

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 27, 2020
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

The number of shares outstanding of the registrant's common stock as of November 4, 2020 was 10,317,018.

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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’ workers’ 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;
- the impact of, and the ability to mitigate or manage disruptions posed by, the novel coronavirus pandemic (“COVID-19”) or other pandemics;
- 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 29, 2019.

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.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

BG Staffing, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED BALANCE SHEETS

	September 27, 2020	December 29, 2019
ASSETS		
Current assets		
Accounts receivable (net of allowance for credit losses of \$476,987 at 2020 and \$468,233 for 2019)	\$ 41,769,774	\$ 39,423,801
Prepaid expenses and other current assets	1,010,648	1,243,746
Income taxes receivable	—	69,649
Total current assets	42,780,422	40,737,196
Property and equipment, net	3,742,358	3,545,049
Other assets		
Deposits and other assets	5,099,514	3,843,023
Deferred income taxes, net	4,514,048	4,071,847
Right-of-use asset - operating leases	6,177,790	4,386,317
Intangible assets, net	35,437,325	33,807,973
Goodwill	31,350,224	25,194,639
Total other assets	82,578,901	71,303,799
Total assets	\$ 129,101,681	\$ 115,586,044
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Long-term debt, current portion	\$ 2,437,500	\$ 375,000
Accrued interest	94,322	73,027
Accounts payable	432,950	479,422
Accrued payroll and expenses	12,797,763	10,485,039
Lease liability, current portion	1,894,132	1,277,843
Other current liabilities	—	1,016,565
Income taxes payable	183,561	—
Total current liabilities	17,840,228	13,706,896
Line of credit (net of deferred finance fees of \$286,779 and \$351,128 for 2020 and 2019, respectively)	7,713,221	19,993,829
Long-term debt, less current portion	26,862,500	7,125,000
Contingent consideration	2,243,187	2,174,378
Lease liability, less current portion	5,231,020	4,128,951
Other long-term liabilities	5,176,769	—
Total liabilities	65,066,925	47,129,054
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, 10,317,018 and 10,309,236 shares issued and outstanding for 2020 and 2019, respectively, net of treasury stock, at cost, 1,004 shares for 2020 and 2019	75,852	75,775
Additional paid in capital	60,238,267	59,617,787
Retained earnings	3,875,119	8,763,428
Accumulated other comprehensive loss	(154,482)	—
Total stockholders' equity	64,034,756	68,456,990
Total liabilities and stockholders' equity	\$ 129,101,681	\$ 115,586,044

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

BG Staffing, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

For the Thirteen and Thirty-nine Week Periods Ended September 27, 2020 and September 29, 2019

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	2020	2019	2020	2019
Revenues	\$ 71,518,691	\$ 79,364,306	\$ 208,192,454	\$ 221,998,263
Cost of services	51,806,765	57,187,684	151,299,654	160,520,167
Gross profit	19,711,926	22,176,622	56,892,800	61,478,096
Selling, general and administrative expenses	14,869,009	14,502,757	45,379,075	42,361,018
Gain on contingent consideration	(76,102)	—	(76,102)	—
Impairment losses	—	—	7,239,514	—
Depreciation and amortization	1,270,951	1,196,753	4,129,615	3,632,500
Operating income	3,648,068	6,477,112	220,698	15,484,578
Loss on extinguishment of debt	—	540,705	—	540,705
Interest expense, net	359,805	395,448	1,245,489	1,244,795
Income (Loss) before income taxes	3,288,263	5,540,959	(1,024,791)	13,699,078
Income tax expense (benefit)	722,700	1,333,789	(259,951)	3,194,055
Net income (loss)	\$ 2,565,563	\$ 4,207,170	\$ (764,840)	\$ 10,505,023
Change in unrealized gains (losses) on cash flow hedges	(17,241)	—	154,482	—
Other comprehensive gain (loss)	(17,241)	—	154,482	—
Net comprehensive income (loss)	\$ 2,582,804	\$ 4,207,170	\$ (919,322)	\$ 10,505,023
Net income (loss) per share:				
Basic	\$ 0.25	\$ 0.41	\$ (0.07)	\$ 1.03
Diluted	\$ 0.25	\$ 0.41	\$ (0.07)	\$ 1.01
Weighted-average shares outstanding:				
Basic	10,312,939	10,239,126	10,309,457	10,233,725
Diluted	10,326,493	10,343,673	10,309,457	10,365,871
Cash dividends declared per common share	\$ 0.05	\$ 0.30	\$ 0.40	\$ 0.90

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 Periods Ended September 29, 2019

		Common Stock							
	Preferred Stock	Shares	Par Value	Treasury Stock Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total	
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	—	7,396	74	(3,291)	41,416	—	—	38,199	
Cash dividends 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 STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Thirty-nine Week Periods Ended September 27, 2020

	Preferred Stock	Common Stock		Treasury Stock Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
		Shares	Par Value					
Stockholders' equity, December 29, 2019	\$ —	10,309,236	\$ 103,093	\$ (27,318)	\$ 59,617,787	\$ 8,763,428	\$ —	\$ 68,456,990
Share-based compensation	—	—	—	—	192,913	—	—	192,913
Cancellation of restricted shares	—	(2,250)	(23)	—	23	—	—	—
Cash dividend declared	—	—	—	—	—	(3,092,771)	—	(3,092,771)
Net income	—	—	—	—	—	1,498,860	—	1,498,860
Stockholders' equity, March 29, 2020	—	10,306,986	103,070	(27,318)	59,810,723	7,169,517	—	67,055,992
Share-based compensation	—	—	—	—	193,077	—	—	193,077
Share issuance cost	—	—	—	—	(10,000)	—	—	(10,000)
Cash dividend declared	—	—	—	—	—	(515,349)	—	(515,349)
Net loss	—	—	—	—	—	(4,829,263)	—	(4,829,263)
Other comprehensive loss	—	—	—	—	—	—	(171,723)	(171,723)
Stockholders' equity, June 28, 2020	—	10,306,986	103,070	(27,318)	59,993,800	1,824,905	(171,723)	61,722,734
Share-based compensation	—	—	—	—	244,567	—	—	244,567
Share issuance	—	10,032	100	—	(100)	—	—	—
Cash dividend declared	—	—	—	—	—	(515,349)	—	(515,349)
Net income	—	—	—	—	—	2,565,563	—	2,565,563
Other comprehensive gain	—	—	—	—	—	—	\$ 17,241	\$ 17,241
Stockholders' equity, September 27, 2020	\$ —	10,317,018	\$ 103,170	\$ (27,318)	\$ 60,238,267	\$ 3,875,119	\$ (154,482)	\$ 64,034,756

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 27, 2020 and September 29, 2019

	2020	2019
Cash flows from operating activities		
Net (loss) income	\$ (764,840)	\$ 10,505,023
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	653,199	608,119
Amortization	3,476,416	3,024,381
Impairment losses	7,239,514	—
Loss on disposal of property and equipment	—	6,954
Loss on extinguishment of debt, net	—	540,705
Gain on contingent consideration	(76,102)	—
Amortization of deferred financing fees	56,109	154,127
Interest expense on contingent consideration payable	144,911	110,903
Provision for credit losses	153,805	6,065
Share-based compensation	630,557	751,163
Deferred income taxes	(1,352,702)	462,898
Net changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	4,231,482	(2,798,557)
Prepaid expenses and other current assets	753,685	(741,959)
Deposits and other assets	(978,259)	(491,333)
Accrued interest	21,295	(104,927)
Accounts payable	(66,069)	(5,716)
Accrued payroll and expenses	(21,446)	1,746,948
Other current liabilities	(1,016,565)	—
Income taxes receivable and payable	197,426	223,766
Operating leases	(16,649)	(33,612)
Other long-term liabilities	5,022,287	—
Net cash provided by operating activities	<u>18,288,054</u>	<u>13,964,948</u>
Cash flows from investing activities		
Business acquired, net of cash received	(21,657,689)	—
Capital expenditures	(1,960,179)	(1,534,016)
Net cash used in investing activities	<u>(23,617,868)</u>	<u>(1,534,016)</u>

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

BG Staffing, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Thirty-nine Week Periods Ended September 27, 2020 and September 29, 2019

	2020	2019
Cash flows from financing activities		
Net (payments) borrowings under line of credit	(12,336,717)	9,891,079
Proceeds from issuance of long-term debt	22,500,000	—
Principal payments on long-term debt	(700,000)	(10,121,000)
Payments of dividends	(4,123,469)	(9,209,683)
Issuance of shares, net of exercises	(10,000)	38,199
Contingent consideration paid	—	(2,672,000)
Deferred financing costs	—	(357,527)
Net cash provided by (used in) financing activities	5,329,814	(12,430,932)
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	\$ 890,918	\$ 1,003,190
Cash paid for taxes, net of refunds	\$ 855,101	\$ 2,462,325

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 workforce solutions 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., BG California Finance & Accounting Staffing, Inc., EdgeRock Technology Holdings, Inc. and EdgeRock Technologies, LLC (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 36 states, via property management companies responsible for the apartment communities' and commercial buildings' day-to-day operations. Our Real Estate segment operates through two divisions, BG Multifamily and BG Talent.

The Professional segment provides skilled field talent on a nationwide basis for information technology (“IT”) and finance, accounting, legal and human resource client partner projects. Our Professional segment operates through various divisions including Extrinsic, American Partners, Donovan & Watkins, Vision Technology Services, Zycron, Smart Resources, L.J. Kushner & Associates, and EdgeRock Technology Partners.

The Light Industrial segment provides field talent primarily to manufacturing, distribution, logistics, and call center client partners needing a flexible workforce in 7 states. Our Light Industrial segment operates through our InStaff division.

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 typically 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 typically 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. Normal seasonal demand has been significantly affected by COVID-19.

The Company has adjusted, and continues to monitor and change, its operations in response to COVID-19 in all of its segment, client partner, and Home Office locations. The extent of the impact from the outbreak on its operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, its impact on the Company's client partners and the range of governmental and community reactions to the pandemic, which are uncertain and cannot be fully predicted at this time.

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 29, 2019, 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.

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

Fiscal Periods

The Company has a 52/53 week fiscal year. Fiscal periods for the consolidated financial statements included herein are as of September 27, 2020 and December 29, 2019, and include the thirteen and thirty-nine week periods ended September 27, 2020 and September 29, 2019, referred to herein as Fiscal 2020 and 2019, respectively.

Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform with the 2020 presentation.

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 allowances for credit losses, goodwill, intangible assets, income taxes, leave liability, 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.

The COVID-19 pandemic continues to have a significant impact on our economy as a result of measures designed to stop the spread of the virus. In light of the currently unknown ultimate duration and severity of COVID-19, we face a greater degree of uncertainty than normal in making the judgments and estimates needed to apply the Company's significant accounting policies. As COVID-19 continues to develop, management may make changes to these estimates and judgments over time, which could result in meaningful impacts to the Company's financial statements in future periods. Actual results and outcomes may differ from management's estimates and assumptions.

Financial Instruments

The Company uses fair value measurements in areas that include, but are not limited to, interest rate swap agreements used to mitigate interest rate risk, and 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 led by 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. The fair value on the interest rate swap is based on quoted prices from BMO.

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 27, 2020 and December 29, 2019 or revenue for the thirty-nine week periods ended September 27, 2020 and September 29, 2019. Geographic revenue in excess of 10% of the Company's consolidated revenue in Fiscal 2020 and the related percentage for Fiscal 2019 was generated in the following areas:

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

	Thirty-nine Weeks Ended			
	September 27, 2020		September 29, 2019	
Maryland	11	%	10	%
Massachusetts	13	%	2	%
Tennessee	14	%	16	%
Texas	23	%	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 credit losses 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. The Company will continue to actively monitor the impact of COVID-19 on expected credit losses.

Changes in the allowance for credit losses are as follows:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Beginning balance	\$ 468,233	\$ 468,233	\$ 468,233	\$ 468,233
EdgeRock Technology Holdings, Inc. ("EdgeRock") acquisition	—	—	47,498	—
Provision for credit losses, net	53,896	34,667	153,805	6,065
Amounts written off, net	(45,142)	(34,667)	(192,549)	(6,065)
Ending balance	<u>\$ 476,987</u>	<u>\$ 468,233</u>	<u>\$ 476,987</u>	<u>\$ 468,233</u>

Property and Equipment

Property and equipment are stated net of accumulated depreciation and amortization of \$4.1 million and \$2.8 million at September 27, 2020 and December 29, 2019, respectively.

Deposits

The Company maintains guaranteed costs policies for workers' compensation coverage in monopolistic states and minimal loss retention coverage in all other states. Under these policies, the Company is required to maintain refundable deposits of \$3.8 million and \$3.6 million, which are included in Deposits and other assets in the accompanying consolidated balance sheets as of September 27, 2020 and December 29, 2019, respectively.

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

Long-Lived Assets

The Company capitalizes direct costs incurred in the development of internal-use software. Cloud computing implementation costs incurred in hosting arrangements are capitalized and reported as a component of other assets. All other internal-use software development costs are capitalized and reported as a component of computer software within intangible 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 with respect to long-lived assets during Fiscal 2020 or Fiscal 2019.

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 3 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.

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. The Company considered the current and expected future economic and market conditions surrounding COVID-19 and its impact on each of the reporting units. Further, during second quarter 2020, the Company assessed the current market capitalization, forecasts and the current carrying value in the 2020 impairment test. As a result of the certain business developments and changes in the Company's long-term projections, the Company concluded a triggering event had occurred that required an interim impairment assessment to be performed. The qualitative assessment thresholds were met on all reporting units except the finance and accounting group, within the Professional segment. The Company calculated the quantitative impairment test of the finance and accounting group using the relief from royalty method for the indefinite-lived intangible assets and residual method for the definite-lived intangible assets by asset group (see Note 5).

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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. The Company considered the current and expected future economic and market conditions surrounding COVID-19 and its impact on each of the reporting units. As a result of the certain business developments and changes in the Company's long-term projections, during second quarter 2020, the Company concluded a triggering event had occurred that required an interim impairment assessment to be performed. The qualitative assessment thresholds were met on all reporting units except the finance and accounting group. The Company calculated the quantitative impairment test of the finance and accounting group using the discounted cash flow method and concluded there was no goodwill impairment loss during the thirty-nine week periods ended September 27, 2020.

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 has obligations, to be paid in cash, related to its acquisitions if certain operating and financial goals are 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 workforce solutions and 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.

Contingent placement staffing revenues - Any revenues associated with services that are provided on a contingent basis are recognized once the contingency is resolved, as this is when control is transferred to the client partner, usually when employment candidates start their employment.

Retained search placement staffing revenues - any revenues from these services are recognized based on the contractual amount for services completed to date which best depicts the transfer of control of services, which is less than 1% of consolidated revenues.

The Company estimates the effect of 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 placement services are charged to employment candidates. These assumptions determine the timing of revenue recognition for the reported period.

Refer to Note 13 for disaggregated revenues by segment.

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Payment terms in the Company's contracts vary by the type and location of its 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 27, 2020. There were no revenues recognized during the thirty-nine week period ended September 27, 2020 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 27, 2020.

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 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Weighted-average number of common shares outstanding:	10,312,939	10,239,126	10,309,457	10,233,725
Effect of dilutive securities:				
Stock options and restricted stock	13,554	69,684	—	90,853
Warrants	—	34,863	—	41,293
Weighted-average number of diluted common shares outstanding	10,326,493	10,343,673	10,309,457	10,365,871
Stock options and restricted stock	606,557	306,750	419,850	306,750
Warrants	25,862	—	25,862	—
Antidilutive shares	632,419	306,750	445,712	306,750

Income Taxes

The effective tax rates of 22.0% and 25.4% for the thirteen and thirty-nine week periods ended September 27, 2020, respectively, and 24.1% and 23.3% for thirteen and thirty-nine week periods ended September 29, 2019, respectively, were primarily due to state taxes offset by the Work Opportunity Tax Credit in Fiscal 2019 and Fiscal 2020 and the non-deductibility of transaction costs related to the EdgeRock acquisition in Fiscal 2020.

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. As of September 27, 2020, the Company has a \$6.8 million net operating loss carry forward from the 2020 EdgeRock acquisition with no expiration date.

When appropriate, the Company will record 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 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.

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The Company recognizes any penalties when necessary as part of selling, general and administrative expenses. As of September 27, 2020, goodwill of \$25.2 million is expected to be 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 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 adopted this ASU in the second quarter of fiscal 2020, which did not have a material impact on the consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) contract modifications on financial reporting, caused by reference rate reform. The new guidance is effective for all entities as of March 12, 2020 through December 31, 2022. The Company is still evaluating the impact, but does not expect the adoption of the standard to have a material impact on the Company's financial condition or results of operations.

NOTE 3 - ACQUISITIONS

L.J. Kushner & Associates, L.L.C.

On December 13, 2019, the Company acquired substantially all of the assets and assumed certain liabilities of L.J. Kushner & Associates, L.L.C. (“LJK”) for cash consideration of \$8.5 million and issued \$1.0 million (47,403 shares privately placed) of the Company's common stock at closing. \$1.0 million was held back as partial security for certain post-closing liabilities, which was paid on June 11, 2020. The purchase agreement further provides for contingent consideration of up to \$2.5 million based on the performance of the acquired business for the two years following the date of acquisition.

The net assets acquired were assigned to the Professional segment. The acquisition of LJK allows the Company to strengthen and expand its IT operations through cybersecurity retained search services specializing in recruiting high and mid-level security professionals.

EdgeRock Technology Holding, Inc.

On February 3, 2020, the Company acquired 100% of the equity of EdgeRock for a purchase price cash consideration of \$21.7 million, subject to customary purchase price adjustments as specified in the purchase agreement. The purchase price at closing was paid out of available funds under the Company's credit agreement led by BMO.

The acquired business was assigned to the Professional segment. The acquisition of EdgeRock allows the Company to strengthen its operations in specialized IT consultants and technology professionals specialized in leading software and data ecosystems, as well as expand its IT geographic operations with offices in Arizona, Florida and Massachusetts.

The 2019 consolidated statement of income does not include any operating results of EdgeRock. Thirteen weeks of EdgeRock operations are included in the thirteen week period ended September 27, 2020, which is approximately \$9.2 million of revenue and \$0.5 million of operating income. Thirty-four weeks of EdgeRock operations are included in the thirty-nine week period ended September 27, 2020, which is approximately \$25.4 million of revenue and \$1.1 million of operating income. The preliminary acquisition has been allocated to the assets acquired and liabilities assumed as of the date of acquisition as follows:

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Accounts receivable	\$ 6,731,260
Prepaid expenses and other assets	520,587
Property and equipment, net	296,309
Right-of-use asset - operating leases	1,714,984
Intangible assets	11,274,000
Goodwill (non-deductible for tax purposes)	6,155,585
Current liabilities assumed	(2,409,551)
Deferred income taxes, net	(910,501)
Lease liability - operating leases	(1,714,984)
Total net assets acquired	<u>\$ 21,657,689</u>
Cash	\$ 21,657,689
Total fair value of consideration transferred for acquired business	<u>\$ 21,657,689</u>

The preliminary allocation of the intangible assets is as follows:

	Estimated Fair Value	Estimated Useful Lives
Covenants not to compete	\$ 302,000	5 years
Trade name	7,000,000	Indefinite
Client partner list	3,972,000	5 years
Total	<u>\$ 11,274,000</u>	

For the thirty-nine week period ended September 27, 2020, the Company incurred costs of \$0.6 million related to the LJK and EdgeRock acquisitions. These costs were expensed as incurred in selling, general and administrative expenses.

Supplemental Unaudited Pro Forma Information

The Company estimates the revenues and net income for the periods below that would have been reported if the LJK and EdgeRock acquisitions had taken place on the first day of the Company's 2019 fiscal year would be as follows (dollars in thousands, except per share amounts):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Revenues	\$ 71,519	\$ 90,334	\$ 211,301	\$ 254,877
Gross profit	\$ 19,712	\$ 26,143	\$ 57,801	\$ 73,466
Net income (loss)	\$ 2,566	\$ 4,720	\$ (952)	\$ 12,184
Income (Loss) per share:				
Basic	\$ 0.25	\$ 0.46	\$ (0.09)	\$ 1.19
Diluted	\$ 0.25	\$ 0.46	\$ (0.09)	\$ 1.18

Pro forma net income includes amortization of identifiable intangible assets, interest expense on additional borrowings on the Revolving Facility (as defined below) at a rate of 2.3% and tax (benefit) expense of the pro forma adjustments at effective tax rates of 22.0% and 25.4% for thirteen and thirty-nine week periods ended Fiscal 2020, respectively, and 24.1% for thirteen and thirty-nine week periods ended and Fiscal 2019. The pro forma operating results include adjustments to LJK and EdgeRock related to synergy adjustments for expenses that would be duplicative and other non-recurring, non-operating and out of period expense items once integrated with the Company.

Amounts set forth above are not necessarily indicative of the results that would have been attained had the LJK and EdgeRock acquisitions taken place on the first day of the Company's 2019 fiscal year or of the results that may be achieved by the combined enterprise in the future.

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

NOTE 4 - LEASES

At September 27, 2020, the weighted average remaining lease term and weighted average discount rate for operating leases was 3.7 years and 5.0%, respectively. The Company's future operating lease obligations that have not yet commenced are immaterial. For the thirteen week period ended September 27, 2020, the Company's cash paid for operating leases was \$601,248, and operating lease and short-term lease costs were \$525,679 and \$108,359, respectively. For the thirty-nine week period ended September 27, 2020, the Company's cash paid for operating leases was \$1,612,201, and operating lease and short-term lease costs were \$1,536,718 and \$308,543, respectively.

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

	September 27, 2020
2020	\$ 2,189,099
2021	2,182,674
2022	1,745,835
2023	1,216,053
2024	433,492
Thereafter	38,496
Total lease payments	7,805,649
Interest	(680,497)
Present value of lease liabilities	<u>\$ 7,125,152</u>

NOTE 5 - INTANGIBLE ASSETS

Intangible assets are stated net of accumulated amortization of \$47.8 million and \$44.3 million at September 27, 2020 and December 29, 2019, respectively. During the thirty-nine week periods ended September 27, 2020, the Company added software assets of \$150,794 and reclassified \$976,954 from property and equipment related to the information technology improvement project. Amortization expense for the fiscal years are comprised of following:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Client partner lists	\$ 918,349	\$ 881,525	\$ 3,009,370	\$ 2,671,149
Covenant not to compete	66,395	39,936	202,479	124,436
Acquisition intangibles	984,744	921,461	3,211,849	2,795,585
Computer software - amortization expense	79,486	71,019	264,567	228,796
Amortization expense	1,064,230	992,480	3,476,416	3,024,381
Computer software - selling, general and administrative expense	18,823	19,490	56,466	44,382
Total expense	<u>\$ 1,083,053</u>	<u>\$ 1,011,970</u>	<u>\$ 3,532,882</u>	<u>\$ 3,068,763</u>

As a result of the certain business developments and changes in the Company's long-term projections, during second quarter 2020, the Company concluded a triggering event had occurred that required an interim impairment assessment to be performed (see Note 2). In the Professional segment, the Company recognized a \$3.7 million trade name impairment loss and a \$3.5 million client partner list impairment loss during the thirty-nine week periods ended September 27, 2020.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - ACCRUED PAYROLL AND EXPENSES, OTHER LONG-TERM LIABILITIES, AND CONTINGENT CONSIDERATION

Accrued payroll and expenses consist of the following at:

	September 27, 2020	December 29, 2019
Field talent payroll	\$ 6,814,129	\$ 4,505,264
Field talent payroll related	1,287,800	1,651,436
Accrued bonuses and commissions	1,813,911	1,585,681
Other	2,881,923	2,742,658
Accrued payroll and expenses	<u>\$ 12,797,763</u>	<u>\$ 10,485,039</u>

Other long-term liabilities includes \$5.0 million of deferred employer FICA and \$0.2 million of interest rate swap (see Note 7) at September 27, 2020. The deferred employer FICA is under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which allows relief to employers affected by the coronavirus pandemic. The CARES Act only applies to taxes incurred from March 27, 2020 through December 31, 2020. Half of the delayed payments are due by December 31, 2021, and the other half by December 31, 2022. The Company has elected to delay the payment of these taxes.

The following is a schedule of future estimated contingent consideration payments due as of September 27, 2020:

Due in:	Estimated Cash Payment	Discount	Net
2022	\$ 2,500,000	\$ (256,813)	\$ 2,243,187
Contingent consideration	<u>\$ 2,500,000</u>	<u>\$ (256,813)</u>	<u>\$ 2,243,187</u>

NOTE 7 - DEBT

On July 16, 2019, the Company entered into a Credit Agreement (the "Credit Agreement"), maturing July 16, 2024, led by BMO, as 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 provided 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 with principal payable quarterly, based on an annual percentage of the original principal amount as defined in the Credit Agreement, all of which has been funded. 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 London Interbank Offered Rate ("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 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 27, 2020.

On February 3, 2020, the Company borrowed \$18.5 million on the Term Loan in conjunction with the closing of the EdgeRock acquisition. On April 6, 2020, the Company borrowed the remaining \$4.0 million on the Term Loan and the proceeds were used to pay down the Revolving Facility.

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Letter of Credit

In March 2020, in conjunction with the 2020 EdgeRock acquisition, the Company entered into a standby letter of credit arrangement, which expires December 31, 2024, for purposes of protecting a lessor against default on lease payments. As of September 27, 2020, the Company had a maximum financial exposure from this standby letter of credit totaling \$0.1 million, all of which is considered usage against the Revolving Facility. The Company has no history of default, nor is it aware of circumstances that would require it to perform under any of these arrangements and believes that the resolution of any disputes that might arise in the future would not materially affect the Company's consolidated financial statements. Accordingly, no liability has been recorded in respect to these arrangements as of September 27, 2020.

Line of Credit

At September 27, 2020 and December 29, 2019, \$8.0 million and \$20.3 million, respectively, was outstanding on the revolving facilities. Average daily balance for the thirteen week periods ended September 27, 2020 and September 29, 2019 was \$9.2 million and \$21.0 million, respectively. Average daily balance for the thirty-nine week periods ended September 27, 2020 and September 29, 2019 was \$13.8 million and \$15.3 million, respectively.

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

	September 27, 2020		December 29, 2019	
Base Rate	\$	—	— %	\$ 2,844,957 5.25 %
LIBOR		8,000,000	2.18 %	17,500,000 3.26 %
Total	\$	8,000,000		\$ 20,344,957

Long-Term Debt

Long-term debt consists of and bore interest at:

	September 27, 2020		December 29, 2019	
Base Rate	\$	4,675,000 2.16 %	\$	7,500,000 5.25 %
Fixed rate		24,625,000 2.39 %		— — %
Long-term debt	\$	29,300,000	\$	7,500,000

Cash Flow Hedge

In April 2020, the Company entered into a pay-fixed/receive-floating interest rate swap agreement with our bank syndicate lead by BMO that reduces the floating interest rate component on the Term Loan obligation. The \$25.0 million notional amount was effective on June 3, 2020 and designed as a cash flow hedge on the underlying variable rate interest payments against a fixed interest rate that terminates on June 1, 2023. In accordance with cash flow hedge accounting treatment, the Company has determined that the hedge is perfectly effective using the change-in-variable-cash-flow method.

The unrealized gains or losses associated with the change in the fair value of the effective portion of the hedging instrument is recorded in accumulated other comprehensive loss. The Company reclassifies the interest rate swap from accumulated other comprehensive gain or loss against interest expense in the same period in which the hedge transaction affects earnings. Hedge effectiveness is tested quarterly. As of September 27, 2020, the instrument was perfectly effective and no additional amounts were reclassified from accumulated other comprehensive loss into income in the thirteen and thirty-nine week periods ended September 27, 2020 or September 29, 2019. See Note 8 for location on the balance sheet.

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

NOTE 8 - 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:

Amounts Recorded at Fair Value	Financial Statement Classification	Fair Value Hierarchy	September 27, 2020	December 29, 2019
Interest rate swap	Other long-term liabilities	Level 2	\$ 154,482	\$ —
Contingent consideration, net	Contingent consideration, net - current and long-term	Level 3	\$ 2,243,187	\$ 2,174,378

The changes in the Level 2 fair value measurements from December 29, 2019 to September 27, 2020 relates to entering into an interest rate swap agreement. Key inputs in determining the fair value of the interest rate swap as of September 27, 2020 and December 29, 2019 are quoted prices from BMO (See Note 7).

The changes in the Level 3 fair value measurements from December 29, 2019 to September 27, 2020 relates to accretion and gains included in earnings. Key inputs in determining the fair value of the contingent consideration as of September 27, 2020 and December 29, 2019 included the discount rate of 7.5% as well as management's estimates of future sales volumes and earning before income taxes, depreciation, and amortization "EBITDA."

NOTE 9 - 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 insures against, subject to and upon the terms and conditions of various insurance policies, claims or losses from workers' compensation, general liability, automobile liability, property damage, professional liability, employment practices, fiduciary liability, fidelity losses, crime and cyber risk, 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 10 – EQUITY

Authorized capital stock consists of 19,500,000 shares of common stock, par value \$0.01 per share and 500,000 shares of undesignated preferred stock, par value \$0.01 per share.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 – SHARE-BASED COMPENSATION

Stock Options

For the thirteen week periods ended September 27, 2020 and September 29, 2019, the Company recognized \$0.2 million of compensation expense related to stock options. For the thirty-nine week periods ended September 27, 2020 and September 29, 2019, the Company recognized \$0.4 million and \$0.6 million of compensation expense related to stock options, respectively. Unamortized share-based compensation expense as of September 27, 2020 amounted to \$1.0 million which is expected to be recognized over the next 2.7 years.

A summary of stock option 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)
Options outstanding at December 29, 2019	564,845	\$ 18.90	7.7	\$ 2,412
Granted	88,610	\$ 9.72		
Forfeited / Canceled	(3,300)	\$ 24.09		
Options outstanding at September 27, 2020	650,155	\$ 17.62	7.3	\$ 79
Options exercisable at December 29, 2019	313,645	\$ 16.05	6.8	\$ 1,991
Options exercisable at September 27, 2020	416,317	\$ 16.96	6.6	\$ 79

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested outstanding at December 29, 2019	251,200	\$ 22.46
Nonvested outstanding at September 27, 2020	233,838	\$ 18.80

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.

Restricted Stock

For the thirteen week periods ended September 27, 2020 and September 29, 2019, the Company recognized \$0.1 million of compensation expense related to restricted stock awards. For the thirty-nine week periods ended September 27, 2020 and September 29, 2019, the Company recognized \$0.2 million of compensation expense related to restricted stock awards. Unamortized share-based compensation expense as of September 27, 2020 amounted to \$0.3 million which is expected to be recognized over the next 1.8 years.

A summary of restricted stock activity is presented as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted outstanding at December 29, 2019	18,000	\$ 28.61
Issued	10,032	\$ 9.72
Restricted outstanding at September 27, 2020	28,032	\$ 21.85
Nonvested outstanding at December 29, 2019	18,000	\$ 28.61
Nonvested outstanding at September 27, 2020	16,524	\$ 20.01

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

Warrant Activity

For the thirteen and thirty-nine week periods ended September 27, 2020 and September 29, 2019, the Company did not recognize compensation cost related to warrants. There was no unamortized stock compensation expense to be recognized as of September 27, 2020.

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 29, 2019	64,482	\$ 13.84	0.8	\$ 473
Forfeited	(38,620)	\$ 11.85		
Warrants outstanding at September 27, 2020	25,862	\$ 16.80	0.7	\$ —
Warrants exercisable at December 29, 2019	64,482	\$ 13.84	0.8	\$ 473
Warrants exercisable at September 27, 2020	25,862	\$ 16.80	0.7	\$ —

There were no nonvested warrants outstanding at September 27, 2020 and December 29, 2019.

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 12 - 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 27, 2020 and September 29, 2019. The Company contributed \$1.0 million and \$0.9 million to the 401(k) Plan for the thirty-nine week periods ended September 27, 2020 and September 29, 2019.

NOTE 13 - 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 in 36 states, via property management companies responsible for the apartment communities' and commercial buildings' day-to-day operations. Our Real Estate segment operates through two divisions, BG Multifamily and BG Talent. The Professional segment provides skilled field talent on a nationwide basis for IT and finance, accounting, legal and human resource client partner projects. Our Professional segment operates through various divisions including Extrinsic, American Partners, Donovan & Watkins, Vision Technology Services, Zycron, Smart Resources, L.J. Kushner & Associates, and EdgeRock Technology Partners. The Light Industrial segment provides field talent primarily to manufacturing, distribution, logistics, and call center client partners needing a flexible workforce in 7 states. Our Light Industrial segment operates through our InStaff division.

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

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

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 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Revenue:				
Real Estate	\$ 19,156,485	\$ 29,470,693	\$ 50,964,763	\$ 73,043,258
Professional	34,041,738	31,506,017	107,035,087	93,421,017
Light Industrial	18,320,468	18,387,596	50,192,604	55,533,988
Total	<u>\$ 71,518,691</u>	<u>\$ 79,364,306</u>	<u>\$ 208,192,454</u>	<u>\$ 221,998,263</u>
Depreciation:				
Real Estate	\$ 54,549	\$ 50,957	\$ 163,685	\$ 140,490
Professional	100,727	82,201	309,467	251,152
Light Industrial	22,733	23,663	74,887	73,673
Home office	28,712	47,452	105,160	142,804
Total	<u>\$ 206,721</u>	<u>\$ 204,273</u>	<u>\$ 653,199</u>	<u>\$ 608,119</u>
Amortization:				
Professional	\$ 1,004,964	\$ 986,274	\$ 3,353,128	\$ 3,005,618
Home office	59,266	6,206	123,288	18,763
Total	<u>\$ 1,064,230</u>	<u>\$ 992,480</u>	<u>\$ 3,476,416</u>	<u>\$ 3,024,381</u>
Operating income:				
Real Estate	\$ 3,346,316	\$ 5,523,769	\$ 7,159,432	\$ 12,464,689
Professional	1,793,937	2,144,549	(2,007,213)	6,190,331
Light Industrial	1,272,796	1,174,142	3,240,347	3,514,758
Home office - selling	(186,549)	(131,389)	(426,359)	(399,370)
Home office - general and administrative	(2,654,534)	(2,233,959)	(7,821,611)	(6,285,830)
Home office - gain on contingent consideration	76,102	—	76,102	—
Total	<u>\$ 3,648,068</u>	<u>\$ 6,477,112</u>	<u>\$ 220,698</u>	<u>\$ 15,484,578</u>
Capital expenditures:				
Real Estate	\$ 25,000	\$ 204,442	\$ 68,273	\$ 244,321
Professional	28,693	77,809	102,591	474,668
Light Industrial	9,519	76,103	12,720	83,734
Home office	—	501,910	1,776,595	731,293
Total	<u>\$ 63,212</u>	<u>\$ 860,264</u>	<u>\$ 1,960,179</u>	<u>\$ 1,534,016</u>

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

	September 27, 2020	December 29, 2019
Total Assets:		
Real Estate	\$ 15,052,163	\$ 16,785,163
Professional	83,800,034	72,623,242
Light Industrial	15,733,645	15,223,581
Home office	14,515,839	10,954,058
Total	<u>\$ 129,101,681</u>	<u>\$ 115,586,044</u>

NOTE 14 - SUBSEQUENT EVENTS

Dividend

On November 4, 2020, the Company's board of directors declared a cash dividend in the amount of \$0.10 per share of common stock to be paid on November 23, 2020 to all shareholders of record as of the close of business on November 16, 2020.

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 29, 2019. Comparative segment revenues and related financial information are discussed herein and are presented in Note 13 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 Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended December 29, 2019, for a description of important factors that could cause actual results to differ from expected results.

Overview

We are a leading national provider of professional workforce solutions 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, Smart Resources, Inc. and Accountable Search, LLC in September 2017, and LJK in December 2019, and 100% of the equity of EdgeRock in February 2020. 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 now operate through 91 branch offices and 12 on-site locations located across 46 states and D.C.

The Real Estate segment provides office and maintenance field talent to various apartment communities and commercial buildings in 36 states, via property management companies responsible for the apartment communities' and commercial buildings' day-to-day operations. Our Real Estate segment operates through two divisions, BG Multifamily and BG Talent.

The Professional segment provides skilled field talent on a nationwide basis for information technology ("IT") and finance, accounting, legal and human resource client partner projects. Our Professional segment operates through various divisions including Extrinsic, American Partners, Donovan & Watkins, Vision Technology Services, Zycron, Smart Resources, L.J. Kushner & Associates, and EdgeRock Technology Partners.

The Light Industrial segment provides field talent primarily to manufacturing, distribution, logistics, and call center client partners needing a flexible workforce in 7 states. Our Light Industrial segment operates through our InStaff division.

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 typically 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 typically 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. Normal seasonal demand has been significantly affected by COVID-19.

Impact of COVID-19

We continue to observe the impact of the COVID-19 outbreak on our consolidated operating results, our candidate and field talent supply chain, and our client partners demand in all segments. We expect that the social distancing measures, the changing operational status of our client partners, production levels at client partners facilities, and general business uncertainty will continue to effect demand in all our segments.

During this uncertain time, our critical priorities are the health and safety of our team members, field talent, candidates and client partners. Starting in March 2020, we took several cost containment and liquidity actions, which we do not believe have materially adversely impacted our internal controls, financial reporting systems or our operations.

Our business, results of operations, and financial condition have been, and may continue to be, adversely impacted in material respects by COVID-19 and by related government actions, non-governmental organization recommendations, and public perceptions, all of which have led and may continue to lead to disruption in global economic and labor markets. These effects have had a significant impact on our business, including reduced demand for our services and workforce solutions, early terminations or reductions in projects, and hiring freezes, and a shift of a majority of our workforce to remote operations, all of

which have contributed to a decline in revenues and other significant adverse impacts on our financial results. Other potential impacts of COVID-19 may include continued or expanded closures or reductions of operations with respect to our client partners' operations or facilities, the possibility our client partners will not be able to pay for our services or workforce solutions, or that they will attempt to defer payments owed to us, either of which could materially impact our liquidity, the possibility that the uncertain nature of the pandemic may not yield the increase in certain of our workforce solutions that we have historically observed during periods of economic downturn, and the possibility that various government-sponsored programs to provide economic relief may be inadequate. Further, we may continue to experience adverse financial impacts, some of which may be material, if we cannot offset revenue declines with cost savings through expense-related initiatives, human capital management initiatives, or otherwise. As a result of these observed and potential developments, we expect our business, results of operations, and financial condition to continue to be negatively affected.

We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state, local authorities, or that we determine are in the best interests of our team members, field talent, client partners, and stockholders. The potential effects are not clear for any such alterations or modifications on our business, our client partners, candidates, vendors, or on our financial results.

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 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
	(dollars in thousands)			
Revenues	\$ 71,519	\$ 79,364	\$ 208,192	\$ 221,998
Cost of services	51,807	57,188	151,299	160,520
Gross profit	19,712	22,176	56,893	61,478
Selling, general and administrative expenses	14,869	14,502	45,379	42,360
Gain on contingent consideration	(76)	—	(76)	—
Impairment losses	—	—	7,240	—
Depreciation and amortization	1,271	1,197	4,130	3,633
Operating income	3,648	6,477	220	15,485
Loss on extinguishment of debt	—	541	—	541
Interest expense, net	360	395	1,245	1,245
Income (Loss) before income tax	3,288	5,541	(1,025)	13,699
Income tax expense (benefit)	723	1,334	(260)	3,194
Net income (loss)	\$ 2,566	\$ 4,207	\$ (765)	\$ 10,505

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of services	72.4 %	72.1 %	72.7 %	72.3 %
Gross profit	27.6 %	27.9 %	27.3 %	27.7 %
Selling, general and administrative expenses	20.8 %	18.3 %	21.8 %	19.1 %
Gain on contingent consideration	(0.1) %	— %	— %	— %
Impairment losses	— %	— %	3.5 %	— %
Depreciation and amortization	1.8 %	1.5 %	2.0 %	1.6 %
Operating income	5.1 %	8.2 %	0.1 %	7.0 %
Loss on extinguishment of debt	— %	0.7 %	— %	0.2 %
Interest expense, net	0.5 %	0.5 %	0.6 %	0.6 %
Income (Loss) before income tax	4.6 %	7.0 %	(0.5) %	6.2 %
Income tax expense (benefit)	1.0 %	1.7 %	(0.1) %	1.4 %
Net income (loss)	3.6 %	5.3 %	(0.4) %	4.7 %

Thirteen Week Fiscal Period Ended September 27, 2020 (“Fiscal 2020”) Compared with Thirteen Week Fiscal Period Ended September 29, 2019 (“Fiscal 2019”)

Revenues:

<i>Revenues:</i>		Thirteen Weeks Ended			
		September 27, 2020		September 29, 2019	
		(dollars in thousands)			
Revenues by segment:					
Real Estate	\$	19,156	26.8 %	\$	29,470 37.1 %
Professional		34,042	47.6 %		31,506 39.7 %
Light Industrial		18,321	25.6 %		18,388 23.2 %
Total Revenues	\$	71,519	100.0 %	\$	79,364 100.0 %

Real Estate Revenues: Real Estate revenues decreased approximately \$10.3 million (35.0%), due to the effects of the COVID-19 pandemic. The decrease was due to a 37.7% decrease in billed hours, which was offset by a 4.2% increase in average bill rate. Revenue from new offices was \$0.4 million.

Professional Revenues: Professional revenues increased approximately \$2.5 million (8.0%), primarily from LJK and EdgeRock acquisitions, which contributed \$9.5 million of new revenues. The remaining professional group decreased \$7.0 million, due to the effects of the COVID-19 pandemic. The overall increase was due to a 12.6% increase in average bill rate, and \$0.3 million of an increase in permanent placements, which were offset by a 1.6% decrease in billed hours.

Light Industrial Revenues: Light Industrial revenues decreased approximately \$0.1 million (0.4%), due to the effects of the COVID-19 pandemic. The overall revenue decrease was affected by a 7.3% decrease in billed hours, which was offset by an 7.5% 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 27, 2020		September 29, 2019	
	(dollars in thousands)			
Gross Profit by segment:				
Real Estate	\$	7,145	36.3 %	\$ 11,265 50.8 %
Professional		9,978	50.6 %	8,264 37.3 %
Light Industrial		2,589	13.1 %	2,647 11.9 %
Total Gross Profit	\$	19,712	100.0 %	\$ 22,176 100.0 %

		Thirteen Weeks Ended	
		September 27, 2020	September 29, 2019
Gross Profit Percentage by segment:			
Real Estate		37.3 %	38.2 %
Professional		29.3 %	26.2 %
Light Industrial		14.1 %	14.4 %
Company Gross Profit		27.6 %	27.9 %

Overall, our gross profit decreased approximately \$2.4 million (11.1%). As a percentage of revenue, gross profit has decreased to 27.6% from 27.9% due to decline in our Real Estate segment from COVID-19 pandemic.

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

Real Estate Gross Profit: Real Estate gross profit decreased approximately \$4.2 million (36.6%) in line with decreased revenue, which was offset by a 1.9% increase in average spread.

Professional Gross Profit: Professional gross profit increased approximately \$1.7 million (20.7%) consistent with the increase in revenue, primarily from LJK and EdgeRock acquisitions, which contributed \$3.2 million of gross profit. The overall increase in gross profit was affected by a 15.3% increase in average spread.

Light Industrial Gross Profit: Light Industrial gross profit decreased approximately \$0.1 million (2.2%) in line with decreased revenue which was offset by a 7.8% increase in average spread.

Selling, General and Administrative Expenses: Selling, general and administrative expenses increased approximately \$0.4 million (2.5%), primarily related from LJK and EdgeRock acquisitions, which contributed \$2.4 million of new expense that was offset by reduced compensation costs from the decline in gross profit and by many of our actions taken starting in March related to the COVID-19 pandemic to reduce actual and planned operating costs as detailed in the following table.

	Thirteen Weeks Ended					
	September 27, 2020			September 29, 2019		
	Amount	% of Revenue		Amount	% of Revenue	
	(dollars in thousands)					
Compensation and related	\$ 11,313	16 %	\$	10,584	13 %	\$ 729 7 %
Advertising and recruitment	377	1 %		466	1 %	(89) (19) %
Occupancy and office operations	939	1 %		1,039	1 %	(100) (10) %
Client engagement	28	— %		351	— %	(323) (92) %
Software	665	1 %		457	1 %	209 46 %
Professional fees	208	— %		315	— %	(107) (34) %
Public company related costs	180	— %		180	— %	— — %
Bad debt	54	— %		35	— %	19 54 %
Share-based compensation	245	— %		244	— %	1 — %
Transaction fees	15	— %		37	— %	(22) (59) %
IT roadmap	401	1 %		341	— %	60 — %
Other	444	1 %		453	1 %	(10) (2) %
	<u>\$ 14,869</u>	<u>21 %</u>	<u>\$</u>	<u>14,502</u>	<u>18 %</u>	<u>\$ 367 3 %</u>

Depreciation and Amortization: Depreciation and amortization charges increased approximately \$0.1 million (6.2%). The increase in depreciation and amortization is primarily due to the Professional segment with increases related to the 2019 LJK and 2020 EdgeRock acquisitions that are offset by decreases related to the 2015 D&W Talent and 2017 Smart Resources acquisitions.

Interest Expense, net: Interest expense, net was lower primarily due to the decrease in the bank unused fee, and net decrease in interest on our revolving credit facility and term loan, which was offset by the increase in amortization of contingent consideration discounts related to the 2019 LJK acquisition.

Income Tax Expense (Benefit): Income tax expense (benefit) decreased approximately \$0.6 million (45.8%) primarily due to lower pre-tax 2020 income, and the Work Opportunity Tax Credit which resulted in a lower 2020 effective rate.

Thirty-nine Week Fiscal Period Ended September 27, 2020 (“Fiscal 2020”) Compared with Thirty-nine Week Fiscal Period Ended September 29, 2019 (“Fiscal 2019”)

Revenues:

Revenues:	Thirty-nine Weeks Ended			
	September 27, 2020		September 29, 2019	
	(dollars in thousands)			
Revenues by segment:				
Real Estate	\$ 50,965	24.5 %	\$ 73,043	32.9 %
Professional	107,035	51.4 %	93,421	42.1 %
Light Industrial	50,192	24.1 %	55,534	25.0 %
Total Revenues	\$ 208,192	100.0 %	\$ 221,998	100.0 %

Real Estate Revenues: Real Estate revenues decreased approximately \$22.0 million (30.2%) due to the effects of COVID-19 pandemic. The decrease was due to a 33.1% decrease in billed hours, which was offset by a 4.0% increase in average bill rate. Revenue from new offices was \$0.7 million.

Professional Revenues: Professional revenues increased approximately \$13.6 million (14.6%), primarily from LJK and EdgeRock acquisitions, which contributed \$26.2 million of new revenues. The remaining professional group decreased \$12.6 million. The overall increase was due to an increase of 18.9% in average bill rate, which was offset by a 3.8% decrease in billed hours.

Light Industrial Revenues: Light Industrial revenues decreased approximately \$5.3 million (9.6%), due to the effects of the COVID-19 pandemic. The decrease was effected by a 15.2% decrease in billed hours that was offset by a 6.5% 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 27, 2020		September 29, 2019			
	(dollars in thousands)					
Gross Profit by segment:						
Real Estate	\$	19,220	33.8 %	\$	28,038	45.6 %
Professional		30,506	53.6 %		25,334	41.2 %
Light Industrial		7,167	12.6 %		8,106	13.2 %
Total Gross Profit	\$	56,893	100.0 %	\$	61,478	100.0 %
	Thirty-nine Weeks Ended					
	September 27, 2020		September 29, 2019			
Gross Profit Percentage by segment:						
Real Estate			37.7 %		38.4 %	
Professional			28.5 %		27.1 %	
Light Industrial			14.3 %		14.6 %	
Company Gross Profit			27.3 %		27.7 %	

Overall, our gross profit decreased approximately \$4.6 million (7.5%). As a percentage of revenue, gross profit has decreased to 27.3% from 27.7% primarily due to lower gross profits across 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 decreased approximately \$8.8 million (31.5%) consistent with the decrease in revenue which was offset by a 2.3% increase in average spread.

Professional Gross Profit: Professional gross profit increased approximately \$5.1 million (20.4%) consistent with the increase in revenue, primarily from LJK and EdgeRock acquisitions, which contributed \$8.6 million of gross profit. The overall increase in gross profit was affected by 19.2% increase in average spread.

Light Industrial Gross Profit: Light Industrial gross profit decreased approximately \$0.9 million (11.6%) consistent with the decrease in revenue, which was offset by a 5.2% increase in average spread.

Selling, General and Administrative Expenses: Selling, general and administrative expenses increased approximately \$3.0 million (7.1%), primarily from LJK and EdgeRock acquisitions, which contributed \$7.0 million of new expense, and additional IT roadmap and transaction fees. These increases were offset by reduced compensation costs from the decline in gross profit and by many of our actions taken starting in March related to the COVID-19 pandemic to reduce actual and planned operating costs as detailed in the following table.

	Thirty-nine Weeks Ended											
	September 27, 2020				September 29, 2019							
	Amount		% of Revenue	Amount		% of Revenue	\$ Change	% Change				
	(dollars in thousands)											
Compensation and related	\$	34,184	16	%	\$	31,517	14	%	\$	2,667	8	%
Advertising and recruitment		1,214	1	%		1,527	1	%		(313)	(20)	%
Occupancy and office operations		3,051	1	%		2,996	1	%		55	2	%
Client engagement		328	—	%		1,123	1	%		(795)	(71)	%
Software		1,705	1	%		1,475	1	%		229	16	%
Professional fees		881	—	%		1,029	—	%		(148)	(14)	%
Public company related costs		443	—	%		533	—	%		(90)	(17)	%
Bad debt		154	—	%		6	—	%		148	2,467	%
Share-based compensation		631	—	%		751	—	%		(120)	(16)	%
Transaction fees		605	—	%		94	—	%		511	544	%
IT roadmap		1,292	1	%		369	—	%		923	250	%
Workers' compensation loss retention return		(464)	—	%		(348)	—	%		(117)	34	%
Other		1,358	1	%		1,289	1	%		69	5	%
	\$	45,379	22	%	\$	42,360	19	%	\$	3,019	7	%

Depreciation and Amortization: Depreciation and amortization charges increased approximately \$0.5 million (13.7%). The increase in depreciation and amortization is primarily due to the Professional segment with increases related to the 2019 LJK and 2020 EdgeRock acquisitions that are offset by decreases related to the 2015 D&W Talent and 2017 Smart Resources acquisitions.

Impairment loss: As a result of the certain business developments and changes in the Company's long-term projections, the Company calculated the quantitative impairment test of the finance and accounting group using the relief from royalty method for the indefinite-lived intangible assets and residual method for the definite-lived intangible assets by asset group. In the professional segment. The Company recognized a \$3.7 million trade name impairment loss and a \$3.5 million client partner list impairment loss.

Interest Expense, net: Interest expense, net was flat due to the increased borrowings under our credit agreement and decrease in interest income from our workers' compensation loss retention program that were offset by decreases in the deferred financing fees and unused fee.

Income Tax Expense (Benefit): Income tax expense (benefit) decreased approximately \$3.5 million (108.1%) primarily due to lower pre-tax 2020 income and intangible impairment losses, which were partially offset by non-deductible fees related to the 2020 EdgeRock transaction.

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, intangible impairment losses, transaction fees, and the non-capital information technology improvement project (“IT roadmap”)

and certain 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. Adjusted EBITDA should not be considered as an alternative to net income (loss) 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 (loss). 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 (loss), 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 (loss) 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 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019	September 27, 2020
	(dollars in thousands)				
Net income (loss)	\$ 2,566	\$ 4,207	\$ (765)	\$ 10,505	\$ 1,977
Interest expense, net	360	395	1,245	1,245	1,569
Income tax expense (benefit)	723	1,334	(260)	3,194	851
Loss on extinguishment of debt	—	541	—	541	—
Operating income	3,649	6,477	220	15,485	4,397
Depreciation and amortization	1,271	1,197	4,130	3,633	5,318
Impairment losses	—	—	7,240	—	7,240
Contingent consideration adjustment	(76)	—	(76)	—	(76)
Share-based compensation	245	244	631	751	833
Transaction fees	15	37	605	94	945
IT roadmap	401	341	1,292	369	1,643
Adjusted EBITDA	<u>\$ 5,505</u>	<u>\$ 8,296</u>	<u>\$ 14,042</u>	<u>\$ 20,332</u>	<u>\$ 20,300</u>

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.

During this period of uncertainty of volatility related to COVID-19, we will continue to monitor our liquidity, particularly payments from our client partners.

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

	Thirty-nine Weeks Ended	
	September 27, 2020	September 29, 2019
	(dollars in thousands)	
Net cash provided by operating activities	\$ 18,288	\$ 13,965
Net cash used in investing activities	(23,618)	(1,534)
Net cash provided by (used in) financing activities	5,330	(12,431)
Net change in cash and cash equivalents	\$ —	\$ —

Operating Activities

Cash provided by operating activities consists of net income (loss) adjusted for non-cash items, including depreciation and amortization, share-based compensation expense, intangible impairment losses, interest expense on contingent consideration payable, gain on contingent consideration, loss on extinguishment of debt, and the effect of working capital changes. The primary drivers of cash inflows and outflows are accounts receivable, accrued payroll and expenses, and other current and long-term liabilities.

During Fiscal 2020, net cash provided by operating activities was \$18.3 million, an increase of \$4.3 million compared with \$14.0 million for Fiscal 2019. This increase is primarily attributable to intangible impairment losses, payments on accounts receivable, additional other long-term liabilities, and increase in prepaid expenses and other current assets, which were offset by reduced deferred income taxes, payments on accrued payroll, and lower other current liabilities.

Investing Activities

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

In Fiscal 2020, we paid \$21.7 million in connection with the EdgeRock acquisition and we made capital expenditures of \$2.0 million mainly related to software and computer equipment purchased in the ordinary course of business and for the IT roadmap. 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.

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 2020, we borrowed \$22.5 million on the Term Loan, described below, to fund the EdgeRock acquisition, we reduced \$12.3 million on our Revolving Facility, paid \$4.1 million in cash dividends on our common stock, and paid down \$0.7 million on long-term debt. For Fiscal 2019, we paid down \$10.1 million in principal payments on our term loan, we paid \$9.2 million in cash dividends on our common stock, we borrowed on our revolving line of credit by \$9.9 million, and we paid \$2.7 million of contingent consideration related to the Zycron acquisition.

Credit Agreements

On July 16, 2019, we entered into a Credit Agreement (the “Credit Agreement”), maturing July 16, 2024, with BMO, as 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 provided 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 with principal paid quarterly, based on an annual percentage of the original principal amount as defined in the Credit Agreement, all of which has been funded. 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 our tangible and intangible property. 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 and negative covenants, including certain limitations on our ability to pay cash dividends. We are subject to a maximum Leverage Ratio and a minimum Fixed Charge Coverage Ratio as defined in the Credit Agreement.

In April 2020, we entered into a pay-fixed/receive-floating interest rate swap agreement with BMO that reduces the floating interest rate component on the Term Loan obligation. The \$25.0 million notional amount was effective on June 3, 2020 and designed as a cash flow hedge on the underlying variable rate interest payments against a fixed interest rate that terminates on June 1, 2023. In accordance with cash flow hedge accounting treatment, we have determined that the hedge is perfectly effective using the change-in-variable-cash-flow method.

Off-Balance Sheet Arrangements

Letter of Credit

In March 2020, in conjunction with the 2020 EdgeRock acquisition, we entered into a standby letter of credit arrangement, which expires December 31, 2024, for purposes of protecting a lessor against default on lease payments. As of September 27, 2020, we had a maximum financial exposure from this standby letter of credit totaling \$0.1 million, all of which is considered usage against our Revolving Facility.

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 29, 2019 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 29, 2019.

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

A portion of 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 maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized, and reported within the specified time periods and accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Exchange Act) at September 27, 2020. Based on this evaluation, the CEO and CFO concluded that as of that date, our disclosure controls and procedures were not effective, at a reasonable assurance level, because of a material weakness in internal control over financial reporting, which we view as an integral part of our disclosure controls and procedures.

As previously reported, management had identified a deficiency in our internal control over financial reporting, which was related to the quantitative assessment of impairment of goodwill and intangible assets. Our management had concluded that we do not maintain effective controls related to the technical aspects of GAAP for testing goodwill and other intangible assets for impairment. Management had determined that the aggregate impact of this deficiency resulted in a material weakness. The material weakness did not result in any identified misstatements in the current period consolidated financial statements, nor in any restatements of consolidated financial statements previously reported by us, and there were no changes in previously released financial results.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Remediation Steps to Address the Material Weakness

Since identifying the material weakness related to our process of impairment assessment of goodwill and intangible assets, we have taken steps to strengthen the control function related to the financial closing process. These steps included retaining external expert resources, enhancing the design of certain management review controls and providing training regarding internal control processes. We will continue to enhance controls to ensure the financial closing process is effectively implemented. Although we plan to complete this remediation process as quickly as possible, we cannot at this time estimate when the remediation will be completed.

Changes in Internal Controls Over Financial Reporting

Other than as described above, for the fiscal quarter ended September 27, 2020, 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. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our team members are working remotely due to COVID-19. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

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 29, 2019.

ITEM 1A. RISK FACTORS

The full extent of the impact of COVID-19 on our business, operations and financial results will depend on numerous evolving factors that we may not be able to accurately predict. In evaluating us and our common stock, in addition to the risk factor below, 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 29, 2019 (our “2019 Form 10-K”), and filed with the SEC on March 12, 2020. 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 2019 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.

Our business, results of operations, and financial condition have been and may continue to be adversely impacted in material respects by the coronavirus pandemic, and future adverse impacts could be material and difficult to predict.

Our business, results of operations, and financial condition have been, and may continue to be, adversely impacted in material respects by COVID-19 and by related government actions, non-governmental organization recommendations, and public perceptions, all of which have led and may continue to lead to disruption in global economic and labor markets. These effects have had a significant impact on our business, including reduced demand for our services and workforce solutions, early terminations or reductions in projects, and hiring freezes, and a shift of a majority of our workforce to remote operations, all of which have contributed to a decline in revenues and other significant adverse impacts on our financial results. Other potential impacts of COVID-19 may include continued or expanded closures or reductions of operations with respect to our client partners’ operations or facilities, the possibility our client partners will not be able to pay for our services or workforce solutions, or that they will attempt to defer payments owed to us, either of which could materially impact our liquidity, the possibility that the uncertain nature of the pandemic may not yield the increase in certain of our workforce solutions that we have historically observed during periods of economic downturn, and the possibility that various government-sponsored programs to provide economic relief may be inadequate. Further, we may continue to experience adverse financial impacts, some of which may be material, if we cannot offset revenue declines with cost savings through expense-related initiatives, human capital management initiatives, or otherwise. As a result of these observed and potential developments, we expect our business, results of operations, and financial condition to continue to be negatively affected.

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
2.1	<u>Asset Purchase Agreement, dated as of December 13, 2019, between BG Staffing, Inc., BG Staffing, LLC, L.J.Kushner & Associates, L.L.C., and Lee J. Kushner (incorporated by reference from the registrant's Current Report on Form 8-K filed on December 16, 2019)</u>
2.2	<u>Securities Purchase Agreement, dated as of February 3, 2020, by and between BG Staffing, LLC, EdgeRock Technology Holdings, Inc., and CDI Holding Company LLC (incorporated by reference from the registrant's Current Report on Form 8-K filed on February 6, 2020)</u>
3.1	<u>Certificate of Incorporation of BG Staffing, Inc. (incorporated by reference from Amendment No. 2 to the Company'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 Company'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 Company's registration statement on Form S-1 (File No. 333-191683) filed on October 28, 2013).</u>
10.1	<u>Form of Indemnification Agreement for Directors and Executive Officers (incorporated by reference from the registrant's Current Report on Form 8-K filed on February 4, 2014)</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 to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101	The following financial information from BG Staffing's Quarterly Report on Form 10-Q for the quarter ended September 27, 2020 formatted in Inline XBRL (Extensible Business Reporting Language) includes: (i) the Unaudited Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) the Unaudited Statements of Changes in Stockholders' Equity, (iv) the Unaudited Consolidated Statements of Cash Flows, and (vi) Notes to the Unaudited Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)
*	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, 2020

**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 27, 2020 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, 2020

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 27, 2020 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, 2020

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 27, 2020 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, 2020

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 of 1933, as amended, 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.