

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 October 1, 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	☐	Accelerated Filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
	(Do not check if a smaller reporting company)	Emerging growth company	☐

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

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

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

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

As of as of November 3, 2023 there were 10,876,620 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;
- our ability to repay, refinance, extend or restructure existing indebtedness at or prior to its maturity date on favorable or comparable terms, or at all;
- 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 <https://bgsf.com>. Information contained on our website is not part of this Quarterly Report on Form 10-Q. Information that we file with or furnish to the SEC, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to or exhibits included in these reports are available for download, free of charge, on our website soon after such reports are filed with or furnished to the SEC. These reports and other information, including exhibits filed or furnished therewith, are also available at the SEC’s website at www.sec.gov.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	October 1, 2023	January 1, 2023
ASSETS		
Current assets		
Cash and cash equivalents	\$ —	\$ —
Accounts receivable (net of allowance for credit losses of \$558)	67,284	66,285
Prepaid expenses	2,105	2,418
Other current assets	3,300	7,459
Total current assets	72,689	76,162
Property and equipment, net	1,603	2,081
Other assets		
Deposits	2,700	2,616
Other assets, net	5,069	4,411
Deferred income taxes, net	7,288	2,196
Right-of-use asset - operating leases	4,253	4,462
Intangible assets, net	31,619	47,552
Goodwill	58,453	55,193
Total other assets	109,382	116,430
Total assets	\$ 183,674	\$ 194,673
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Line of credit (net of debt issuance costs of \$179 and \$0, respectively)	\$ 26,666	\$ —
Long-term debt, current portion	35,000	4,000
Accrued interest	296	273
Accounts payable	250	587
Accrued payroll and expenses	18,068	19,171
Income taxes payable	211	253
Contingent consideration, current portion	3,798	1,081
Other current liabilities	1,200	1,000
Lease liabilities, current portion	1,759	1,842
Total current liabilities	87,248	28,207
Line of credit (net of debt issuance costs of \$0 and \$259, respectively)	—	22,303
Long-term debt, less current portion	—	36,000
Contingent consideration, less current portion	3,309	—
Convertible note	4,368	4,368
Lease liabilities, less current portion	2,823	3,049
Other long-term liabilities	10	10
Total liabilities	97,758	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 10,864,506 and 10,772,515 shares issued and outstanding, respectively, net of treasury stock, at cost, 2,963 and 1,845 shares, respectively.	60	70
Additional paid in capital	68,289	67,003
Retained earnings	17,567	33,663
Total stockholders' equity	85,916	100,736
Total liabilities and stockholders' equity	\$ 183,674	\$ 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 INCOME (LOSS)
(in thousands, except per share and dividend amounts)

For the Thirteen and Thirty-nine Week Periods Ended October 1, 2023 and September 25, 2022

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	2023	2022	2023	2022
Revenues	\$ 83,484	\$ 78,508	\$ 239,600	\$ 221,139
Cost of services	53,505	50,508	153,263	144,649
Gross profit	29,979	28,000	86,337	76,490
Selling, general and administrative expenses	22,679	20,386	68,475	60,001
Impairment losses	—	—	22,545	—
Depreciation and amortization	2,033	1,145	5,729	2,966
Operating income (loss)	5,267	6,469	(10,412)	13,523
Interest expense, net	(1,672)	(376)	(4,375)	(718)
Income (loss) from continuing operations before income taxes	3,595	6,093	(14,787)	12,805
Income tax (expense) benefit from continuing operations	(955)	(1,441)	3,565	(2,961)
Income (loss) from continuing operations	2,640	4,652	(11,222)	9,844
Income from discontinued operations:				
Income	—	—	—	1,235
Gain on sale	—	—	—	17,266
Income tax expense	—	—	—	(4,716)
Net income (loss)	\$ 2,640	\$ 4,652	\$ (11,222)	\$ 23,629
Change in unrealized losses on cash flow hedges:	—	—	—	(58)
Other comprehensive loss	—	—	—	(58)
Net comprehensive income (loss)	\$ 2,640	\$ 4,652	\$ (11,222)	\$ 23,571
Net income (loss) per share - basic:				
Net income (loss) from continuing operations	\$ 0.24	\$ 0.44	\$ (1.04)	\$ 0.94
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	\$ 0.44	\$ (1.04)	\$ 2.26
Net income (loss) per share - diluted:				
Net income (loss) from continuing operations	\$ 0.24	\$ 0.44	\$ (1.04)	\$ 0.93
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	\$ 0.44	\$ (1.04)	\$ 2.25
Weighted-average shares outstanding:				
Basic	10,791	10,492	10,753	10,465
Diluted	10,803	10,533	10,753	10,511
Cash dividends declared per common share	\$ 0.15	\$ 0.15	\$ 0.45	\$ 0.45

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 Thirty-nine Week Period Ended October 1, 2023

	Preferred Stock	Common Stock		Treasury Stock Amount	Additional Paid in Capital	Retained Earnings	Total
		Shares	Par 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	—	12	—	—	—	—	—
Issuance of ESPP shares	—	16	—	—	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
Share-based compensation	—	—	—	—	408	—	408
Issuance (cancellation) of restricted shares	—	11	—	(11)	—	—	(11)
Issuance of ESPP shares	—	15	1	—	120	—	121
Cash dividend declared	—	—	—	—	—	(1,630)	(1,630)
Net income	—	—	—	—	—	2,640	2,640
Stockholders' equity, October 1, 2023	—	10,865	\$ 109	\$ (49)	\$ 68,289	\$ 17,567	\$ 85,916

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 Thirty-nine Week Period Ended September 25, 2022

	Preferred Stock	Common Stock Shares	Par Value	Treasury Stock Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	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
Share-based compensation	—	—	—	—	411	—	—	411
Issuance of restricted shares	—	7	—	—	—	—	—	—
Issuance of ESPP Shares	—	10	—	—	118	—	—	118
Exercise of common stock options	—	1	—	—	4	—	—	4
Cash dividend declared	—	—	—	—	—	(1,575)	—	(1,575)
Net income	—	—	—	—	—	4,652	—	4,652
Stockholders' equity, September 25, 2022	—	10,500	\$ 105	\$ (38)	\$ 63,319	\$ 33,508	\$ —	\$ 96,894

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 Thirty-nine Week Periods Ended October 1, 2023 and September 25, 2022

	2023	2022
Cash flows from operating activities		
Net (loss) income	\$ (11,222)	\$ 23,629
(Income) from discontinued operations	—	(1,235)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation	343	463
Amortization	5,386	2,503
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	145	156
Interest expense on contingent consideration payable	468	106
Provision for credit losses	658	216
Share-based compensation	844	865
Deferred income taxes, net of acquired deferred tax liability	(5,092)	1,215
Net changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	1,795	(16,447)
Prepaid expenses	313	768
Other current assets	3,179	(257)
Deposits	(84)	1,067
Other assets	543	562
Accrued interest	23	158
Accounts payable	(337)	187
Accrued payroll and expenses	(4,251)	404
Other current liabilities	(1,000)	(2,352)
Income taxes receivable and payable	938	(165)
Operating leases	(100)	(78)
Other long-term liabilities	—	(58)
Net cash provided by (used in) continuing operating activities	15,094	(5,557)
Net cash used in discontinued operating activities	—	(2,274)
Net cash provided by (used in) operating activities	15,094	(7,831)
Cash flows from investing activities		
Businesses acquired, net of cash received	(6,740)	—
Business sold	—	30,313
Capital expenditures	(2,019)	(4,680)
Net cash (used in) provided by continuing investing activities	(8,759)	25,633
Net cash used in discontinued investing activities	—	(26)
Net cash (used in) provided by activities	(8,759)	25,607

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 Thirty-nine Week Periods Ended October 1, 2023 and September 25, 2022

	2023	2022
Cash flows from financing activities		
Net borrowings under line of credit	4,282	14,314
Principal payments on long-term debt	(5,000)	(26,863)
Payments of dividends	(4,874)	(4,712)
Issuance of ESPP shares	412	537
Issuance of shares under the 2013 Long-Term Incentive Plan and Form S-3 registration statement costs, net of exercises	19	(1)
Contingent consideration paid	(1,110)	(1,110)
Debt issuance costs	(64)	(53)
Net cash used in continuing financing activities	(6,335)	(17,888)
Net change in cash and cash equivalents	—	(112)
Cash and cash equivalents, beginning of period	—	112
Cash and cash equivalents, end of period	\$ —	\$ —
Supplemental cash flow information:		
Cash paid for interest, net	\$ 3,573	\$ 113
Cash paid for taxes, net of refunds	\$ 569	\$ 6,572

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 Property Management (formally known as Real Estate which includes apartment communities and commercial buildings) (collectively, with its consolidated subsidiaries, 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 Income (Loss) 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 ("U.S.") through the Property Management and Professional segments.

The Property Management segment provides office and maintenance field talent to various apartment communities and commercial buildings in 38 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 for IT, managed services, finance, accounting, legal, and human resources. The segment operates across the U.S. in three divisions, IT, Managed Services, and Finance & Accounting, with the IT division providing additional nearshore/offshore solutions in Colombia and India.

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 Property Management workforce solutions has historically increased in the second quarter and is highest during the third quarter of the year due to the increased turns in multifamily units during the summer months when schools are not in session. Overall first quarter demand can be affected by adverse weather conditions in the winter months. In addition, the Company's cost of services typically increases in the first quarter primarily due to the reset of payroll taxes.

The current inflationary environment and related interest rate impacts continue to have an adverse impact on the economy and market conditions. These factors may continue to 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 unaudited 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 October 1, 2023 and January 1, 2023, and include the thirteen and thirty-nine week periods ended October 1, 2023 and September 25, 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 as of October 1, 2023 and January 1, 2023 or revenue from continuing operations for the thirty-nine week periods ended October 1, 2023 and September 25, 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:

	Thirty-nine Weeks Ended	
	October 1, 2023	September 25, 2022
Tennessee	13 %	11 %
Texas	26 %	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 credit losses 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		Thirty-nine Weeks Ended	
	October 1, 2023	September 25, 2022	October 1, 2023	September 25, 2022
Beginning balance	\$ 558	\$ 449	\$ 558	\$ 449
Provision for credit losses, net	337	82	658	216
Amounts written off, net	(337)	(82)	(658)	(216)
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 \$5.2 million and \$4.9 million at October 1, 2023 and January 1, 2023, respectively. During the thirty-nine week period ended October 1, 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 October 1, 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 \$1.7 million and \$1.2 million at October 1, 2023 and January 1, 2023, respectively. During the thirty-nine week period ended October 1, 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 other assets during Fiscal 2023 or Fiscal 2022.

Leases

The Company leases all their office space through operating leases, which expire at various dates through 2030. 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
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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 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 finite lives. 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 thirty-nine week period ended October 1, 2023, the Company added \$0.9 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 eliminated 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. There were no outstanding cash flow hedges during Fiscal 2023.

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

Debt Issuance Costs

Debt issuance costs are presented on the balance sheet as a direct deduction of the related liability and are amortized using the effective interest method over the term of the respective loans.

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 Property Management 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 October 1, 2023. There were no revenues recognized during the thirteen and thirty-nine week periods ended October 1, 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 thirty-nine week periods ended October 1, 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		Thirty-nine Weeks Ended	
	October 1, 2023	September 25, 2022	October 1, 2023	September 25, 2022
Weighted-average number of common shares outstanding:	10,791	10,492	10,753	10,465
Effect of dilutive securities:				
Stock options and restricted stock	12	41	—	46
Weighted-average number of diluted common shares outstanding	10,803	10,533	10,753	10,511
Stock options and restricted stock	805	459	736	364
Convertible note	255	—	255	—
Antidilutive shares	1,060	459	991	364

Income Taxes

The consolidated effective tax rates were 26.6% and 24.1% for the thirteen and thirty-nine week periods ended October 1, 2023, respectively. The consolidated rates were 23.6% and 24.5% for the thirteen and thirty-nine week periods ended September 25, 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 October 1, 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 October 1, 2023, the Company has a \$3.0 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 October 1, 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 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 October 1, 2023, Horn Solutions contributed \$5.9 million of revenue and \$0.3 million of operating loss, which included \$0.9 million in amortization expense on acquisition intangibles. For the thirty-nine week period ended October 1, 2023, Horn Solutions contributed \$19.0 million of revenue and \$0.7 million of operating loss, which included \$2.6 million in amortization expense on acquisition intangibles.

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

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 (deductible tax basis of \$26.1 million)	26,493
Current liabilities assumed	(1,787)
Lease liabilities - 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>

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

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

The Company incurred total costs of \$0.4 million in Fiscal 2022 and Fiscal 2023 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 October 1, 2023, Arroyo Consulting contributed \$5.7 million of revenue and \$1.2 million of operating income, which included \$0.5 million in amortization expense on acquisition intangibles. For the thirty-nine week period ended October 1, 2023, Arroyo Consulting included twenty-three weeks for approximately \$9.8 million of revenue and \$2.2 million of operating income, which included \$0.5 million in amortization expense on acquisition intangibles.

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

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 (no deductible tax basis)	2,879
Current liabilities assumed	(2,471)
Lease liabilities - operating leases	(141)
Total net assets acquired	<u>\$ 15,345</u>
Cash	\$ 6,800
Hold back, working capital*	350
Hold back, indemnities*	850
Working capital adjustment*	677
Fair value of contingent consideration	6,668
Total fair value of consideration transferred for acquired business	<u>\$ 15,345</u>

*Included in Other current liabilities

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

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

The Company incurred costs of \$0.6 million in Fiscal 2023 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		Thirty-nine Weeks Ended	
	October 1, 2023	September 25, 2022	October 1, 2023	September 25, 2022
Revenues	\$ 83,484	\$ 90,959	\$ 246,403	\$ 257,178
Gross profit	\$ 29,980	\$ 33,201	\$ 88,506	\$ 91,973
Net income (loss)	\$ 2,640	\$ 5,720	\$ (10,479)	\$ 12,725
Income (loss) per share from continuing operations:				
Basic	\$ 0.24	\$ 0.55	\$ (0.97)	\$ 1.22
Diluted	\$ 0.24	\$ 0.54	\$ (0.97)	\$ 1.21

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

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 24.1% for the thirteen and thirty-nine week periods ended October 1, 2023, respectively, and effective tax rates of 23.6% and 24.5% for the thirteen and thirty-nine week periods ended September 25, 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.

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 pre-tax 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 Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss) and Unaudited Consolidated Statements of Cash Flows as discontinued operations.

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

	Thirty-nine Weeks Ended September 25, 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 October 1, 2023 and January 1, 2023 consist of the following (in thousands):

	October 1, 2023	January 1, 2023
CARES Act receivable	\$ 2,368	\$ 2,368
Deferred consideration - See “Note 4 - Discontinued Operations”	—	2,000
Income tax receivable	687	1,667
Other	245	1,424
Total	\$ 3,300	\$ 7,459

BGSF, Inc. and Subsidiaries
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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 October 1, 2023 and September 25, 2022. The Company had \$1.6 million and \$1.4 million from continuing operations in operating lease expense for the thirty-nine week periods ended October 1, 2023 and September 25, 2022, respectively.

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

	October 1, 2023	January 1, 2023
Weighted average remaining lease term of operation leases	3.5 years	3.3 years
Weighted average discount rate for continuing operating leases	6.0 %	5.2 %

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

	Thirty-nine Weeks Ended October 1, 2023	September 25, 2022
Cash paid for operating leases	\$ 1,646	\$ 1,601
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 1,136	\$ 48

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

	October 1, 2023
2023 (remaining)	\$ 466
2024	1,917
2025	1,144
2026	748
2027	712
Thereafter	510
Total lease payments	5,497
Imputed interest	(915)
Present value of lease liabilities	\$ 4,582

NOTE 7 - INTANGIBLE ASSETS

Intangible assets from continuing operations are stated net of accumulated amortization of \$47.4 million and \$44.6 million at October 1, 2023 and January 1, 2023, respectively. Amortization expense from continuing operations for Fiscal 2023 and Fiscal 2022 are comprised of following (in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 1, 2023	September 25, 2022	October 1, 2023	September 25, 2022
Client partner lists	\$ 1,567	\$ 487	\$ 4,355	\$ 1,477
Covenant not to compete	71	55	195	166
Acquisition intangibles	1,638	542	4,550	1,643
Computer software - amortization expense	289	452	836	860
Amortization expense	1,927	994	5,386	2,503
Computer software - selling, general and administrative expense	—	39	—	116
Total expense	\$ 1,927	\$ 1,033	\$ 5,386	\$ 2,619

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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):

	October 1, 2023	January 1, 2023
Field talent payroll	\$ 6,147	\$ 6,923
Field talent payroll related	1,374	941
Accrued bonuses and commissions	3,496	5,740
Other	7,051	5,567
Accrued payroll and expenses	<u>\$ 18,068</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 October 1, 2023.

The indebtedness under the Credit Agreement matures on July 16, 2024, which has been classified within current liabilities as of October 1, 2023. The Company is currently in active and advanced discussions with the Company's lenders to refinance such indebtedness with an extended maturity date. While the Company currently intends to close such refinancing during the Company's fourth fiscal quarter of 2023, the Company cannot guarantee that such refinancing, which involve risks and uncertainties, will occur on favorable or comparable terms, or at all.

BGSF, Inc. and Subsidiaries
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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 October 1, 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 October 1, 2023.

Line of Credit

At October 1, 2023 and January 1, 2023, \$26.8 million and \$22.6 million respectively, was outstanding on the revolving facilities. Average daily balance for the thirteen week periods ended October 1, 2023 and September 25, 2022 was \$24.5 million and \$21.1 million, respectively. Average daily balance for the thirty-nine week periods ended October 1, 2023 and September 25, 2022 was \$23.5 million and \$16.7 million, respectively.

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

	October 1, 2023		January 1, 2023	
Base Rate	\$	4,845	9.75 %	\$ 2,562 8.25 %
SOFR		4,000	7.68 %	20,000 6.45 %
SOFR		6,000	7.77 %	— — %
SOFR		12,000	7.80 %	— — %
Total	\$	26,845		\$ 22,562

Long-Term Debt

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

	October 1, 2023		January 1, 2023	
SOFR	\$	35,000	7.81 %	\$ 40,000 6.72 %

Convertible Note

At October 1, 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

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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	October 1, 2023	January 1, 2023
Convertible note	Convertible note	Level 2	\$ 4,368	\$ 4,368
Contingent consideration	Contingent consideration - current and long-term	Level 3	\$ 7,107	\$ 1,081

The change in the Level 3 fair value measurements from January 1, 2023 to October 1, 2023 relates primarily to an increase from the Arroyo Consulting acquisition, including \$0.5 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 October 1, 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 46,118 and 25,749 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.

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NOTE 13 – SHARE-BASED COMPENSATION

Stock Options

For the thirteen week periods ended October 1, 2023 and September 25, 2022, the Company recognized \$0.1 million and \$0.3 million of compensation expense related to stock options. For the thirty-nine week periods ended October 1, 2023 and September 25, 2022, the Company recognized \$0.3 million and \$0.6 million, respectively, of compensation expense from continuing operations related to stock options. Unamortized share-based compensation expense as of October 1, 2023 amounted to \$1.0 million which is expected to be recognized over the next 2.8 years. As of October 1, 2023, a total of 1.2 million shares remain available for issuance under 2013 Plan.

A summary of stock option activity is presented as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Total Intrinsic Value of Awards (in thousands)
Options outstanding at January 1, 2023	821,679	\$ 16.08	6.4	\$ 1,907
Granted	111,470	10.11		
Exercised	(4,800)	6.25		
Forfeited / Canceled	(11,500)	18.50		
Options outstanding at October 1, 2023	916,849	\$ 15.41	6.2	\$ 111
Options exercisable at January 1, 2023	573,863	\$ 17.50	5.4	\$ 1,164
Options exercisable at October 1, 2023	669,176	\$ 16.87	5.2	\$ 111
			Number of Shares	Weighted Average Grant Date Fair Value
Nonvested outstanding at January 1, 2023			247,816	\$ 7.64
Nonvested outstanding at October 1, 2023			247,673	\$ 7.86

Restricted Stock

For the thirteen week periods ended October 1, 2023 and September 25, 2022, the Company recognized \$0.3 million and \$0.1 million of compensation expense related to restricted stock awards, respectively. For the thirty-nine week periods ended October 1, 2023 and September 25, 2022, the Company recognized \$0.5 million and \$0.3 million of compensation expense from continuing operations related to restricted stock awards, respectively. Unamortized share-based compensation expense as of October 1, 2023 amounted to \$0.6 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 \$0.3 million from continuing operations to the 401(k) Plan for the thirteen week periods ended October 1, 2023 and September 25, 2022, respectively. The Company contributed \$1.4 million and \$1.2 million from continuing operations to the 401(k) Plan for the thirty-nine week periods ended October 1, 2023 and September 25, 2022, respectively.

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NOTE 15 - BUSINESS SEGMENTS

The Company has continuing operations through the Property Management and Professional segments.

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. 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		Thirty-nine Weeks Ended	
	October 1, 2023	September 25, 2022	October 1, 2023	September 25, 2022
Revenue:				
Property Management	\$ 35,976	\$ 33,241	\$ 95,453	\$ 89,137
Professional	47,508	45,267	144,147	132,002
Total	<u>\$ 83,484</u>	<u>\$ 78,508</u>	<u>\$ 239,600</u>	<u>\$ 221,139</u>
Depreciation:				
Property Management	\$ 33	\$ 49	\$ 101	\$ 144
Professional	62	86	204	271
Home office	11	16	38	48
Total	<u>\$ 106</u>	<u>\$ 151</u>	<u>\$ 343</u>	<u>\$ 463</u>
Amortization:				
Professional	\$ 1,638	\$ 542	\$ 4,550	\$ 1,643
Home office	289	452	836	860
Total	<u>\$ 1,927</u>	<u>\$ 994</u>	<u>\$ 5,386</u>	<u>\$ 2,503</u>
Operating income (loss):				
Property Management	\$ 7,212	\$ 6,148	\$ 17,676	\$ 15,000
Professional - without impairment losses	3,253	5,172	9,666	12,458
Professional - impairment losses	—	—	(22,545)	—
Home office	(5,198)	(4,851)	(15,209)	(13,935)
Total	<u>\$ 5,267</u>	<u>\$ 6,469</u>	<u>\$ (10,412)</u>	<u>\$ 13,523</u>
Capital expenditures:				
Property Management	\$ 10	\$ 46	\$ 64	\$ 100
Professional	161	33	393	83
Home office	358	1,070	1,562	4,497
Total	<u>\$ 529</u>	<u>\$ 1,149</u>	<u>\$ 2,019</u>	<u>\$ 4,680</u>
			October 1, 2023	January 1, 2023
Total assets:				
Property Management			\$ 33,047	\$ 29,302
Professional			125,730	141,018
Home office			24,897	24,353
Total			<u>\$ 183,674</u>	<u>\$ 194,673</u>

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NOTE 16 - SUBSEQUENT EVENTS

Dividend

On November 8, 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 November 28, 2023 to all shareholders of record as of the close of business on November 20, 2023.

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 Property Management (formally known as Real Estate which includes 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 Property Management and Professional segments.

Our Property Management segment provides office and maintenance field talent to various apartment communities and commercial buildings in 38 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 for IT, managed services, finance, accounting, legal, and human resources. The segment operates across the U.S. in three divisions, IT, Managed Services, and Finance & Accounting, with the IT division providing additional nearshore/offshore solutions in Colombia and India.

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 Property Management 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. In addition, our cost of services typically increase 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		Thirty-nine Weeks Ended	
	October 1, 2023	September 25, 2022	October 1, 2023	September 25, 2022
	(dollars in thousands)			
Revenues	\$ 83,484	\$ 78,508	\$ 239,600	\$ 221,139
Cost of services	53,505	50,508	153,263	144,649
Gross profit	29,979	28,000	86,337	76,490
Selling, general and administrative expenses	22,679	20,386	68,475	60,001
Impairment losses	—	—	22,545	—
Depreciation and amortization	2,033	1,145	5,729	2,966
Operating income (loss)	5,267	6,469	(10,412)	13,523
Interest expense, net	(1,672)	(376)	(4,375)	(718)
Income (loss) from continuing operations before income taxes	3,595	6,093	(14,787)	12,805
Income tax (expense) benefit from continuing operations	(955)	(1,441)	3,565	(2,961)
Income (loss) from continuing operations	2,640	4,652	(11,222)	9,844
Income from discontinued operations:				
Income	—	—	—	1,235
Gain on sale	—	—	—	17,266
Income tax expense	—	—	—	(4,716)
Net income (loss)	\$ 2,640	\$ 4,652	\$ (11,222)	\$ 23,629

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 1, 2023	September 25, 2022	October 1, 2023	September 25, 2022
Revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of services	64.1 %	64.3 %	64.0 %	65.4 %
Gross profit	35.9 %	35.7 %	36.0 %	34.6 %
Selling, general and administrative expenses	27.2 %	26.0 %	28.6 %	27.1 %
Impairment losses	— %	— %	9.4 %	— %
Depreciation and amortization	2.4 %	1.5 %	2.4 %	1.3 %
Operating income (loss)	6.3 %	8.2 %	(4.4)%	6.1 %
Interest expense, net	(2.0)%	(0.5)%	(1.8)%	(0.3)%
Income (loss) from continuing operations before income taxes	4.3 %	7.8 %	(6.2)%	5.8 %
Income tax (expense) benefit from continuing operations	(1.1)%	(1.8)%	1.5 %	(1.3)%
Income (loss) from continuing operations	3.2 %	5.9 %	(4.7)%	4.5 %

Thirteen Week Fiscal Period Ended October 1, 2023 (“Fiscal 2023”) Compared with Thirteen Week Fiscal Period Ended September 25, 2022 (“Fiscal 2022”)

Revenues:

Revenues:		Thirteen Weeks Ended			
		October 1, 2023		September 25, 2022	
		(dollars in thousands)			
Revenues by segment:					
Property Management		\$	35,976	43.1 %	\$ 33,241 42.3 %
Professional			47,508	56.9 %	45,267 57.7 %
Total		\$	83,484	100.0 %	\$ 78,508 100.0 %

Property Management Revenues: Property Management revenues increased approximately \$2.8 million (8.2%). The increase was primarily due to an increase in billing rates.

Professional Revenues: Professional revenues were up \$2.2 million (5.0%). Horn Solutions and Arroyo Consulting contributed a combined total of \$11.6 million. The remaining Professional segment declined \$9.4 million (20.7%).

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			
		October 1, 2023		September 25, 2022	
		(dollars in thousands)			
Gross Profit by segment:					
Property Management	\$	14,197	47.4 %	\$	13,548 48.4 %
Professional		15,782	52.6 %		14,452 51.6 %
Total	\$	29,979	100.0 %	\$	28,000 100.0 %

	Thirteen Weeks Ended	
	October 1, 2023	September 25, 2022
Gross Profit Percentage by segment:		
Property Management	39.5 %	40.8 %
Professional	33.2 %	31.9 %
Total	35.9 %	35.7 %

Total company gross profit increased approximately \$2.0 million (7.1%). As a percentage of revenue, gross profit increased to 35.9% from 35.7%, due to improved margins in our Professional segment.

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

Property Management Gross Profit: Property Management gross profit increased approximately \$0.7 million (4.8%), driven by an 8.2% increase in revenue offset by lower permanent placement business, which has no cost of service.

Professional Gross Profit: Professional gross profit increased approximately \$1.3 million (9.2%). Horn Solutions and Arroyo Consulting contributed a total of \$4.9 million in gross profit, while the remaining Professional business decreased approximately \$3.6 million (24.6%).

Selling, General and Administrative Expenses: Selling, general and administrative expenses increased \$2.3 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 \$1.8 million (approximately 78% of the \$2.3 million increase) versus the prior year. Total selling expense increase included \$2.9 million related to Horn Solutions and Arroyo Consulting. Acquisition transaction fees increased \$0.1 million over the prior year quarter.

	Thirteen Weeks Ended					
	October 1, 2023		September 25, 2022		\$ Change	% Change
	Amount	% of Revenue	Amount	% of Revenue		
Compensation and related	\$ 17,254	21 %	\$ 15,794	20 %	\$ 1,460	9 %
Advertising and recruitment	528	1 %	485	1 %	43	— %
Occupancy and office operations	824	1 %	667	1 %	157	24 %
Travel, meals and entertainment	370	— %	279	— %	91	33 %
Software	1,284	2 %	1,566	2 %	(282)	(18)%
Liability insurance	298	— %	244	— %	54	22 %
Professional fees	299	— %	362	1 %	(63)	(17)%
Public company related costs	208	— %	195	— %	13	7 %
Bad debt	337	— %	83	— %	254	306 %
Share-based compensation	408	1 %	411	1 %	(3)	(1)%
Transaction fees	149	— %	6	— %	143	— %
Workers' compensation loss retention return	—	1 %	—	— %	—	— %
Other	720	1 %	294	— %	426	145 %
Total	\$ 22,679	27 %	\$ 20,386	26 %	\$ 2,293	11 %

Depreciation and Amortization: Depreciation and amortization charges increased \$0.9 million primarily due to amortization of intangible assets created by the Horn Solutions and Arroyo Consulting acquisitions.

Interest Expense, net: Interest expense, net increased \$1.3 million primarily due to higher debt related to the Horn Solutions and Arroyo Consulting acquisitions and higher interest rates.

Income Tax: Income tax decreased \$0.5 million primarily due to lower pre-tax 2023 income, partially offset by higher effective tax rates.

Thirty-nine Week Fiscal Period Ended October 1, 2023 (“Fiscal 2023”) Compared with Thirty-nine Week Fiscal Period Ended September 25, 2022 (“Fiscal 2022”)

Revenues:

Revenues:		Thirty-nine Weeks Ended			
		October 1, 2023		September 25, 2022	
		(dollars in thousands)			
Revenues by segment:					
Property Management		\$	95,453	39.8 %	\$ 89,137 40.3 %
Professional			144,147	60.2 %	132,002 59.7 %
Total		\$	239,600	100.0 %	\$ 221,139 100.0 %

Property Management Revenues: Property Management revenues increased approximately \$6.4 million (7.1%). The increase was due to an increase in average bill rate, partially offset by a decrease in billed hours.

Professional Revenues: Professional revenues increased approximately \$12.1 million (9.2%). Horn Solutions and Arroyo Consulting contributed a combined total of \$28.9 million. The remaining Professional business declined \$16.8 million (12.7)% primarily due to a decline in billing hours.

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.

	Thirty-nine Weeks Ended			
	October 1, 2023		September 25, 2022	
	(dollars in thousands)			
Gross Profit by segment:				
Property Management	\$	38,196	44.2 %	\$ 35,093 45.9 %
Professional		48,141	55.8 %	41,397 54.1 %
Total	\$	86,337	100.0 %	\$ 76,490 100.0 %

	Thirty-nine Weeks Ended	
	October 1, 2023	September 25, 2022
Gross Profit Percentage by segment:		
Property Management	40.0 %	39.4 %
Professional	33.4 %	31.4 %
Total	36.0 %	34.6 %

Overall, our gross profit increased approximately \$9.8 million (12.9%). As a percentage of revenue, gross profit has increased to 36.0% from 34.6%, with both segments contributing to the increase.

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

Property Management Gross Profit: Property Management gross profit increased approximately \$3.1 million (8.8%), including a 7.1% increase in total revenues with an increase in average spread partially offset by lower permanent placement revenue, which has no cost of service.

Professional Gross Profit: Professional gross profit increased approximately \$6.7 million (16.3%). Horn Solutions and Arroyo Consulting contributed a total of \$12.3 million in gross profit, offset by a \$5.6 million (13.4)% decline in the remaining Professional segment.

Selling, General and Administrative Expenses: Selling, general and administrative expenses increased \$8.5 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 \$7.2 million (approximately 85% of the \$8.5 million increase) versus the prior year. Total selling expense increase included \$7.7 million related to Horn Solutions and Arroyo Consulting. Acquisition transaction fees increased \$0.9 million and workers' compensation loss retention return increased (expense reduction) by \$0.4 million over the prior year.

	Thirty-nine Weeks Ended					
	October 1, 2023		September 25, 2022		\$ Change	% Change
	Amount	% of Revenue	Amount	% of Revenue		
	(dollars in thousands)					
Compensation and related	\$ 52,946	22 %	\$ 46,708	21 %	\$ 6,238	13 %
Advertising and recruitment	1,727	1 %	1,455	1 %	272	19 %
Occupancy and office operations	2,406	1 %	2,054	1 %	352	17 %
Travel, meals and entertainment	1,099	1 %	706	— %	393	56 %
Software	4,002	2 %	4,202	2 %	(200)	(5)%
Liability insurance	835	— %	730	— %	105	14 %
Professional fees	1,197	1 %	1,342	1 %	(145)	(11)%
Public company related costs	616	— %	555	— %	61	11 %
Bad debt	658	— %	216	— %	442	205 %
Share-based compensation	844	— %	865	— %	(21)	(2)%
Transaction Fees	903	— %	6	— %	897	— %
Workers' compensation loss retention return	(491)	— %	(117)	— %	(374)	320 %
Other	1,733	1 %	1,279	1	454	35 %
Total	\$ 68,475	29 %	\$ 60,001	27 %	\$ 8,474	14 %

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 \$2.8 million (93.2%). 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 \$3.7 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 \$3.6 million primarily due to impairment losses on the trade names in the first quarter versus a tax expense of \$3.0 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 continuing operations 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 from continuing operations are either (i) non-cash items or (ii) items that management does not consider in assessing our on-going operating performance. In the case of the non-cash items, management believes that investors may find it useful to assess our comparative operating performance because the measures without such items are less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges and more reflective of other factors that affect operating performance. In the case of the other items that management does not consider in assessing our on-going operating performance, management believes that investors may find it useful to assess our operating performance if the measures are presented without these items because their financial impact may not reflect ongoing operating performance.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended		Trailing Twelve Months Ended
	October 1, 2023	September 25, 2022	October 1, 2023	September 25, 2022	October 1, 2023
	(dollars in thousands)				
Income (loss) from continuing operations	\$ 2,640	\$ 4,652	\$ (11,222)	\$ 9,844	\$ (9,805)
Income tax expense (benefit) from continuing operations	955	1,441	(3,565)	2,961	(2,866)
Interest expense, net	1,672	376	4,375	718	5,019
Operating income (loss)	5,267	6,469	(10,412)	13,523	(7,652)
Depreciation and amortization	2,033	1,145	5,729	2,966	6,816
Impairment losses	—	—	22,545	—	22,545
Share-based compensation	408	411	844	865	1,064
Transaction fees	149	6	901	6	1,166
Adjusted EBITDA from continuing operations	\$ 7,857	\$ 8,031	\$ 19,607	\$ 17,360	\$ 23,939
Adjusted EBITDA Margin (% of revenue)	9.4 %	10.2 %	8.2 %	7.9 %	7.6 %

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:

	October 1, 2023	January 1, 2023
	(dollars in thousands)	
Working capital	\$ (14,559)	\$ 47,955
	Thirty-nine Weeks Ended	
	October 1, 2023	September 25, 2022
	(dollars in thousands)	
Net cash provided by (used in) continuing operations:		
Operating activities	\$ 15,094	\$ (5,557)
Investing activities	(8,759)	25,633
Financing activities	(6,335)	(17,888)
Net change in cash and cash equivalents discontinued operations	—	(2,300)
Net change in cash and cash equivalents	\$ —	\$ (112)

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 \$15.1 million, an increase of \$20.7 million compared with net cash used in continuing operating activities of \$5.6 million for Fiscal 2022. This increase is primarily attributable to payments received on account receivable, Sentech 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 \$2.0 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 \$4.7 million mainly related to the information technology improvement project and for software and computer equipment purchased in the ordinary course of business.

Financing Activities

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

For Fiscal 2023, we disbursed \$4.9 million in cash dividends on our common stock, we paid down \$5.0 million on the Term Loan, we made payments of \$1.1 million of contingent consideration related to the Momentum acquisition, and borrowed \$4.3 million on our Revolving Facility for increased operating needs. For Fiscal 2022, we paid down \$26.9 million on the Term Loan, we disbursed \$4.7 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 \$14.3 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 October 1, 2023.

The indebtedness under the Credit Agreement matures on July 16, 2024 and has therefore been classified within current liabilities on the Company’s unaudited consolidated balance sheet as of October 1, 2023. The Company is currently in active and advanced discussions with the Company’s lenders to refinance such indebtedness with an extended maturity date. While the Company currently intends to close such refinancing during the Company’s fourth fiscal quarter of 2023, the Company cannot guarantee that such refinancing, which involve risks and uncertainties, will occur on favorable or comparable terms, or at all. The Company’s results of operations and financial condition could be materially and adversely affected by the ultimate terms of such refinancing or the Company’s inability to close such refinancing.

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 October 1, 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 our Property Management 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 recognize 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 and Term Loan are 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 October 1, 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 ^{††}	<u>Asset Purchase Agreement, dated as of February 28, 2022, between BGSF, Inc., Sentech Engineering Services, Inc., and Jobandtalent Holding Limited (incorporated by reference from the registrant's Current Report on Form 8-K filed on March 1, 2022)</u>
2.2 ^{††}	<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>
2.3 ^{††}	<u>Asset Purchase Agreement, dated as of April 24, 2023, by and between BGSF 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>
3.1	<u>Certificate of Incorporation of BG Staffing, Inc. (incorporated by reference from Amendment No. 2 to the Company's registration statement on Form S-1 (File No. 333-191683) filed on November 4, 2013)</u>
3.2	<u>Certificate of Amendment to Certificate of Incorporation of BGSF, Inc. (incorporated by reference from the registrant's Current Report on Form 8-K filed on February 12, 2021)</u>
3.3	<u>Bylaws of BG Staffing, Inc. (incorporated by reference from Amendment No. 2 to the Company's registration statement on Form S-1 (File No. 333-191683) filed on November 4, 2013)</u>
4.1	<u>Form of Common Stock Certificate (incorporated by reference from Amendment No. 1 to the Company's registration statement on Form S-1 (File No. 333-191683) filed on October 28, 2013)</u>
10.1	<u>BGSF, Inc. 2013 Long-Term, Incentive Plan, as amended (incorporated by reference from Annex A to the registrant's definitive proxy statement on schedule 14A filed on June 20, 2023)</u>
31.1*	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2*	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1 [†]	<u>Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101*	The following financial information from BGSF's Quarterly Report on Form 10-Q for the quarterly period ended October 1, 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.
[†]	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.
^{††}	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 (Principal Executive Officer)

/s/ John Barnett

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

Date: November 8, 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 October 1, 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: November 8, 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 October 1, 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: November 8, 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 October 1, 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: November 8, 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.