and sole book runner (incorporated by reference from the registrant's Current Report on Form 8-K filed on July 22, 2019)</u>
31.1*	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1†	<u>Certification of Chief Executive Officer and Chief 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 Extension Schema Document.
101.CAL *	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF *	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB *	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE *	XBRL Taxonomy Extension Presentation Linkbase Document.
*	Filed herewith.
†	This certification is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

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.

BG STAFFING, INC.

/s/ Beth Garvey

Name:	Beth Garvey
Title:	President and Chief Executive Officer (Principal Executive Officer)

/s/ Dan Hollenbach

Name:	Dan Hollenbach
Title:	Chief Financial Officer and Secretary (Principal Financial Officer)

Date: November 5, 2019

**Certification of Chief Executive Officer Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Beth Garvey, certify that:

- 1 I have reviewed this quarterly report on Form 10-Q for the quarterly period ended September 29, 2019 of BG Staffing, Inc.
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
- 5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2019

By: /s/ Beth Garvey
 Name: Beth Garvey
 Title: President and Chief Executive Officer
 (Principal Executive Officer)

**Certification of Chief Financial Officer Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Dan Hollenbach, certify that:

- 1 I have reviewed this quarterly report on Form 10-Q for the quarterly period ended September 29, 2019 of BG Staffing, Inc.
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
- 5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2019

By: /s/ Dan Hollenbach
 Name: Dan Hollenbach
 Title: Chief Financial Officer and Secretary
 (Principal Financial Officer)

**Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the quarterly report of BG Staffing, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 29, 2019 as filed with the Securities and Exchange Commission on the date hereof, we, the undersigned, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of our knowledge, that:

- (1) The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2019

By: /s/ Beth Garvey
Name: Beth Garvey
Title: President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Dan Hollenbach
Name: Dan Hollenbach
Title: Chief Financial Officer and Secretary
(Principal Financial Officer)

This certification accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended or otherwise subject to liability pursuant to that section. The certification shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

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