

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 April 1, 2018
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____.

Commission File Number: 001-36704



BG STAFFING, INC.

(exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

26-0656684

(I.R.S. Employer
Identification No.)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

The number of shares outstanding of the registrant's common stock as of May 10, 2018 was 8,764,020 .

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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,” “would,” “might,” “will,” “expect,” “intend,” “plan,” “budget,” “scheduled,” “estimate,” “anticipate,” “believe,” “forecast,” “committed,” “future” or “continue” or the negative thereof or similar variations.

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

- the availability of workers’ compensation insurance coverage at commercially reasonable terms;
- the availability of qualified temporary workers;
- compliance with federal, state and local labor and employment laws and regulations and changes in such laws and regulations;
- the ability to compete with new competitors and competitors with superior marketing and financial resources;
- management team changes;
- the favorable resolution of current or future litigation;
- the impact of outstanding indebtedness on the ability to fund operations or obtain additional financing;
- the ability to leverage the benefits of recent acquisitions and successfully integrate newly acquired operations;
- adverse changes in the economic conditions of the industries or markets that we serve;
- disturbances in world financial, credit, and stock markets;
- unanticipated changes in regulations affecting the company’s business;
- a decline in consumer confidence and discretionary spending;
- the general performance of the U.S. and global economies;
- continued or escalated conflict in the Middle East; and
- other risks referenced from time to time in our past and future filings with the Securities and Exchange Commission (“SEC”), including in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

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

Where You Can Find Other Information

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

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

BG Staffing, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED BALANCE SHEETS

	April 1, 2018	December 31, 2017
ASSETS		
Current assets		
Accounts receivable (net of allowance for doubtful accounts of \$473,573 at 2018 and 2017)	\$ 35,018,400	\$ 36,707,885
Prepaid expenses	1,803,606	947,968
Income taxes receivable	—	190,912
Other current assets	201,862	143,237
Total current assets	37,023,868	37,990,002
Property and equipment, net	2,242,225	2,039,935
Other assets		
Deposits	3,043,368	2,907,104
Deferred income taxes, net	6,253,256	6,402,513
Intangible assets, net	36,193,616	37,323,286
Goodwill	17,983,549	17,970,049
Total other assets	63,473,789	64,602,952
Total assets	\$ 102,739,882	\$ 104,632,889
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Long-term debt, current portion (net of deferred finance fees of \$133,503 and \$138,801 for 2018 and 2017, respectively)	\$ 3,235,247	\$ 2,923,699
Accrued interest	365,818	330,630
Accounts payable	753,965	1,909,612
Accrued payroll and expenses	11,210,316	11,540,806
Accrued workers' compensation	406,788	592,121
Contingent consideration, current portion	4,432,984	4,299,184
Other current liabilities	—	74,052
Income taxes payable	307,176	—
Total current liabilities	20,712,294	21,670,104
Line of credit (net of deferred finance fees of \$703,733 and \$747,716 for 2018 and 2017, respectively)	20,032,312	20,620,352
Long-term debt, less current portion (net of deferred finance fees of \$214,534 and \$246,030 for 2018 and 2017, respectively)	19,691,716	20,578,970
Contingent consideration, less current portion	2,224,064	2,178,486
Other long-term liabilities	609,561	450,298
Total liabilities	63,269,947	65,498,210
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, 8,763,965 and 8,759,376 shares issued and outstanding for 2018 and 2017, respectively	87,640	87,594
Additional paid in capital	37,734,812	37,675,329
Retained earnings	1,647,483	1,371,756
Total stockholders' equity	39,469,935	39,134,679
Total liabilities and stockholders' equity	\$ 102,739,882	\$ 104,632,889

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

BG Staffing, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

For the Thirteen Week Periods Ended April 1, 2018 and March 26, 2017

	Thirteen Weeks Ended	
	2018	2017
Revenues	\$ 66,855,470	\$ 56,843,687
Cost of services	49,545,539	43,172,453
Gross profit	17,309,931	13,671,234
Selling, general and administrative expenses	11,979,120	9,606,444
Depreciation and amortization	1,295,506	1,371,434
Operating income	4,035,305	2,693,356
Interest expense, net	(871,092)	(558,619)
Income before income taxes	3,164,213	2,134,737
Income tax expense	698,642	832,906
Net income	\$ 2,465,571	\$ 1,301,831
Net income per share:		
Basic	\$ 0.28	\$ 0.15
Diluted	\$ 0.27	\$ 0.15
Weighted-average shares outstanding:		
Basic	8,761,292	8,668,955
Diluted	9,087,016	8,924,419

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

BG Staffing, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Thirteen Week Period Ended April 1, 2018

	Preferred Stock	Common Stock		Additional Paid in Capital	Retained Earnings	Total
		Shares	Par Value			
Stockholders' equity, December 31, 2017	\$ —	8,759,376	\$ 87,594	\$ 37,675,329	\$ 1,371,756	\$ 39,134,679
Share-based compensation	—	—	—	67,029	—	67,029
Additional shares of common stock available for issuance in the 2013 Long-Term Incentive Plan	—	—	—	(7,500)	—	(7,500)
Exercise of common stock options	—	4,589	46	(46)	—	—
Cash dividend declared (\$0.25 per share)	—	—	—	—	(2,189,844)	(2,189,844)
Net income	—	—	—	—	2,465,571	2,465,571
Stockholders' equity, April 1, 2018	\$ —	8,763,965	\$ 87,640	\$ 37,734,812	\$ 1,647,483	\$ 39,469,935

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

BG Staffing, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Thirteen Week Periods Ended April 1, 2018 and March 26, 2017

	2018	2017
Cash flows from operating activities		
Net income	\$ 2,465,571	\$ 1,301,831
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	165,836	139,591
Amortization	1,129,670	1,231,843
Amortization of deferred financing fees	80,777	24,798
Interest expense on contingent consideration payable	179,378	258,116
Provision for doubtful accounts	197,321	4,254
Share-based compensation	67,029	77,563
Deferred income taxes	149,257	—
Net changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	1,492,164	1,916,967
Prepaid expenses	(855,638)	(66,971)
Other current assets	(58,626)	2,096
Deposits	(136,263)	(40,123)
Accrued interest	35,188	(489)
Accounts payable	(1,155,647)	350,484
Accrued payroll and expenses	(330,490)	754,333
Accrued workers' compensation	(185,333)	(284,020)
Other current liabilities	(87,552)	—
Income taxes payable	498,088	829,905
Other long-term liabilities	(54,959)	(28,294)
Net cash provided by operating activities	3,595,771	6,471,884
Cash flows from investing activities		
Capital expenditures	(153,904)	(327,112)
Net cash used in investing activities	(153,904)	(327,112)
Cash flows from financing activities		
Net payments under line of credit	(632,023)	(3,977,445)
Principal payments on long-term debt	(612,500)	—
Payments of dividends	(2,189,844)	(2,167,327)
Additional shares of common stock available for issuance in the 2013 Long-Term Incentive Plan	(7,500)	—
Net cash used in financing activities	(3,441,867)	(6,144,772)
Net change in cash and cash equivalents	—	—
Cash and cash equivalents, beginning of period	—	—
Cash and cash equivalents, end of period	\$ —	\$ —
Supplemental cash flow information:		
Cash paid for interest	\$ 529,195	\$ 240,845
Cash paid for taxes, net of refunds	\$ 43,500	\$ —
Non-cash transactions:		
Leasehold improvements funded by landlord incentives	\$ 214,222	\$ —

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

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

NOTE 1 - NATURE OF OPERATIONS

BG Staffing, Inc. is a national provider of temporary staffing services that operates, along with its wholly owned subsidiaries BG Staffing, LLC, B G Staff Services Inc., BG Personnel, LP and BG Finance and Accounting, Inc. ("BGFA") (collectively, the "Company"), primarily within the United States of America in three industry segments: Multifamily, Professional, and Commercial. We now have 65 branch offices and 15 on-site locations located across 26 states.

The Multifamily segment provides front office and maintenance temporary workers to various apartment communities, in 23 states, via property management companies responsible for the apartment communities' day-to-day operations.

The Professional segment provides skilled temporary workers on a nationwide basis for information technology ("IT") and finance and accounting customer projects.

The Commercial segment provides temporary workers primarily to logistics, distribution, and call center customers needing a flexible workforce in Illinois, Wisconsin, New Mexico, Texas, Tennessee and Mississippi.

Our business experiences seasonal fluctuations. Our quarterly operating results are affected by the number of billing days in a quarter, as well as the seasonality of our customers' business. Demand for our Multifamily staffing services increase in the second and is highest during the third quarter of the year due to the increased turns in multifamily units during the summer months when schools are not in session. Demand for our Commercial staffing services increases during the third quarter of the year and peaks in the fourth quarter. Demand for our Commercial staffing services is lower during the first quarter, in part due to customer shutdowns and 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.

The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles in the United States ("GAAP"), pursuant to the applicable rules and regulations of the SEC. The information furnished herein reflects all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary to present a fair statement of the financial position and operating results of the Company as of and for the respective periods. However, these operating results are not necessarily indicative of the results expected for a full fiscal year or any other future period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted pursuant to such rules and regulations. However, management of the Company believes, to the best of their knowledge, that the disclosures herein are adequate to make the information presented not misleading. The Company has determined that there were no subsequent events that would require disclosure or adjustments to the accompanying consolidated financial statements through the date the financial statements were issued. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the fiscal year ended December 31, 2017, included in its Annual Report on Form 10-K.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Fiscal Periods

The Company has a 52/53 week fiscal year. Fiscal periods for the consolidated financial statements included herein are as of April 1, 2018 and December 31, 2017, and include the thirteen week periods ended April 1, 2018 and March 26, 2017, referred to herein as Fiscal 2018 and 2017, respectively.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform with the 2018 presentation.

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

Management Estimates

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

Financial Instruments

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

Cash and Cash Equivalents

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

Concentration of Credit Risk

Concentration of credit risk is limited due to the Company's diverse customer base and their dispersion across many different industries and geographic locations nationwide. No single customer accounted for more than 10% of the Company's accounts receivable as of April 1, 2018 and December 31, 2017 or revenue for the thirteen week periods ended April 1, 2018 and March 26, 2017. Geographic revenue in excess of 10% of the Company's consolidated revenue in Fiscal 2018 and the related percentage for Fiscal 2017 was generated in the following areas:

	<u>Thirteen Weeks Ended</u>	
	<u>April 1, 2018</u>	<u>March 26, 2017</u>
<u>Maryland</u>	<u>12%</u>	<u>14%</u>
<u>Tennessee</u>	<u>14%</u>	<u>3%</u>
<u>Texas</u>	<u>28%</u>	<u>30%</u>

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

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

Changes in the allowance for doubtful accounts are as follows:

	Thirteen Weeks Ended	
	April 1, 2018	March 26, 2017
Beginning balance	\$ 473,573	\$ 473,573
Provision for doubtful accounts	197,321	4,254
Amounts written off, net	(197,321)	(4,254)
Ending balance	<u>\$ 473,573</u>	<u>\$ 473,573</u>

Property and Equipment

Property and equipment are stated net of accumulated depreciation and amortization of \$1,542,497 and \$1,377,319 at April 1, 2018 and December 31, 2017 , respectively.

Deposits

The Company maintains guaranteed costs policies for workers' compensation coverage in the states in which it operates, with minimal loss retention for employees in the Commercial segment. Under these policies, the Company is required to maintain refundable deposits of \$2,799,218 and \$2,665,665 , which are included in Deposits the accompanying consolidated balance sheets as of April 1, 2018 and December 31, 2017 , respectively.

Long-Lived Assets

The Company reviews its long-lived assets, primarily fixed assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Company looks primarily to the undiscounted future cash flows in its assessment of whether or not long-lived assets have been impaired. There were no impairments during Fiscal 2018 and Fiscal 2017 .

Intangible Assets

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

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

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

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

Goodwill

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

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

Deferred Rent

The Company recognizes rental expense on a straight-line basis over the life of the agreement. Deferred rent is recognized as the difference between cash payments and rent expense, including any landlord incentives.

Deferred Financing Fees

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

Contingent Consideration

The Company has obligations, to be paid in cash, related to its acquisitions if certain future operating and financial goals are met. The fair value of this contingent consideration is determined using expected cash flows and present value technique. Prior to Fiscal 2017, the calculation of the fair value of the expected future payments uses a discount rate that approximates the Company's weighted average cost of capital. For acquisitions beginning in Fiscal 2017, based on a new valuation methodology, the fair value calculation of the expected future payments uses a discount rate commensurate with the risks of the expected cash flow. The resulting discount is amortized as interest expense over the outstanding period using the effective interest method.

Revenue Recognition

The Company derives its revenues from three segments: Multifamily, Professional, and Commercial. The Company provides temporary staffing and permanent placement services. Revenues are recognized when promised services are delivered to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. Revenues as presented on the consolidated statements of operations represent services rendered to customers less variable consideration, such as sales adjustments and allowances. Reimbursements, including those related to out-of-pocket expenses, are also included in revenues, and equivalent 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 workers, (ii) has the discretion to select the workers and establish their price and duties and (iii) bears the risk for services that are not fully paid for by customers.

Temporary staffing revenues - Temporary and consultant staffing revenues from contracts with customers are recognized in the amount to which the Company has a right to invoice, when the services are rendered by the Company's temporary employees.

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

Refer to Note 12 for disaggregated revenues by segment.

Payment terms in our contracts vary by the type and location of our customer and the services offered. The term between invoicing and when payment is due is not significant. There were no unsatisfied performance obligations as of April 1, 2018. There were no revenues recognized during the thirteen week period ended April 1, 2018 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 week period ended April 1, 2018.

BG Staffing, 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 that are expected to vest and records adjustments to compensation expense at the end of the service period if actual forfeitures differ from original estimates.

Earnings Per Share

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

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

	Thirteen Weeks Ended	
	April 1, 2018	March 26, 2017
Weighted-average number of common shares outstanding:	8,761,292	8,668,955
Effect of dilutive securities:		
Stock options	286,875	227,214
Warrants	38,849	28,250
Weighted-average number of diluted common shares outstanding	9,087,016	8,924,419
Stock options	178,000	50,000
Warrants	32,250	32,250
Antidilutive shares	210,250	82,250

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

On December 22, 2017, the President signed the Tax Cuts and Jobs Act ("TCJA") into law. Effective January 1, 2018, among other changes, TCJA reduced the federal corporate tax rate to 21 percent. Accounting Standards Codification ("ASC") Topic 740-25 and 35 prescribes that the impact of changes in laws or rates shall be recognized at the date of enactment. The Company recorded a \$3.3 million impact of the TCJA in the fourth quarter of Fiscal 2017.

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

When appropriate, we record a valuation allowance against net deferred tax assets to offset future tax benefits that may not be realized. In determining whether a valuation allowance is appropriate, we consider whether it is more likely than not that all or some portion of our deferred tax assets will not be realized, based in part upon management's judgments regarding future events and past operating results.

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("ASU") ASU 2014-09, Revenue from Contracts with Customers. Since May 2014, the FASB has issued additional and amended authoritative guidance regarding revenue from contracts with customers in order to clarify and improve the understanding of the implementation guidance. As amended, the new guidance requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration a company expects to receive in exchange for those goods or services. The new standard is effective for annual and interim periods beginning after December 15, 2017. The Company adopted this ASU on January 1, 2018 on a modified retrospective basis. As the initial adoption of the standard did not have a material impact on the Company's financial condition or results of operations, no cumulative effect was recognized at the date of initial application. The Company also had no significant changes to systems, processes, or controls.

In February 2016, the FASB issued ASU 2016-02 Leases, which changes financial reporting as it relates to leasing transactions. Under the new guidance, lessees will be required to recognize a lease liability, measured on a discounted basis; and a right-of-use asset, for the lease term. The new guidance is effective for annual and interim periods beginning after December 15, 2018. Early application is permitted. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. While the impact of the adoption of this guidance will include the recognition of right-of-use assets and lease liabilities on the Company's statement of financial position, the Company is in the process of evaluating the impact of adoption of this guidance on its systems, processes, and controls.

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

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718) Scope of Modification Accounting which provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. The Company adopted this ASU on a prospective basis in the first quarter of fiscal 2018 which did not have a material impact on the consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 which adds SEC paragraphs pursuant to the SEC Staff Accounting Bulletin No. 118 and expresses the view of the staff regarding application of Topic 740, Income Taxes. The amendments are effective upon addition to the FASB Accounting Standards Codification. The Company adopted this ASU in the first quarter of 2018 which had no impact on the consolidated financial statements

NOTE 3 - ACQUISITIONS

Zycron, Inc.

On April 3, 2017, the Company acquired substantially all of the assets and assumed certain liabilities of Zycron, Inc. ("Zycron") for an initial cash consideration paid of \$18.5 million and issued \$1.0 million (70,670 shares privately placed) of the Company's common stock at closing. An additional \$0.5 million was held back as partial security for post-closing purchase price adjustments and indemnification obligations, which was paid on October 24, 2017 net of a working capital adjustment. The purchase agreement further provides for contingent consideration of up to \$3.0 million based on the performance of the acquired business for the two years following the date of acquisition. The purchase agreement contained a provision for a "true up" of acquired working capital 120 days after the closing date. The Fiscal 2017 consolidated statement of income does not include any operating results of Zycron.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Smart Resources, Inc.

On September 18, 2017, the Company acquired substantially all of the assets and assumed certain liabilities of Smart Resources, Inc. and Accountable Search, LLC (collectively, "Smart") for an initial cash consideration paid of \$6.0 million. The purchase agreement provides for contingent consideration of up to \$2.0 million based on the performance of the acquired business for the two years following the date of acquisition. The purchase agreement contained a provision for a "true up" of acquired working capital 90 days after the closing date. The Fiscal 2017 consolidated statement of income does not include any operating results of Smart.

Supplemental Unaudited Pro Forma Information

The Company estimates that the revenues and net income for the periods below that would have been reported if the Zycron and Smart acquisitions had taken place on the first day of the Company's 2017 fiscal year would be as follows (dollars in thousands, except per share amounts):

	Thirteen Weeks Ended March 26, 2017
Revenues	\$ 69,389
Gross profit	\$ 16,807
Net income	\$ 1,481
Income per share:	
Basic	\$ 0.17
Diluted	\$ 0.17

Pro forma net income includes amortization of identifiable intangible assets, interest expense on additional borrowings on the Revolving Facility at a rate of 4.5% and tax expense of the pro forma adjustments at an effective tax rate of approximately 38.3% for Fiscal 2017. The pro forma information presented includes adjustments that will have a continuing impact on the operations that management considers non-recurring in assessing Zycron and Smart's historical performances.

Amounts set forth above are not necessarily indicative of the results that would have been attained had the Zycron and Smart acquisitions taken place on the first day of the Company's 2017 fiscal year or of the results that may be achieved by the combined enterprise in the future.

NOTE 4 - INTANGIBLE ASSETS

Intangible assets are stated net of accumulated amortization of \$37,086,125 and \$35,956,455 at April 1, 2018 and December 31, 2017, respectively. Total amortization expense for the thirteen week periods ended April 1, 2018 and March 26, 2017 was \$1,129,670 and \$1,231,843, respectively.

NOTE 5 - ACCRUED PAYROLL AND EXPENSES AND CONTINGENT CONSIDERATION

Accrued payroll and expenses consist of the following at:

	April 1, 2018	December 31, 2017
Temporary worker payroll	\$ 5,816,993	\$ 5,124,908
Temporary worker payroll related	1,835,776	2,454,539
Accrued bonuses and commissions	1,105,074	1,172,497
Other	2,452,473	2,788,862
	<u>\$ 11,210,316</u>	<u>\$ 11,540,806</u>

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

The following is a schedule of future estimated contingent consideration payments to various parties as of April 1, 2018 :

	Estimated Cash Payment	Discount	Net
Due in:			
Less than one year	\$ 4,750,000	\$ (317,016)	\$ 4,432,984
One to two years	2,500,000	(275,936)	2,224,064
Contingent consideration	<u>\$ 7,250,000</u>	<u>\$ (592,952)</u>	<u>\$ 6,657,048</u>

In May 2018, the Company determined the preliminary year one earn out related to the Zycron acquisition was \$0.1 million of a potential \$1.5 million . Under the provisions of the Asset Purchase Agreement, the remaining \$1.4 million can be earned at the year two measurement period. Accordingly, management believes that no adjustment to fair value is necessary as of April 1, 2018.

NOTE 6 - DEBT

In connection with the acquisition of the assets of Zycron described above, on April 3, 2017, the Company entered into an Amended and Restated Credit Agreement (the "Amended Credit Agreement") with TCB with an aggregate commitment of \$55.0 million . The Amended Credit Agreement provides for a revolving credit facility maturing April 3, 2022 (the "Revolving Facility"), permitting the Company to borrow funds from time to time in an aggregate amount equal to the lesser of the borrowing base amount, which is 85% of eligible accounts receivable, and TCB's commitment of \$35.0 million and also provided for a term loan maturing April 3, 2022 (the "Term Loan") in the amount of \$20.0 million with principal payable quarterly, based on an annual percentage of the original principal amount as defined in the Amended Credit Agreement. TCB may also make loans ("Swing Line Loans") not to exceed the lesser of \$7.5 million or the aggregate commitment. Additionally, the Amended Credit Agreement originally provided for the Company to increase the commitment by \$20.0 million (\$15.0 million remaining) with an accordion feature.

The Company borrowed \$20.0 million on the Term Loan in conjunction with the closing of the Zycron acquisition on April 3, 2017. Proceeds from the foregoing loan arrangements were used to pay off existing indebtedness of the Company on the revolving credit facility under the credit agreement, dated as of August 21, 2015, as amended, with TCB. The Company borrowed \$5.0 million on the accordion in conjunction with the closing of the Smart acquisition on September 18, 2017.

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

The Amended Credit Agreement's customary affirmative and negative covenants remain substantially the same as those in effect under the original credit agreement. The Company is subject to a maximum Leverage Ratio, a minimum Fixed Charge Coverage Ratio, and a minimum Dividend Fixed Charge Coverage Ratio, as defined in the Amended Credit Agreement. The Company was in compliance with these covenants as of April 1, 2018 .

Line of Credit

At April 1, 2018 and December 31, 2017 , \$20.7 million and \$21.4 million , respectively, was outstanding on the Revolving Facility with TCB.

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

Borrowings under the Revolving Facility bore interest at:

	April 1, 2018		December 31, 2017	
Base Rate	\$	5,736,045	5.50%	\$ 6,368,068 5.50%
LIBOR		5,000,000	4.45%	5,000,000 4.09%
LIBOR		5,000,000	4.54%	5,000,000 4.13%
LIBOR		5,000,000	4.77%	5,000,000 4.24%
Total	\$	<u>20,736,045</u>		<u>\$ 21,368,068</u>

Long-Term Debt

Long-term debt consists of and bore interest at:

	April 1, 2018		December 31, 2017	
Base Rate	\$	687,500	5.50%	\$ 687,500 5.50%
LIBOR		6,500,000	4.70%	6,500,000 4.34%
LIBOR		6,500,000	4.79%	6,500,000 4.38%
LIBOR		6,000,000	5.02%	6,000,000 4.49%
LIBOR		3,587,500	5.22%	4,200,000 4.64%
Long-term debt	\$	<u>23,275,000</u>		<u>\$ 23,887,500</u>

NOTE 7 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

Amounts Recorded at Fair Value	Financial Statement Classification	Fair Value Hierarchy	April 1, 2018	December 31, 2017
Contingent consideration, net	Contingent consideration, net - current and long-term	Level 3	\$ 6,657,048	\$ 6,477,670

The changes in the Level 3 fair value measurements from December 31, 2017 to April 1, 2018 relates to \$0.2 million in accretion. The key inputs in determining the fair value of the contingent consideration as of April 1, 2018 and December 31, 2017 included discount rates of ranging from 8% and 22% as well as management's estimates of future sales volumes and EBITDA.

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

NOTE 8 - CONTINGENCIES

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

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

NOTE 9 – 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.

NOTE 10 – SHARE-BASED COMPENSATION

Stock Options

For the thirteen week periods ended April 1, 2018 and March 26, 2017, the Company recognized \$0.1 million and \$0.1 million of compensation expense related to stock awards, respectively. Unamortized share-based compensation expense as of April 1, 2018 amounted to \$0.5 million which is expected to be recognized over the next 2.3 years.

A summary of stock option activity is presented as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Total Intrinsic Value of Options (in thousands)
Options outstanding at December 31, 2017	765,411	\$ 10.27	7.3	\$ 4,521
Exercised	(9,000)	\$ 8.36		
Options outstanding at April 1, 2018	756,411	\$ 10.29	7.0	\$ 6,579
Options exercisable at December 31, 2017	498,611	\$ 8.74	6.8	\$ 3,640
Options exercisable at April 1, 2018	536,011	\$ 8.53	6.5	\$ 5,605
	Number of Shares	Weighted Average Grant Date Fair Value		
Nonvested outstanding at December 31, 2017	266,800	\$ 3.09		
Nonvested outstanding at April 1, 2018	220,400	\$ 3.12		

For the thirteen week periods ended April 1, 2018, the Company issued 4,589 shares of common stock upon the cashless exercise of 9,000 stock options.

BG Staffing, Inc. and Subsidiaries
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Warrant Activity

For the thirteen week periods ended April 1, 2018 and March 26, 2017, the Company did not recognize compensation cost related to warrants. There was no unamortized stock compensation expense to be recognized as of April 1, 2018.

A summary of warrant activity is presented as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Total Intrinsic Value of Options (in thousands)
Warrants outstanding at December 31, 2017	123,984	\$ 11.51	2.2	\$ 577
Warrants outstanding at April 1, 2018	123,984	\$ 11.51	1.9	\$ 927
Warrants exercisable at December 31, 2017	123,984	\$ 11.51	2.2	\$ 577
Warrants exercisable at April 1, 2018	123,984	\$ 11.51	1.9	\$ 927

There were no nonvested warrants outstanding at April 1, 2018 and December 31, 2017.

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

NOTE 11 - EMPLOYEE BENEFIT PLAN

The Company provides a defined contribution plan (the “401(k) Plan”) for the benefit of its eligible full-time employees. The 401(k) Plan allows employees to make contributions subject to applicable statutory limitations. The Company matches employee contributions 100% up to the first 3% and 50% of the next 2% of an employee’s compensation. The Company contributed \$268,985 and \$202,421 to the 401(k) Plan for the thirteen week periods ended April 1, 2018 and March 26, 2017, respectively.

NOTE 12 - BUSINESS SEGMENTS

The Company operates within three industry segments: Multifamily, Professional, and Commercial. The Multifamily segment provides front office and maintenance temporary workers to various apartment communities, in 23 states, via property management companies responsible for the apartment communities' day-to-day operations. The Professional segment provides skilled temporary workers on a nationwide basis for IT and finance and accounting customer projects. The Commercial segment provides temporary workers primarily to logistics, distribution, and call center customers needing a flexible workforce in Illinois, Wisconsin, New Mexico, Texas, Tennessee and Mississippi.

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

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

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

	Thirteen Weeks Ended	
	April 1, 2018	March 26, 2017
Revenue:		
Multifamily	\$ 18,034,363	\$ 13,091,645
Professional	31,089,755	25,832,624
Commercial	17,731,352	17,919,418
Total	<u>\$ 66,855,470</u>	<u>\$ 56,843,687</u>
Depreciation:		
Multifamily	\$ 39,282	\$ 23,310
Professional	52,029	41,161
Commercial	26,352	26,169
Corporate	48,173	48,951
Total	<u>\$ 165,836</u>	<u>\$ 139,591</u>
Amortization:		
Professional	\$ 1,060,147	\$ 1,137,222
Commercial	66,151	94,621
Corporate	3,372	—
Total	<u>\$ 1,129,670</u>	<u>\$ 1,231,843</u>
Operating income:		
Multifamily	\$ 2,606,378	\$ 1,701,517
Professional	2,266,655	1,811,980
Commercial	1,056,055	853,645
Corporate - selling	(173,948)	(126,921)
Corporate - general and administrative	(1,719,835)	(1,546,865)
Total	<u>\$ 4,035,305</u>	<u>\$ 2,693,356</u>
Capital expenditures:		
Multifamily	\$ 9,161	\$ 43,287
Professional	10,992	117,819
Commercial	—	34,157
Corporate	133,751	131,849
Total	<u>\$ 153,904</u>	<u>\$ 327,112</u>

BG Staffing, Inc. and Subsidiaries
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	April 1, 2018	December 31, 2017
Total Assets:		
Multifamily	\$ 11,158,439	\$ 11,678,908
Professional	65,881,159	67,089,681
Commercial	17,896,666	18,075,307
Corporate	7,803,618	7,788,993
Total	<u>\$ 102,739,882</u>	<u>\$ 104,632,889</u>

NOTE 13 - SUBSEQUENT EVENTS

Dividend

On May 10, 2018 , the Company's board of directors declared a cash dividend in the amount of \$0.30 per share of common stock to be paid on May 29, 2018 to all shareholders of record as of the close of business on May 21, 2018 .

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. Comparative segment revenues and related financial information are discussed herein and are presented in Note 12 to our Unaudited Consolidated Financial Statements. See "Forward Looking Statements" on page 3 of this report and "Risk Factors" included in our filings with the SEC, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, for a description of important factors that could cause actual results to differ from expected results.

Overview

We are a leading national provider of professional temporary staffing services and have completed a series of acquisitions including the acquisition of BG Personnel, LP and B G Staff Services Inc. in June 2010, and substantially all of the assets of JNA Staffing, Inc. in December 2010, Extrinsic, LLC in December 2011, American Partners, Inc. in December 2012, InStaff Holding Corporation and InStaff Personnel, LLC in June 2013, D&W Talent, LLC ("D&W") in March 2015, Vision Technology Services, Inc., Vision Technology Services, LLC, and VTS-VM, LLC (collectively, "VTS") in October 2015, Zycron, Inc. in April 2017, and Smart Resources, Inc. and Accountable Search, LLC in September 2017. We operate within three industry segments: Multifamily, Professional, and Commercial. We provide services to customers primarily within the United States of America. We now have 65 branch offices and 15 on-site locations located across 26 states.

The Multifamily segment provides front office and maintenance temporary workers to various apartment communities, in 23 states, via property management companies responsible for the apartment communities' day-to-day operations.

The Professional segment provides skilled temporary workers on a nationwide basis for information technology ("IT") and finance and accounting customer projects.

The Commercial segment provides temporary workers primarily to logistics, distribution, and call center customers needing a flexible workforce in Illinois, Wisconsin, New Mexico, Texas, Tennessee and Mississippi.

Our business experiences seasonal fluctuations. Our quarterly operating results are affected by the number of billing days in a quarter, as well as the seasonality of our customers' business. Demand for our Multifamily staffing services increase in the second and is highest during the third quarter of the year due to the increased turns in multifamily units during the summer months when schools are not in session. Demand for our Commercial staffing services increases during the third quarter of the year and peaks in the fourth quarter. Demand for our Commercial staffing services is lower during the first quarter, in part due to customer shutdowns and adverse weather conditions in the winter months. In addition, our cost of services typically increases in the first quarter primarily due to the reset of payroll taxes.

Results of Operations

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

	Thirteen Weeks Ended	
	April 1, 2018	March 26, 2017
	(dollars in thousands)	
Revenues	\$ 66,855	\$ 56,844
Cost of services	49,545	43,173
Gross profit	17,310	13,671
Selling, general and administrative expenses	11,978	9,606
Depreciation and amortization	1,296	1,371
Operating income	4,036	2,694
Interest expense, net	(871)	(559)
Income before income tax	3,165	2,135
Income tax expense	699	833
Net income	\$ 2,466	\$ 1,302
Revenues	100.0 %	100.0 %
Cost of services	74.1 %	75.9 %
Gross profit	25.9 %	24.1 %
Selling, general and administrative expenses	17.9 %	16.9 %
Depreciation and amortization	1.9 %	2.4 %
Operating income	6.0 %	4.7 %
Interest expense, net	(1.3)%	(1.0)%
Income before income tax	4.7 %	3.8 %
Income tax expense	1.0 %	1.5 %
Net income	3.7 %	2.3 %

Thirteen Week Fiscal Period Ended April 1, 2018 ("Fiscal 2018 ") Compared with Thirteen Week Fiscal Period Ended March 26, 2017 ("Fiscal 2017 ")

Revenues:

<i>Revenues:</i>		Thirteen Weeks Ended			
		April 1, 2018		March 26, 2017	
		(dollars in thousands)			
Revenues by segment:					
Multifamily		\$	18,034	27.0%	\$ 13,092 23.0%
Professional			31,090	46.5%	25,833 45.4%
Commercial			17,731	26.5%	17,919 31.6%
Total Revenues		\$	66,855	100.0%	\$ 56,844 100.0%

Multifamily Revenues : Multifamily revenues increased approximately \$4.9 million (37.7%) due to our continued geographic expansion plan. Revenue from branches outside of Texas accounted for approximately \$3.2 million of the increase and revenue from branches in Texas increased approximately \$1.7 million . The increase was due to a 29.6% increase in billed hours and a 5.3% increase in average bill rate. Revenue from existing offices accounted for approximately \$4.2 million of the increase and revenue from new offices provided approximately \$0.7 million .

Professional Revenues : Professional revenues increased approximately \$5.3 million (20.4%), primarily from Zycron, which contributed approximately \$8.5 million of new revenues and from Smart, which contributed approximately \$2.8 million of new revenues. The remaining IT group decreased \$3.6 million and the remaining finance and accounting group decreased \$2.5 million . The overall increase was due to a 50.8% increase in billed hours and an increase in permanent placements of \$0.1 million that was offset by a decrease of 18.5% in average bill rate.

Commercial Revenues : Commercial revenues decreased approximately \$0.2 million (1.0%). Texas branches decreased \$0.1 million and other branches outside of the Midwest decreased \$0.2 million , which were offset by Illinois and Wisconsin locations in crease of \$0.1 million . The overall revenue decrease was due to a 5.6% decrease in billed hours that was offset by a 5.3% increase in average bill rate.

Gross Profit:

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

			Thirteen Weeks Ended			
			April 1, 2018	March 26, 2017		
			(dollars in thousands)			
Gross Profit by segment:						
Multifamily	\$	6,880	39.7%	\$	4,984	36.5%
Professional		7,872	45.5%		6,211	45.4%
Commercial		2,558	14.8%		2,476	18.1%
Total Gross Profit	\$	17,310	100.0%	\$	13,671	100.0%

	Thirteen Weeks Ended	
	April 1,	March 26,
	2018	2017
Gross Profit Percentage by segment:		
Multifamily	38.2%	38.1%
Professional	25.3%	24.0%
Commercial	14.4%	13.8%
Company Gross Profit	25.9%	24.1%

Overall, our gross profit has increased approximately \$3.6 million (26.6%) due primarily to Zycron (\$1.9 million) and Smart (\$1.0 million) acquisitions and increased revenues in our Multifamily segment. As a percentage of revenue, gross profit has increased to 25.9% from 24.1% primarily due to a higher percentage of our revenues from our Multifamily and Professional segments.

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

Multifamily Gross Profit: Multifamily gross profit increased approximately \$1.9 million (38.0%) consistent with the increase in revenue. The increase in gross profit percentage of 0.1% was due primarily to 3.4% increase in average spread.

Professional Gross Profit: Professional gross profit increased approximately \$1.6 million (26.7%), due to Zycron of \$1.9 million and Smart of \$1.0 million , offset by a 9.7% decrease in average spread, \$0.7 million decrease in the remaining IT group and a \$0.6 million decrease in the remaining finance and accounting group.

Commercial Gross Profit: Commercial gross profit increased approximately \$0.1 million (3.3%) was due to 4.4% increase in average spread.

Selling, General and Administrative Expenses: Selling, general and administrative expenses increased approximately \$2.4 million (24.7%) related to an increase in Multifamily of \$1.0 million from growth, including \$0.3 million of new office expansion, and an increase in Professional of \$0.9 million from Zycron and \$0.8 million from Smart offset by a \$0.5 million decrease in the remaining Professional segment.

Depreciation and Amortization: Depreciation and amortization charges decreased approximately \$0.1 million (5.5%). The decrease in depreciation and amortization is primarily due to Professional segment fully amortized intangible assets related to the 2012 American Partners acquisition of \$0.5 million that was partially offset by an increase in the Professional segment intangible assets acquired in the Zycron acquisition of \$0.2 million and the Smart acquisition of \$0.1 million .

Interest Expense, net: Interest expense, net increased approximately \$0.3 million (55.8%) primarily due to the increase in the interest of \$0.3 million related to the new Term Loan described below.

Income Taxes: Income tax expense decreased approximately \$0.1 million primarily due to the impact of the 2017 Tax Cuts and Jobs Act which resulted in a decrease in the effective rate, offset by higher pre tax income of \$1.0 million .

Use of Non-GAAP Financial Measures

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

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

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

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

	Thirteen Weeks Ended	
	April 1, 2018	March 26, 2017
	(dollars in thousands)	
Net income	\$ 2,466	\$ 1,302
Interest expense, net	871	559
Income tax expense	699	833
Operating income	4,036	2,694
Depreciation and amortization	1,296	1,371
Share-based compensation	67	78
Adjusted EBITDA	\$ 5,399	\$ 4,143

Liquidity and Capital Resources

Our working capital requirements are primarily driven by temporary worker payments, tax payments and customer accounts receivable receipts. Since receipts from customers lag payments to temporary workers, working capital requirements increase substantially in periods of growth.

Our primary sources of liquidity are cash generated from operations and borrowings under our credit agreement (the “Amended Credit Agreement”) with Texas Capital Bank, National Association (“TCB”) as amended and restated that provides for a revolving credit facility maturing April 3, 2022 (the “Revolving Facility”). Our primary uses of cash are payments to temporary workers, employees, related payroll liabilities, operating expenses, capital expenditures, cash interest, cash taxes, dividends and contingent consideration payments. We believe that the cash generated from operations, together with the borrowing availability under our Revolving Facility, will be sufficient to meet our normal working capital needs for at least the next twelve months, including investments made, and expenses incurred, in connection with opening new branches throughout the next year. Our ability to continue to fund these items may be affected by general economic, competitive and other factors, many of which are outside of our control. If our future cash flow from operations and other capital resources are insufficient to fund our liquidity needs, we may be forced to obtain additional debt or equity capital or refinance all or a portion of our debt.

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

The Company has an effective Form S-3 shelf registration statement allowing for the offer and sale of up to approximately \$36.0 million of common stock. There is no guarantee that we will be able to consummate any offering on terms we consider acceptable or at all.

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

	Thirteen Weeks Ended	
	April 1, 2018	March 26, 2017
	(dollars in thousands)	
Net cash provided by operating activities	\$ 3,596	\$ 6,472
Net cash used in investing activities	(154)	(327)
Net cash used in financing activities	(3,442)	(6,145)
Net change in cash and cash equivalents	\$ —	\$ —

Operating Activities

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

During Fiscal 2018 , net cash provided by operating activities was \$3.6 million a decrease of \$2.9 million compared with \$6.5 million for Fiscal 2017 . This decrease is primarily attributable to the timing of payments on accounts payable and accrued payroll and expenses.

Investing Activities

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

In Fiscal 2018 , we made capital expenditures of \$0.2 million mainly related to computer equipment in the ordinary course of business. In Fiscal 2017 , we made capital expenditures of approximately \$0.3 million mainly related to computer equipment purchased in the ordinary course of business.

Financing Activities

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

For Fiscal 2018 , we reduced our revolving line of credit by \$0.6 million , paid \$2.2 million in cash dividends on our common stock, and paid \$0.6 million in principal payment on the Term Loan described below.

For Fiscal 2017 , we paid down \$4.0 million under our revolving line of credit and we paid \$2.1 million in cash dividends on our common stock.

Credit Agreements

In connection with the acquisition of the assets of Zycron described above, on April 3, 2017, we entered into the Amended Credit Agreement with TCB with an aggregate commitment of \$55.0 million. The Amended Credit Agreement provides for the Revolving Facility described above, permitting us to borrow funds from time to time in an aggregate amount equal to the lesser of the borrowing base amount, which is 85% of eligible accounts, and TCB's commitment of \$35.0 million and also provided for a term loan maturing April 3, 2022 (the "Term Loan") in the amount of \$20.0 million with principal payable quarterly, based on an annual percentage of the original principal amount as defined in the Amended Credit Agreement. TCB may also make loans ("Swing Line Loans") not to exceed the lesser of \$7.5 million or the aggregate commitment. Additionally, the Amended Credit Agreement originally provided for us to increase the commitment by \$20.0 million (\$15.0 million remaining) with an accordion feature.

We borrowed \$20.0 million on the Term Loan in conjunction with the closing of the Zycron acquisition on April 3, 2017. Proceeds from the foregoing loan arrangements were used to pay off our existing indebtedness on the revolving credit facility under the Credit Agreement, dated as of August 21, 2015, as amended, with TCB. We borrowed \$5.0 million on the accordion in conjunction with the closing of the Smart acquisition on September 18, 2017.

The Revolving Facility and Term Loan bear interest either at the Base Rate plus the Applicable Margin or LIBOR plus the Applicable Margin (as such terms are defined in the Amended Credit Agreement). Swing Line Loans bear interest at the Base Rate plus the Applicable Margin. All interest and commitment fees are generally paid quarterly. Additionally, we pay an unused commitment fee on the unfunded portion of the Revolving Facility. Our obligations under the Amended Credit Agreement are secured by a first priority security interest in substantially all of our tangible and intangible property and our subsidiaries.

The Amended Credit Agreement's customary affirmative and negative covenants remain substantially the same as those in effect under the original credit agreement. We are subject to a maximum Leverage Ratio, a minimum Fixed Charge Coverage Ratio, and a minimum Dividend Fixed Charge Coverage Ratio, as defined in the Amended Credit Agreement. We were in compliance with these covenants as of April 1, 2018 .

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

Our significant accounting policies are discussed in Note 2, Summary of Significant Accounting Policies, of the Notes to Unaudited Consolidated Financial Statements included in “Item 1. Financial Statements.” Please also refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 for a more detailed discussion of our critical accounting policies.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements and their potential effect on our results of operations and financial condition, refer to Note 2 in the Notes to the Unaudited Consolidated Financial Statements in this Quarterly Report on Form 10-Q and Note 2 in the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 .

JOBS Act

The Jumpstart Our Business Startups Act of 2012 provides that an “emerging growth company” can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We may elect to delay the adoption of new or revised accounting pronouncements applicable to public and private companies until such pronouncements become mandatory for private companies. As a result, our financial statements may not be comparable to the financial statements of issuers who are required to comply with the effective dates for new or revised accounting standards that are applicable to public and private companies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rates

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls Over Financial Reporting

For the fiscal quarter ended April 1, 2018, there have been no changes in our internal control over financial reporting identified in connection with the evaluations required by Rule 13a-15(d) or Rule 15d-15(d) under the Exchange Act that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our CEO and our CFO, do not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error 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 year ended December 31, 2017 .

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 year ended December 31, 2017 (our “2017 Form 10-K”), and filed with the SEC on March 8, 2018 . There have been no material changes from the risk factors as previously disclosed in our 2017 Form 10-K. Any of the risks discussed in this Quarterly Report on Form 10-Q or any of the risks disclosed in Item 1A. of Part I of our 2017 Form 10-K, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, could materially and adversely affect our results of operations or financial condition.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

Item 6. Exhibits

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

Exhibit Number	Description
3.1	<u>Certificate of Incorporation of BG Staffing, Inc. (incorporated by reference from Amendment No. 2 to the registrant's registration statement on Form S-1 (File No. 333-191683) filed on November 4, 2013).</u>
3.2	<u>Bylaws of BG Staffing, Inc. (incorporated by reference from Amendment No. 2 to the registrant's registration statement on Form S-1 (File No. 333-191683) filed on November 4, 2013).</u>
4.1	<u>Form of Common Stock Certificate (incorporated by reference from Amendment No. 1 to the registrant's registration statement on Form S-1 (File No. 333-191683) filed on October 28, 2013).</u>
31.1*	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1†	<u>Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS *	XBRL Instance Document.
101.SCH *	XBRL Taxonomy Extension Schema Document.
101.CAL *	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF *	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB *	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE *	XBRL Taxonomy Extension Presentation Linkbase Document.
*	Filed herewith.
†	This certification is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BG STAFFING, INC.

/s/ L. Allen Baker, Jr.

Name:

L. Allen Baker, Jr.

Title:

President and Chief Executive Officer
(Principal Executive Officer)

/s/ Dan Hollenbach

Name:

Dan Hollenbach

Title:

Chief Financial Officer and Secretary
(Principal Financial Officer)

Date: May 10, 2018

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

I, L. Allen Baker, Jr., certify that:

- 1 I have reviewed this quarterly report on Form 10-Q for the quarterly period ended April 1, 2018 of BG Staffing, Inc.
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
- 5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2018

By: /s/ L. Allen Baker, Jr.
 Name: L. Allen Baker, Jr.
 Title: President and Chief Executive Officer
 (Principal Executive Officer)

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

I, Dan Hollenbach, certify that:

- 1 I have reviewed this quarterly report on Form 10-Q for the quarterly period ended April 1, 2018 of BG Staffing, Inc.
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
- 5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2018

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

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

In connection with the quarterly report of BG Staffing, Inc. (the "Company") on Form 10-Q for the quarterly period ended April 1, 2018 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: May 10, 2018

By: /s/ L. Allen Baker, Jr.
Name: L. Allen Baker, Jr.
Title: President and Chief Executive Officer
(Principal Executive Officer)

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

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

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