

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 July 2, 2023  
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



**BGSE, INC.**

(exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 | <input type="checkbox"/>                      | Accelerated Filer         | <input checked="" type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/>                      | Smaller reporting company | <input checked="" type="checkbox"/> |
|                         | (Do not check if a smaller reporting company) | Emerging growth company   | <input type="checkbox"/>            |

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 8, 2023 there were 10,853,618 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;
- insurance coverage may not be adequate for our needs (including but not limited to general liability, crime, fiduciary, property, umbrella and excess, and cybersecurity);
- 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 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 January 1, 2023.

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](http://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](http://www.sec.gov).

**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**BGSF, Inc. and Subsidiaries**  
**UNAUDITED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share amounts)

|                                                                                                                                                                                                           | July 2,<br>2023 | January 1, 2023 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| <b>ASSETS</b>                                                                                                                                                                                             |                 |                 |
| Current assets                                                                                                                                                                                            |                 |                 |
| Cash and cash equivalents                                                                                                                                                                                 | \$ 660          | \$ —            |
| Accounts receivable (net of allowance for credit losses of \$558, respectively)                                                                                                                           | 61,745          | 66,285          |
| Prepaid expenses                                                                                                                                                                                          | 2,511           | 2,418           |
| Other current assets                                                                                                                                                                                      | 4,517           | 7,459           |
| Total current assets                                                                                                                                                                                      | 69,433          | 76,162          |
| Property and equipment, net                                                                                                                                                                               | 1,623           | 2,081           |
| Other assets                                                                                                                                                                                              |                 |                 |
| Deposits                                                                                                                                                                                                  | 2,625           | 2,616           |
| Other assets, net                                                                                                                                                                                         | 5,196           | 4,411           |
| Deferred income taxes, net                                                                                                                                                                                | 7,483           | 2,196           |
| Right-of-use asset - operating leases                                                                                                                                                                     | 4,469           | 4,462           |
| Intangible assets, net                                                                                                                                                                                    | 33,156          | 47,552          |
| Goodwill                                                                                                                                                                                                  | 58,453          | 55,193          |
| Total other assets                                                                                                                                                                                        | 111,382         | 116,430         |
| Total assets                                                                                                                                                                                              | \$ 182,438      | \$ 194,673      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                                               |                 |                 |
| Current liabilities                                                                                                                                                                                       |                 |                 |
| Long-term debt, current portion                                                                                                                                                                           | \$ 4,000        | \$ 4,000        |
| Accrued interest                                                                                                                                                                                          | 537             | 273             |
| Accounts payable                                                                                                                                                                                          | 73              | 587             |
| Accrued payroll and expenses                                                                                                                                                                              | 17,286          | 19,171          |
| Contingent consideration, current portion                                                                                                                                                                 | 3,657           | 1,081           |
| Lease liability, current portion                                                                                                                                                                          | 1,770           | 1,842           |
| Other current liabilities                                                                                                                                                                                 | 1,200           | 1,000           |
| Income taxes payable                                                                                                                                                                                      | 157             | 253             |
| Total current liabilities                                                                                                                                                                                 | 28,680          | 28,207          |
| Line of credit (net of deferred finance fees of \$232 and \$259 respectively)                                                                                                                             | 24,768          | 22,303          |
| Long-term debt, less current portion                                                                                                                                                                      | 34,000          | 36,000          |
| Contingent consideration, less current portion                                                                                                                                                            | 3,184           | —               |
| Convertible note                                                                                                                                                                                          | 4,368           | 4,368           |
| Lease liability, less current portion                                                                                                                                                                     | 3,040           | 3,049           |
| Other long-term liabilities                                                                                                                                                                               | 10              | 10              |
| Total liabilities                                                                                                                                                                                         | 98,050          | 93,937          |
| 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 10,838,776 and 10,772,515 shares issued and outstanding, respectively, net of treasury stock, at cost, 1,845 shares, respectively. | 70              | 70              |
| Additional paid in capital                                                                                                                                                                                | 67,761          | 67,003          |
| Retained earnings                                                                                                                                                                                         | 16,557          | 33,663          |
| Total stockholders' equity                                                                                                                                                                                | 84,388          | 100,736         |
| Total liabilities and stockholders' equity                                                                                                                                                                | \$ 182,438      | \$ 194,673      |

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

**BGSF, Inc. and Subsidiaries**  
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME**  
(in thousands, except per share and dividend amounts)

For the Thirteen and Twenty-six Week Periods Ended July 2, 2023 and June 26, 2022

|                                                              | Thirteen Weeks Ended |           | Twenty-six Weeks Ended |            |
|--------------------------------------------------------------|----------------------|-----------|------------------------|------------|
|                                                              | 2023                 | 2022      | 2023                   | 2022       |
| Revenues                                                     | \$ 80,800            | \$ 74,089 | \$ 156,116             | \$ 142,631 |
| Cost of services                                             | 51,226               | 49,030    | 99,758                 | 94,141     |
| Gross profit                                                 | 29,574               | 25,059    | 56,358                 | 48,490     |
| Selling, general and administrative expenses                 | 22,584               | 19,898    | 45,796                 | 39,614     |
| Impairment losses                                            | —                    | —         | 22,545                 | —          |
| Depreciation and amortization                                | 1,940                | 922       | 3,696                  | 1,821      |
| Operating income (loss)                                      | 5,050                | 4,239     | (15,679)               | 7,055      |
| Interest expense, net                                        | (1,502)              | (69)      | (2,703)                | (343)      |
| Income (loss) from continuing operations before income taxes | 3,548                | 4,170     | (18,382)               | 6,712      |
| Income tax (expense) benefit from continuing operations      | (944)                | (986)     | 4,520                  | (1,521)    |
| Income (loss) from continuing operations                     | 2,604                | 3,184     | (13,862)               | 5,191      |
| Income from discontinued operations:                         |                      |           |                        |            |
| Income                                                       | —                    | —         | —                      | 1,235      |
| (Loss) gain on sale                                          | —                    | (8)       | —                      | 17,266     |
| Income tax expense                                           | —                    | —         | —                      | (4,716)    |
| Net income (loss)                                            | \$ 2,604             | \$ 3,176  | \$ (13,862)            | \$ 18,976  |
| Change in unrealized losses on cash flow hedges:             | —                    | —         | —                      | (58)       |
| Other comprehensive loss                                     | —                    | —         | —                      | (58)       |
| Net comprehensive income (loss)                              | \$ 2,604             | \$ 3,176  | \$ (13,862)            | \$ 18,918  |
| Net income (loss) per share - basic:                         |                      |           |                        |            |
| Net income (loss) from continuing operations                 | \$ 0.24              | \$ 0.30   | \$ (1.29)              | \$ 0.50    |
| Net income from discontinued operations:                     |                      |           |                        |            |
| Income                                                       | —                    | —         | —                      | 0.12       |
| Gain on sale                                                 | —                    | —         | —                      | 1.65       |
| Income tax expense                                           | —                    | —         | —                      | (0.45)     |
| Net income (loss) per share - basic                          | \$ 0.24              | \$ 0.30   | \$ (1.29)              | \$ 1.82    |
| Net income (loss) per share - diluted:                       |                      |           |                        |            |
| Net income (loss) from continuing operations                 | \$ 0.24              | \$ 0.30   | \$ (1.29)              | \$ 0.50    |
| Net income from discontinued operations:                     |                      |           |                        |            |
| Income                                                       | —                    | —         | —                      | 0.12       |
| Gain on sale                                                 | —                    | —         | —                      | 1.65       |
| Income tax expense                                           | —                    | —         | —                      | (0.45)     |
| Net income (loss) per share - diluted                        | \$ 0.24              | \$ 0.30   | \$ (1.29)              | \$ 1.82    |
| Weighted-average shares outstanding:                         |                      |           |                        |            |
| Basic                                                        | 10,759               | 10,472    | 10,731                 | 10,451     |
| Diluted                                                      | 10,770               | 10,514    | 10,731                 | 10,500     |
| Cash dividends declared per common share                     | \$ 0.15              | \$ 0.15   | \$ 0.30                | \$ 0.30    |

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**  
(in thousands)

For the Twenty-six Week Period Ended July 2, 2023

|                                       | Preferred<br>Stock | Common Stock |              | Treasury Stock<br>Amount | Additional Paid<br>in Capital | Retained<br>Earnings | Accumulated Other<br>Comprehensive<br>Income | Total      |
|---------------------------------------|--------------------|--------------|--------------|--------------------------|-------------------------------|----------------------|----------------------------------------------|------------|
|                                       |                    | Shares       | Par<br>Value |                          |                               |                      |                                              |            |
| Stockholders' equity, January 1, 2023 | —                  | 10,772       | \$ 108       | \$ (38)                  | \$ 67,003                     | \$ 33,663            | \$ —                                         | \$ 100,736 |
| Share-based compensation              | —                  | —            | —            | —                        | 361                           | —                    | —                                            | 361        |
| Issuance of restricted shares         | —                  | 23           | —            | —                        | —                             | —                    | —                                            | —          |
| Issuance of ESPP shares               | —                  | 11           | —            | —                        | 145                           | —                    | —                                            | 145        |
| Cash dividend declared                | —                  | —            | —            | —                        | —                             | (1,618)              | —                                            | (1,618)    |
| Net loss                              | —                  | —            | —            | —                        | —                             | (16,466)             | —                                            | (16,466)   |
| Stockholders' equity, April 2, 2023   | —                  | 10,806       | 108          | (38)                     | 67,509                        | 15,579               | —                                            | 83,158     |
| Share-based compensation              | —                  | —            | —            | —                        | 75                            | —                    | —                                            | 75         |
| Issuance of restricted shares         | —                  | 11           | —            | —                        | —                             | —                    | —                                            | —          |
| Issuance of ESPP shares               | —                  | 17           | —            | —                        | 147                           | —                    | —                                            | 147        |
| Exercise of common stock options      | —                  | 5            | —            | —                        | 30                            | —                    | —                                            | 30         |
| Cash dividend declared                | —                  | —            | —            | —                        | —                             | (1,626)              | —                                            | (1,626)    |
| Net income                            | —                  | —            | —            | —                        | —                             | 2,604                | —                                            | 2,604      |
| Stockholders' equity, July 2, 2023    | —                  | 10,839       | \$ 108       | \$ (38)                  | \$ 67,761                     | \$ 16,557            | \$ —                                         | \$ 84,388  |

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**  
(in thousands)

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

|                                                                    |                 | Common Stock |           |                       |                            |                   |       | Accumulated Other Comprehensive Income |         |
|--------------------------------------------------------------------|-----------------|--------------|-----------|-----------------------|----------------------------|-------------------|-------|----------------------------------------|---------|
|                                                                    | Preferred Stock | Shares       | Par Value | Treasury Stock Amount | Additional Paid in Capital | Retained Earnings |       |                                        | Total   |
| Stockholders' equity, December 26, 2021                            | —               | 10,425       | \$ 104    | \$ (38)               | \$ 61,876                  | \$ 14,592         | \$ 58 | \$                                     | 76,592  |
| Share-based compensation from continuing operations                | —               | —            | —         | —                     | 211                        | —                 | —     |                                        | 211     |
| Share-based compensation from discontinued operations              | —               | —            | —         | —                     | 8                          | —                 | —     |                                        | 8       |
| Fully vested shares related to the sale of discontinued operations | —               | —            | —         | —                     | 35                         | —                 | —     |                                        | 35      |
| Issuance of restricted shares                                      | —               | 6            | —         | —                     | —                          | —                 | —     |                                        | —       |
| Issuance of ESPP shares                                            | —               | 14           | —         | —                     | 169                        | —                 | —     |                                        | 169     |
| Cash dividend declared                                             | —               | —            | —         | —                     | —                          | (1,565)           | —     |                                        | (1,565) |
| Net income                                                         | —               | —            | —         | —                     | —                          | 15,800            | —     |                                        | 15,800  |
| Other comprehensive loss                                           | —               | —            | —         | —                     | —                          | —                 | (58)  |                                        | (58)    |
| Stockholders' equity, March 27, 2022                               | —               | 10,445       | 104       | (38)                  | 62,299                     | 28,827            | —     |                                        | 91,192  |
| Share-based compensation from continuing operations                | —               | —            | —         | —                     | 243                        | —                 | —     |                                        | 243     |
| Share issuance cost                                                | —               | —            | —         | —                     | (11)                       | —                 | —     |                                        | (11)    |
| Issuance of restricted shares                                      | —               | 13           | —         | —                     | —                          | —                 | —     |                                        | —       |
| Issuance of ESPP shares                                            | —               | 23           | 1         | —                     | 249                        | —                 | —     |                                        | 250     |
| Exercise of common stock options                                   | —               | 1            | —         | —                     | 6                          | —                 | —     |                                        | 6       |
| Cash dividend declared                                             | —               | —            | —         | —                     | —                          | (1,572)           | —     |                                        | (1,572) |
| Net income                                                         | —               | —            | —         | —                     | —                          | 3,176             | —     |                                        | 3,176   |
| Stockholders' equity, June 26, 2022                                | —               | 10,482       | \$ 105    | \$ (38)               | \$ 62,786                  | \$ 30,431         | \$ —  | \$                                     | 93,284  |

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

**BGSF, Inc. and Subsidiaries**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

For the Twenty-six Week Periods Ended July 2, 2023 and June 26, 2022

|                                                                                                    | 2023        | 2022      |
|----------------------------------------------------------------------------------------------------|-------------|-----------|
| Cash flows from operating activities                                                               |             |           |
| Net (loss) income                                                                                  | \$ (13,862) | \$ 18,976 |
| (Income) from discontinued operations                                                              | —           | (1,235)   |
| Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities: |             |           |
| Depreciation                                                                                       | 238         | 313       |
| Amortization                                                                                       | 3,458       | 1,508     |
| Gain on sale of discontinued operations                                                            | —           | (17,266)  |
| Impairment losses                                                                                  | 22,545      | —         |
| Loss on disposal of property and equipment                                                         | —           | 2         |
| Amortization of deferred financing fees                                                            | 92          | 139       |
| Interest expense on contingent consideration payable                                               | 202         | 85        |
| Provision for credit losses                                                                        | 321         | 133       |
| Share-based compensation                                                                           | 436         | 454       |
| Deferred income taxes, net of acquired deferred tax liability                                      | (5,287)     | 1,215     |
| Net changes in operating assets and liabilities, net of effects of acquisitions:                   |             |           |
| Accounts receivable                                                                                | 7,672       | (2,131)   |
| Prepaid expenses                                                                                   | (93)        | 533       |
| Other current assets                                                                               | 2,572       | (116)     |
| Deposits                                                                                           | (9)         | 937       |
| Other assets                                                                                       | 362         | 321       |
| Accrued interest                                                                                   | 264         | (22)      |
| Accounts payable                                                                                   | (1,515)     | 207       |
| Accrued payroll and expenses                                                                       | (5,033)     | (511)     |
| Other current liabilities                                                                          | —           | (2,084)   |
| Income taxes receivable and payable                                                                | 274         | (132)     |
| Operating leases                                                                                   | (88)        | (51)      |
| Other long-term liabilities                                                                        | —           | (58)      |
| Net cash provided by continuing operating activities                                               | 12,549      | 1,217     |
| Net cash used in discontinued operating activities                                                 | —           | (2,274)   |
| Net cash provided by (used in) operating activities                                                | 12,549      | (1,057)   |
| Cash flows from investing activities                                                               |             |           |
| Businesses acquired, net of cash received                                                          | (6,740)     | —         |
| Business sold                                                                                      | —           | 30,305    |
| Capital expenditures                                                                               | (1,490)     | (3,530)   |
| Net cash (used in) provided by continuing investing activities                                     | (8,230)     | 26,775    |
| Net cash used in discontinued investing activities                                                 | —           | (26)      |
| Net cash (used in) provided by activities                                                          | (8,230)     | 26,749    |

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



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

For the Twenty-six Week Periods Ended July 2, 2023 and June 26, 2022

|                                                                                                                        | 2023     | 2022     |
|------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Cash flows from financing activities                                                                                   |          |          |
| Net borrowings under line of credit                                                                                    | 2,438    | 4,935    |
| Principal payments on long-term debt                                                                                   | (2,000)  | (26,862) |
| Payments of dividends                                                                                                  | (3,244)  | (3,137)  |
| Issuance of ESPP shares                                                                                                | 292      | 419      |
| Issuance of shares under the 2013 Long-Term Incentive Plan and Form S-3 registration statement costs, net of exercises | 30       | (5)      |
| Contingent consideration paid                                                                                          | (1,110)  | (1,110)  |
| Deferred financing costs                                                                                               | (65)     | —        |
| Net cash used in continuing financing activities                                                                       | (3,659)  | (25,760) |
| Net change in cash and cash equivalents                                                                                | 660      | (67)     |
| Cash and cash equivalents, beginning of period                                                                         | —        | 112      |
| Cash and cash equivalents, end of period                                                                               | \$ 660   | \$ 45    |
| Supplemental cash flow information:                                                                                    |          |          |
| Cash paid for interest, net                                                                                            | \$ 2,036 | \$ 29    |
| Cash paid for taxes, net of refunds                                                                                    | \$ 484   | \$ 5,113 |

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

**BGSF, Inc. and Subsidiaries**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - NATURE OF OPERATIONS**

BGSF, Inc. provides consulting, managed services, and professional workforce solutions to a variety of industries through its various divisions in information technology ("IT"), Finance & Accounting, Managed Services, and Real Estate (apartment communities and commercial buildings) (collectively, the "Company").

On March 21, 2022, the Company completed the sale of substantially all its Light Industrial segment ("InStaff") assets to Jobandtalent, through the 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 (Loss) Income and Consolidated Statements of Cash Flows as discontinued operations. See "Note 4 - Discontinued Operations" in the Consolidated Financial Statements included elsewhere in this report for additional information.

On December 12, 2022, the Company acquired substantially all of the assets, and assumed certain of the liabilities of Horn Solutions, Inc. and Horn Solutions Dallas, LLC (collectively "Horn Solutions"). See "Note 3- Acquisitions."

On April 24, 2023, the Company acquired substantially all of the assets and assumed certain of the liabilities of Arroyo Consulting, LLC ("Arroyo Consulting"), which is a nearshore/offshore workforce solutions firm that specializes in IT and software development with operations in the United States, Colombia, and India. See "Note 3- Acquisitions."

The Company currently 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 in 37 states and D.C., via property management companies responsible for the apartment communities' and commercial buildings' day-to-day operations.

The Professional segment provides specialized talent and business consultants on a nationwide basis for IT, managed services, finance, accounting, legal, and human resources. The Professional segment operates through three divisions, IT, Managed Services, and Finance & Accounting.

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.

The current inflationary environment and related interest rate impacts continue to have an 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 the disclosure in Note 16. 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 January 1, 2023, included in its Annual Report on Form 10-K.

**BGSF, Inc. and Subsidiaries**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**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 July 2, 2023 and January 1, 2023, and include the thirteen and twenty-six week periods ended July 2, 2023 and June 26, 2022, referred to herein as Fiscal 2023 and 2022, respectively.

**Reclassifications**

Certain reclassifications have been made to the 2022 financial statements to conform with the 2023 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.

**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, convertible debt, and contingent consideration. The carrying values of cash and cash equivalents, accounts receivables, prepaid expenses, accounts payable, accrued liabilities, and other current assets and liabilities approximate their fair values because of the short-term nature of these instruments. The carrying value of bank debt approximates fair value due to the variable nature of the interest rates under the credit agreement with BMO Harris Bank, N.A. ("BMO") that provides for a revolving credit facility, term loan and current rates available to the Company for debt with similar terms and risk.

**Cash and Cash Equivalents**

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

**Concentration of Credit Risk**

Concentration of credit risk is limited due to the Company's diverse client partner base and their dispersion across many different industries and geographic locations nationwide. No single client partner accounted for more than 10% of the Company's accounts receivable from continuing operations as of July 2, 2023 and January 1, 2023 or revenue from continuing operations for the twenty-six week periods ended July 2, 2023 and June 26, 2022. Geographic revenue from continuing operations in excess of 10% of the Company's consolidated revenue in Fiscal 2023 and the related percentage for Fiscal 2022 was generated in the following areas:

|           | Twenty-six Weeks Ended |                  |
|-----------|------------------------|------------------|
|           | July 2,<br>2023        | June 26,<br>2022 |
| Tennessee | 11 %                   | 11 %             |
| Texas     | 27 %                   | 23 %             |

**BGSF, Inc. and Subsidiaries**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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.

Changes in the allowance for credit losses from continuing operations are as follows (in thousands):

|                                  | Thirteen Weeks Ended |                  | Twenty-six Weeks Ended |                  |
|----------------------------------|----------------------|------------------|------------------------|------------------|
|                                  | July 2,<br>2023      | June 26,<br>2022 | July 2,<br>2023        | June 26,<br>2022 |
| Beginning balance                | \$ 558               | \$ 449           | \$ 558                 | \$ 449           |
| Provision for credit losses, net | 242                  | 82               | 321                    | 133              |
| Amounts written off, net         | (242)                | (82)             | (321)                  | (133)            |
| Ending balance                   | <u>\$ 558</u>        | <u>\$ 449</u>    | <u>\$ 558</u>          | <u>\$ 449</u>    |

Property and Equipment

Property and equipment are stated net of accumulated depreciation and amortization of \$5.1 million and \$4.9 million at July 2, 2023 and January 1, 2023, respectively. During the twenty-six week period ended July 2, 2023, \$1.0 million was reclassified to Other assets and Intangible assets from Property and equipment, primarily related to continued information technology improvements.

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 \$2.4 million, which are included in deposits in the accompanying consolidated balance sheets, as of July 2, 2023 and January 1, 2023, respectively.

Other Assets

The Company capitalizes direct costs incurred in cloud computing implementation costs from hosting arrangements, and are 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. Other assets are stated net of accumulated amortization of \$1.6 million and \$1.2 million at July 2, 2023 and January 1, 2023, respectively. During the twenty-six week period ended July 2, 2023, the Company added \$0.4 million and reclassified \$0.8 million to Other assets from Property and equipment, primarily related to continued information technology improvements.

The Company reviews its long-lived 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 2023 or Fiscal 2022.

Leases

The Company leases all their office space through operating leases, which expire at various dates through 2028. 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.

**BGSF, Inc. and Subsidiaries**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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 internal use software. During the twenty-six week period ended July 2, 2023, the Company added \$0.5 million and reclassified \$0.2 million to Intangible assets from Property and equipment, primarily related to continued information technology improvements. 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 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.

At the February 2023 Board of Directors meeting, managements's plan to rebrand as BGSF was approved, which will eliminate various trade names. The decision to rebrand created an impairment of \$22.5 million in trade names, which was written-off during the first quarter of Fiscal 2023. There were no impairment indicators for these assets during Fiscal 2022. See "Note 7 - Intangible Assets."

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 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 2023 or Fiscal 2022.

Cash Flow Hedge

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.

**BGSF, Inc. and Subsidiaries**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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, placement services, and managed 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 (loss) 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.

Managed services revenues - include both workforce solution revenues and fixed fee revenues from client partner contracts. Services performed represent the transfer of control to the client partner over a given period of time. Fixed fee revenues are recognized in equal amounts at fixed intervals as promised services are delivered.

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 15 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 July 2, 2023. There were no revenues recognized during the thirteen and twenty-six week periods ended July 2, 2023 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 thirteen and twenty-six week periods ended July 2, 2023.

**BGSF, Inc. and Subsidiaries**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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 (in thousands):

|                                                              | Thirteen Weeks Ended |                  | Twenty-six Weeks Ended |                  |
|--------------------------------------------------------------|----------------------|------------------|------------------------|------------------|
|                                                              | July 2,<br>2023      | June 26,<br>2022 | July 2,<br>2023        | June 26,<br>2022 |
| Weighted-average number of common shares outstanding:        | 10,759               | 10,472           | 10,731                 | 10,451           |
| Effect of dilutive securities:                               |                      |                  |                        |                  |
| Stock options and restricted stock                           | 11                   | 42               | —                      | 49               |
| Weighted-average number of diluted common shares outstanding | 10,770               | 10,514           | 10,731                 | 10,500           |
|                                                              |                      |                  |                        |                  |
| Stock options and restricted stock                           | 793                  | 387              | 543                    | 387              |
| Convertible note                                             | 255                  | —                | 255                    | —                |
| Antidilutive shares                                          | 1,048                | 387              | 798                    | 387              |

Income Taxes

The consolidated effective tax rates were 26.6% and 24.6% for the thirteen and twenty-six week periods ended July 2, 2023, respectively. The consolidated rates were 23.7% and 24.7% for the thirteen and twenty-six week periods ended June 26, 2022, respectively. Effective tax rates for all periods consist of federal statutory rate plus state income taxes. The higher effective tax rate for the thirteen period ended July 2, 2023 is primarily due to greater state taxes.

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 July 2, 2023, the Company has a \$3.3 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. Additionally, there was a \$5.2 million increase to the deferred tax assets related to the \$22.5 million in impairment losses as of July 2, 2023.

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 and interest when necessary as part of selling, general and administrative expenses. As of July 2, 2023, goodwill with an adjusted tax basis of \$48.7 million is remaining to be amortized for tax purposes. As a matter of operation, we first calculated 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.

**BGSF, Inc. and Subsidiaries**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

Management has considered all recent accounting pronouncements issued. The Company's management believes that these pronouncements will not have a material effect on the Company's consolidated financial statements.

**NOTE 3 - ACQUISITIONS**

Horn Solutions

On December 12, 2022, the Company acquired substantially all of the assets, and assumed certain of the liabilities, of Horn Solutions. The purchase price of \$42.7 million was paid at closing with \$33.9 million in cash and \$3.4 million of the Company common stock (254,455 shares of the Company common stock privately placed under Section 4(a)(2) of the Securities Act of 1933, as amended), as well as a two-year convertible promissory note of \$4.4 million with an annual interest rate of 6%, with interest paid quarterly. The promissory note is convertible into shares of the Company's common stock at any time after the one-year anniversary of the promissory note at a conversion price equal to \$17.12 per share. The promissory note is subordinate to the Company's senior debt. An additional portion of the purchase price, \$1.0 million in cash was held back as partial security for a post-closing purchase price adjustment. The asset purchase agreement contained a provision for a "true-up" of acquired working capital within 120 days after the closing date. In May 2023, the hold back and true-up were paid, adjusting businesses acquired by \$0.1 million in goodwill. The purchase price at closing was paid out of funds under the Company's credit agreement led by BMO, see "Note 9 - Debt".

The acquired business was assigned to the Professional segment. The acquisition of Horn Solutions allows the Company to strengthen and expand its finance and accounting operations by providing consulting, project loan staff, interim staff, direct hire, and managed services through three complementary business units, strategic accounting and finance, information technology, and transactional accounting and office staffing. Horn Solutions provides services to clients in a variety of industries including, but not limited to energy, financial services, healthcare, real estate and construction, service, manufacturing, and software industries.

For the thirteen week period ended July 2, 2023, Horn Solutions contributed \$6.4 million of revenue and \$0.2 million of operating loss, which included \$0.9 million in amortization expense on acquisition intangibles. For the twenty-six week period ended July 2, 2023, Horn operations contributed \$13.2 million of revenue and \$0.4 million of operating loss, which included \$1.7 million in amortization expense on acquisition intangibles. The purchase price has been allocated to the assets acquired and liabilities assumed as of the date of acquisition as follows (in thousands):

|                                                                     |                  |
|---------------------------------------------------------------------|------------------|
| Accounts receivable                                                 | \$ 3,734         |
| Prepaid expenses and other assets                                   | 118              |
| Property and equipment, net                                         | 83               |
| Right-of-use asset - operating leases                               | 1,528            |
| Intangible assets                                                   | 13,484           |
| Goodwill                                                            | 26,493           |
| Current liabilities assumed                                         | (1,787)          |
| Lease liability - operating leases                                  | (1,528)          |
| Total net assets acquired                                           | <u>\$ 42,125</u> |
| Cash                                                                | \$ 33,940        |
| Hold back                                                           | 1,000            |
| Convertible note                                                    | 4,368            |
| Common stock                                                        | 3,351            |
| Working capital adjustment                                          | (534)            |
| Total fair value of consideration transferred for acquired business | <u>\$ 42,125</u> |



**BGSF, Inc. and Subsidiaries**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

The allocation of the intangible assets is as follows (in thousands):

|                          | Estimated Fair<br>Value | Estimated<br>Useful Lives |
|--------------------------|-------------------------|---------------------------|
| Covenants not to compete | \$ 50                   | 5 years                   |
| Client partner list      | 13,434                  | 10 years                  |
| <b>Total</b>             | <b>\$ 13,484</b>        |                           |

The Company incurred total costs of \$0.4 million related to the Horn Solutions acquisition. These costs were expensed as incurred in selling, general and administrative expenses.

Arroyo Consulting

On April 24, 2023, the Company acquired substantially all of the assets, and assumed certain of the liabilities, of Arroyo Consulting for cash consideration of \$6.8 million. \$0.4 million was held back for certain post-closing liabilities and \$0.9 million was held back for one year as partial security for any indemnification obligations. The purchase agreement further provides for contingent consideration of up to \$8.5 million based on the performance of the acquired business for the two years following the date of acquisition. The purchase price at closing was paid out of funds under the Company's credit agreement led by BMO, see "Note 9 - Debt". The purchase agreement contained a provision for a "true up" of acquired working capital within 120 days after the closing date.

The acquired business was assigned to the Professional segment. The acquisition of Arroyo Consulting allows the Company to strengthen the go-to-market cross-selling efforts providing clients a cost effective alternative offering nearshore and offshore IT resources. Arroyo Consulting provides nearshore and offshore professional workforce solutions specializing in IT and software development with operations in the United States, Colombia, and India.

For the thirteen week period ended July 2, 2023, Arroyo Consulting contributed \$4.1 million of revenue and \$1.0 million of operating income, which included \$0.2 million in amortization expense on acquisition intangibles. The preliminary purchase price has been allocated to the assets acquired and liabilities assumed as of the date of acquisition as follows (in thousands):

|                                                                            |                  |
|----------------------------------------------------------------------------|------------------|
| Accounts receivable                                                        | \$ 3,452         |
| Property and equipment, net                                                | 170              |
| Right-of-use asset - operating lease                                       | 141              |
| Intangible assets                                                          | 11,315           |
| Goodwill                                                                   | 2,879            |
| Current liabilities assumed                                                | (2,471)          |
| Lease liabilities - operating leases                                       | (141)            |
| <b>Total net assets acquired</b>                                           | <b>\$ 15,345</b> |
| Cash                                                                       | \$ 6,800         |
| Hold back, working capital*                                                | \$ 350           |
| Hold back, indemnities*                                                    | \$ 850           |
| Working capital adjustment*                                                | \$ 677           |
| Fair value of contingent consideration                                     | \$ 6,668         |
| <b>Total fair value of consideration transferred for acquired business</b> | <b>\$ 15,345</b> |

\*Included in Other current liabilities

**BGSF, Inc. and Subsidiaries**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

The allocation of the intangible assets is as follows (in thousands):

|                          | Estimated Fair<br>Value | Estimated<br>Useful Lives |
|--------------------------|-------------------------|---------------------------|
| Covenants not to compete | \$ 298                  | 5 years                   |
| Client partner list      | 11,017                  | 10 years                  |
| <b>Total</b>             | <b>\$ 11,315</b>        |                           |

The Company incurred costs of \$0.5 million related to the Arroyo Consulting acquisition. These costs were expensed as incurred in selling, general and administrative expenses.

Supplemental Unaudited Pro Forma Information

The Company estimates what would have been reported if the revenues and net income from continuing operations of the Horn Solutions and Arroyo Consulting acquisition had taken place on the first day of Fiscal 2022 (in thousands, except income per share):

|                                                     | Thirteen Weeks Ended |           | Twenty-six Weeks Ended |               |
|-----------------------------------------------------|----------------------|-----------|------------------------|---------------|
|                                                     | #SHEET!              | #SHEET!   | #SHEET!                | June 26, 2022 |
| Revenues                                            | \$ 82,428            | \$ 86,696 | \$ 162,919             | \$ 166,219    |
| Gross profit                                        | \$ 30,026            | \$ 30,678 | \$ 58,527              | \$ 58,772     |
| Net income (loss)                                   | \$ 2,755             | \$ 4,751  | \$ (12,933)            | \$ 7,004      |
| Income (loss) per share from continuing operations: |                      |           |                        |               |
| Basic                                               | \$ 0.26              | \$ 0.45   | \$ (1.21)              | \$ 0.67       |
| Diluted                                             | \$ 0.26              | \$ 0.45   | \$ (1.21)              | \$ 0.67       |

Pro forma net income (loss) includes amortization of primarily client partner lists, interest expense on additional borrowings on the New Term Loan and the Revolving Facility (see "Note 9 - Debt") at a rate of 2.5%. The tax benefit of the pro forma adjustments at effective tax rates of 26.6% and 24.6% for the thirteen and twenty-six week periods ended July 2, 2023, respectively, and effective tax rates of 23.7% and 24.7% for the thirteen and twenty-six week periods ended June 26, 2022, respectively. The pro forma operating results include adjustments to Horn Solutions and Arroyo Consulting 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 Horn Solutions and Arroyo Consulting acquisitions taken place on the first day of Fiscal 2022 or the results that may be achieved by the combined enterprise in the future.

**BGSF, Inc. and Subsidiaries**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 - DISCONTINUED OPERATIONS**

On March 21, 2022, the Company sold substantially all of the assets and certain liabilities of 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 provided for deferred consideration of \$2.0 million, which was received April 3, 2023. The sale resulted in an original pre-tax gain on sale of discontinued operations of \$17.3 million, with an additional gain of \$0.4 million recognized as part of the net working capital adjustment in October 2022.

The InStaff financial results for periods prior to the sale have been reflected in our Consolidated Statements of Operations and Comprehensive (Loss) Income and Consolidated Statements of Cash Flows as discontinued operations.

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

|                                                                          | Twenty-six Weeks<br>Ended<br>June 26, 2022 |
|--------------------------------------------------------------------------|--------------------------------------------|
| Revenue                                                                  | \$ 16,465                                  |
| Cost of services                                                         | 14,144                                     |
| Gross profit                                                             | 2,321                                      |
| Selling expenses                                                         | 1,062                                      |
| Depreciation                                                             | 24                                         |
| Income from discontinued operations before gain on sale and income taxes | \$ 1,235                                   |

**NOTE 5 - OTHER CURRENT ASSETS**

Other current assets as of July 2, 2023 and January 1, 2023 consist of the following (in thousands):

|                                                                 | July 2,<br>2023 | January 1, 2023 |
|-----------------------------------------------------------------|-----------------|-----------------|
| CARES Act receivable                                            | \$ 2,368        | \$ 2,368        |
| Deferred consideration - See "Note 4 - Discontinued Operations" | —               | 2,000           |
| Income tax receivable                                           | 1,297           | 1,667           |
| Other                                                           | 852             | 1,424           |
| Total                                                           | \$ 4,517        | \$ 7,459        |

**NOTE 6 - LEASES**

The Company's future operating lease obligations that have not yet commenced are immaterial. Short-term leases were immaterial. The Company had \$0.5 million from continuing operations in operating lease costs for the thirteen week periods ended July 2, 2023 and June 26, 2022, respectively. The Company had \$1.0 million from continuing operations in operating lease expense for the twenty-six week periods ended July 2, 2023 and June 26, 2022, respectively.

The supplemental balance sheet information related to the Company's operating leases were as follows:

|                                                                | July 2,<br>2023 | January 1,<br>2023 |
|----------------------------------------------------------------|-----------------|--------------------|
| Weighted average remaining lease term of operation leases      | 3.4 years       | 3.3 years          |
| Weighted average discount rate for continuing operating leases | 5.7 %           | 5.2 %              |

**BGSF, Inc. and Subsidiaries**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

The supplemental cash flow information related to the Company's operating leases were as follows (dollars in thousands):

|                                                                              | Twenty-six Weeks Ended |                  |
|------------------------------------------------------------------------------|------------------------|------------------|
|                                                                              | July 2,<br>2023        | June 26,<br>2022 |
| Cash paid for operating leases                                               | \$ 1,115               | \$ 1,081         |
| Right-of-use assets obtained in exchange for new operating lease liabilities | \$ 917                 | \$ 48            |

The undiscounted annual future minimum lease payments consist of the following at (in thousands):

|                                    | July 2,<br>2023 |
|------------------------------------|-----------------|
| 2023 (remaining)                   | \$ 1,035        |
| 2024                               | 1,782           |
| 2025                               | 1,014           |
| 2026                               | 615             |
| 2027                               | 575             |
| Thereafter                         | 294             |
| Total lease payments               | 5,315           |
| Imputed interest                   | (505)           |
| Present value of lease liabilities | \$ 4,810        |

**NOTE 7 - INTANGIBLE ASSETS**

Intangible assets from continuing operations are stated net of accumulated amortization of \$46.7 million and \$44.6 million at July 2, 2023 and January 1, 2023, respectively. During the second quarter of Fiscal 2023, the Company reevaluated the Horn Solutions client partner list, reclassifying \$0.4 million reducing the carrying value of the client lists and increasing \$0.4 million to goodwill. Amortization expense from continuing operations for Fiscal 2023 and Fiscal 2022 are comprised of following (in thousands):

|                                                                 | Thirteen Weeks Ended |                  | Twenty-six Weeks Ended |                  |
|-----------------------------------------------------------------|----------------------|------------------|------------------------|------------------|
|                                                                 | July 2,<br>2023      | June 26,<br>2022 | July 2,<br>2023        | June 26,<br>2022 |
| Client partner lists                                            | \$ 1,482             | \$ 488           | \$ 2,788               | \$ 990           |
| Covenant not to compete                                         | 67                   | 55               | 123                    | 110              |
| Acquisition intangibles                                         | 1,549                | 543              | 2,911                  | 1,100            |
| Computer software - amortization expense                        | 280                  | 227              | 547                    | 408              |
| Amortization expense                                            | 1,829                | 770              | 3,458                  | 1,508            |
| Computer software - selling, general and administrative expense | —                    | 39               | —                      | 78               |
| Total expense                                                   | \$ 1,829             | \$ 809           | \$ 3,458               | \$ 1,586         |

**BGSF, Inc. and Subsidiaries**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8 - ACCRUED PAYROLL AND EXPENSES AND CONTINGENT CONSIDERATION**

Accrued payroll and expenses from continuing operations consist of the following at (in thousands):

|                                 | July 2,<br>2023  | January 1,<br>2023 |
|---------------------------------|------------------|--------------------|
| Field talent payroll            | \$ 6,205         | \$ 6,923           |
| Field talent payroll related    | 1,371            | 941                |
| Accrued bonuses and commissions | 2,861            | 5,740              |
| Other                           | 6,849            | 5,567              |
| Accrued payroll and expenses    | <u>\$ 17,286</u> | <u>\$ 19,171</u>   |

**NOTE 9 - 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 the revolving facility (the "Revolving Facility") permitting the Company to borrow funds from time to time in an aggregate amount up to \$35.0 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 \$30.0 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 and repaid. The Company also had the option to request an increase in the aggregate Term Loan by \$40.0 million, which was done in connection with the Horn Solutions acquisition. The Company's obligations under the Credit Amendment are secured by a first priority security interest in substantially all tangible and intangible property of the Company and its subsidiaries. The Credit Agreement bore interest either at the Base Rate plus the Applicable Margin or LIBOR plus the Applicable Margin through August 17, 2022 (as such terms are defined in the Credit Agreement). The Company pays an unused commitment fee on the daily average unused amount of Revolving Facility.

On August 18, 2022, the Company entered into an amendment to the Credit Agreement with BMO, which changed the interest rate component from LIBOR to the Secured Overnight Financing Rate ("SOFR"), plus the Applicable Margin (as such terms are defined in the amended credit agreement).

In connection with the Horn Solutions acquisition on December 12, 2022 (See "Note 3 - Acquisitions"), the Company exercised the option to borrow \$40.0 million, as noted above, pursuant to a second amendment to the Credit Agreement ("Second Credit Amendment"). The Second Credit Amendment requires 2.5% of the original principal balance of the New Term Loan payable on the last business day of each quarter, beginning on March 31, 2023.

On April 24, 2023, in connection with the acquisition of Arroyo Consulting, the Company entered into a Third Amendment to the Credit Agreement ("Third Credit Amendment") with BMO. The Third Credit Amendment revised language to permit an acquisition of a foreign entity under certain circumstances and modified the terms of permitted distributions and guarantors.

On May 19, 2023, the Company entered into a Fourth Amendment to the Credit Agreement ("Fourth Credit Amendment"). The Fourth Credit Amendment increased the Revolving Facility by \$6.0 million to an aggregate amount up to \$41.0 million.

The Company is subject to a maximum Leverage Ratio and a minimum Fixed Charge Coverage Ratio (as such terms are defined in the amended Second Credit Amendment). The Company was in compliance with the customary affirmative and negative covenants as of July 2, 2023.

Letter of Credit

In March 2020, in conjunction with the 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 July 2, 2023, 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 July 2, 2023.

**BGSF, Inc. and Subsidiaries**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

Line of Credit

At July 2, 2023 and January 1, 2023, \$25.0 million and \$22.6 million respectively, was outstanding on the revolving facilities. Average daily balance for the thirteen week periods ended July 2, 2023 and June 26, 2022 was \$25.4 million and \$13.8 million, respectively. Average daily balance for the twenty-six week periods ended July 2, 2023 and June 26, 2022 was \$23.0 million and \$14.5 million, respectively.

Borrowings under the revolving facilities consisted of and bore interest at (in thousands):

|           | July 2,<br>2023 |        | January 1,<br>2023 |                 |
|-----------|-----------------|--------|--------------------|-----------------|
| Base Rate | \$              | —      | — %                | \$ 2,562 8.25 % |
| SOFR      |                 | 5,000  | 7.49 %             | — — %           |
| SOFR      |                 | 20,000 | 7.45 %             | 20,000 6.45 %   |
| Total     | \$              | 25,000 |                    | \$ 22,562       |

Long-Term Debt

Long-term debt consisted of and bore interest at (in thousands):

|      | July 2,<br>2023 |               | January 1,<br>2023 |               |
|------|-----------------|---------------|--------------------|---------------|
| SOFR | \$              | 38,000 7.50 % | \$                 | 40,000 6.72 % |

Convertible Note

At July 2, 2023 and January 1, 2023, the Company had a two-year convertible promissory note of \$4.4 million due to the seller with an annual interest rate of 6%, with interest paid quarterly related to the Horn Solutions acquisition on December 12, 2022 (See “Note 3 - Acquisitions”). The promissory note is convertible into shares of our common stock at any time after the one-year anniversary of the promissory note at a conversion price equal to \$17.12 per share. The promissory note is subordinate to the Company’s senior debt.

**NOTE 10 - 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 (in thousands):

| Amounts Recorded at Fair Value | Financial Statement Classification                    | Fair Value Hierarchy | July 2,<br>2023 | January 1,<br>2023 |
|--------------------------------|-------------------------------------------------------|----------------------|-----------------|--------------------|
| Convertible note               | Convertible note                                      | Level 2              | \$ 4,368        | \$ 4,368           |
| Contingent consideration, net  | Contingent consideration, net - current and long-term | Level 3              | \$ 6,841        | \$ 1,081           |

**BGSF, Inc. and Subsidiaries**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

The change in the Level 3 fair value measurements from January 1, 2023 to July 2, 2023 relates primarily to an increase from the Arroyo Consulting acquisition, including \$0.2 million in accretion, offset by a \$1.1 million payment for Momentum Solutionz acquisition.

Key inputs in determining the fair value of the contingent consideration as of July 2, 2023 and January 1, 2023 included discount rates of approximately 16% as well as management's estimates of future sales volumes and earnings before interest, income taxes, depreciation, and amortization ("EBITDA").

**NOTE 11 - CONTINGENCIES**

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

The Company insures against, subject to and upon the terms and conditions of various insurance policies, claims or losses from workers' compensation, general liability, automobile liability, property damage, professional liability, employment practices, fiduciary liability, fidelity losses, crime and cyber risk, and director and officer liability. Under the Company's bylaws, the Company's directors and officers are indemnified against certain liabilities arising out of the performance of their duties to the Company. The Company also has an insurance policy for our directors and officers to insure them against liabilities arising from the performance of their positions with the Company or its subsidiaries. The Company has also entered into indemnification agreements with its directors and certain officers.

**NOTE 12 – 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 restricted common stock of 34,112 and 19,434 shares to team members and non-team member (non-employee) directors in Fiscal 2023 and Fiscal 2022, respectively. 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 13 – SHARE-BASED COMPENSATION**

Stock Options

For the thirteen week periods ended July 2, 2023 and June 26, 2022, the Company recognized \$0.1 million of compensation expense from continuing operations related to stock options. For the twenty-six week periods ended July 2, 2023 and June 26, 2022, the Company recognized \$0.2 million and \$0.3 million, respectively, of compensation expense from continuing operations related to stock options. Unamortized share-based compensation expense from continuing operations as of July 2, 2023 amounted to \$0.9 million which is expected to be recognized over the next 2.4 years. As of July 2, 2023, a total of 1.0 million shares remain available for issuance under 2013 Plan.

**BGSF, Inc. and Subsidiaries**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

A summary of stock option activity is presented as follows:

|                                          | Number of<br>Shares | Weighted<br>Average Exercise<br>Price Per Share | Weighted Average<br>Remaining<br>Contractual Life | Total Intrinsic Value<br>of Awards<br>(in thousands) |
|------------------------------------------|---------------------|-------------------------------------------------|---------------------------------------------------|------------------------------------------------------|
| Options outstanding at January 1, 2023   | 821,679             | \$ 16.08                                        | 6.4                                               | \$ 1,907                                             |
| Granted                                  | 22,970              | \$ 11.84                                        |                                                   |                                                      |
| Exercised                                | (4,800)             | \$ 6.25                                         |                                                   |                                                      |
| Forfeited / Canceled                     | (8,000)             | \$ 11.91                                        |                                                   |                                                      |
| Options outstanding at July 2, 2023      | 831,849             | \$ 16.06                                        | 6.1                                               | \$ 108                                               |
| Options exercisable at January 1, 2023   | 573,863             | \$ 17.50                                        | 5.4                                               | \$ 1,164                                             |
| Options exercisable at July 2, 2023      | 577,128             | \$ 17.75                                        | 5.0                                               | \$ 108                                               |
|                                          |                     |                                                 | Number of<br>Shares                               | Weighted<br>Average Grant<br>Date Fair Value         |
| Nonvested outstanding at January 1, 2023 |                     |                                                 | 247,816                                           | \$ 7.64                                              |
| Nonvested outstanding at July 2, 2023    |                     |                                                 | 254,721                                           | \$ 7.35                                              |

**Restricted Stock**

For the thirteen week periods ended July 2, 2023 and June 26, 2022, the Company recognized \$0.1 million of compensation expense related to restricted stock awards, respectively. For the twenty-six week periods ended July 2, 2023 and June 26, 2022, the Company recognized \$0.3 million and \$0.2 million of compensation expense related to restricted stock awards, respectively. Unamortized share-based compensation expense as of July 2, 2023 amounted to \$0.7 million which is expected to be recognized over the next 1.7 years.

**NOTE 14 - 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 \$0.5 million and \$0.4 million from continuing operations to the 401(k) Plan for the thirteen week periods ended July 2, 2023 and June 26, 2022, respectively. The Company contributed \$1.0 million and \$0.9 million from continuing operations to the 401(k) Plan for the twenty-six week periods ended July 2, 2023 and June 26, 2022, respectively.

**NOTE 15 - BUSINESS SEGMENTS**

The Company has continuing operations in two industry segments Real Estate and Professional.

Segment income (loss) 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 income taxes, and other assets.



**BGSF, Inc. and Subsidiaries**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

|                                          | Thirteen Weeks Ended |                  | Twenty-six Weeks Ended |                    |
|------------------------------------------|----------------------|------------------|------------------------|--------------------|
|                                          | July 2,<br>2023      | June 26,<br>2022 | July 2,<br>2023        | June 26,<br>2022   |
| Revenue:                                 |                      |                  |                        |                    |
| Real Estate                              | \$ 31,071            | \$ 29,980        | \$ 59,477              | \$ 55,896          |
| Professional                             | 49,729               | 44,109           | 96,639                 | 86,735             |
| Total                                    | <u>\$ 80,800</u>     | <u>\$ 74,089</u> | <u>\$ 156,116</u>      | <u>\$ 142,631</u>  |
| Depreciation:                            |                      |                  |                        |                    |
| Real Estate                              | \$ 33                | \$ 47            | \$ 68                  | \$ 95              |
| Professional                             | 67                   | 89               | 143                    | 185                |
| Home office                              | 11                   | 16               | 27                     | 33                 |
| Total                                    | <u>\$ 111</u>        | <u>\$ 152</u>    | <u>\$ 238</u>          | <u>\$ 313</u>      |
|                                          |                      |                  |                        |                    |
|                                          | Thirteen Weeks Ended |                  | Twenty-six Weeks Ended |                    |
|                                          | July 2,<br>2023      | June 26,<br>2022 | July 2,<br>2023        | June 26,<br>2022   |
| Amortization:                            |                      |                  |                        |                    |
| Professional                             | \$ 1,549             | \$ 543           | \$ 2,911               | \$ 1,100           |
| Home office                              | 280                  | 227              | 547                    | 408                |
| Total                                    | <u>\$ 1,829</u>      | <u>\$ 770</u>    | <u>\$ 3,458</u>        | <u>\$ 1,508</u>    |
| Operating income (loss):                 |                      |                  |                        |                    |
| Real Estate                              | \$ 5,774             | \$ 4,817         | \$ 10,464              | \$ 8,852           |
| Professional - without impairment losses | 3,786                | 3,817            | 6,413                  | 7,286              |
| Professional - impairment losses         | —                    | —                | (22,545)               | —                  |
| Home office                              | (4,510)              | (4,395)          | (10,011)               | (9,083)            |
| Total                                    | <u>\$ 5,050</u>      | <u>\$ 4,239</u>  | <u>\$ (15,679)</u>     | <u>\$ 7,055</u>    |
| Capital expenditures:                    |                      |                  |                        |                    |
| Real Estate                              | \$ 21                | \$ 45            | \$ 53                  | \$ 53              |
| Professional                             | 184                  | 26               | 232                    | 50                 |
| Home office                              | 540                  | 1,409            | 1,205                  | 3,427              |
| Total                                    | <u>\$ 745</u>        | <u>\$ 1,480</u>  | <u>\$ 1,490</u>        | <u>\$ 3,530</u>    |
|                                          |                      |                  |                        |                    |
|                                          |                      |                  | July 2,<br>2023        | January 1,<br>2023 |
| Total Assets:                            |                      |                  |                        |                    |
| Real Estate                              |                      | \$               | 29,681                 | 29,302             |
| Professional                             |                      |                  | 125,528                | 141,018            |
| Home office                              |                      |                  | 27,229                 | 24,353             |
| Total                                    |                      | <u>\$</u>        | <u>182,438</u>         | <u>194,673</u>     |

**NOTE 16 - SUBSEQUENT EVENTS**

Dividend

On August 9, 2023, 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 28, 2023 to all shareholders of record as of the close of business on August 21, 2023.

**BGSF, Inc. and Subsidiaries**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**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 January 1, 2023. Comparative segment revenues and related financial information are discussed herein and are presented in Note 15 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 January 1, 2023, 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 provide consulting, managed services, and professional workforce solutions to a variety of industries through our various divisions in information technology ("IT"), Finance & Accounting, Managed Services, and Real Estate (apartment communities and commercial buildings).

On March 21, 2022, we sold substantially all of the assets and certain liabilities of InStaff to Sentech Engineering Services, Inc. for a sale price of approximately \$30.3 million cash at closing and an additional \$2 million one year following the date of the acquisition. See "Note 4 — Discontinued Operations" of our unaudited consolidated financial statements.

On December 12, 2022, we acquired substantially all of the assets, and assumed certain of the liabilities of Horn Solutions, Inc. and Horn Solutions Dallas, LLC (collectively "Horn Solutions"), which offers consulting, project loan staff, interim staff, direct hire, and managed services. At closing, we exercised the option to borrow \$40 million in a second amendment to the Credit Agreement with BMO Harris Bank, N.A. ("BMO"). See "Note 3 — Acquisitions" of our our unaudited consolidated financial statements.

On April 24, 2023, we acquired substantially all of the assets and assumed certain of the liabilities of Arroyo Consulting, LLC ("Arroyo Consulting"), which is a nearshore and offshore workforce solutions firm that specializes in IT and software development with operations in the United States, Colombia, and India. At closing, \$6.8 million of the closing price was paid with proceeds from our Credit Agreement with BMO. See "Note 3 — Acquisitions" of our our unaudited consolidated financial statements.

We currently operate primarily within the United States of America in our Real Estate and Professional segments.

Our Real Estate segment provides office and maintenance field talent to various apartment communities and commercial buildings in 37 states and D.C., via property management companies responsible for the apartment communities' and commercial buildings' day-to-day operations.

Our Professional segment provides specialized talent and business consultants on a nationwide basis for IT, managed services, finance, accounting, legal, and human resources. The Professional segment operates through three divisions, IT, Managed Services, and Finance & Accounting.

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' business. Demand for our Real Estate workforce solutions typically increase 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.

## Results of Operations

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

|                                                              | Thirteen Weeks Ended |                  | Twenty-six Weeks Ended |                  |
|--------------------------------------------------------------|----------------------|------------------|------------------------|------------------|
|                                                              | July 2,<br>2023      | June 26,<br>2022 | July 2,<br>2023        | June 26,<br>2022 |
| (dollars in thousands)                                       |                      |                  |                        |                  |
| Revenues                                                     | \$ 80,800            | \$ 74,089        | \$ 156,116             | \$ 142,631       |
| Cost of services                                             | 51,226               | 49,030           | 99,758                 | 94,141           |
| Gross profit                                                 | 29,574               | 25,059           | 56,358                 | 48,490           |
| Selling, general and administrative expenses                 | 22,584               | 19,898           | 45,796                 | 39,614           |
| Impairment losses                                            | —                    | —                | 22,545                 | —                |
| Depreciation and amortization                                | 1,940                | 922              | 3,696                  | 1,821            |
| Operating income (loss)                                      | 5,050                | 4,239            | (15,679)               | 7,055            |
| Interest expense, net                                        | (1,502)              | (69)             | (2,703)                | (343)            |
| Income (loss) from continuing operations before income taxes | 3,548                | 4,170            | (18,382)               | 6,712            |
| Income tax (expense) benefit from continuing operations      | (944)                | (986)            | 4,520                  | (1,521)          |
| Income (loss) from continuing operations                     | 2,604                | 3,184            | (13,862)               | 5,191            |
| Income from discontinued operations:                         |                      |                  |                        |                  |
| Income                                                       | —                    | —                | —                      | 1,235            |
| (Loss) gain on sale                                          | —                    | (8)              | —                      | 17,266           |
| Income tax expense                                           | —                    | —                | —                      | (4,716)          |
| Net income (loss)                                            | \$ 2,604             | \$ 3,176         | \$ (13,862)            | \$ 18,976        |

|                                                              | Thirteen Weeks Ended |                  | Twenty-six Weeks Ended |                  |
|--------------------------------------------------------------|----------------------|------------------|------------------------|------------------|
|                                                              | July 2,<br>2023      | June 26,<br>2022 | July 2,<br>2023        | June 26,<br>2022 |
| Revenues                                                     | 100.0 %              | 100.0 %          | 100.0 %                | 100.0 %          |
| Cost of services                                             | 63.4 %               | 66.2 %           | 63.9 %                 | 66.0 %           |
| Gross profit                                                 | 36.6 %               | 33.8 %           | 36.1 %                 | 34.0 %           |
| Selling, general and administrative expenses                 | 28.0 %               | 26.9 %           | 29.3 %                 | 27.8 %           |
| Impairment losses                                            | — %                  | — %              | 14.4 %                 | — %              |
| Depreciation and amortization                                | 2.4 %                | 1.2 %            | 2.4 %                  | 1.3 %            |
| Operating income (loss)                                      | 6.3 %                | 5.7 %            | (10.0)%                | 4.9 %            |
| Interest expense, net                                        | (1.9)%               | (0.1)%           | (1.7)%                 | (0.2)%           |
| Income (loss) from continuing operations before income taxes | 4.4 %                | 5.6 %            | (11.8)%                | 4.7 %            |
| Income tax (expense) benefit from continuing operations      | (1.2)%               | (1.3)%           | 2.9 %                  | (1.1)%           |
| Income (loss) from continuing operations                     | 3.2 %                | 4.3 %            | (8.9)%                 | 3.6 %            |

**Thirteen Week Fiscal Period Ended July 2, 2023 (“Fiscal 2023”) Compared with Thirteen Week Fiscal Period Ended June 26, 2022 (“Fiscal 2022”)**

**Revenues:**

| Revenues:            |  | Thirteen Weeks Ended   |        |                  |                   |
|----------------------|--|------------------------|--------|------------------|-------------------|
|                      |  | July 2,<br>2023        |        | June 26,<br>2022 |                   |
|                      |  | (dollars in thousands) |        |                  |                   |
| Revenues by segment: |  |                        |        |                  |                   |
| Real Estate          |  | \$                     | 31,071 | 38.5 %           | \$ 29,980 40.5 %  |
| Professional         |  |                        | 49,729 | 61.5 %           | 44,109 59.5 %     |
| Total Revenues       |  | \$                     | 80,800 | 100.0 %          | \$ 74,089 100.0 % |

**Real Estate Revenues:** Real Estate revenues increased approximately \$1.1 million (3.6%). The increase was primarily driven by an increase in average billing rates.

**Professional Revenues:** Professional revenues were up \$5.6 million (12.7%). Horn Solutions and Arroyo Consulting contributed a total of \$10.5 million, while the remaining Professional business declined \$4.9 million (11.0%) versus the prior year.

**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   |         |                  |                |
|--------------------------|----|------------------------|---------|------------------|----------------|
|                          |    | July 2,<br>2023        |         | June 26,<br>2022 |                |
|                          |    | (dollars in thousands) |         |                  |                |
| Gross Profit by segment: |    |                        |         |                  |                |
| Real Estate              | \$ | 12,652                 | 42.8 %  | \$               | 11,574 46.2 %  |
| Professional             |    | 16,922                 | 57.2 %  |                  | 13,485 53.8 %  |
| Total Gross Profit       | \$ | 29,574                 | 100.0 % | \$               | 25,059 100.0 % |

|                                     | Thirteen Weeks Ended |                  |
|-------------------------------------|----------------------|------------------|
|                                     | July 2,<br>2023      | June 26,<br>2022 |
| Gross Profit Percentage by segment: |                      |                  |
| Real Estate                         | 40.7 %               | 38.6 %           |
| Professional                        | 34.0 %               | 30.6 %           |
| Company Gross Profit                | 36.6 %               | 33.8 %           |

Total company gross profit increased approximately \$4.5 million (18.0%). As a percentage of revenue, gross profit increased to 36.6% from 33.8%, with both segments contributing to the increase.

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

**Real Estate Gross Profit:** Real Estate gross profit increased approximately \$1.1 million (9.3%) driven by a 3.6% increase in revenue and gross profit margin expansion of 210 bps.

**Professional Gross Profit:** Professional gross profit increased approximately \$3.4 million (25.5%). Horn Solutions and Arroyo Consulting contributed a total of \$4.5 million in gross profit, while the remaining Professional business decreased approximately \$1.0 million (7.5%).

**Selling, General and Administrative Expenses:** Selling, general and administrative expenses increased \$2.7 million versus the prior year. While selling expenses are not separated from general and administrative expenses in the expense categories below, total selling expenses increased \$2.6 million (approximately 96% of the \$2.7 million increase) versus the prior year. Total selling expenses included \$2.6 million related to Horn Solutions and Arroyo Consulting. Acquisition transaction fees increased \$0.4 million and workers' compensation loss retention return increased \$0.4 million over the prior year quarter.

|                                             | Thirteen Weeks Ended   |              |                  |              |              |             |
|---------------------------------------------|------------------------|--------------|------------------|--------------|--------------|-------------|
|                                             | July 2,<br>2023        |              | June 26,<br>2022 |              | \$<br>Change | %<br>Change |
|                                             | Amount                 | % of Revenue | Amount           | % of Revenue |              |             |
|                                             |                        |              |                  |              |              |             |
|                                             | (dollars in thousands) |              |                  |              |              |             |
| Compensation and related                    | \$ 17,741              | 22 %         | \$ 15,435        | 21 %         | \$ 2,306     | 15 %        |
| Advertising and recruitment                 | 605                    | 1 %          | 488              | 1 %          | 117          | 1 %         |
| Occupancy and office operations             | 790                    | 1 %          | 589              | 1 %          | 201          | 34 %        |
| Travel, meals and entertainment             | 398                    | 1 %          | 238              | — %          | 160          | 67 %        |
| Software                                    | 1,233                  | 2 %          | 1,521            | 2 %          | (288)        | (19)%       |
| Liability insurance                         | 272                    | — %          | 246              | — %          | 26           | 11 %        |
| Professional fees                           | 440                    | 1 %          | 366              | — %          | 74           | 20 %        |
| Public company related costs                | 223                    | — %          | 186              | — %          | 37           | 20 %        |
| Bad debt                                    | 242                    | — %          | 82               | — %          | 160          | 195 %       |
| Share-based compensation                    | 75                     | — %          | 243              | — %          | (168)        | (69)%       |
| Transaction fees                            | 435                    | 1 %          | 10               | — %          | 425          | — %         |
| Workers' compensation loss retention return | (491)                  | (1)%         | (117)            | — %          | (374)        | — %         |
| Other                                       | 619                    | 1 %          | 611              | 1 %          | 8            | 1 %         |
| Total                                       | \$ 22,582              | 28 %         | \$ 19,898        | 27 %         | \$ 2,684     | 13 %        |

**Depreciation and Amortization:** Depreciation and amortization charges increased \$1.0 million primarily due to amortization of intangible assets created by the Horn Solutions and Arroyo Consulting acquisitions.

**Interest Expense, net:** Interest expense, net increased \$1.4 million primarily due to higher debt related to the Horn Solutions and Arroyo Consulting acquisitions and higher interest rates.

**Income Tax:** Income tax was consistent with prior year quarter primarily due to higher effective tax rates from greater state taxes which were offset by lower pre-tax income in Fiscal 2023.

**Twenty-six Week Fiscal Period Ended July 2, 2023 (“Fiscal 2023”) Compared with Twenty-six Week Fiscal Period Ended June 26, 2022 (“Fiscal 2022”)**

**Revenues:**

| <i>Revenues:</i>       |    |         | Twenty-six Weeks Ended |    |                  |
|------------------------|----|---------|------------------------|----|------------------|
|                        |    |         | July 2,<br>2023        |    | June 26,<br>2022 |
| (dollars in thousands) |    |         |                        |    |                  |
| Revenues by segment:   |    |         |                        |    |                  |
| Real Estate            | \$ | 59,477  | 38.1 %                 | \$ | 55,896 39.2 %    |
| Professional           |    | 96,639  | 61.9 %                 |    | 86,735 60.8 %    |
| Total Revenues         | \$ | 156,116 | 100.0 %                | \$ | 142,631 100.0 %  |

**Real Estate Revenues:** Real Estate revenues increased approximately \$3.6 million (6.4%). The increase was primarily driven by an increase in average billing rates.

**Professional Revenues:** Professional revenues increased approximately \$9.9 million (11.4%), as new revenue from Horn Solutions and Arroyo Consulting contributed \$17.3 million of new revenues offset by a \$7.4 million decline in the core Professional segment.

**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 |        |                  |                   |
|--------------------------|--|------------------------|--------|------------------|-------------------|
|                          |  | July 2,<br>2023        |        | June 26,<br>2022 |                   |
|                          |  | (dollars in thousands) |        |                  |                   |
| Gross Profit by segment: |  |                        |        |                  |                   |
| Real Estate              |  | \$                     | 23,999 | 42.6 %           | \$ 21,545 44.4 %  |
| Professional             |  |                        | 32,359 | 57.4 %           | 26,945 55.6 %     |
| Total Gross Profit       |  | \$                     | 56,358 | 100.0 %          | \$ 48,490 100.0 % |

|                                     | Twenty-six Weeks Ended |                  |
|-------------------------------------|------------------------|------------------|
|                                     | July 2,<br>2023        | June 26,<br>2022 |
| Gross Profit Percentage by segment: |                        |                  |
| Real Estate                         | 40.3 %                 | 38.5 %           |
| Professional                        | 33.5 %                 | 31.1 %           |
| Company Gross Profit                | 36.1 %                 | 34.0 %           |

Overall, our gross profit increased approximately \$7.9 million (16.2%). As a percentage of revenue, gross profit has increased to 36.1% from 34.0%, with both segments contributing to the increase.

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

**Real Estate Gross Profit:** Real Estate gross profit increased approximately \$2.5 million (11.4%) driven by 6.4% increase in revenue and gross profit margin expansion of 190 bps.

**Professional Gross Profit:** Professional gross profit increased approximately \$5.4 million (20.1%). Horn Solutions and Arroyo Consulting contributed a total of \$7.4 million in gross profit offset by a \$2.0 million (7.5%) decline in the core Professional segment.

**Selling, General and Administrative Expenses:** Selling, general and administrative expenses increased \$6.2 million versus the prior year. While selling expenses are not separated from general and administrative expenses in the expense categories below, total selling expenses increased \$5.4 million (approximately 87% of the \$6.2 million increase) versus the prior year. Total selling expense increase included \$4.9 million related to Horn Solutions and Arroyo Consulting. Acquisition transaction fees increased \$0.8 million and workers' compensation loss retention return increased \$0.4 million over the prior year quarter.

|                                             | Twenty-six Weeks Ended |              |                  |              |              |             |                        |       |       |
|---------------------------------------------|------------------------|--------------|------------------|--------------|--------------|-------------|------------------------|-------|-------|
|                                             | July 2,<br>2023        |              | June 26,<br>2022 |              | \$<br>Change | %<br>Change |                        |       |       |
|                                             | Amount                 | % of Revenue | Amount           | % of Revenue |              |             |                        |       |       |
|                                             |                        |              |                  |              |              |             | (dollars in thousands) |       |       |
| Compensation and related                    | \$                     | 35,692       | 23 %             | \$           | 30,839       | 22 %        | \$                     | 4,853 | 16 %  |
| Advertising and recruitment                 |                        | 1,198        | 1 %              |              | 971          | 1 %         |                        | 228   | 23 %  |
| Occupancy and office operations             |                        | 1,582        | 1 %              |              | 1,387        | 1 %         |                        | 196   | 14 %  |
| Travel, meals and entertainment             |                        | 729          | 1 %              |              | 427          | — %         |                        | 302   | 71 %  |
| Software                                    |                        | 2,718        | 2 %              |              | 2,636        | 2 %         |                        | 82    | 3 %   |
| Liability insurance                         |                        | 538          | — %              |              | 486          | — %         |                        | 52    | 11 %  |
| Professional fees                           |                        | 898          | 1 %              |              | 979          | 1 %         |                        | (82)  | (8)%  |
| Public company related costs                |                        | 408          | — %              |              | 360          | — %         |                        | 48    | 13 %  |
| Bad debt                                    |                        | 321          | — %              |              | 133          | — %         |                        | 188   | 141 % |
| Share-based compensation                    |                        | 436          | — %              |              | 454          | — %         |                        | (18)  | (4)%  |
| Transaction Fees                            |                        | 753          | 1 %              |              | —            | — %         |                        | 753   | — %   |
| Workers’ compensation loss retention return |                        | (491)        | — %              |              | (117)        | — %         |                        | (374) | 320 % |
| Other                                       |                        | 1,014        | 1 %              |              | 1,059        | 1 %         |                        | (46)  | (4)%  |
| Total                                       | \$                     | 45,796       | 29 %             | \$           | 39,614       | 28 %        | \$                     | 6,182 | 16 %  |

**Impairment losses:** At the February 2023 Board of Directors meeting, managements's plan to rebrand as BGSF was approved, which eliminated the use of various trade names. The decision to rebrand created an impairment of \$22.5 million in trade names, which were written-off during Fiscal 2023.

**Depreciation and Amortization:** Depreciation and amortization charges increased approximately \$1.9 million (103.0%). The increase in depreciation and amortization is primarily due to the amortization of intangible assets related to the Horn Solutions and Arroyo Consulting acquisitions.

**Interest Expense, net:** Interest expense, net increased approximately \$2.4 million primarily due to the increased debt balances related to the Horn Solutions and Arroyo Consulting acquisitions and higher interest rates.

**Income Tax Expense:** We recorded a tax benefit of approximately \$4.5 million primarily due to impairments losses on the trade names in the first quarter versus a tax expense of \$1.5 million in 2022.

## 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 (“non-GAAP”), in this Quarterly Report to provide investors with a supplemental measure of our operating performance. We believe that Adjusted EBITDA is a useful performance measure and is used by us to facilitate a comparison of our operating performance on a consistent basis from period-to-period and to provide for a more complete understanding of factors and trends affecting our business than measures under accounting principles generally accepted in the United States of America (“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, impairment losses, transaction fees, and certain non-cash expenses such as share-based compensation expense. Omitting interest, taxes, and the other items provides a financial measure that facilitates comparisons of our results of operations with those of companies having different capital structures. Since the levels of indebtedness and tax structures that other companies have are different from ours, we omit these amounts to facilitate investors’ ability to make these comparisons. Similarly, we omit depreciation and amortization because other companies may employ a greater or lesser amount of property and intangible assets. We also believe that investors, analysts and other interested parties view our ability to generate Adjusted EBITDA as an important measure of our operating performance and that of other companies in our industry. Adjusted EBITDA should not be considered as an alternative to net income (loss) 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 (loss). Adjusted EBITDA is not a measure of liquidity under GAAP or otherwise, and is not an alternative to cash flow from continuing operating activities. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by the expenses that are excluded from that term or by unusual or non-recurring items. The limitations of Adjusted EBITDA include: (i) it does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments; (ii) it does not reflect changes in, or cash requirements for, our working capital needs; (iii) it does not reflect income tax payments we may be required to make; and (iv) it does not reflect the cash requirements necessary to service interest or principal payments associated with indebtedness.

To properly and prudently evaluate our business, we encourage you to review our unaudited consolidated financial statements included elsewhere in this report and the reconciliation to Adjusted EBITDA from net income (loss) 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 (loss) from continuing operations 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 |
|---------------------------------------------------------|------------------------|------------------|------------------------|------------------|------------------------------|
|                                                         | July 2,<br>2023        | June 26,<br>2022 | July 2,<br>2023        | June 26,<br>2022 | July 2,<br>2023              |
|                                                         | (dollars in thousands) |                  |                        |                  |                              |
| Income (loss) from continuing operations                | \$ 2,604               | \$ 3,184         | \$ (13,862)            | \$ 5,191         | \$ (7,481)                   |
| Income tax expense (benefit) from continuing operations | 944                    | 986              | (4,520)                | 1,521            | (2,286)                      |
| Interest expense, net                                   | 1,502                  | 69               | 2,703                  | 343              | 3,772                        |
| Operating income (loss)                                 | 5,050                  | 4,239            | (15,679)               | 7,055            | (5,995)                      |
| Depreciation and amortization                           | 1,940                  | 922              | 3,696                  | 1,821            | 5,929                        |
| Impairment losses                                       | —                      | —                | 22,545                 | —                | 22,545                       |
| Share-based compensation                                | 75                     | 243              | 436                    | 454              | 1,067                        |
| Transaction fees                                        | 435                    | —                | 753                    | —                | 1,025                        |
| <b>Adjusted EBITDA from continuing operations</b>       | <b>\$ 7,500</b>        | <b>\$ 5,404</b>  | <b>\$ 11,751</b>       | <b>\$ 9,330</b>  | <b>\$ 24,571</b>             |
| Adjusted EBITDA % of revenue                            | 9.3 %                  | 7.3 %            | 7.5 %                  | 6.5 %            | 7.9 %                        |

### 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 amended credit agreement with 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.

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

|                                                                 | July 2,<br>2023        | January 1,<br>2023 |
|-----------------------------------------------------------------|------------------------|--------------------|
|                                                                 | (dollars in thousands) |                    |
| Working capital                                                 | \$ 40,753              | \$ 47,955          |
|                                                                 | Twenty-six Weeks Ended |                    |
|                                                                 | July 2,<br>2023        | June 26,<br>2022   |
|                                                                 | (dollars in thousands) |                    |
| Net cash provided by (used in) continuing operations:           |                        |                    |
| Operating activities                                            | \$ 12,549              | \$ 1,217           |
| Investing activities                                            | (8,230)                | 26,775             |
| Financing activities                                            | (3,659)                | (25,760)           |
| Net change in cash and cash equivalents discontinued operations | —                      | (2,299)            |
| Net change in cash and cash equivalents                         | \$ 660                 | \$ (67)            |

#### *Operating Activities*

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

During Fiscal 2023, net cash provided by continuing operating activities was \$12.5 million, an increase of \$11.3 million compared with net cash provided by continuing operating activities of \$1.2 million for Fiscal 2022. This increase is primarily attributable to payments received on account receivable, Sentechn deferred consideration received on other current assets, partially offset by decreased payments in accrued payroll and expenses.

#### *Investing Activities*

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

In Fiscal 2023, we paid \$6.8 million for the acquisition of Arroyo Consulting and we made capital expenditures of \$1.5 million primarily related to continued information technology improvements. 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 information technology improvement project.

#### *Financing Activities*

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

For Fiscal 2023, we disbursed \$3.2 million in cash dividends on our common stock, we paid down \$2.0 million on the Term Loan, we made payments of \$1.1 million of contingent consideration related to the Momentum acquisition, and borrowed our Revolving Facility \$2.4 million for increased operating needs. For Fiscal 2022, we paid down \$26.9 million on the Term Loan, we disbursed \$3.1 million in cash dividends on our common stock, we made payments of \$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.

### *Credit Agreements*

On July 16, 2019, we entered into a Credit Agreement, as amended (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 the Revolving Facility permitting us to borrow funds from time to time in an aggregate amount up to \$35.0 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 \$30.0 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 and repaid. We also had the option to request an increase in the aggregate Term Loan by \$40.0 million, which was done in connection with the Horn Solutions acquisition. Our obligations under the Second Credit Amendment are secured by a first priority security interest in substantially all our tangible and intangible property. The Credit Agreement bore interest either at the Base Rate plus the Applicable Margin or LIBOR plus the Applicable Margin through August 17, 2022 (as such terms are defined in the Credit Agreement). We pay an unused commitment fee on the daily average unused amount of Revolving Facility.

On August 18, 2022, we entered into an amendment to the Credit Agreement with BMO, which changed the interest rate component from LIBOR to the Secured Overnight Financing Rate (“SOFR”), plus the Applicable Margin (as such terms are defined in the amended credit agreement).

In connection with the Horn Solutions acquisition on December 12, 2022 (See “Note 3 - Acquisitions”), we exercised the option to borrow \$40.0 million, as noted above, pursuant to a second amendment to the Credit Agreement (“Second Credit Amendment”). The Second Credit Amendment requires 2.5% of the original principal balance of the New Term Loan payable on the last business day of each quarter, beginning on March 31, 2023. We are subject to a maximum Leverage Ratio and a minimum Fixed Charge Coverage Ratio (as such terms are defined in the amended Second Credit Amendment).

On April 24, 2023, in connection with the acquisition of Arroyo Consulting, we entered into a Third Amendment to the Credit Agreement (“Third Credit Amendment”) with BMO. The Third Credit Amendment revised language to permit an acquisition of a foreign entity under certain circumstances and modified the terms of permitted distributions and guarantors.

On May 19, 2023, we entered into a Fourth Amendment to the Credit Agreement (“Fourth Credit Amendment”) and increased the Revolving Facility by \$6.0 million to an aggregate amount up to \$41.0 million. We were in compliance with the customary affirmative and negative covenants as of July 2, 2023.

### **Off-Balance Sheet Arrangements**

#### Letter of Credit

In March 2020, in conjunction with the 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 July 2, 2023, 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 January 1, 2023 for a more detailed discussion of our critical accounting policies.

As a result of the economic uncertainty, 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, placement services, and managed 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. We recognize revenue through the following types of services: workforce solutions, contingent placements, retained search placements, and managed services.

### 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. 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.

### Goodwill

Goodwill represents the difference between the enterprise value/cash paid less the fair value of all recognized net asset fair values including identifiable intangible asset values in a business combination. We review goodwill for impairment annually during the fourth quarter or whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable.

### 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. 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. When appropriate, we will record a valuation allowance against net deferred tax assets to offset future tax benefits that may not be realized. We follow the guidance of Accounting Standards Codification (“ASC”) Topic 740, Accounting for Uncertainty in Income Taxes.

## **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 January 1, 2023.

## **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*

Our Revolving Facility is priced at a 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 July 2, 2023, 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. We are continually monitoring and assessing the impact of the ongoing 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 January 1, 2023.

### **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 January 1, 2023 (our “2022 Form 10-K”), and filed with the SEC on March 16, 2023, and in our other Quarterly Reports on Form 10-Q filed subsequently with the SEC. Any of the risks discussed in this Quarterly Report on Form 10-Q, and any of the risks disclosed in Item 1A. of Part I of our 2022 Form 10-K or in our other Quarterly Reports on Form 10-Q filed subsequently with the SEC, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, could materially and adversely affect our results of operations or financial condition.

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

None.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

### **ITEM 5. OTHER INFORMATION**

None.

### **Item 6. Exhibits**

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

| Exhibit Number    | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1 <sup>††</sup> | <a href="#"><u>Asset Purchase Agreement, dated as of February 28, 2022, between BGSE, 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)</u></a>                                                                                                                                                                                                                                                                   |
| 2.2 <sup>††</sup> | <a href="#"><u>Asset Purchase Agreement, dated as of December 12, 2022, by and between BG Professional LLC, Horn Solutions, Inc., Horn Solutions Dallas, LLC, and Gary Horn (incorporated by reference from the registrant's Current Report on Form 8-K filed on December 14, 2022)</u></a>                                                                                                                                                                                                                                                    |
| 2.3 <sup>††</sup> | <a href="#"><u>Asset Purchase Agreement, dated as of April 24, 2023, by and between BGSE Professional, LLC, Arroyo Consulting LLC, Luis Fernando Sanchez, and Maureen E. Herrera (incorporated by reference from the registrant's Current Report on Form 8-K filed on April 26, 2023)</u></a>                                                                                                                                                                                                                                                  |
| 3.1               | <a href="#"><u>Certificate of Incorporation of BG Staffing, Inc. (incorporated by reference from Amendment No. 2 to the Company's registration statement on Form S-1 (File No. 333-191683) filed on November 4, 2013)</u></a>                                                                                                                                                                                                                                                                                                                  |
| 3.2               | <a href="#"><u>Certificate of Amendment to Certificate of Incorporation of BGSE, Inc. (incorporated by reference from the registrant's Current Report on Form 8-K filed on February 12, 2021)</u></a>                                                                                                                                                                                                                                                                                                                                          |
| 3.3               | <a href="#"><u>Bylaws of BG Staffing, Inc. (incorporated by reference from Amendment No. 2 to the Company's registration statement on Form S-1 (File No. 333-191683) filed on November 4, 2013)</u></a>                                                                                                                                                                                                                                                                                                                                        |
| 4.1               | <a href="#"><u>Form of Common Stock Certificate (incorporated by reference from Amendment No. 1 to the Company's registration statement on Form S-1 (File No. 333-191683) filed on October 28, 2013)</u></a>                                                                                                                                                                                                                                                                                                                                   |
| 10.1              | <a href="#"><u>Form of Indemnification Agreement for director and executive officers of BGSE, Inc. (incorporated by reference from the registrant's Current Report on Form 8-K filed on February 4, 2014)</u></a>                                                                                                                                                                                                                                                                                                                              |
| 10.2              | <a href="#"><u>Third Amendment to Credit Agreement dated as of April 24, 2023, by and among BGSE, Inc., the Guarantors party hereto and BMO Harris Bank N.A., as administrative agent for the Lenders and as a lender (incorporated by reference from the registrant's Quarterly Report on Form 10-Q filed on May 11, 2023)</u></a>                                                                                                                                                                                                            |
| 10.3              | <a href="#"><u>Fourth Amendment to Credit Agreement dated as of May 19, 2023, by and among BGSE, Inc., the Guarantors party hereto and BMO Harris Bank N.A., as administrative agent for the Lenders and as a lender (incorporated by reference from the registrant's Current Report on Form 8-K filed on May 25, 2023)</u></a>                                                                                                                                                                                                                |
| 31.1*             | <a href="#"><u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002</u></a>                                                                                                                                                                                                                                                                                                                                                   |
| 31.2*             | <a href="#"><u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002</u></a>                                                                                                                                                                                                                                                                                                                                                   |
| 32.1 <sup>†</sup> | <a href="#"><u>Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>                                                                                                                                                                                                                                                                                                                                        |
| 101*              | The following financial information from BGSE's Quarterly Report on Form 10-Q for the quarterly period ended July 2, 2023 formatted in Inline XBRL (Extensible Business Reporting Language) includes: (i) the Unaudited Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Operations and Comprehensive (Loss) 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <sup>†</sup>      | 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.                                                                                                                                                                                                                               |
| <sup>††</sup>     | Pursuant to Item 601(a)(5) of Regulation S-K, certain schedules and similar attachments have been omitted. The Company hereby agrees to furnish a copy of any omitted schedule or attachment to the Securities and Exchange Commission upon request.                                                                                                                                                                                                                                                                                           |





**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<br>(Principal Executive Officer) |

/s/ John Barnett

|        |                                                                        |
|--------|------------------------------------------------------------------------|
| Name:  | John Barnett                                                           |
| Title: | Chief Financial Officer and Secretary<br>(Principal Financial Officer) |

Date: August 9, 2023

**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 July 2, 2023 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 9, 2023

By: /s/ Beth Garvey

Name: Beth Garvey

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

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

I, John Barnett, certify that:

- 1 I have reviewed this quarterly report on Form 10-Q for the quarterly period ended July 2, 2023 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 9, 2023

By: /s/ John Barnett  
 Name: John Barnett  
 Title: Chief Financial Officer and Secretary  
 (Principal Financial Officer)

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

In connection with the quarterly report of BGSF, Inc. (the “Company”) on Form 10-Q for the quarterly period ended July 2, 2023 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 9, 2023

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

By: /s/ John Barnett  
Name: John Barnett  
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.