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 June 26, 2022
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

BGSF, INC.
(exact name of registrant as specified in its charter)

Delaware	**26-0656684**
(State or other jurisdiction of incorporation or organization)	**(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 every Interactive Data File required to be submitted 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

As of as of August 3, 2022 there were 10,482,206 shares of the registrant's common stock outstanding.

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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," "predict," "ongoing," "project," "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, local labor and foreign 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 our business;
- a decline in consumer confidence and discretionary spending;
- inflationary pressures and our responses thereto;
- 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 26, 2021.

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.bgsf.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.

BGSF, Inc. and Subsidiaries
UNAUDITED CONSOLIDATED BALANCE SHEETS

	June 26, 2022	December 26, 2021
ASSETS		
Current assets		
Cash and cash equivalents	$ 44,512	$ 112,104
Accounts receivable (net of allowance for credit losses of $448,622 for 2022 and 2021, respectively)	50,116,825	48,132,896
Prepaid expenses	1,795,458	2,345,948
Other current assets	4,760,717	2,381,197
Current assets of discontinued operations	—	7,198,104
Total current assets	56,717,512	60,170,249
Property and equipment, net	6,344,059	4,331,052
Other assets		
Deposits	3,182,443	4,106,622
Other assets	1,745,324	1,283,629
Deferred income taxes, net	3,333,384	4,548,285
Right-of-use asset - operating leases	3,090,287	3,914,060
Intangible assets, net	32,410,938	33,584,910
Goodwill	29,141,883	29,141,883
Noncurrent assets of discontinued operations	—	7,213,276
Total other assets	72,904,259	83,792,665
Total assets	$ 135,965,830	$ 148,293,966
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Long-term debt, current portion	$ —	$ 3,562,500
Accrued interest	79,966	102,304
Accounts payable	607,871	401,175
Accrued payroll and expenses	15,636,061	16,153,920
Contingent consideration, current portion	1,038,363	1,073,901
Lease liability, current portion	1,763,068	1,896,253
Other current liabilities	3,763,718	3,549,785
Income taxes payable	250,045	381,806
Current liabilities of discontinued operations	—	1,262,056
Total current liabilities	23,139,092	28,383,700
Line of credit (net of deferred finance fees of $54,610 and $193,264 at 2022 and 2021, respectively)	17,660,915	12,587,591
Long-term debt, less current portion	—	23,300,000
Contingent consideration, less current portion	—	989,608
Lease liability, less current portion	1,866,527	2,685,270
Other long-term liabilities	15,309	3,565,218
Noncurrent liabilities of discontinued operations	—	190,395
Total liabilities	42,681,843	71,701,782

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

BGSF, Inc. and Subsidiaries
UNAUDITED CONSOLIDATED BALANCE SHEETS (CONTINUED)

	June 26, 2022	December 26, 2021
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, 10,482,206 and 10,425,210 shares issued and outstanding for 2022 and 2021, respectively, net of treasury stock, at cost, 1,845 shares for 2022 and 2021, respectively.	66,930	66,360
Additional paid in capital	62,785,755	61,875,406
Retained earnings	30,431,302	14,592,087
Accumulated other comprehensive gain	—	58,331
Total stockholders' equity	93,283,987	76,592,184
Total liabilities and stockholders' equity	$ 135,965,830	$ 148,293,966

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

BGSF, Inc. and Subsidiaries
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

For the Thirteen and Twenty-six Week Periods Ended June 26, 2022 and June 27, 2021

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	2022	2021	2022	2021
Revenues	$ 74,089,166	$ 57,397,722	$ 142,631,443	$ 107,147,913
Cost of services	49,029,740	38,150,241	94,141,218	71,685,724
Gross profit	25,059,426	19,247,481	48,490,225	35,462,189
Selling, general and administrative expenses	19,898,281	16,269,058	39,614,593	31,571,480
Gain on contingent consideration	—	(1,194,575)	—	(1,194,575)
Depreciation and amortization	921,834	865,840	1,820,807	1,702,083
Operating income	4,239,311	3,307,158	7,054,825	3,383,201
Interest expense, net	(69,589)	(218,533)	(342,968)	(595,060)
Income from continuing operations before income taxes	4,169,722	3,088,625	6,711,857	2,788,141
Income tax expense from continuing operations	(986,080)	(492,675)	(1,520,446)	(451,156)
Income from continuing operations	3,183,642	2,595,950	5,191,411	2,336,985
Income from discontinued operations:				
Income	—	1,010,779	1,234,995	2,166,448
Gain (loss) on sale	(7,228)	—	17,265,562	—
Income tax expense	—	(163,891)	(4,715,771)	(348,798)
Net income	$ 3,176,414	$ 3,442,838	$ 18,976,197	$ 4,154,635
Change in unrealized gains (losses) on cash flow hedges, net	—	29,814	(58,331)	62,029
Other comprehensive income (loss)	—	29,814	(58,331)	62,029
Net comprehensive income	$ 3,176,414	$ 3,472,652	$ 18,917,866	$ 4,216,664
Net income per share - basic				
Net income from continuing operations	$ 0.30	$ 0.25	$ 0.50	$ 0.23
Net income from discontinued operations:				
Income	—	0.10	0.12	0.20
Gain on sale	—	—	1.65	—
Income tax expense	—	(0.02)	(0.45)	(0.03)
Net income per share - basic	$ 0.30	$ 0.33	$ 1.82	$ 0.40
Net income per share - diluted				
Net income from continuing operations	$ 0.30	$ 0.25	$ 0.50	$ 0.23
Net income from discontinued operations:				
Income	—	0.10	0.12	0.20
Gain on sale	—	—	1.65	—
Income tax expense	—	(0.02)	(0.45)	(0.03)
Net income per share - diluted	$ 0.30	$ 0.33	$ 1.82	$ 0.40
Weighted-average shares outstanding:				
Basic	10,472,353	10,340,241	10,450,625	10,336,528
Diluted	10,514,261	10,391,923	10,500,372	10,393,908
Cash dividends declared per common share	$ 0.15	$ 0.10	$ 0.30	$ 0.20

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

BGSF, Inc. and Subsidiaries
UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Twenty-six Week Periods Ended June 27, 2021

	Preferred Stock	Common Stock Shares	Common Stock Par Value	Treasury Stock Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Total
Stockholders' equity, December 27, 2020	—	10,328,379	$ 103,284	$ (29,450)	$ 60,457,044	$ 5,049,748	$ (122,874)	$ 65,457,752
Share-based compensation from continuing operations	—	—	—	—	220,611	—	—	220,611
Share-based compensation from discontinued operations	—	—	—	—	15,396	—	—	15,396
Share issuance cost	—	—	—	—	(10,000)	—	—	(10,000)
Issuance of restricted shares	—	7,518	75	—	(75)	—	—	—
Exercise of common stock options	—	213	2	—	(2)	—	—	—
Cash dividend declared	—	—	—	—	—	(1,033,597)	—	(1,033,597)
Net income	—	—	—	—	—	711,797	—	711,797
Other comprehensive gain	—	—	—	—	—	—	32,215	32,215
Stockholders' equity, March 28, 2021	—	10,336,110	103,361	(29,450)	60,682,974	4,727,948	(90,659)	65,394,174
Share-based compensation from continuing operations	—	—	—	—	214,606	—	—	214,606
Share-based compensation from discontinued operations	—	—	—	—	10,774	—	—	10,774
Issuance of restricted shares	—	7,230	72	—	(72)	—	—	—
Cash dividend declared	—	—	—	—	—	(1,034,334)	—	(1,034,334)
Net income	—	—	—	—	—	3,442,838	—	3,442,838
Other comprehensive gain	—	—	—	—	—	—	29,814	29,814
Stockholders' equity, June 27, 2021	—	10,343,340	$ 103,433	$ (29,450)	$ 60,908,282	$ 7,136,452	$ (60,845)	$ 68,057,872

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

BGSF, Inc. and Subsidiaries
UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Twenty-six Week Periods Ended June 26, 2022

	Preferred Stock	Common Stock Shares	Common Stock Par Value	Treasury Stock Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Stockholders' equity, December 26, 2021	—	10,425,210	$ 104,252	$ (37,892)	$ 61,875,406	$ 14,592,087	$ 58,331	$ 76,592,184
Share-based compensation from continuing operations	—	—	—	—	211,449	—	—	211,449
Share-based compensation from discontinued operations	—	—	—	—	7,697	—	—	7,697
Fully vested shares related to the sale of discontinued operations	—	—	—	—	35,093	—	—	35,093
Issuance of restricted shares	—	5,795	58	—	(58)	—	—	—
Issuance of ESPP shares	—	14,203	142	—	168,994	—	—	169,136
Cash dividend declared	—	—	—	—	—	(1,564,651)	—	(1,564,651)
Net income	—	—	—	—	—	15,799,783	—	15,799,783
Other comprehensive loss	—	—	—	—	—	—	(58,331)	(58,331)
Stockholders' equity, March 27, 2022	—	10,445,208	104,452	(37,892)	62,298,581	28,827,219	—	91,192,360
Share-based compensation from continuing operations	—	—	—	—	242,166	—	—	242,166
Share issuance cost	—	—	—	—	(10,910)	—	—	(10,910)
Issuance of restricted shares	—	13,639	136	—	(136)	—	—	—
Issuance of ESPP shares	—	22,709	227	—	249,742	—	—	249,969
Exercise of common stock options	—	650	7	—	6,312	—	—	6,319
Cash dividend declared	—	—	—	—	—	(1,572,331)	—	(1,572,331)
Net income	—	—	—	—	—	3,176,414	—	3,176,414
Stockholders' equity, June 26, 2022	—	10,482,206	$ 104,822	$ (37,892)	$ 62,785,755	$ 30,431,302	$ —	$ 93,283,987

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

BGSF, Inc. and Subsidiaries
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Twenty-six Week Periods Ended June 26, 2022 and June 27, 2021

	2022	2021
Cash flows from operating activities		
Net income	$ 18,976,197	$ 4,154,635
(Income) from discontinued operations	(1,234,995)	(2,166,448)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	312,405	350,585
Amortization	1,508,402	1,351,498
Gain on sale of discontinued operations	(17,265,562)	—
Loss on disposal of property and equipment	1,963	—
Contingent consideration adjustment	—	(1,194,575)
Amortization of deferred financing fees	138,653	37,406
Interest expense on contingent consideration payable	84,853	144,174
Provision for credit losses	133,458	157,441
Share-based compensation	453,615	435,217
Deferred income taxes, net of acquired deferred tax liability	1,214,901	488,341
Net changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(2,131,137)	(6,742,068)
Prepaid expenses	533,293	(511,492)
Other current assets	(116,106)	(11,210)
Deposits	936,930	(82,703)
Other assets	320,804	166,577
Accrued interest	(22,338)	30,681
Accounts payable	206,696	40,475
Accrued payroll and expenses	(510,772)	2,998,976
Other current liabilities	(2,083,513)	18,977
Income taxes receivable and payable	(131,761)	(1,866,246)
Operating leases	(50,513)	(71,631)
Other long-term liabilities	(58,331)	(94,902)
Net cash provided by (used in) continuing operating activities	1,217,142	(2,366,292)
Net cash (used in) provided by discontinued operating activities	(2,273,708)	4,105,081
Net cash (used in) provided by operating activities	(1,056,566)	1,738,789
Cash flows from investing activities		
Business acquired, net of cash received	—	(3,780,000)
Business sold	30,305,523	—
Capital expenditures	(3,530,496)	(1,076,385)
Net cash provided by (used in) continuing investing activities	26,775,027	(4,856,385)
Net cash used in discontinued investing activities	(25,755)	(27,115)
Net cash provided by (used in) investing activities	26,749,272	(4,883,500)

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

BGSF, Inc. and Subsidiaries
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the Twenty-six Week Periods Ended June 26, 2022 and June 27, 2021

	2022	2021
Cash flows from financing activities		
Net borrowings under line of credit	4,934,670	6,160,142
Principal payments on long-term debt	(26,862,500)	(937,500)
Payments of dividends	(3,136,982)	(2,067,931)
Issuance of ESPP shares	419,105	—
Issuance of shares, net of offering costs	(4,591)	(10,000)
Contingent consideration paid	(1,110,000)	—
Net cash (used in) provided by continuing financing activities	(25,760,298)	3,144,711
Net change in cash and cash equivalents	(67,592)	—
Cash and cash equivalents, beginning of period	112,104	—
Cash and cash equivalents, end of period	$ 44,512	$ —
Supplemental cash flow information:		
Cash paid for interest, net	$ 29,098	$ 286,147
Cash paid for taxes, net of refunds	$ 5,112,768	$ 2,135,213

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

NOTE 1 - NATURE OF OPERATIONS

BGSF, Inc., along with its wholly owned subsidiaries BGSF Professional, LLC (formally 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., EdgeRock Technologies, LLC, and BG Personnel of Texas, LLC (collectively, the "Company"), is a national provider of workforce solutions.

On March 21, 2022, we completed the sale of substantially all our Light Industrial segment ("InStaff") assets to Jobandtalent ("J&T"), through their wholly-owned subsidiary, Sentech Engineering Services, Inc.

Instaff's financial results for reported periods have been reflected in our Consolidated Statements of Operations and Comprehensive Income and Consolidated Statements of Cash Flows as discontinued operations. Additionally, the related assets and liabilities associated with the discontinued operations are classified as discontinued operations in our Consolidated Balance Sheets.

See "Note 4 - Discontinued Operations" in our Consolidated Financial Statements included elsewhere in this report for additional information.

The Company operates primarily within the United States of America in its Real Estate and Professional segments.

The Real Estate segment provides office and maintenance field talent to various apartment communities and commercial buildings currently in 34 states and D.C., via property management companies responsible for the apartment communities' and commercial buildings' day-to-day operations. The 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. The Professional segment operates through three divisions, IT Consulting, IT Infrastructure & Development, and Finance and Accounting under various trade names including Extrinsic, American Partners, Donovan & Watkins, Vision Technology Services, Zycron, Smart Resources, L.J. Kushner & Associates, EdgeRock Technology Partners, and Momentum Solutionz.

The Company normally experiences seasonal fluctuations. The quarterly operating results are affected by the number of billing days in a quarter, as well as the seasonality of client partners' businesses. Demand for the Real Estate workforce solutions has historically increased in the second quarter 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. Overall first quarter demand can be affected by adverse weather conditions in the winter months. In addition, the cost of services typically increases in the first quarter primarily due to the reset of payroll taxes.

The COVID-19 pandemic may continue to impact both operational and financial performance. The impact on the Company's client partners and the ongoing government and community reactions to the pandemic remain unpredictable.

The current inflationary environment and related interest rate impacts continue to have significant adverse impact on the economy and market conditions. These factors may impact labor markets by reducing demand for the Company's workforce solutions, increasing early terminations, or diminishing projects. As a result, the Company's business, financial condition and results of operations may be negatively affected.

The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles in the United States of America ("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, except for disclosure in Note 15. 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 26, 2021, included in its Annual Report on Form 10-K.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Fiscal Periods

The Company has a 52/53 week fiscal year. Fiscal periods for the consolidated financial statements included herein are as of June 26, 2022 and December 26, 2021, and include the thirteen and twenty-six week periods ended June 26, 2022 and June 27, 2021, referred to herein as Fiscal 2022 and 2021, respectively.

Reclassifications

Certain reclassifications have been made to the 2021 financial statements to conform with the 2022 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, lease liability, contingent consideration obligations related to acquisitions, and income taxes. Additionally, the valuation of share-based compensation 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.

As a result of the future economic uncertainty of COVID-19, management may need to make necessary changes to accounting policy judgements and estimates 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, the allocation of purchase price consideration to tangible and identifiable intangible assets, contingent consideration, and interest rate swap agreements. The carrying values of cash and cash equivalents, accounts receivables, prepaid expenses, accounts payable, accrued liabilities, and other current assets and liabilities approximate their fair values because of the short-term nature of these instruments. The carrying value of bank debt approximates fair value due to the variable nature of the interest rates under the credit agreement with BMO Harris Bank, N.A. ("BMO") that provides for a revolving credit facility and current rates available to the Company for debt with similar terms and risk.

Cash and Cash Equivalents

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

Concentration of Credit Risk

Concentration of credit risk is limited due to the Company's diverse client partner base and their dispersion across many different industries and geographic locations nationwide. No single client partner accounted for more than 10% of the Company's accounts receivable from continuing operations as of June 26, 2022 and December 26, 2021 or revenue from continuing operations for the twenty-six week periods ended June 26, 2022 and June 27, 2021. Geographic revenue from continuing operations in excess of 10% of the Company's consolidated revenue in Fiscal 2022 and the related percentage for Fiscal 2021 was generated in the following areas:

	Twenty-six Weeks Ended	
	June 26, 2022	June 27, 2021
Tennessee	11 %	12 %
Texas	23 %	26 %

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 from continuing operations are as follows:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 26, 2022	June 27, 2021	June 26, 2022	June 27, 2021
Beginning balance	$ 448,622	$ 492,087	$ 448,622	$ 492,087
Provision for credit losses, net	82,221	123,444	133,458	157,441
Amounts written off, net	(82,221)	(94,530)	(133,458)	(128,527)
Ending balance	$ 448,622	$ 521,001	$ 448,622	$ 521,001

CARES Act Receivable

Other current assets from continuing operations includes $2.6 million of the Employee Retention Credit ("ERC") at June 26, 2022 and December 26, 2021. The ERC was established by the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The CARES Act allows relief to businesses affected by the coronavirus pandemic, by providing payment to employers for qualified wages and health insurance benefits for team members. The CARES Act applies to taxes incurred from March 27, 2020, through the third quarter of 2021.

Property and Equipment

Property and equipment are stated net of accumulated depreciation and amortization of $4.6 million and $4.3 million at June 26, 2022 and December 26, 2021, 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 $3.0 million and $3.9 million, which are included in deposits in the accompanying consolidated balance sheets, as of June 26, 2022 and December 26, 2021, respectively.

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 2022 or Fiscal 2021.

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 considered the current and expected future economic and market conditions surrounding COVID-19 and its impact on each of the reporting units. 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 determined there were no impairment indicators for these assets during Fiscal 2022 or Fiscal 2021.

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. The Company considered the current and expected future economic and market conditions surrounding COVID-19 and its impact on each of the reporting units. 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 determined there were no impairment indicators for goodwill assets during Fiscal 2022 or Fiscal 2021.

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 continuing operations in Real Estate and Professional segments. 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 from continuing operations as presented on the consolidated statements of operations and comprehensive income 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.

Workforce solution 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 revenues - Any revenues associated with workforce solutions 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 revenues - Any revenues from these workforce solutions 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 workforce solutions are charged to employment candidates. These assumptions determine the timing of revenue recognition for the reported period.

Refer to Note 14 for disaggregated revenues by segment.

Payment terms in the Company's contracts vary by the type and location of its client partner and the workforce solutions offered. The term between invoicing and when payment is due is not significant. There were no unsatisfied performance obligations as of June 26, 2022. There were no revenues recognized during the twenty-six week period ended June 26, 2022 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 twenty-six week period ended June 26, 2022.

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		Twenty-six Weeks Ended	
	June 26, 2022	June 27, 2021	June 26, 2022	June 27, 2021
Weighted-average number of common shares outstanding:	10,472,353	10,340,241	10,450,625	10,336,528
Effect of dilutive securities:				
Stock options and restricted stock	41,908	51,682	49,747	57,380
Weighted-average number of diluted common shares outstanding	10,514,261	10,391,923	10,500,372	10,393,908
Stock options and restricted stock	387,050	421,950	387,050	421,950
Antidilutive shares	387,050	421,950	387,050	421,950

Income Taxes

The consolidated effective tax rates were 23.7% and 24.7% and for the thirteen and twenty-six week periods ended June 26, 2022, respectively. The consolidated effective tax rates were 16.0% and 16.1% for the thirteen and twenty-six week periods ended June 27, 2021, respectively. Effective tax rates for all periods consist of federal statutory rate plus state income taxes, which were partially offset by the Work Opportunity Tax Credit. The Fiscal 2021 effective tax rate was additionally reduced by the gain on contingent consideration.

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 June 26, 2022, the Company has a $4.6 million net operating loss carry forward from the 2020 EdgeRock acquisition with no expiration date. These net operating losses are subject to an annual Internal Revenue Code Section 382 limitation of $1.3 million.

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.

The Company recognizes any penalties when necessary as part of selling, general and administrative expenses. As of June 26, 2022, goodwill with an adjusted tax basis of $25.7 million is remaining to be amortized for tax purposes. As a matter of operation, we first calculate the effective tax on continuing operations, and then allocated the remaining taxes to our discontinued operations, in accordance with Accounting Standards Codification ("ASC") Topic 740.

The Company follows the guidance 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 March 2020 and January 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2020-04, Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting ("ASU 2020-04") and ASU No. 2021-01, Reference Rate Reform: Scope ("ASU 2021-01"), respectively. Together, ASU 2020-04 and ASU 2021-01 provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) contract modifications, hedging relationships, and other arrangements that are expected to be impacted by the global transition away from certain reference rates, such as the London Interbank Offered Rate, towards new reference rates. The guidance in ASU 2020-04 and ASU 2021-01 was effective upon issuance and, once adopted, may be applied prospectively to contract modifications and hedging relationships through December 31, 2022. The Company is evaluating the impact that the guidance will have on its consolidated financial statements and related disclosures, if adopted, and currently does not expect that it would be material.

NOTE 3 - ACQUISITIONS

Momentum Solutionz LLC

On February 8, 2021, the Company acquired substantially all of the assets and assumed certain liabilities of Momentum Solutionz ("Momentum") for a purchase price of $3.8 million cash, subject to customary purchase price adjustments as specified in the purchase agreement. The purchase agreement further provides for contingent consideration of up to $2.2 million, based on the performance of the acquired business for the two years following the date of acquisition. As of June 26, 2022, contingent consideration of $1.1 million has been paid. At closing, the purchase price was paid out of currently available funds under the Company's credit agreement led by BMO. The purchase agreement contained a provision for a "true up" of acquired working capital 60 days after the closing date, which was not material.

The acquired business was assigned to the Professional segment. The acquisition of Momentum allows the Company to strengthen its operations in IT consultants and technology professionals. Momentum provides IT consulting and managed workforce solutions for organizations utilizing ERP systems. The IT consulting workforce solutions include strategic planning, software selection, road mapping, cloud migration, and implementation of ERP systems. The IT managed workforce solutions include optimization and maintenance of ERP systems. Momentum provides workforce solutions to clients throughout the United States in a variety of industries, including but not limited to hospitals, retail, universities and mid-size businesses.

For the thirteen week period ended June 27, 2021, Momentum operations included approximately $0.8 million of revenue and $0.1 million of operating income. For the twenty-six week period ended June 27, 2021, Momentum operations included twenty-one weeks for approximately $1.2 million of revenue and $0.2 million of operating income. The acquisition has been allocated to the assets acquired and liabilities assumed as of the date of acquisition as follows:

Accounts receivable	$	345,121
Prepaid expenses and other assets		3,626
Property and equipment, net		5,101
Intangible assets		3,347,970
Goodwill		2,089,823
Liabilities assumed		(73,708)
Total net assets acquired	$	5,717,933

Cash	$	3,780,000
Working capital adjustment		11,210
Fair value of contingent consideration		1,926,723
Total fair value of consideration transferred for acquired business	$	5,717,933

The allocation of the intangible assets is as follows:

	Estimated Fair Value	Estimated Useful Lives
Covenants not to compete	$ 37,800	5 years
Trade name	1,420,000	Indefinite
Client partner list	1,890,170	10 years
Total	$ 3,347,970	

Supplemental Unaudited Pro Forma Information

The Company estimates what would have been reported if the revenues and net income from continuing operations of the Momentum acquisition had taken place on the first day of Fiscal 2021, with no impact on thirteen week period ended June 27, 2021 (dollars in thousands, except per share amounts):

	Twenty-six Weeks Ended June 27, 2021
Revenues	$ 107,384
Gross profit	$ 35,628
Net Income	$ 2,417
Income per share:	
Basic	$ 0.23
Diluted	$ 0.23

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 2.5% and tax benefit of the pro forma adjustments at a consolidated effective tax rate of 16.1% for Fiscal 2021, respectively. The pro forma operating results include adjustments to Momentum 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 Momentum acquisitions taken place on the first day of the Company's 2021 fiscal year or of the results that may be achieved by the combined enterprise in the future.

NOTE 4 - DISCONTINUED OPERATIONS

On March 21, 2022, the Company sold substantially all of the assets and certain liabilities of the Light Industrial segment ("InStaff") to Sentech Engineering Services, Inc. ("Sentech") for a sale price of approximately $30.3 million cash, subject to customary sales price and working capital adjustments specified in the purchase agreement. The purchase agreement further provides for deferred consideration of $2.0 million one year following the date of the acquisition, which is included in Other current assets. The sale resulted in a gain on sale of discontinued operations of $17.3 million. The Company will provide certain back-office services to Sentech for a limited period of time.

The Light Industrial segment financial results for periods prior to the sale have been reflected in our Consolidated Statements of Operations and Comprehensive Income and Consolidated Statements of Cash Flows as discontinued operations. Additionally, the related assets and liabilities associated with the discontinued operations in the periods presented are classified as discontinued operations in our Consolidated Balance Sheets.

The financial results of InStaff are as follows (dollars in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 26, 2022	June 27, 2021	June 26, 2022	June 27, 2021
Revenue	$ —	$ 16,994	$ 16,465	$ 34,955
Cost of services	—	14,458	14,144	29,820
Gross profit	—	2,535	2,321	5,135
Selling expenses	—	1,500	1,062	2,921
Depreciation	—	25	24	48
Income from discontinued operations before taxes	$ —	$ 1,011	$ 1,235	$ 2,166

	December 26, 2021
Carrying amount of assets included as part of discontinued operations:	
Accounts receivable	$ 7,198,104
Property and equipment, net	201,012
Deposits	35,784
Right-of-use assets - operating leases	303,660
Intangible assets, net	1,648,000
Goodwill	5,024,820
Total assets classified as discontinued operations	$ 14,411,380
Carrying amount of liabilities included as part of discontinued operations:	
Accrued payroll and expenses	$ 1,129,448
Lease liability, current portion	132,608
Lease liability, less current portion	190,395
Total liabilities classified as discontinued operations	$ 1,452,451

NOTE 5 - LEASES

For operating leases, the weighted average remaining lease term was 2.3 years and 2.7 years at June 26, 2022 and December 26, 2021, respectively. The weighted average discount rate was 5.0% at June 26, 2022 and December 26, 2021. The Company's future operating lease obligations that have not yet commenced are immaterial.

The supplement cash flow information related to the Company's operating leases were as follows:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 26, 2022	June 27, 2021	June 26, 2022	June 27, 2021
Cash paid for operating leases	$ 522,596	$ 580,529	$ 1,080,910	$ 1,159,845
Operating lease costs	$ 458,080	$ 522,496	$ 960,273	$ 1,045,793
Short-term lease costs	$ 1,500	$ 47,969	$ 3,000	$ 96,070

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

	June 26, 2022
2022	$ 1,023,037
2023	1,561,952
2024	973,510
2025	277,095
Total lease payments	3,835,594
Interest	(205,999)
Present value of lease liabilities	$ 3,629,595

NOTE 6 - INTANGIBLE ASSETS

Intangible assets from continuing operations are stated net of accumulated amortization of $42.6 million and $41.1 million at June 26, 2022 and December 26, 2021, respectively. Amortization expense from continuing operations for Fiscal 2022 and Fiscal 2021are comprised of following:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 26, 2022	June 27, 2021	June 26, 2022	June 27, 2021
Client partner lists	$ 487,308	$ 554,962	$ 989,573	$ 1,100,289
Covenant not to compete	55,245	55,245	110,490	109,860
Acquisition intangibles	542,553	610,207	1,100,063	1,210,149
Computer software - amortization expense	227,128	82,884	408,339	141,349
Amortization expense	769,681	693,091	1,508,402	1,351,498
Computer software - selling, general and administrative expense	38,821	18,822	77,642	37,644
Total expense	$ 808,502	$ 711,913	$ 1,586,044	$ 1,389,142

NOTE 7 - ACCRUED PAYROLL AND EXPENSES, OTHER LONG-TERM LIABILITIES, AND CONTINGENT CONSIDERATION

Accrued payroll and expenses from continuing operations consist of the following at:

	June 26, 2022	December 26, 2021
Field talent payroll	$ 6,994,624	$ 6,042,341
Field talent payroll related	1,941,708	1,310,918
Accrued bonuses and commissions	3,991,126	4,522,723
Other	2,708,603	4,277,938
Accrued payroll and expenses	$ 15,636,061	$ 16,153,920

Other current liabilities of continuing operations includes $3.8 million and $3.5 million of deferred employer FICA at June 26, 2022, and December 26, 2021, respectively. Under CARES Act, employers affected by the coronavirus epidemic were allowed relief from the payment of employer FICA taxes. The CARES Act only applies to taxes incurred from March 27, 2020 through December 31, 2020. Half of the delayed payments were due and paid by December 31, 2021, and the other half are due by December 31, 2022.

The following is a schedule of future estimated contingent consideration payments from continuing operations as of June 26, 2022:

	Estimated Cash Payment	Discount	Net
Due in:			
Less than one year	$ 1,110,000	$ (71,637)	$ 1,038,363

NOTE 8 - DEBT

On July 16, 2019, the Company entered into a Credit Agreement (the “Credit Agreement”), maturing July 16, 2024, led by BMO, as lead administrative agent, lender, letters of credit issuer, and swing line lender. The Credit Agreement provides for a revolving credit facility (the “Revolving Facility”) permitting the Company to borrow funds from time to time in an aggregate amount up to $35 million. The Credit Agreement also 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 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 June 26, 2022.

On February 8, 2021, the Company borrowed $3.8 million on the Revolving Facility in conjunction with the closing of the Momentum acquisition. On March 21, 2022, the Company paid down the balance on the existing Term Loan and a portion of the Revolving Facility using the proceeds from the sale of the Light Industrial segment (See Note 4).

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 June 26, 2022, 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 thereunder 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 June 26, 2022.

Line of Credit

At June 26, 2022 and December 26, 2021, $17.7 million and $12.8 million, respectively, was outstanding on the revolving facilities. Average daily balance for the thirteen week periods ended June 26, 2022 and June 27, 2021 was $13.8 million and $8.9 million, respectively. Average daily balance for the twenty-six week periods ended June 26, 2022 and June 27, 2021 was $14.5 million and $7.6 million, respectively.

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

	June 26, 2022		December 26, 2021	
Base Rate	$ 3,715,525	5.75 %	$ 2,780,854	4.50 %
LIBOR	14,000,000	2.97 %	10,000,000	2.35 %
Total	$ 17,715,525		$ 12,780,854	

Long-Term Debt

Long-term debt consisted of and bore interest at:

	June 26, 2022		December 26, 2021	
Base Rate	$ —	— %	$ 2,237,500	2.35 %
Fixed rate	—	— %	24,625,000	2.39 %
Long-term debt	$ —		$ 26,862,500	

Cash Flow Hedge

On March 21, 2022, the Company paid down the balance on the existing Term Loan containing the $25.0 million notional amount which cancelled the pay-fixed/receive-floating interest rate swap agreement. The unrealized gains or losses associated with the change in the fair value of the effective portion of the hedging instrument was recorded in accumulated other comprehensive income or loss. The Company reclassified the interest rate swap from accumulated other comprehensive gain or loss against interest expense in the same period in which the hedge transaction affected earnings. As of June 26, 2022, these amounts have been removed from Other long-term assets (see Note 9).

NOTE 9 - 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	June 26, 2022	December 26, 2021
Interest rate swap	Other long-term assets	Level 2	$ —	$ 58,331
Contingent consideration, net	Contingent consideration, net - current and long-term	Level 3	$ 1,038,363	$ 2,063,509

The changes in the Level 2 fair value measurements from December 26, 2021 to June 26, 2022 relate to the cancellation of the interest rate swap arrangement. Key inputs in determining the fair value of the interest rate swap as of December 26, 2021 were quoted prices from BMO.

The changes in the Level 3 fair value measurements from December 26, 2021 to June 26, 2022 relates primarily to payments of $1.1 million on the Momentum acquisition, partially offset by $0.1 million in accretion. Key inputs in determining the fair value of the contingent consideration as of June 26, 2022 and December 26, 2021 included discount rates of approximately 9% as well as management's estimates of future sales volumes and earnings before interest, income taxes, depreciation, and amortization (“EBITDA”).

NOTE 10 - 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.

Impact of COVID-19

Our business, results of operations, and financial condition have been, and may continue to be, 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 economic and labor markets.

NOTE 11 – 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.

Restricted Stock

The Company issued net restricted common stock of 19,434 shares to non-team member (non-employee) directors in Fiscal 2022. The restricted shares of $0.01 par value per share were issued under the 2013 Long-Term Incentive Plan (“2013 Plan”) and contain a three-year service condition. The restricted stock constitutes issued and outstanding shares of the Company’s common stock, except for the right of disposal, for all purposes during the period of restriction including voting rights and dividend distributions.

NOTE 12 – SHARE-BASED COMPENSATION

Stock Options

For the thirteen week periods ended June 26, 2022 and June 27, 2021, the Company recognized $0.1 million of compensation expense from continuing operations related to stock options. For the twenty-six week periods ended June 26, 2022 and June 27, 2021, the Company recognized $0.3 million and $0.2 million, respectively, of compensation expense from continuing operations related to stock options. Unamortized share-based compensation expense from continuing operations as of June 26, 2022 amounted to $0.6 million which is expected to be recognized over the next 1.9 years. As of June 26, 2022, a total of 1.0 million shares remain available for issuance under 2013 Plan.

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 26, 2021	695,329	$ 16.91	6.7	$ 665
Exercised	(650)	$ 9.72		
Forfeited / Canceled	(32,000)	$ 17.43		
Options outstanding at June 26, 2022	662,679	$ 16.89	6.1	$ 703
Options exercisable at December 26, 2021	475,765	$ 17.62	5.9	$ 452
Options exercisable at June 26, 2022	463,765	$ 17.78	5.3	$ 475

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested outstanding at December 26, 2021	219,564	$ 12.73
Nonvested outstanding at June 26, 2022	198,914	$ 12.78

For the twenty-six week period ended June 26, 2022, the Company did not issue shares under a cashless exercise. For the twenty-six week period ended June 27, 2021, the Company issued 213 shares of common stock upon the cashless exercise of 600 stock options.

Restricted Stock

For the thirteen week periods ended June 26, 2022 and June 27, 2021, the Company recognized $0.1 million of compensation expense related to restricted stock awards. For the twenty-six week periods ended June 26, 2022 and June 27, 2021, the Company recognized $0.2 million of compensation expense related to restricted stock awards. Unamortized share-based compensation expense as of June 26, 2022 amounted to $0.6 million which is expected to be recognized over the next 2.1 years.

A summary of restricted stock activity is presented as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted stock outstanding at December 26, 2021	60,844	$ 11.91
Issued	19,434	$ 13.51
Vested	(10,046)	$ 13.39
Restricted stock outstanding at June 26, 2022	70,232	$ 11.81
Nonvested outstanding at December 26, 2021	60,844	$ 11.91
Nonvested outstanding at June 26, 2022	70,232	$ 11.81

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.

2020 Employee Stock Purchase Plan ("2020 ESPP")

In November 2020, the Company's shareholders approved the 2020 ESPP. Under the 2020 ESPP, eligible team members of the Company may elect for payroll deductions to purchase shares on each purchase date during an offering period. A total of 250,000 shares of common stock of BGSF, Inc. were initially reserved for issuance pursuant to the 2020 ESPP. For the twenty-six week period ended June 26, 2022, the Company issued 36,912 shares of common stock under the 2020 ESPP.

NOTE 13 - TEAM MEMBER BENEFIT PLAN

Defined Contribution 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's or field talent's compensation. The Company contributed $0.4 million and $0.4 million from continuing operations to the 401(k) Plan for the thirteen week periods ended June 26, 2022 and June 27, 2021, respectively. The Company contributed $0.9 million and $0.8 million from continuing operations to the 401(k) Plan for the twenty-six week periods ended June 26, 2022 and June 27, 2021, respectively.

NOTE 14 - BUSINESS SEGMENTS

The Company operates within two industry segments: Real Estate and Professional. Segment income from continuing operations 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, property and equipment, deferred tax assets, and other assets.

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 26, 2022	June 27, 2021	June 26, 2022	June 27, 2021
Revenue:				
Real Estate	$ 29,979,775	$ 21,212,102	$ 55,895,863	$ 39,824,847
Professional	44,109,391	36,185,620	86,735,580	67,323,066
Total	$ 74,089,166	$ 57,397,722	$ 142,631,443	$ 107,147,913
Depreciation:				
Real Estate	$ 47,379	$ 53,796	$ 94,661	$ 108,786
Professional	89,163	98,224	185,390	197,033
Home office	15,611	20,729	32,354	44,766
Total	$ 152,153	$ 172,749	$ 312,405	$ 350,585
Amortization:				
Professional	$ 542,619	$ 610,274	$ 1,100,195	$ 1,210,281
Home office	227,062	82,817	408,207	141,217
Total	$ 769,681	$ 693,091	$ 1,508,402	$ 1,351,498
Operating income:				
Real Estate	$ 4,817,279	$ 2,973,221	$ 8,852,160	$ 5,425,663
Professional	3,816,634	2,584,082	7,286,434	4,077,358
Home office - SGA	(4,394,602)	(3,444,720)	(9,083,769)	(7,314,395)
Home office - gain on contingent consideration	—	1,194,575	—	1,194,575
Total	$ 4,239,311	$ 3,307,158	$ 7,054,825	$ 3,383,201
Capital expenditures:				
Real Estate	$ 44,555	$ 23,962	$ 53,278	$ 64,941
Professional	26,250	19,876	50,390	79,895
Home office	1,409,466	492,236	3,426,828	931,549
Total	$ 1,480,271	$ 536,074	$ 3,530,496	$ 1,076,385

	June 26, 2022	December 26, 2021
Total Assets:		
Real Estate	$ 21,718,681	$ 20,753,085
Professional	91,817,491	92,782,442
Home office	22,429,658	20,347,059
Discontinued operations	—	14,411,380
Total	$ 135,965,830	$ 148,293,966

NOTE 15 - SUBSEQUENT EVENT

Dividend

On August 3, 2022, the Company's board of directors declared a cash dividend in the amount of $0.15 per share of common stock to be paid on August 22, 2022 to all shareholders of record as of the close of business on August 15, 2022.

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 26, 2021. Comparative segment revenues and related financial information are discussed herein and are presented in Note 14 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 Reports on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended December 26, 2021, for a description of important factors that could cause actual results to differ from expected results. Please also refer to Note 4- Discontinued Operations, to our Unaudited Consolidated Financial Statements.

Our historical financial information may not be indicative of our future performance.

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, substantially all of the assets of JNA Staffing, Inc. in December 2010, Extrinsic, LLC in December 2011, American Partners, Inc. in December 2012, InStaff in June 2013, D&W in March 2015, VTS October 2015, Zycron, in April 2017, Smart in September 2017, and LJK in December 2019, 100% of the equity of EdgeRock in February 2020, and substantially all of the assets of Momentum Solutionz in February 2021. We have continuing operations in two industry segments: Real Estate and Professional. We provide workforce solutions to client partners primarily within the United States of America, across 46 states and D.C.

On March 21, 2022, we completed the sale of substantially all our Light Industrial segment ("InStaff") assets to Jobandtalent ("J&T"), through their wholly-owned subsidiary, Sentech Engineering Services, Inc. We received approximately $30.3 million at the closing of the sale, and, subject to the terms of the Asset Purchase Agreement, will receive an additional $2 million on the first anniversary of the closing of the transaction, subject to a "true-up" of acquired working capital.

We have classified the related assets and liabilities associated with our Light Industrial segment, InStaff, as discontinued operations in our Consolidated Balance Sheets. The results of InStaff business have been presented as discontinued operations in our Consolidated Statements of Operations and Comprehensive Income and Consolidated Statements of Cash Flows for all periods presented. The sale represents a strategic shift in our business that will have a major effect on our operations and financial results.

Our Real Estate segment provides office and maintenance field talent to various apartment communities and commercial buildings currently in 34 states and D.C., 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.

Our 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 three divisions, IT Consulting, IT Infrastructure & Development, and Finance and Accounting under various trade names including Extrinsic, American Partners, Donovan & Watkins, Vision Technology Services, Zycron, Smart Resources, L.J. Kushner & Associates, EdgeRock Technology Partners, and Momentum Solutionz.

Our business normally 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' businesses. Demand for our Real Estate workforce solutions has historically increased in the second quarter 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. Overall first quarter demand can be affected by adverse weather conditions in the winter months. In addition, our cost of services typically increases in the first quarter primarily due to the reset of payroll taxes.

Impact of COVID-19

We will continue to monitor the COVID-19 situation and may find it necessary to take 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.

Results of Operations

The following tables summarize key components of our results from continuing operations for the periods indicated, both in dollars and as a percentage of revenues, and have been derived from our unaudited consolidated financial statements. The Fiscal 2021 (as defined below) consolidated statement of operations and comprehensive income includes eight weeks of Momentum operations.

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 26, 2022	June 27, 2021	June 26, 2022	June 27, 2021
	(dollars in thousands)			
Revenues	$ 74,089	$ 57,398	$ 142,631	$ 107,148
Cost of services	49,030	38,151	94,141	71,686
Gross profit	25,059	19,247	48,490	35,462
Selling, general and administrative expenses	19,898	16,269	39,614	31,572
Gain on contingent consideration	—	(1,195)	—	(1,195)
Depreciation and amortization	922	866	1,821	1,702
Operating income	4,239	3,307	7,055	3,383
Interest expense, net	(69)	(218)	(343)	(595)
Income from continuing operations before income taxes	4,170	3,089	6,712	2,788
Income tax expense from continuing operations	(986)	(493)	(1,521)	(451)
Income from continuing operations	3,184	2,596	5,191	2,337
Income from discontinued operations:				
Income	—	1,011	1,235	2,167
Gain (loss) on sale	(8)	—	17,266	—
Income tax expense	—	(164)	(4,716)	(349)
Net income	$ 3,176	$ 3,443	$ 18,976	$ 4,155

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 26, 2022	June 27, 2021	June 26, 2022	June 27, 2021
Revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of services	66.2 %	66.5 %	66.0 %	66.9 %
Gross profit	33.8 %	33.5 %	34.0 %	33.1 %
Selling, general and administrative expenses	26.9 %	28.3 %	27.8 %	29.5 %
Gain on contingent consideration	— %	(2.1)%	— %	(1.1)%
Depreciation and amortization	1.2 %	1.5 %	1.3 %	1.6 %
Operating income	5.7 %	5.8 %	4.9 %	3.2 %
Interest expense, net	(0.1)%	(0.4)%	(0.2)%	(0.6)%
Income from continuing operations before income taxes	5.6 %	5.4 %	4.7 %	2.6 %
Income tax expense from continuing operations	(1.3)%	(0.9)%	(1.1)%	(0.4)%
Income from continuing operations	4.3 %	4.5 %	3.6 %	2.2 %

Thirteen Week Fiscal Period Ended June 26, 2022 ("Fiscal 2022") Compared with Thirteen Week Fiscal Period Ended June 27, 2021 ("Fiscal 2021")

Revenues:

	Thirteen Weeks Ended			
	June 26, 2022		June 27, 2021	
	(dollars in thousands)			
Revenues by segment:				
Real Estate	$ 29,980	40.5 %	$ 21,212	37.0 %
Professional	44,109	59.5 %	36,186	63.0 %
Total Revenues	$ 74,089	100.0 %	$ 57,398	100.0 %

***Real Estate Revenues*:** Real Estate revenues increased approximately $8.8 million (41.3%). The increase was due to a 27.6% increase in billed hours and a 10.7% increase in average bill rate.

***Professional Revenues*:** Professional revenues increased approximately $7.9 million (21.9%), primarily due to the IT Consulting increase of approximately $6.5 million, a 13.7% increase in billed hours, and a 7.2% increase in average bill rate.

Gross Profit:

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

	Thirteen Weeks Ended			
	June 26, 2022		June 27, 2021	
	(dollars in thousands)			
Gross Profit by segment:				
Real Estate	$ 11,574	46.2 %	$ 7,855	40.8 %
Professional	13,485	53.8 %	11,392	59.2 %
Total Gross Profit	$ 25,059	100.0 %	$ 19,247	100.0 %

	Thirteen Weeks Ended	
	June 26, 2022	June 27, 2021
Gross Profit Percentage by segment:		
Real Estate	38.6 %	37.0 %
Professional	30.6 %	31.5 %
Company Gross Profit	33.8 %	33.5 %

Overall, our gross profit increased approximately $5.8 million (30.2%). As a percentage of revenue, gross profit has increased to 33.8% from 33.5%, primarily due to higher gross profits across all segments.

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

Real Estate Gross Profit: Real Estate gross profit increased approximately $3.7 million (47.3%) in line with the increase in revenue and a 15.4% increase in average spread.

Professional Gross Profit: Professional gross profit increased approximately $2.1 million (18.4%) primarily due to the IT Consulting division of approximately $2.1 million, and a 4.1% increase in average spread.

Selling, General and Administrative Expenses: Selling, general and administrative expenses increased approximately $3.6 million (22.3%), primarily due to additional compensation generated from increased overall gross profit. The components of selling, general and administrative expense are detailed in the following table:

	Thirteen Weeks Ended					
	June 26, 2022		June 27, 2021			
	Amount	% of Revenue	Amount	% of Revenue	$ Change	% Change
	(dollars in thousands)					
Compensation and related	$ 15,435	20.8 %	$ 13,175	23.0 %	$ 2,260	17.2 %
Advertising and recruitment	488	0.7 %	357	0.6 %	131	36.7 %
Occupancy and office operations	589	0.8 %	785	1.4 %	(196)	(25.0)%
Travel, meals and entertainment	238	0.3 %	62	0.1 %	176	283.9 %
Software	1,521	2.1 %	683	1.2 %	838	122.7 %
Liability insurance	246	0.3 %	171	0.3 %	75	43.9 %
Professional Fees	366	0.5 %	562	1.0 %	(196)	(34.9)%
Public company related costs	186	0.3 %	185	0.3 %	1	0.5 %
Bad debt	82	0.1 %	123	0.2 %	(41)	(33.3)%
Share-based compensation	242	0.3 %	215	0.4 %	27	12.6 %
Transaction fees	10	— %	19	— %	(9)	(47.4)%
Workers compensation loss retention return	(117)	(0.2)%	(348)	(0.6)%	231	(66.4)%
Other	611	0.8 %	281	0.5 %	330	117.4 %
Total	$ 19,898	26.9 %	$ 16,269	28.3 %	$ 3,627	22.3 %

Gain on contingent consideration: As a result of the certain business developments in Fiscal 2021, the Company recognized a $1.2 million gain on contingent consideration related to the 2019 LJK acquisition.

Depreciation and Amortization: Depreciation and amortization charges increased approximately $0.1 million (6.5%). The increase in depreciation and amortization is primarily due to the information technology improvement project.

Interest Expense, net: Interest expense, net decreased primarily due to the pay down of the balance on the existing Term Loan, partially offset by the higher average balance on the Revolving Facility.

Income Tax Expense: Income tax expense increased approximately $0.5 million (100.0%). The higher effective tax rate, in Fiscal 2022, is primarily due to greater state taxes, which were partially offset by the gain on contingent consideration in Fiscal 2021.

Twenty-six Week Fiscal Period Ended June 26, 2022 ("Fiscal 2022") Compared with Twenty-six Week Fiscal Period Ended June 27, 2021 ("Fiscal 2021")

Revenues:

	Twenty-six Weeks Ended			
	June 26, 2022		June 27, 2021	
	(dollars in thousands)			
Revenues by segment:				
Real Estate	$ 55,896	39.2 %	$ 39,825	37.2 %
Professional	86,735	60.8 %	67,323	62.8 %
Total Revenues	$ 142,631	100.0 %	$ 107,148	100.0 %

***Real Estate Revenues*:** Real Estate revenues increased approximately $16.1 million (40.4%). The increase was due to a 26.7% increase in billed hours and a 10.8% increase in average bill rate.

***Professional Revenues*:** Professional revenues increased approximately $19.4 million (28.8%), primarily due to an increase in IT Consulting of $15.4 million, a 24.0% increase in billed hours, and a 3.9% increase in average bill rate.

Gross Profit:

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

	Twenty-six Weeks Ended			
	June 26, 2022		June 27, 2021	
	(dollars in thousands)			
Gross Profit by segment:				
Real Estate	$ 21,545	44.4 %	$ 14,720	41.5 %
Professional	26,945	55.6 %	20,742	58.5 %
Total Gross Profit	$ 48,490	100.0 %	$ 35,462	100.0 %

	Twenty-six Weeks Ended	
	June 26, 2022	June 27, 2021
Gross Profit Percentage by segment:		
Real Estate	38.5 %	37.0 %
Professional	31.1 %	30.8 %
Company Gross Profit	34.0 %	33.1 %

Overall, our gross profit increased approximately $13.0 million (36.7%). As a percentage of revenue, gross profit has increased to 34.0% from 33.1%, primarily due to higher gross profits across all segments.

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

Real Estate Gross Profit: Real Estate gross profit increased approximately $6.8 million (46.4%) consistent with the increase in revenue and a 15.6% increase in average spread.

Professional Gross Profit: Professional gross profit increased approximately $6.2 million (29.9%) due to an increase in IT Consulting of $5.2 million in revenue and a 4.7% increase in average spread.

Selling, General and Administrative Expenses: Selling, general and administrative expenses increased approximately $8.0 million (25.5%), primarily due to additional compensation generated from increased overall gross profit, The components of selling, general and administrative expense are detailed in the following table:

	Twenty-six Weeks Ended					
	June 26, 2022		June 27, 2021			
	Amount	% of Revenue	Amount	% of Revenue	$ Change	% Change
	(dollars in thousands)					
Compensation and related	$ 30,839	21.6 %	$ 24,962	23.3 %	$ 5,877	23.5 %
Advertising and recruitment	971	0.7 %	716	0.7 %	255	35.6 %
Occupancy and office operations	1,387	1.0 %	1,597	1.5 %	(211)	(13.2)%
Travel, meals and entertainment	427	0.3 %	90	0.1 %	337	374.4 %
Software	2,636	1.8 %	1,343	1.3 %	1,293	96.3 %
Professional fees	979	0.7 %	1,235	1.2 %	(255)	(20.6)%
Liability insurance	486	0.3 %	331	0.3 %	155	46.8 %
Public company related costs	360	0.3 %	377	0.4 %	(17)	(4.5)%
Bad debt	133	0.1 %	157	0.1 %	(24)	(15.3)%
Share-based compensation	454	0.3 %	435	0.4 %	19	4.4 %
Transaction fees	—	— %	155	0.1 %	(155)	(100.0)%
Workers compensation loss retention return	(117)	(0.1)%	(348)	(0.3)%	231	(66.4)%
Other	1,060	0.7 %	520	0.5 %	541	104.0 %
Total	$ 39,615	27.8 %	$ 31,571	29.5 %	$ 8,045	25.5 %

Gain on contingent consideration: As a result of the certain business developments in Fiscal 2021, the Company recognized a $1.2 million gain on contingent consideration related to the 2019 LJK acquisition.

Depreciation and Amortization: Depreciation and amortization charges increased approximately $0.1 million (7.0%). The increase in depreciation and amortization is primarily due to the information technology improvement project.

Interest Expense, net: Interest expense, net decreased approximately $0.3 million (42.4)% primarily due to the pay down of the balance on the existing Term Loan, partially offset by the higher average balance on the Revolving Facility.

Income Tax Expense: Income tax expense increased approximately $1.1 million (237.0%). The higher effective tax rate, in Fiscal 2022, is primarily due to greater state taxes, which were partially offset by the gain on contingent consideration in Fiscal 2021.

Use of Non-GAAP Financial Measures

We present Adjusted EBITDA (defined below), a measure that is not in accordance with accounting principles generally accepted in the United States of America ("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 certain non-cash expenses such as the gain on contingent consideration and 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 from continuing operations for the periods indicated as a measure of our performance. Other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

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

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended		Trailing Twelve Months Ended
	June 26, 2022	June 27, 2021	June 26, 2022	June 27, 2021	June 26, 2022
	(dollars in thousands)				
Income from continuing operations	$ 3,184	$ 2,596	$ 5,191	$ 2,337	$ 13,225
Income tax expense from continuing operations	986	493	1,520	451	3,795
Interest expense, net	69	218	344	595	1,181
Operating income	4,239	3,307	7,055	3,383	18,201
CARES Act credit	—	—	—	—	(2,084)
Depreciation and amortization	922	866	1,820	1,702	3,816
Gain on contingent consideration	—	(1,195)	—	(1,195)	(1,208)
Share-based compensation	242	215	454	435	1,077
Transaction fees	—	19	—	155	16
Adjusted EBITDA from continuing operations	**5,403**	**3,212**	**9,329**	**4,480**	**19,818**
Adjusted EBITDA from discontinued operations, net of gain	—	1,046	986	2,241	3,459
Adjusted EBITDA, net of gain	$ 5,403	$ 4,258	$ 10,315	$ 6,721	$ 23,277

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, and 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 markets 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 $100 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 working capital, operating, investing and financing activities are shown in the following table:

	June 26, 2022	December 26, 2021
	(dollars in thousands)	
Working capital from continuing operations	$ 33,578	$ 25,851

	Twenty-six Weeks Ended	
	June 26, 2022	June 27, 2021
	(dollars in thousands)	
Net cash provided by (used in) continuing operations:		
Operating activities	$ 1,217	$ (2,366)
Investing activities	26,775	(4,856)
Financing activities	(25,760)	3,145
Net change in cash and cash equivalents discontinued operations	(2,300)	4,077
Net change in cash and cash equivalents	$ (68)	$ —

Operating Activities

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

During Fiscal 2022, net cash provided by continuing operating activities was $1.2 million, an increase of $3.6 million compared with net cash used in continuing operating activities of $2.4 million for Fiscal 2021. This increase is primarily attributable to higher accounts receivable, prepaid expenses, and deposits, which were partially offset by disbursements on accrued payroll and expenses and payments of deferred employer FICA for the CARES Act in other current liabilities.

Investing Activities

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

In Fiscal 2022, we received $30.3 million in connection to the sale of InStaff and we made capital expenditures of $3.5 million mainly related to the IT roadmap and for software and computer equipment purchased in the ordinary course of business. In Fiscal 2021, we paid $3.8 million in connection with the Momentum acquisition and we made capital expenditures of $1.1 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 and payment of dividends.

For Fiscal 2022, we paid down $26.9 million on the Term Loan, as discussed below, we paid $3.1 million in cash dividends on our common stock, we paid $1.1 million of contingent consideration related to the Momentum acquisition, and borrowed $4.9 million on our Revolving Facility for increased working capital needs. For Fiscal 2021, we borrowed $6.1 million on our Revolving Facility for increased working capital needs and to fund the Momentum acquisition, paid $2.1 million in cash dividends on our common stock, and paid down $0.9 million on the Term Loan, as defined below.

Credit Agreements

On July 16, 2019, we entered into a Credit Agreement (the "Credit Agreement"), maturing July 16, 2024, with BMO, as led by BMO, as lead administrative agent, lender, letters of credit issuer, and swing line lender. The Credit Agreement provides for a 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 payable 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 commitment 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. We are subject to a maximum Leverage Ratio and a minimum Fixed Charge Coverage Ratio as defined in the Credit Agreement. We were in compliance with these covenants as of June 26, 2022.

On February 8, 2021, we borrowed $3.8 million on the Revolving Facility in conjunction with the closing of the Momentum acquisition. On March 21, 2022, we paid down the balance on the existing Term Loan and a portion of the Revolving Facility using the proceeds from the sale of the Light Industrial segment (See Note 4 - Discontinued Operations, to our accompanying Unaudited Consolidated Financial Statements).

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 June 26, 2022, 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 26, 2021 for a more detailed discussion of our critical accounting policies.

We have classified the related assets and liabilities associated with our Light Industrial segment, InStaff, as discontinued operations in our Consolidated Balance Sheets. The results of InStaff business have been presented as discontinued operations in our Consolidated Statements of Operations and Comprehensive Income and Consolidated Statements of Cash Flows for all periods presented. The sale represents a strategic shift in our business that will have a major effect on our operations and financial results. See "Note 4 — Discontinued Operations" for additional information.

As a result of the future economic uncertainty of COVID-19, we may need to make necessary changes to accounting policy judgments and estimates over time, which could result in meaningful impacts to our financial statements in future periods. Actual results and outcomes may differ from our estimates and assumptions.

The current inflationary environment and related interest rate impacts continue to have significant adverse impact on the economy and market conditions. These factors may impact labor markets by reducing demand for our workforce solutions, increase early terminations, or diminish projects. As a result, our business, financial condition and results of operations may be negatively affected, and could increase our cost of borrowing.

Revenue Recognition

We derive our revenues from continuing operations in Real Estate and Professional segments. We provide workforce solutions and placement services. Revenues are recognized when promised workforce solutions are delivered to client partners, in an amount that reflects the consideration we expect to be entitled to in exchange for those services. Revenues as presented on the consolidated statements of operations and comprehensive income represent workforce solutions 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.

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

Workforce solution revenues - Field talent revenues from contracts with client partners are recognized in the amount to which we have a right to invoice, when the services are rendered by our field talent.

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

Retained search placement revenues - Any revenues from these workforce solutions 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.

We estimate the effect of placement candidates who do not remain with our 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 workforce solutions are charged to employment candidates. These assumptions determine the timing of revenue recognition for the reported period.

Payment terms in our contracts vary by the type and location of our client partner and the workforce solutions offered. The term between invoicing and when payment is due is not significant. There were no unsatisfied performance obligations as of June 26, 2022. There were no revenues recognized during the thirteen week period ended June 26, 2022 related to performance obligations satisfied or partially satisfied in previous periods. There are no contract costs capitalized. We did not recognize any contract impairments during the thirteen week period ended June 26, 2022.

Intangible Assets

We hold 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.

We capitalize 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.

We evaluate the recoverability of intangible assets whenever events or changes in circumstances indicate that an intangible asset's carrying amount may not be recoverable. We considered the current and expected future economic and market conditions surrounding COVID-19 and its impact on each of the reporting units. We annually evaluate the remaining useful lives of all intangible assets to determine whether events and circumstances warrant a revision to the remaining period of amortization.

Goodwill

Goodwill is not amortized, but instead is evaluated at the reporting unit level for impairment annually at the end of each fiscal year, or more frequently, if conditions indicate an earlier review is necessary. We considered the current and expected future economic and market conditions surrounding COVID-19 and its impact on each of the reporting units. If we have determined that it is more likely than not that the fair value for one or more reporting units is greater than their carrying value, we may use a qualitative assessment for the annual impairment test. We determined there were no impairment indicators for goodwill assets during Fiscal 2022 or Fiscal 2021

Contingent Consideration

We have obligations, to be paid in cash, related to our acquisitions if certain future 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.

Leases

We lease all their office space through operating leases, which expire at various dates through 2025. Many of the lease agreements obligate us to pay real estate taxes, insurance and certain maintenance costs, which are accounted for separately. Certain of our lease arrangements contain renewal provisions from 3 to 10 years, exercisable at our option. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

We determine 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. Our operating lease expense is recognized on a straight-line basis over the lease term and is recorded in selling, general and administrative expenses.

Financial Instruments

We use fair value measurements in areas that include, but are not limited to the allocation of purchase price consideration to tangible and identifiable intangible assets, contingent consideration, and interest rate swap agreements. The carrying values of cash and cash equivalents, accounts receivables, prepaid expenses, accounts payable, accrued liabilities, and other current assets and liabilities approximate their fair values because of the short-term nature of these instruments. The carrying value of bank debt approximates fair value due to the variable nature of the interest rates under the credit agreement with BMO that provides for the revolving credit facility and term loan and current rates available to us for debt with similar terms and risk.

Share-Based Compensation

We recognize 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.

Income Taxes

The current provision for income taxes represents estimated amounts payable or refundable on tax returns filed or to be filed for the year. We recognizes any penalties when necessary as part of selling, general and administrative expenses. As of June 26, 2022, goodwill of $25.7 million, which is limited annually, is expected to be deductible for tax purposes. As a matter of operation, we first calculate the effective tax on continuing operations, and then allocated the remaining taxes to our discontinued operations, in accordance with Accounting Standards Codification (“ASC”) Topic 740.

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 net 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 June 26, 2022, we have a $4.6 million net operating loss carry forward from the 2020 EdgeRock acquisition with no expiration date. These net operating losses are subject to an annual Internal Revenue Code Section 382 limitation of $1.3 million.

When appropriate, we 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, we consider 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.

We follow the guidance of 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

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 26, 2021.

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 and inflation risks. Through the current period, we have been able to moderate the negative impacts of an inflationary market by adjusting our pricing model.

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

Changes in Internal Controls Over Financial Reporting

For the fiscal quarter ended June 26, 2022, 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 impact of the ongoing 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 26, 2021.

ITEM 1A. RISK FACTORS

In evaluating us and our common stock, we urge you to carefully consider the risks and other information in this Quarterly Report on Form 10-Q, as well as the risk factors disclosed in Item 1A. of Part I of our Annual Report on Form 10-K for the fiscal year ended December 26, 2021 (our "2021 Form 10-K"), and filed with the SEC on March 10, 2022. 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 2021 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.

***The following information is added as a second paragraph under the heading "Risk Factors - A downturn of the U.S. or global economy could result in our client partners using fewer workforce solutions or becoming unable to pay us for our services on a timely basis or at all, which would materially adversely affect our business*" in our Annual Report on Form 10-K for the fiscal year ended December 26, 2021:**

In addition, the current inflationary environment and related interest rate impacts continue to have significant adverse impact on the economy and market conditions. These factors may impact labor markets by reducing demand for our workforce solutions, increasing early terminations, or diminishing projects. As a result, our business, financial condition, and results of operations may 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	Asset Purchase Agreement, dated as of February 8, 2021, between BG Staffing, LLC, Momentum Solutionz LLC, Lorne Kaufman, and Jeff Servidio (incorporated by reference from the registrant's Current Report on Form 8-K filed on February 11, 2021)
2.2	Asset Purchase Agreement, dated as of February 28, 2022, between BGSF, Inc., Sentech Engineering Services, Inc., and Jobandtalent Holding Limited (incorporated by reference from the registrant's Current Report on Form 8-K filed on March 1, 2022)
3.1	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).
3.2	Certificate of Amendment to Certificate of Incorporation of BGSF, Inc. (incorporated by reference from the registrant's Current Report on Form 8-K filed on February 12, 2021).
3.3	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).
4.1	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).
31.1*	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.
31.2*	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.
32.1†	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.
101*	The following financial information from BGSF's Quarterly Report on Form 10-Q for the quarterly period ended June 26, 2022 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, (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.

BGSF, 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: August 3, 2022

Exhibit 31.1

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 June 26, 2022 of BGSF, 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: August 3, 2022

By: /s/ Beth Garvey

Name: Beth Garvey

Title: President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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 June 26, 2022 of BGSF, 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: August 3, 2022

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

Exhibit 32.1

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 BGSF, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 26, 2022 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: August 3, 2022

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