Staffing 360 Solutions, Inc.
Form 10-KT
April 12, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/T

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended __________

or

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from June 1, 2016 to December 31, 2016

COMMISSION FILE NUMBER: 001-37575

STAFFING 360 SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Nevada	68-0680859
(State of incorporation)	(I.R.S. Employer Identification)

641 Lexington Avenue

27th Floor

New York, New York 10022

(Address of principal executive offices)

(646) 507-5710

(Registrant's telephone number)

Securities registered under Section 12(b) of the Exchange Act: Common Stock, par value $0.00001.

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of the 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/T or any amendment to this Form 10-K/T.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act: (Check one)

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the act): Yes No

As of June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter the aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was approximately $9,587,626 based on the closing price (last sale of the day) for the registrant's common stock on the Nasdaq exchange on June 30, 2016 of $1.58 per share.

As of April 12, 2017, 14,498,979 shares of common stock, $0.00001 par value, were outstanding.

Staffing 360 Solutions, Inc.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, on Form 10-K/T ("Annual Report") contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements that address expectations or projections about the future, including, but not limited to, statements about our plans, strategies, adequacy of resources and future financial results (such as revenue, gross profit, operating profit, cash flow), are forward-looking statements. Some of the forward-looking statements can be identified by words like "anticipates," "believes," "expects," "may," "will," "could," "shoul "intends," "plans," "estimates," "goal," "target," "possible," "potential" and similar references to future periods. These stateme not guarantees of future performance and involve a number of risks, uncertainties and assumptions that are difficult to predict. Because these forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond our control or are subject to change, actual outcomes and results may differ materially from what is expressed or forecasted in these forward-looking statements. Important factors that could cause actual results to differ materially from these forward-looking statements include, but are not limited to: weakness in general economic conditions and levels of capital spending by customers in the industries we serve; weakness or volatility in the financial and capital markets, which may result in the postponement or cancellation of our customers' capital projects or the inability of our customers to pay our fees; the termination of a major customer contract or project; delays or reductions in U.S. government spending; credit risks associated with our customers; competitive market pressures; the availability and cost of qualified labor; our level of success in attracting, training and retaining qualified management personnel and other staff employees; changes in tax laws and other government regulations, including the impact of health care reform laws and regulations; the possibility of incurring liability for our business activities, including, but not limited to, the activities of our temporary employees; our performance on customer contracts; negative outcome of pending and future claims and litigation; government policies, legislation or judicial decisions adverse to our businesses; potential cost overruns and possible rejection of our business model and/or sales methods; our ability to access the capital markets by pursuing additional debt and equity financing to fund our business plan and expenses on terms acceptable to us or at all; and our ability to comply with our contractual covenants, including in respect of our debt. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We assume no obligation to update such statements, whether as a result of new information, future events or otherwise, except as required by law. We recommend readers to carefully review the entirety of this Annual Report, including the "Risk Factors" in Item 1A of this Annual Report and the other reports and documents we file from time to time with the Securities and Exchange Commission ("SEC"), particularly our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K.

As used in this Annual Report, the terms "we," "us," "our," "Staffing 360" and the "Company" mean Staffing 360 Solutions, In and its subsidiaries, unless otherwise indicated. All dollar amounts in this Annual Report are expressed in thousands of U.S. dollars, unless otherwise indicated.

The disclosures set forth in this report should be read in conjunction with our financial statements and notes thereto for the transition period ended December 31, 2016.

PART I

ITEM 1. BUSINESS

General

Staffing 360 Solutions, Inc. (“we,” “us,” “our,” “Staffing 360,” or the “Company”) was incorporated in the State of Nevada on December 22, 2009, as Golden Fork Corporation, which changed its name to Staffing 360 Solutions, Inc., ticker symbol “STAF”, on March 16, 2012. As a rapidly growing public company in the international staffing sector, our high-growth business model is based on finding and acquiring, suitable, mature, profitable, operating, domestic and international staffing companies. Our targeted consolidation model is focused specifically on the accounting and finance, information technology (“IT”), engineering, administration and light industrial disciplines.

All amounts in this Annual Report are expressed in thousands, except share and per share amounts, or unless otherwise indicated.

Change of Year End

On February 28, 2017, the board of directors (the “Board”) approved the change of the Company’s fiscal year end from May 31 to a 52-53 week year ending on the Saturday closest to the 31st of December, effective December 31, 2016. This transition report on Form 10-K/T reports our financial results for the period from June 1, 2016 through December 31, 2016, which we refer to as the “Transition Period” in this report. Following the Transition Period, we will file annual reports for each twelve month period ended the Saturday closest to December 31 of each year beginning with December 31, 2017.

Business Model and Acquisitions

We are a high-growth international staffing company engaged in the acquisition of United States (“U.S.”) and United Kingdom (“U.K.”) based staffing companies. As part of our consolidation model, we pursue a broad spectrum of staffing companies supporting primarily the accounting and finance, IT, engineering, administration (collectively, the “Professional Sector”) and light industrial (“Light Industrial Sector”) disciplines. Our typical acquisition model is based on paying consideration in the form of cash, stock, earn-outs and/or promissory notes. In furthering our business model, the Company is regularly in discussions and negotiations with various suitable, mature acquisition targets. To date, we have completed six acquisitions that are more fully described in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Operating History

The Company generated revenue of $109.4 million, $165.6 million, $128.8 million and $41.2 million for the Transition Period, fiscal years ended May 31, 2016, 2015 and 2014, respectively. This growth has been achieved primarily through acquisitions, while operations continued to grow organically 11.1% during the transition period and, on average, grew 8.8% between the fiscal years ended May, 31 2014 and 2016.

Industry Background

The staffing industry is divided into three major segments: temporary staffing services, professional employer organizations (“PEOs”) and placement agencies. Temporary staffing services provide workers for limited periods, often to substitute for absent permanent workers or to help during periods of peak demand. These workers, who are often employees of the temporary staffing agency, will generally fill clerical, technical, or industrial positions. PEOs,

sometimes referred to as employee leasing agencies, contract to provide workers to customers for specific functions, often related to human resource management. In many cases, a customer's employees are hired by a PEO and then contracted back to the customer. Placement agencies, sometimes referred to as executive recruiters or headhunters, find workers to fill permanent positions at customer companies. These agencies may specialize in placing senior managers, mid-level managers, technical workers, or clerical and other support workers.

The Company considers itself a temporary staffing company within the broader staffing industry. However, the Company provides permanent placements at the request of existing clients and some consulting services.

Staffing companies identify potential candidates through online advertising and referrals, and interview, test and counsel workers before sending them to the customer for approval. Pre-employment screening can include skills assessment, drug tests and criminal background checks. The personnel staffing industry has been radically changed by the internet. Many employers list available positions with one or several internet personnel sites like www.monster.com or www.careerbuilder.com, and on their own sites. Personnel agencies operate their own sites and often still work as intermediaries by helping employers accurately describe job openings and by screening candidates who submit applications.

Major end-use customers include businesses from a wide range of industries such as manufacturing, construction, wholesale and retail. Marketing involves direct sales presentations, referrals from existing clients and advertising. Agencies compete both for customers and workers. Depending on market supply and demand at any given time, agencies may allocate more resources either to finding potential employers or potential workers. Permanent placement agencies work either on a retained or on a contingency basis. Clients may retain an agency for a specific job search or on contract for a specific period. Temporary staffing services charge customers a fixed price per hour or a standard markup on prevailing hourly rates.

For many staffing companies, demand is lower late in the fourth calendar quarter and early in the first calendar quarter, partly because of holidays, and higher during the rest of the year. Staffing companies may have high receivables from customers. Temporary staffing agencies and PEOs must manage a high cash flow because they funnel payroll payments from employers. Cash flow imbalances also occur because agencies must pay workers even though they haven't been paid by clients.

The revenue of staffing companies depends on the number of jobs they fill, which in turn can depend upon the economic environment. During economic slowdowns, many client companies stop hiring altogether. Internet employment sites expand a company’s ability to find workers without the help of traditional agencies. Staffing companies often work as intermediaries, helping employers accurately describe job openings and screen candidates. Increasing the use of sophisticated, automated job description and candidate screening tools could make many traditional functions of personnel agencies obsolete. Free social networking sites such as LinkedIn and Facebook are also becoming a common way for recruiters and employees to connect without the assistance of a staffing agency.

To avoid large placement agency fees, big companies may use in-house personnel staff, current employee referrals, or human resources consulting companies to find and hire new personnel. Because placement agencies typically charge a fee based on a percentage of the first year's salary of a new worker, companies with many jobs to fill have a financial incentive to avoid agencies.

Many staffing companies are small and may depend heavily on a few big customers for a large portion of revenue. Large customers may lead to increased revenue, but also expose agencies to higher risks. When major accounts experience financial hardships, and have less need for temporary employment services, agencies stand to lose large portions of revenue.

The loss of a staff member who handles a large volume of business may result in a large loss of revenue for a staffing company. Individual staff members, rather than the staffing company itself, usually develop strong relationships with customers. Staff members who move to another staffing company are often able to move customers with them.

Some of the best opportunities for temporary employment are in industries traditionally active in seasonal cycles, such as manufacturing, construction, wholesale and retail. However, seasonal demand for workers creates cash flow fluctuations throughout the year.

Staffing companies are regulated by the U.S. Department of Labor (“DOL”) and the Equal Employment Opportunity Commission (“EEOC”), and often by state authorities. Many federal anti-discrimination rules regulate the type of information that employment firms can request from candidates or provide to customers about candidates. In addition, the relationship between the agency and the temporary employees, or employee candidates may not always be clear, resulting in legal and regulatory uncertainty. PEOs are often considered co-employers along with the client, but the PEO is responsible for employee wages, taxes and benefits. State regulation aims to ensure that PEOs provide the benefits they promise to workers.

Trends in the Staffing Business

Start-up costs for a staffing company are very low. Individual offices can be profitable, but consolidation is driven mainly by the opportunity for large agencies to develop national relationships with big customers. Some agencies expand by starting new offices in promising markets, but most prefer to buy existing independent offices with proven staff and an existing customer roster.

At some companies, temporary workers have become such a large part of the workforce that staffing company employees sometimes work at the customer's site to recruit, train, and manage temporary employees. The Company has a number of onsite relationships with its customers. Staffing companies try to match the best qualified employees for the customer's needs, but often provide additional training specific to that company, such as instruction in the use of proprietary software.

Some personnel consulting firms and human resource departments are increasingly using psychological tests to evaluate potential job candidates. Psychological or liability testing has gained popularity, in part, due to recent fraud scandals. In addition to stiffer background checks, headhunters often check the credit history of prospective employees.

We believe the trends of outsourcing entire departments and dependence on temporary and leased workers will expand opportunities for staffing companies. Taking advantage of their expertise in assessing worker capabilities, some staffing companies manage their

clients' entire human resource functions. Human resources outsourcing ("HRO") may include management of payroll, tax filings, and benefit administration services. HRO may also include recruitment process outsourcing ("RPO"), whereby an agency manages all recruitment activities for a client.

New online technology is improving staffing efficiency. For example, some online applications coordinate workflow for staffing agencies, their clients and temporary workers, and allow agencies and customers to share work order requests, submit and track candidates, approve timesheets and expenses, and run reports. Interaction between candidates and potential employers is increasingly being handled online.

Initially viewed as rivals, some Internet job-search companies and traditional employment agencies are now collaborating. While some Internet sites do not allow agencies to use their services to post jobs or look through resumes, others find that agencies are their biggest customers, earning the sites a large percentage of their revenue. Some staffing companies contract to help client employers find workers online.

Competition

The Company's staffing divisions face competition in attracting clients as well as temporary candidates. The staffing industry is highly competitive, with a number of firms offering services similar to those provided by the Company on a national, regional or local basis. In many areas, the local staffing companies are our strongest competitors. The most significant competitive factors in the staffing business are price and reliability of service. The Company believes its competitive advantage stems from its experience in niche markets, and commitment to the specialized employment market, along with its growing global presence.

The staffing industry is characterized by a large number of competing companies in a fragmented sector. Major competitors also exist across the sector, but as the industry affords low barriers to entry, new entrants are constantly introduced to the marketplace.

The top layer of competitors includes large corporate staffing and employment companies which have yearly revenue of $75 million or more. The next (middle) layer of the competition consists of medium-sized entities with yearly revenue of $10 million or more. The largest portion of the marketplace is the bottom layer of this competitive landscape consisting of small, individual-sized or family-run operations. As barriers to entry are low, sole proprietors, partnerships and small entities routinely enter the industry.

Employees

The Company employs approximately 200 full-time employees as part of our internal operations. Additionally, the Company employs more than 4,300 individuals that are placed directly with our clients through our various operating subsidiaries.

ITEM 1A. RISK FACTORS.

There are numerous and varied risks that may prevent us from achieving our goals, including those described below. You should carefully consider the risks described below and the other information included in this Form 10-K/T, including our consolidated financial statements and related notes. Our business, financial condition, and results of operations, could be harmed by any of the following risks. If any of the events or circumstances described below were to occur, our business, the financial condition and the results of operations could be materially adversely affected. As a result, the trading price of our common stock could decline, and investors could lose part or all of their investment. The risks below are not the only risks we face. Additional risks not currently known to us or that we currently deem to be immaterial may also adversely affect our business, financial condition or results of operations.

We have incurred significant losses since our inception and anticipate that we will incur continued losses for the next several years and thus may never achieve or maintain profitability.

We anticipate that we will incur operating losses for the foreseeable future. Because of the numerous risks and uncertainties associated with the staffing industry, we are unable to predict the extent of any future losses or when we will become profitable, if at all. Expected future operating losses will have an adverse effect on our cash resources, stockholders' equity and working capital.

Our failure to become and remain profitable could depress the value of our stock and impair our ability to raise capital, expand our business, maintain our development efforts, diversify our portfolio of staffing companies, or continue our operations. A decline in our value could also cause you to lose all or part of your investment.

We have significant debt that could adversely affect our financial health and prevent us from fulfilling our obligations or put us at a competitive disadvantage.

Our level of debt and the limitations imposed on us by our lenders could have a material impact on investors, including the requirement to use a portion of our cash flow from operations for debt service rather than for our operations and the need to comply with the various covenants associated with such debt. Additionally, we may not be able to obtain additional debt financing for future working capital, capital expenditures or other corporate purposes or may have to pay more for such financing. We could also be less able to take advantage of significant business opportunities, such as acquisition opportunities, and to react to changes in market or industry conditions, or we may be disadvantaged compared to competitors with less leverage.

Our debt instruments contain covenants that could limit our financing options and liquidity position, which would limit our ability to grow our business.

Covenants in our debt instruments impose operating and financial restrictions on us. These restrictions prohibit or limit our ability to, among other things:

- pay cash dividends to our stockholders;
- redeem or repurchase our common stock or other equity;
- incur additional indebtedness;
- permit liens on assets;
- make certain investments (including through the acquisition of stock, shares, partnership or limited liability company interests, any loan, advance or capital contribution);
- sell, lease, license, lend or otherwise convey an interest in a material portion of our assets; and
- cease making public filings under the Securities Exchange Act of 1934, as amended.

Our failure to comply with the restrictions in our debt instruments could result in an event of default, which, if not cured or waived, could result in us being required to repay these borrowings before their due date. The lenders may require fees and expenses to be paid or other changes to terms in connection with waivers or amendments. If we are forced to refinance these borrowings on less favorable terms, our results of operations and financial condition could be adversely affected by increased costs and rates.

In addition, these restrictions may limit our ability to obtain additional financing, withstand downturns in our business or take advantage of business opportunities. Moreover, additional debt financing we may seek, if permitted, may contain terms that include more restrictive covenants, may require repayment on an accelerated schedule or may impose other obligations that limit our ability to grow our business, acquire needed assets, or take other actions we might otherwise consider appropriate or desirable.

The exercise of our current debt instruments could be highly dilutive to the holdings of our existing stockholders.

Certain of our current debt instruments are highly dilutive. The number of shares of our common stock that may be issued pursuant to the conversion premiums in such debt instruments and if we elect to pay such dividends in shares may be significant, but cannot be determined at this time because the applicable calculations are based on our stock price during a period surrounding the date of the conversion. The exercise of our existing outstanding dilutive Common Stock equivalents, which are exercisable for or convertible into shares of our Common Stock, would dilute the proportionate ownership and voting power of existing stockholders and may cause the market price for our common stock to decline.

We have significant working capital needs and if we are unable to satisfy those needs from cash generated from our operations or borrowings under our debt instruments, we may not be able to continue our operations.

We require significant amounts of working capital to operate our business. We often have high receivables from our customers, and as a staffing company, we are prone to cash flow imbalances because we funnel payroll payments from employers to temporary workers. Cash flow imbalances also occur because we must pay temporary workers even when we have not been paid by our customers. If we experience a significant and sustained drop in operating profits, or if there are unanticipated reductions in cash inflows or increases in cash outlays, we may be subject to cash shortfalls. If such a shortfall were to occur for even a brief period of time, it may have a significant adverse effect on our business. In particular, we use working capital to pay expenses relating to our temporary workers and to satisfy our workers' compensation liabilities. As a result, we must maintain sufficient cash availability to pay temporary workers and fund related tax liabilities prior to receiving payment from customers.

In addition, our operating results tend be unpredictable from quarter to quarter. Demand for our services is typically lower during traditional national vacation periods in the United States and United Kingdom when customers and candidates are on vacation. No single quarter is predictive of results from future periods. Any extended period of time with low operating results or cash flow imbalances could have a material adverse effect on our business, financial condition and results of operations.

We derive working capital for our operations through cash generated by our operating activities and borrowings under our debt instruments. We believe that our current sources of capital are adequate to meet our working capital needs. However, our available sources of capital are limited. If our working capital needs increase in the future, we may be forced to seek additional sources of capital, which may not be available on commercially reasonable terms. The amount we are entitled to borrow under our debt instruments is calculated monthly based on the aggregate value of certain eligible trade accounts receivable generated from our operations, which are affected by financial, business, economic and other factors, as well as by the daily timing of cash collections and cash outflows. The aggregate value of our eligible accounts receivable may not be adequate to allow for borrowings for other corporate purposes, such as capital expenditures or growth opportunities, which could reduce our ability to react to changes in the market or industry conditions.

We will need to raise additional capital to meet our business requirements in the future, which is likely to be challenging, could be highly dilutive and may cause the market price of our common stock to decline.

As of December 31, 2016, the Company had a working capital deficiency of $15,091, an accumulated deficit of $47,847, for the seven months ended December 31, 2016 a net loss of $3,610, and, as of the date these financial statements are issued, the Company has approximately $4,377 associated debt and other amortizing obligations, due in the next 12 months. As a result of our recent financings, we believe that we will be able to fund our operations, implement our business plan and pursue the acquisition of broad spectrum staffing companies through the next twelve months. However, we will need to raise additional capital to pursue growth opportunities, improve our infrastructure, finance our operations and otherwise make investments in assets and personnel that will allow us to remain competitive. Additional capital would be used to accomplish the following:

- financing our current operating expenses;
- pursuing growth opportunities;
- making capital improvements to improve our infrastructure;
- hiring and retaining qualified management and key employees;
- responding to competitive pressures;
- complying with regulatory requirements; and
- maintaining compliance with applicable laws.

To the extent that we raise additional capital through the sale of equity or convertible debt securities, the issuance of those securities could result in substantial dilution for our current stockholders. The terms of any securities issued by us in future capital transactions may be more favorable to new investors, and may include preferences, superior voting rights and the issuance of warrants or other derivative securities, which may have a further dilutive effect on the holders of any of our securities then-outstanding. We may issue additional shares of our common stock or securities convertible into or exchangeable or exercisable for our common stock in connection with hiring or retaining personnel, option or warrant exercises, future acquisitions or future placements of our securities for capital-raising or other business purposes. The issuance of additional securities, whether equity or debt, by us, or the possibility of such issuance, may cause the market price of our common stock to decline further and existing stockholders may not agree with our financing plans or the terms of such financings.

In addition, we may incur substantial costs in pursuing future capital financing, including investment banking fees, legal fees, accounting fees, securities law compliance fees, printing and distribution expenses and other costs. We may

also be required to recognize non-cash expenses in connection with certain securities we issue, such as convertible notes and warrants, which may adversely impact our financial condition.

Furthermore, any additional debt or equity financing that we may need may not be available on terms favorable to us, or at all. If we are unable to obtain such additional financing on a timely basis, we may have to curtail our development activities and growth plans and/or be forced to sell assets, perhaps on unfavorable terms, which would have a material adverse effect on our business, financial condition and results of operations, and ultimately could be forced to discontinue our operations and liquidate, in which event it is unlikely that stockholders would receive any distribution on their shares. Further, we may not be able to continue operating if we do not generate sufficient revenues from operations needed to stay in business.

A more active, liquid trading market for our common stock may not develop, and the price of our common stock may fluctuate significantly.

Although our common stock is listed on the NASDAQ Capital Market, it has only been traded on the NASDAQ Capital Market since September 29, 2015, when our common stock uplisted to the national exchange. Before that time, our common stock was traded on the OTCBB tier of the over-the-counter securities market run by FINRA, as well as OTCQB run by OTC Markets, and it first began trading on February 15, 2013. Historically, the market price of our common stock has fluctuated over a wide range. Between our stock split occurring on September 17, 2015 and March 7, 2017, our common stock traded in a range from $0.54 to $7.74 per share. There has been relatively limited trading volume in the market for our common stock, and a more active, liquid public trading market may not develop or may not be sustained. In addition, on January 25, 2017, we received a letter from the Listing Qualifications Department of the NASDAQ Capital Market notifying us that, based upon the closing bid price of our common stock for the previous 30 consecutive business days, the common stock did not meet the minimum bid price of $1.00 per share required by NASDAQ Listing Rule 5550(a)(2), initiating an automatic 180 calendar-day grace period for us to regain compliance.

Limited liquidity in the trading market for our common stock may adversely affect a stockholder's ability to sell its shares of common stock at the time it wishes to sell them or at a price that it considers acceptable. If a more active, liquid public trading market does not develop, or if our shares are delisted from the NASDAQ Capital Market, we may be limited in our ability to raise capital by selling shares of common stock and our ability to acquire other companies or assets by using shares of our common stock as consideration. In addition, if there is a thin trading market or "float" for our stock, the market price for our common stock may fluctuate significantly more than the stock market as a whole. Without a large float, our common stock would be less liquid than the stock of companies with broader public ownership and, as a result, the trading prices of our common stock may be more volatile and it would be harder for a stockholder to liquidate any investment in our common stock. Furthermore, the stock market is subject to significant price and volume fluctuations, and the price of our common stock could fluctuate widely in response to several factors, including:

- our quarterly or annual operating results;
- changes in our earnings estimates;
- investment recommendations by securities analysts following our business or our industry;
- additions or departures of key personnel;
- changes in the business, earnings estimates or market perceptions of our competitors;
- our failure to achieve operating results consistent with securities analysts' projections;
- changes in industry, general market or economic conditions; and
- announcements of legislative or regulatory changes.

The stock market has experienced extreme price and volume fluctuations in recent years that have significantly affected the quoted prices of the securities of many companies, including companies in the staffing industry. The changes often appear to occur without regard to specific operating performance. The price of our common stock could fluctuate based upon factors that have little or nothing to do with us and these fluctuations could materially reduce our stock price.

An investment in our common stock should be considered illiquid and high risk.

An investment in our common stock requires a long-term commitment, with no certainty of return. Because we did not become a public reporting company by the traditional means of conducting an underwritten initial public offering of our common stock, we may be unable to establish a liquid market for our common stock. In addition, investment banks may be less likely to agree to underwrite primary or secondary offerings on our behalf or our stockholders in the future than they would if we had become a public reporting company by means of an underwritten initial public

offering of common stock. If all or any of the foregoing risks occur, it would have a material adverse effect on us.

The United States Financial Industry Regulatory Authority, or FINRA, sales practice requirements may also limit your ability to buy and sell our common stock, which could depress the price of our shares. FINRA rules require broker-dealers to have reasonable grounds for believing that an investment is suitable for a customer before recommending that investment to the customer. Prior to recommending speculative low-priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status and investment objectives, among other things. Under interpretations of these rules, FINRA believes that there is a high probability such speculative low-priced securities will not be suitable for at least some customers. Thus, FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our shares, have an adverse effect on the market for our shares, and thereby depress our share price.

There are inherent limitations in all control systems, and misstatements due to error or fraud may occur and not be detected.

The ongoing internal control provisions of Section 404 of the Sarbanes-Oxley Act of 2002 require us to identify material weaknesses in internal control over financial reporting, which is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Our management, including our Executive Chairman and Chief Financial Officer, does not expect that our internal controls and disclosure controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, in our company 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 errors or mistakes. Further, controls can be circumvented by individual acts of some persons, by collusion of two or more persons, or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions. Over time, a control may be inadequate because of changes in conditions, such as growth of the company or increased transaction volume, or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

In addition, discovery and disclosure of a material weakness, by definition, could have a material adverse impact on our financial statements. Such an occurrence could discourage certain customers or suppliers from doing business with us, cause downgrades in our future debt ratings leading to higher borrowing costs and affect how our stock trades. This could, in turn, negatively affect our ability to access public debt or equity markets for capital.

We face risks associated with litigation and claims.

We are a party to certain legal proceedings that are currently pending, including NewCSI, Inc. vs. Staffing 360 Solutions, Inc. and Staffing 360 Solutions, Inc. v. Former Officers of Staffing 360 Solutions, Inc., as further described in this Form 10-K/T. In addition, from time to time, we may become involved in various claims, disputes and legal or regulatory proceedings that arise in the ordinary course of business and relate to contractual and other obligations. Due to the uncertainties of litigation, we can give no assurance that we will prevail on any claims made against us in any such lawsuit. Also, we can give no assurance that any other lawsuits or claims brought in the future will not have an adverse effect on our financial condition, liquidity or operating results. Adverse outcomes in some or all of these claims may result in significant monetary damages that could adversely affect our ability to conduct our business.

The potential U.K. exit from the European Union as a result of the U.K. triggering Article 50 of the Treaty on European Union could harm our business, financial condition or results of operations.

On March 29, 2017, the U.K. triggered Article 50 of the Treaty on European Union by notifying the European Council of its intention to withdraw from the European Union (commonly referred to as the “Brexit”). Negotiations have commenced to determine the future terms of the U.K.’s relationship with the European Union, including the terms of trade between the U.K. and the European Union. The effects of Brexit will depend on any agreements the U.K. makes to retain access to European Union markets either during a transitional period or more permanently. Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which European Union laws to replace or replicate.

The announcement of Brexit also created (and the actual exit of the U.K. from the European Union may create future) global economic uncertainty. The actual exit of the U.K. from the European Union could cause disruptions to and create uncertainty surrounding our business. Any of these effects of Brexit (and the announcement thereof), and others we cannot anticipate, could harm our business, financial condition or results of operations.

Our revenue may be adversely affected by fluctuations in currency exchange rates.

A significant portion of our expenditures are expected to be derived or spent in British pounds. However, we report our financial condition and results of operations in U.S. dollars. As a result, fluctuations between the U.S. dollar and the British pound will impact the amount of our revenues and net income. For example, if the British pound appreciates relative to the U.S. dollar, the fluctuation will result in a positive impact on the revenues that we report. However, if the British pound depreciates relative to the U.S. dollar, which was the case during 2016, there will be a negative impact on the revenues we report due to such fluctuation. It is possible that the impact of currency fluctuations will result in a decrease in reported consolidated sales even though we may have experienced an

increase in sales transacted in the British pound. Conversely, the impact of currency fluctuations may result in an increase in reported consolidated sales despite declining sales transacted in the British pound. The exchange rate from the U.S. dollar to the British pound has fluctuated substantially in the past and may continue to do so in the future. Though we may choose to hedge our exposure to foreign currency exchange rate changes in the future, there is no guarantee such hedging, if undertaken, will be successful.

We depend on attracting, integrating, managing, and retaining qualified personnel.

Our success is substantially dependent upon our ability to attract, integrate, manage and retain personnel who possess the skills and experience necessary to fulfill our customers' needs. Our ability to hire and retain qualified personnel could be impaired by any diminution of our reputation, decrease in compensation levels relative to our competitors or modifications to our total compensation philosophy or competitor hiring programs. If we cannot attract, hire and retain qualified personnel, our business, financial condition and results of operations may suffer. Our future success also depends upon our ability to manage the performance of our personnel. Failure to successfully manage the performance of our personnel could affect our profitability by causing operating inefficiencies that could increase operating expenses and reduce operating income.

We depend on our ability to attract and retain qualified temporary workers.

In addition to the members of our own team, our success is substantially dependent on our ability to recruit and retain qualified temporary workers who possess the skills and experience necessary to meet the staffing requirements of our customers. We are required to continually evaluate our base of available qualified personnel to keep pace with changing customer needs. Competition for individuals with proven professional skills is intense, and demand for these individuals is expected to remain strong for the foreseeable future. There can be no assurance that qualified personnel will continue to be available.

Our revenue can vary because our customers can terminate their relationship with us at any time with limited or no penalty.

We focus on providing mid-level professional and light industrial personnel on a temporary assignment-by-assignment basis, which customers can generally terminate at any time or reduce their level of use when compared to prior periods. To avoid large placement agency fees, large companies may use in-house personnel staff, current employee referrals, or human resources consulting companies to find and hire new personnel. Because placement agencies typically charge a fee based on a percentage of the first year's salary of a new worker, companies with many jobs to fill have a large financial incentive to avoid agencies.

Our business is also significantly affected by our customers' hiring needs and their views of their future prospects. Our customers may, on very short notice, terminate, reduce or postpone their recruiting assignments with us and, therefore, affect demand for our services. As a result, a significant number of our customers can terminate their agreements with us at any time, making us particularly vulnerable to a significant decrease in revenue within a short period of time that could be difficult to quickly replace. This could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to retain existing customers or attract new customers, our results of operations could suffer.

Increasing the growth and profitability of our business is particularly dependent upon our ability to retain existing customers and capture additional customers. Our ability to do so is dependent upon our ability to provide high quality services and offer competitive prices. If we are unable to execute these tasks effectively, we may not be able to attract a significant number of new customers and our existing customer base could decrease, either or both of which could

have an adverse impact on our revenues.

We operate in an intensely competitive and rapidly changing business environment, and there is a substantial risk that our services could become obsolete or uncompetitive.

The markets for our services are highly competitive. Our markets are characterized by pressures to provide high levels of service, incorporate new capabilities and technologies, accelerate job completion schedules and reduce prices. Furthermore, we face competition from a number of sources, including other executive search firms and professional search, staffing and consulting firms. Several of our competitors have greater financial and marketing resources than we do. New and existing competitors are aided by technology, and the market has low barriers to entry. Furthermore, Internet employment sites expand a company's ability to find workers without the help of traditional agencies. Personnel agencies often work as intermediaries, helping employers accurately describe job openings and screen candidates. Increasing the use of sophisticated, automated job description and candidate screening tools could make many traditional functions of staffing companies obsolete. Specifically, the increased use of the internet may attract technology-oriented companies to the professional staffing industry. Free social networking sites such as LinkedIn and Facebook are also becoming a common way for recruiters and employees to connect without the assistance of a staffing company.

Our future success will depend largely upon our ability to anticipate and keep pace with those developments and advances. Current or future competitors could develop alternative capabilities and technologies that are more effective, easier to use or more economical than our services. In addition, we believe that, with continuing development and increased availability of information technology, the industries in which we compete may attract new competitors. If our capabilities and technologies become obsolete or uncompetitive, our related sales and revenue would decrease. Due to competition, we may experience reduced margins on our services, loss of market share, and loss of customers. If we are not able to compete effectively with current or future competitors as a result of these and other factors, our business, financial condition and results of operations could be materially adversely affected.

Our operations may be affected by global economic fluctuations.

Customers' demand for our services may fluctuate widely with changes in economic conditions in the markets in which we operate. Those conditions include slower employment growth or reductions in employment, which directly impact our service offerings. As a staffing company, our revenue depends on the number of jobs we fill, which in turn depends on economic growth. During economic slowdowns, many customer companies stop hiring altogether. For example, in prior economic downturns, many employers in our operating regions reduced their overall workforce to reflect the slowing demand for their products and services. We may face lower demand and increased pricing pressures during these periods, which this could have a material adverse effect on our business, financial condition and results of operations.

We could be adversely affected by risks associated with acquisitions and joint ventures.

We are engaged in the acquisition of U.S. and U.K. based staffing companies, and our typical acquisition model is based on paying consideration in the form of cash, stock, earn-outs and/or promissory notes. To date, we have completed six acquisitions. We intend to expand our business through acquisitions of complementary businesses, services or products, subject to our business plans and management's ability to identify, acquire and develop suitable investments or acquisition targets in both new and existing service categories. In certain circumstances, acceptable investments or acquisition targets might not be available. Acquisitions involve a number of risks, including:

- difficulty in integrating the operations, technologies, products and personnel of an acquired business, including consolidating redundant facilities and infrastructure;
- potential disruption of our ongoing business and the distraction of management from our day-to-day operations;
- difficulty entering markets in which we have limited or no prior experience and in which competitors have a stronger market position;
- difficulty maintaining the quality of services that such acquired companies have historically provided;
- potential legal and financial responsibility for liabilities of acquired businesses;
- overpayment for the acquired company or assets or failure to achieve anticipated benefits, such as cost savings and revenue enhancements;
- increased expenses associated with completing an acquisition and amortizing any acquired intangible assets;
- challenges in implementing uniform standards, accounting policies, customs, controls, procedures and policies throughout an acquired business;
- failure to retain, motivate and integrate key management and other employees of the acquired business; and
- loss of customers and a failure to integrate customer bases.

Our business plan for continued growth through acquisitions is subject to certain inherent risks, including accessing capital resources, potential cost overruns and possible rejection of our business model and/or sales methods. Therefore, we provide no assurance that we will be successful in carrying out our business plan. We continue to pursue additional debt and equity financing to fund our business plan. We have no assurance that future financing will be available to us on acceptable terms or at all.

In addition, if we incur indebtedness to finance an acquisition, it may reduce our capacity to borrow additional amounts and require us to dedicate a greater percentage of our cash flow from operations to payments on our debt, thereby reducing the cash resources available to us to fund capital expenditures, pursue other acquisitions or investments in new business initiatives and meet general corporate and working capital needs. This increased indebtedness may also limit our flexibility in planning for, and reacting to, changes in or challenges relating to our business and industry. The use of our common stock or other securities (including those convertible into or exchangeable or exercisable for our common stock) to finance any such acquisition may also result in dilution of our existing shareholders.

The potential risks associated with future acquisitions could disrupt our ongoing business, result in the loss of key customers or personnel, increase expenses and otherwise have a material adverse effect on our business, results of operations and financial condition.

We are dependent upon technology services, and if we experience damage, service interruptions or failures in our computer and telecommunications systems, our customer relationships and our ability to attract new customers may be adversely affected.

Our business could be interrupted by damage to or disruption of our computer and telecommunications equipment and software systems, and we may lose data. Our customers' businesses may be adversely affected by any system or equipment failure we experience. As a result of any of the foregoing, our relationships with our customers may be impaired, we may lose customers, our ability to attract new customers may be adversely affected and we could be exposed to contractual liability. Precautions in place to protect us from, or minimize the effect of, such events may not be adequate. If an interruption by damage to or disruption of our computer and telecommunications equipment and software systems occurs, we could be liable and the market perception of our services could be harmed.

We could be harmed by improper disclosure or loss of sensitive or confidential company, employee, associate or customer data, including personal data.

In connection with the operation of our business, we store, process and transmit a large amount of data, including personnel and payment information, about our employees, customers, associates and candidates, a portion of which is confidential and/or personally sensitive. In doing so, we rely on our own technology and systems, and those of third party vendors we use for a variety of processes. We and our third party vendors have established policies and procedures to help protect the security and privacy of this information. Unauthorized disclosure or loss of sensitive or confidential data may occur through a variety of methods. These include, but are not limited to, systems failure, employee negligence, fraud or misappropriation, or unauthorized access to or through our information systems, whether by our employees or third parties, including a cyberattack by computer programmers, hackers, members of organized crime and/or state-sponsored organizations, who may develop and deploy viruses, worms or other malicious software programs.

Such disclosure, loss or breach could harm our reputation and subject us to government sanctions and liability under our contracts and laws that protect sensitive or personal data and confidential information, resulting in increased costs or loss of revenues. It is possible that security controls over sensitive or confidential data and other practices we and our third party vendors follow may not prevent the improper access to, disclosure of, or loss of such information. The potential risk of security breaches and cyberattacks may increase as we introduce new services and offerings, such as mobile technology. Further, data privacy is subject to frequently changing rules and regulations, which sometimes conflict among the various jurisdictions in which we provide services. Any failure or perceived failure to successfully manage the collection, use, disclosure, or security of personal information or other privacy related matters, or any failure to comply with changing regulatory requirements in this area, could result in legal liability or impairment to our reputation in the marketplace.

We may be exposed to employment-related claims and losses, including class action lawsuits, which could have a material adverse effect on our business.

We employ people internally and in the workplaces of other businesses. Many of these individuals have access to customer information systems and confidential information. The risks of these activities include possible claims relating to:

- discrimination and harassment;

- wrongful termination or denial of employment;
- violations of employment rights related to employment screening or privacy issues;
- classification of temporary workers;
- assignment of illegal aliens;
- violations of wage and hour requirements;
- retroactive entitlement to temporary worker benefits;
- errors and omissions by our temporary workers;
- misuse of customer proprietary information;
- misappropriation of funds;

- damage to customer facilities due to negligence of temporary workers; and
- criminal activity.

We may incur fines and other losses or negative publicity with respect to these problems. In addition, these claims may give rise to litigation, which could be time-consuming and expensive. New employment and labor laws and regulations may be proposed or adopted that may increase the potential exposure of employers to employment-related claims and litigation. There can be no assurance that the corporate policies we have in place to help reduce our exposure to these risks will be effective or that we will not experience losses as a result of these risks. There can also be no assurance that the insurance policies we have purchased to insure against certain risks will be adequate or that insurance coverage will remain available on reasonable terms or be sufficient in amount or scope of coverage.

Our compliance with complicated regulations concerning corporate governance and public disclosure has resulted in additional expenses. Moreover, our ability to comply with all applicable laws, rules and regulations is uncertain given our management's relative inexperience with operating public companies.

We are faced with expensive, complicated and evolving disclosure, governance and compliance laws, regulations and standards relating to corporate governance and public disclosure. In addition, as a staffing company, we are regulated by the U.S. Department of Labor, the Equal Employment Opportunity Commission, and often by state authorities. New or changing laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing compliance work.

Our failure to comply with all laws, rules and regulations applicable to U.S. public companies could subject us or our management to regulatory scrutiny or sanction, which could harm our reputation and stock price. Our efforts to comply with evolving laws, regulations and standards are likely to continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

The requirements of being a public company place significant demands on our resources.

As a public company, we incur significant legal, accounting, and other expenses. In addition, the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as rules subsequently implemented by the Securities and Exchange Commission and the NASDAQ Capital Market, have imposed various requirements on public companies. New laws and regulations as well as changes to existing laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002, and changes in required accounting practices and rules adopted by the Securities and Exchange Commission and the by NASDAQ Capital Market, would likely result in increased costs to us as we respond to their requirements.

Shareholder activism, the current political environment, and the current high level of government intervention and regulatory reform may lead to substantial new regulations and disclosure obligations, which may lead to additional compliance costs and impact the manner in which we operate our business in ways we cannot currently anticipate. Our management and other personnel will need to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased our legal and financial compliance costs and will make some activities more time consuming and costly. For example, these rules and regulations make it more difficult and more expensive for us to obtain and maintain director and officer liability insurance and we may be required to incur substantial costs to maintain our current levels of such coverage.

We do not intend to pay dividends on our common stock. Consequently, your ability to achieve a return on your investment will depend on the appreciation in the price of our common stock.

We have never declared or paid any cash dividend on our common stock. We currently anticipate that we will retain future earnings, if any, for the development, operation, and expansion of our business, and we do not anticipate declaring or paying any cash dividends on our common stock for the foreseeable future. Any return to holders of our common stock would therefore be limited to the appreciation of their stock.

We are limited in our ability to pay dividends by certain of our existing agreements. In addition, so long as any shares of Series A Preferred Stock are outstanding, as they are at this time, we are not able to declare, pay or set apart for payment any dividend on any shares of common stock, unless at the time of such dividend we have paid all accrued and unpaid dividends on the outstanding shares of Series A Preferred Stock. Therefore, we cannot be certain if we will pay any cash dividends to holders of our common stock in the foreseeable future. Consequently, investors must rely on sales of their common stock after price appreciation, which may never occur,

as the only way to realize any future gains on their investments. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders have purchased their shares.

Upon our dissolution, you may not recoup all or any portion of your investment.

In the event of a liquidation, dissolution or winding-up of our company, whether voluntary or involuntary, the proceeds and/or assets of our company remaining after giving effect to such transaction, and the payment of all of our debts and liabilities will be distributed to the stockholders of common stock on a pro rata basis. There can be no assurance that we will have available assets to pay to the holders of common stock, or any amounts, upon such a liquidation, dissolution or winding-up of our company. In this event, you could lose some or all of your investment.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The Company leases 4,157 square feet of space at 641 Lexington Avenue, Suite 2701, New York, NY 10022, its headquarters and principal location. The Company's lease for this space will expire in 2022. The Company currently has a total of 16 facilities throughout the U.S. and the U.K. This includes a U.K. office in London, as well as offices in the following states in the U.S.: New York, Connecticut, Massachusetts, Rhode Island, New Hampshire and North Carolina.

All offices are operated from leased space ranging from approximately 500 to 10,100 square feet, typically through operating leases with terms that range from six months to five years, and thus with expirations from 2017 through 2022. We believe that our facilities are adequate for our current requirements and that the Company's leasing strategies provide us with sufficient flexibility to accommodate our business needs.

ITEM 3. LEGAL PROCEEDINGS.

NewCSI, Inc. vs. Staffing 360 Solutions, Inc.

On May 22, 2014, NewCSI, Inc. ("NewCSI") the former owners of Control Solutions International, filed a complaint in the United States District Court for the Western District of Texas, Austin Division, against the Company arising from the terms of the Stock Purchase Agreement dated August 14, 2013 between the Company and NewCSI. NewCSI claims that the Company breached a provision of the Stock Purchase Agreement ("SPA § 2.7") that required the Company to calculate and pay to NewCSI 50% of certain "Deferred Tax Assets" within 90 days after December 31, 2013, subject to certain criteria. The Complaint sought payment of the amount allegedly owed under SPA § 2.7 and acceleration of earn-out payments provided for in the Stock Purchase Agreement of $1,400, less amounts paid to date, and attorneys' fees. The Company responded denying the material allegations and interposing numerous affirmative defenses. On October 8, 2014, NewCSI filed a Motion of Summary Judgment (the "Motion"). On March 30, 2015, a Magistrate Judge of the District Court issued a Report and Recommendation that the District Court deny the Motion. The Recommendation became a final decision on April 13, 2015.

On December 31, 2014, NewCSI filed an amended complaint to which NewCSI added an additional count asserting an "Adjustment Event" had occurred requiring an acceleration of earn-out payments provided for in the CSI Stock Purchase Agreement of $2,100, less amounts paid as of December 31, 2014 totaling $429 (balance of $1,671 at December 31, 2014), should the Company or CSI "be unable, or admit in writing its inability, to pay its debts as they mature." The Company responded denying the material allegations and interposing numerous affirmative defenses,

including that the earn-out liability was fully expensed at the time of the acquisition and fully accrued for on the Company's balance sheet as part of the purchase accounting at the time of the acquisition. The final pretrial conference in this matter was held April 22, 2015. A jury was selected on May 14, 2015, and the trial was held May 18-20, 2015. On May 20, 2015, the jury rendered a verdict, finding that the Company had not complied with SPA § 2.7 and owed $154, but that NewCSI had not proven that the Company or CSI had become unable to pay debts as they came due. The Court had held that it was not a question for the jury to decide if damages for breach of SPA § 2.7 should include accelerated earn-out payments.

On June 3, 2015, NewCSI filed a Motion for Entry of Judgment as Matter of Law seeking entry of a judgment in the amount of $154, plus accelerated earn-out payments in the amount of $1,152, plus statutory interest. NewCSI did not challenge the jury verdict on the ability to pay issue. Also on June 3, 2015, the Company filed a Motion for Entry of Judgment as a Matter of Law seeking entry of judgment against NewCSI on the jury's finding that the Company had not complied with SPA § 2.7, or, in the alternative, for a reduction of damages to $154 and to hold that NewCSI may not be awarded accelerated earn-out payments as that would result in an illegal penalty.

On October 21, 2015, judgment was entered in this action in favor of NewCSI and against the Company in the amount of $1,307, plus pre-judgment interest, post-judgment interest, and costs.

On January 26, 2016, the District Court set the bond in respect of the NewCSI litigation at $1,384. The Company has filed a notice of appeal to the United States Court of Appeals for the Fifth Circuit seeking reversal of the judgment and posted a supersedeas bond to stay the execution of the judgment pending appeal. On April 18, 2016, the Court granted the NewCSI shareholders' request for payment of attorneys' fees, but reserved judgment on the amount of fees to award pending the outcome of the Company's appeal. As of January 2016, the NewCSI shareholders have claimed they have incurred $552 in attorney's fees, which could increase during the pendency of the appeal. On November 3, 2016, oral arguments for the appeal were heard and now the Company is awaiting further instruction from the United States Court of Appeals for the Fifth Circuit.

We believe that the Company acted in a manner consistent with our contractual rights, and we intend to aggressively defend the Company against NewCSI. Nevertheless, there can be no assurance that the outcome of this litigation will be favorable to the Company.

Staffing 360 Solutions, Inc. v. Former Officers of Staffing 360 Solutions, Inc.

On November 13, 2015, in a separate proceeding, the Company initiated an arbitration proceeding before JAMS against three former officers of the Company. In its demand for arbitration and statement of claim, the Company alleged that these individuals breached their employment agreements with the Company and the fiduciary duties each owed to the Company. The three respondents responded with a counterclaim alleging wrongful termination and have moved to dismiss the arbitration, as well as moved for severance in relation to the remainder of their contracts. On July 20, 2016, the arbitrator decided in favor of both of the respondents' motions. Further on September 21, 2016 the arbitrator rendered the final award, which was set at $1,433. The Company is awaiting an order from the Court confirming the award. In addition, the Company has calculated interest and made a payment towards legal fees included in the final award amount. As of December 31, 2016 the balance is $1,607. This amount has already been fully accrued for and expensed on the Company's balance sheet.

Other Matters

On February 17, 2016, a previous law firm filed suit in the Supreme Court of the State of New York alleging that the Company owes $759, for legal services rendered. The Company disagreed with the quantity and quality of legal services provided by the firm to the Company. On March 17, 2016, the Company reached a settlement with the law firm in the amount of $505 to be paid in equal installments over 24 months beginning in April 2016.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Shares of the Company's common stock are traded on the Nasdaq Capital Market under the ticker symbol "STAF". The high and low sales price per share of the Company's common stock for each quarter during the last two fiscal years, as well as the Transition Period is shown below. Please note that historical share prices before September 17, 2015, have been adjusted to account for the 1-10 reverse stock split that occurred on such date.

	High	Low
Fiscal Year 2015, Quarters Ended		
August 31, 2014	$22.00	$14.50
November 30, 2014	20.40	6.00
February 28, 2015	8.00	2.50
May 31, 2015	9.40	2.50
Fiscal Year 2016, Quarters Ended		
August 31, 2015	9.00	3.50
November 30, 2015	10.24	3.49
February 29, 2016	5.99	2.14
May 31, 2016	4.76	1.80
Transition Period 2016		
June 1, 2016 to December 31, 2016	3.70	0.62

Holders of Common Stock

As of April 12, 2017, there were approximately 3,000 shareholders of record of the Company's common stock.

Dividends

Common Stock: The Company has never paid any cash dividends on our common stock, and we do not anticipate paying any dividends with respect to those securities in the foreseeable future. The declaration and payment of future dividends will be at the discretion of the Company's Board and will depend upon many factors, including the Company's earnings, cash flow, financial condition and capital requirements. Our current business plan is to retain any future earnings to finance the expansion and development of our business.

Under Nevada law, except as otherwise provided in the articles of incorporation, no distribution (including dividends on, or redemption or repurchases of, shares of capital stock) may be made if, after giving effect to such distribution, the corporation would not be able to pay its debts as they become due in the usual course of business, or the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed at the time of a liquidation to satisfy the preferential rights of preferred stockholders. As a result, the Company has not paid any dividends associated with its Series A Preferred Stock.

Recent Sales of Unregistered Securities

Other than those sales of unregistered securities that have been disclosed by the Company in quarterly reports on Form 10-Q, current reports on Form 8-K, and as described in “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the heading “Financings,” the Company has not recently sold any unregistered securities.

ITEM 6. SELECTED FINANCIAL DATA.

Not required for smaller reporting companies.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

We are incorporated in the State of Nevada. As a rapidly growing public company in the international staffing sector, our high-growth business model is based on finding and acquiring suitable, mature, profitable, operating, U.S. and U.K. based staffing companies. Our targeted consolidation model is focused specifically on the accounting and finance, IT, engineering, administration (the "Professional Sector") and light industrial (the "Light Industrial Sector") disciplines.

Business Model, Operating History and Acquisitions

Our business plan is to expand and grow through multiple acquisitions, which may require additional financing, while continuing to supplement this with organic growth. The Company generated revenue of $109.4 million, $165.6 million, $128.8 million and $41.2 million for the Transition Period and fiscal years ended May 31, 2016, 2015 and 2014, respectively. This growth has been achieved primarily through acquisitions, while operations continued to grow organically 11.1% during the transition period and, on average, grew 8.8% between the fiscal years ended May, 31 2014 and 2016.

We are a high-growth international staffing company engaged in the acquisition of U.S. and U.K. based staffing companies. As part of our consolidation model, we pursue a broad spectrum of staffing companies supporting primarily the Professional and Light Industrial Sectors. Our typical acquisition model is based on paying consideration in the form of cash, stock, earn-outs and/or promissory notes. In furthering our business model, the Company is regularly in discussions and negotiations with various suitable, mature acquisition targets.

To date, the company has completed the following acquisitions:

Control Solutions International, Inc.

Acquired on November 4, 2013, Control Solutions International, Inc. and its wholly owned subsidiary Canada Control Solutions International, Inc. ("CCSI") (collectively ("CSI"), is a professional services company specializing in a broad spectrum of risk management, financial, internal audit and IT solutions.

Initio International Holdings Limited

Acquired on January 3, 2014, Initio International Holdings Limited ("Initio") (the "Initio Acquisition") is comprised of a U.S. and U.K. division. Initio's U.S. division, Monroe Staffing Services LLC ("Monroe"), was established in 1969 and is a full-service staffing agency serving companies ranging from Fortune 100 companies to new start-ups, specializing in Professional and Light Industrial Sectors. Monroe has 11 offices located in the U.S., including offices in Connecticut, Massachusetts, Rhode Island, New Hampshire and North Carolina. Initio's U.K. division ("Longbridge"), was established in 1989 and is an international multi-sector recruitment company catering to the sales and marketing, technology, legal and IT solutions sectors.

Poolia UK Ltd.

Acquired on February 28, 2014, Poolia UK Ltd. ("Poolia") operates its professional staffing services from its office in London and focuses on providing temporary, contract and permanent qualified professionals to various banking, financial and commercial clients across the U.K. Subsequent to its acquisition, Poolia merged with Longbridge.

PeopleSERVE

On May 17, 2014, the Company acquired 100% of the issued and outstanding capital stock of PeopleSERVE, Inc. ("PSI") and 49% of the issued and outstanding capital stock of PeopleSERVE PRS, Inc. ("PRS"). In May 2016, the Company acquired the remaining 51% of PRS for $101. PSI and PRS provide IT staffing support to companies in the governmental, commercial and educational sectors.

Lighthouse Placement Services

Acquired on July 8, 2015, Lighthouse Placement Services, LLC specializes in placing professionals in the engineering, pharmaceutical, biotechnology and IT sectors.

The JM Group

Acquired on November 5, 2015, The JM Group Limited (“The JM Group”) provides IT workforce solutions to a diverse set of clients across the financial services, professional services and corporate sectors in the U.K.

Restructuring Plan and Implementation:

During the first and second quarters of the year ended May 31, 2015, the Company conducted a thorough review and evaluation of its business operations and strategies, the forecast for the staffing industry, and the business environment in general. The Company concluded that it was imperative to take immediate action to reduce short and medium-term debt service obligations, consulting/advisory agreements, employment costs and other corporate commitments that were overburdening the Company’s working capital and ability to fund continuing business operations, raise additional equity capital and/or debt, and execute its business plan. As such, on September 3, 2014, the Company formally established a Restructuring Committee to evaluate and formalize a plan, referred to as the “Pathway to Profitability” or the “Restructuring Plan”, to restructure the Company’s approach to existing debt and its operational and corporate commitments. The Restructuring Plan was presented and adopted by the Board on September 3, 2014. As of May 31, 2016, this Restructuring Plan is complete.

Goals and Key Initiatives of the Restructuring Plan:

Certain targeted initiatives have been and are being achieved as part of the Restructuring Plan through the following actions:

- Short- and Medium-term debt service: The Restructuring Plan authorized management to approach existing debt holders with various proposals:
  - o Notes Payable and Other Debt obligations: The Restructuring Plan offered a meaningful incentive to outstanding notes payable holders to convert their principal and accrued interest to common stock and/or warrants rather than a cash payment. Note holders converted $3,358 of principal and interest into 335,839 common stock shares and 369,423 warrants exercisable for a term of ten years at $12.50. This action reduced the Company’s future cash outflows by approximately $528 in 2015, $871 in 2016, and by a further $1,959 in 2017.
  - o Modification of Series A Bonds: As part of the Restructuring Plan, we modified the terms of the Series A Bonds conversion price from $15.00 to $10.00 with the intention of providing a meaningful incentive for the Series A Bond holders to convert their principal and interest to common stock and/or warrants on or before the maturity date of October 15, 2014, rather than redeem for cash. Bondholders converted $3,709 of principal and interest into 370,969 common stock shares and 185,486 warrants exercisable for a term of three years at $20.00. In May 2016, the remaining Series A Bonds that had not been previously converted or redeemed, were paid in full.
  - o Modification of Series B Bonds: The Restructuring Plan modified the terms of the Series B Bonds conversion price from $15.00 to $12.00 with the intention of providing a meaningful incentive for the Series B Bond holders to convert their principal and interest to common stock by the maturity date of September 15, 2015, rather than redeem for cash.
- Operational and Corporate commitments: The approved Restructuring Plan authorized management to cancel various on-going consulting and employment agreements and incur certain costs associated with this restructuring.
  - o Consulting Agreements: The Company cancelled various on-going consulting agreements, improving the Company’s operating cash flow by approximately $486 per year.
  - o Employment: The Company severed employment with one executive, increasing the Company’s run rate cash operating cash flow by approximately $624 per year.

Results of Operations

During the Transition Period and fiscal 2016, the Company generated $109.4 million and $165.6 million of revenue, respectively. During the most recent three months ended December 31, 2016, the Company generated $49.4 million of revenue. The Company believes the acquisitions consummated during fiscal 2015 and 2016 are performing as expected. We believe that we can continue to grow these businesses and that they will allow us to attract further acquisitions in line with our stated strategic plan of achieving $300 million of annualized revenue.

The Company operates in three countries and currencies; U.S. (U.S. Dollar), U.K. (Pound Sterling) and Canada (Canadian dollar), although its operations in Canada represent less than 0.1% of total revenues. During the Transition Period and fiscal year ended May

31, 2016, revenues generated in the U.K. were approximately 14% of total consolidated revenue and in the fiscal year ended May 31, 2015, approximately 6%. As a result, the Company's exposure to foreign currency movement is not considered significant.

During the periods being reported, growth in bill rates can be attributed to accelerating wage inflation due to lower unemployment and fewer available candidates. In addition, bill rates in the industrial and office/clerical staffing skill segments have risen due to pass-through of new administrative and health insurance costs related to the Affordable Care Act (ACA) employer mandate which took effect January 1st, 2015. Going forward, minimum wage increases in several states are projected to have a ripple effect of boosting pay and bill rates in the industrial and office/clerical staffing skill segments.

For the transition period ended December 31, 2016 as compared to the unaudited period June 1, 2015 to December 26, 2015

Unaudited results of operations for the period June 1, 2015 to December 26, 2015 is provided here for discussion and analysis purposes. The following table sets forth the results of our operations for the transition period ended December 31, 2016 and for the period June 1, 2015 to December 26, 2015 indicated as a percentage of revenue:

	For the Transition Period Ended December 31, 2016	% of Revenue	For the Period June 1, 2015 - December 26, 2015 (Unaudited)	% of Revenue	Growth
Revenue	$ 109,422	100.0 %	$ 91,432	100.0 %	19.7 %
Direct cost of revenue	90,285	82.5 %	75,116	82.2 %	20.2 %
Gross profit	19,137	17.5 %	16,316	17.8 %	17.3 %
Operating expenses	19,766	18.1 %	18,435	20.2 %	7.2 %
Loss from operations	(629)	(0.6)%	(2,119)	(2.3)%	(70.3)%
Other expenses	(2,965)	(2.7)%	(3,111)	(3.4)%	(4.7)%
(Provision) benefit for income taxes	(16)	(0.0)%	9	0.0 %	(280.5)%
Net Loss From Discontinued Operations	—	0.0 %	—	0.0 %	0.0 %
Net loss	$ (3,610)	(3.3)%	$ (5,221)	(5.7)%	(30.9)%

Revenue

For the transition period ended December 31, 2016, revenue grew 19.7% to $109,422 as compared to $91,423 for the period June 1, 2015 to December 26, 2015. Of that growth, 11.1% was organic, 9.2% was from the acquisitions of Lighthouse and The JM Group, and (0.6%) was from foreign currency translation.

Direct cost of revenue

Direct cost of services includes the variable cost of labor and various non-variable costs (e.g., insurance) relating to employees (temporary and permanent) as well as sub-contractors and consultants. For the transition period ended December 31, 2016 and the period June 1, 2015 to December 26, 2015, direct cost of revenue was $90,285 and $75,116, respectively, or growth of 20.2%, compared to growth in revenue of 19.7%, and is further discussed in the gross profit and gross margin comments below.

Gross profit and gross margin

Gross profit for the transition period ended December 31, 2016 and the period June 1, 2015 to December 26, 2015 was $19,137 and $16,316, respectively, representing gross margin of 17.5% and 17.8% for each period, respectively. The decrease in margin is primarily attributable to the acquisition of The JM Group and strong organic growth in the Light Industrial segment (both at lower margins than the Company's average).

Operating expenses

For the transition period ended December 31, 2016, operating expenses amounted to $19,766 as compared to $18,435 for the period June 1, 2015 to December 26, 2015, an increase of $1,331 or 7.2%. Total operating expenses increased on an absolute basis, mainly resulting from the acquisition of Lighthouse and The JM Group, partially offset by decreases in professional fees and non-cash compensation expenses. However, as a percentage of revenue, these amounts were an improvement from 20.2% for the period June 1, 2015 to December 26, 2015 to 18.1% for the transition period ended December 31, 2016.

While cash operating expenses, defined as Total operating expenses excluding depreciation and amortization as well as other non-cash charges, grew on an absolute basis from $15,002 to $17,546 for the period June 1, 2015 to December 26, 2015 and for the transition period ended December 31, 2016, respectively, this represents a decline as a percentage of revenue from 16.4% to 16.0% for the same periods.

Other Expenses

For the transition period ended December 31, 2016 and for the period June 1, 2015 to December 26, 2015, Other Expenses primarily includes interest and financing expense of $2,791 and $1,947, respectively, other expense (income) of $162 and $(39), respectively and other restructuring costs totaling $10 and $12, respectively. The restructuring charges incurred during 2016 were residual charges resulting from the Company's implementation of its Restructuring Plan during 2015.

For the fiscal year ended May 31, 2016 as compared to the fiscal year ended May 31, 2015

The following table sets forth the results of our operations for the fiscal years ended May, 2016 and 2015 indicated as a percentage of revenue:

	For the Fiscal Years Ended May 31,				
	2016	% of Revenue	2015	% of Revenue	Growth
Revenue	$165,552	100.0 %	$128,829	100.0 %	28.5 %
Direct cost of revenue	136,505	82.5 %	106,281	82.5 %	28.4 %
Gross profit	29,047	17.5 %	22,548	17.5 %	28.8 %
Operating expenses	33,645	20.3 %	30,017	23.3 %	12.1 %
Loss from operations	(4,598)	(2.8)%	(7,469)	(5.8)%	(38.4)%
Other expenses	(4,870)	(2.9)%	(10,094)	(7.8)%	(51.8)%
(Provision) benefit for income taxes	(17)	(0.0)%	60	0.0 %	(128.3)%
Net Loss From Discontinued Operations	—	0.0 %	(47)	(0.0)%	(100.0)%
Net loss	$(9,485)	(5.7)%	$(17,550)	(13.6)%	(46.0)%

Revenue

For the fiscal year ended May 31, 2016, revenue grew 28.5% to $165,552 as compared to $128,829 for the fiscal year ended May 31, 2015. Of that growth, 7.1% was organic, 21.8% was from the acquisition of The JM Group, and (0.4%) was from foreign currency translation.

Direct cost of revenue

Direct cost of services includes the variable cost of labor and various non-variable costs (e.g., insurance) relating to employees (temporary and permanent) as well as sub-contractors and consultants. For the fiscal years ended May 31, 2016 and 2015, cost of revenue was $136,505 and $106,281, respectively, or growth of 28.4%, which is consistent with the change in revenue.

Gross profit and gross margin

Gross profit for the fiscal years ended May 31, 2016 and 2015 was $29,047 and $22,548, respectively, representing gross margin of 17.5% for both years. While business mix changed during the year with the addition of Lighthouse and The JM Group (at higher and lower margins respectively than the Company's average), underlying margins were approximately in line with the prior year.

Operating expenses

For the fiscal year ended May 31, 2016, operating expenses amounted to $33,645 as compared to $30,017 for the fiscal year ended May 31, 2015, an increase of $3,628 or 12.1%. Total operating expenses increased on an absolute basis, mainly resulting from the acquisition of Lighthouse and The JM Group. However, as a percentage of revenue, these amounts were an improvement from 23.3% for the fiscal year ended May 31, 2015 to 20.3% for the fiscal year ended May 31, 2016.

While cash operating expenses grew on an absolute basis from $23,958 to $28,601 for the fiscal years ended May 31, 2015 and 2016, respectively, this represents a significant decline as a percentage of revenue from 18.6% to 17.3% for the same periods, reflecting the success of our Pathway to Profitability initiative.

Other Expenses

For the fiscal years ended May 31, 2016 and 2015, Other Expenses primarily includes interest and financing expense of $5,343 and $5,866, respectively, other income of $566 and $142, respectively and other restructuring costs totaling $21 and $5,237, respectively. The restructuring charges in 2016 were residual charges resulting from the Company's implementation of its Restructuring Plan during 2015.

For the unaudited period December 27, 2015 to December 31, 2016 as compared to the unaudited period December 28, 2014 to December 26, 2015

Presentation of the period December 27, 2015 to December 31, 2016 is not required for a transition report. However, as the Company has changed its fiscal year end to a 52-53 week period ending on the last Saturday closest to December 31st, future periods to be reported will be on this basis; and as such, we have included the period December 27, 2015 to December 31, 2016 compared to the period December 28, 2014 to December 26, 2015 to provide a more complete view of the Company's performance on this basis. Comparison of results for these periods is slightly impacted by the fact that the period December 27, 2015 to December 31, 2016, has seven calendar days more than the period December 28, 2014 to December 26, 2015. However, the Company believes the impact of this difference is immaterial.

The following table sets forth the results of our operations for the period December 27, 2015 to December 31, 2016 and for the period December 28, 2014 to December 26, 2015 indicated as a percentage of revenue:

	For the Period December 27, 2015 - December 31, 2016 (Unaudited)	% of Revenue	For the Period December 28, 2014 - December 26, 2015 (Unaudited)	% of Revenue	Growth
Revenue	$ 183,542	100.0 %	$ 144,408	100.0 %	27.1 %
Direct cost of revenue	151,673	82.6 %	119,132	82.5 %	27.3 %
Gross profit	31,869	17.4 %	25,276	17.5 %	26.1 %
Operating expenses	34,978	19.1 %	30,798	21.3 %	13.6 %
Loss from operations	(3,109)	(1.7)%	(5,522)	(3.8)%	(43.7)%
Other expenses	(4,722)	(2.6)%	(3,523)	(2.4)%	34.0 %
(Provision) benefit for income taxes	(42)	(0.0)%	17	0.0 %	(340.7)%
Net Loss From Discontinued Operations	—	0.0 %	—	0.0 %	0.0 %
Net loss	$ (7,873)	(4.3)%	$ (9,028)	(6.3)%	(12.8)%

Revenue

For the period December 27, 2015 to December 31, 2016, revenue grew 27.1% to $183,542 as compared to $144,408 for the period December 28, 2014 to December 26, 2015. Of that growth, 10.5% was organic, 17.1% was from the acquisitions of Lighthouse and The JM Group, and (0.5%) was from foreign currency translation.

Direct cost of revenue

Direct cost of services includes the variable cost of labor and various non-variable costs (e.g., insurance) relating to employees (temporary and permanent) as well as sub-contractors and consultants. For the period December 27, 2015 to December 31, 2016 and for the period December 28, 2014 to December 26, 2015, direct cost of revenue was $151,673 and $119,132, respectively, or growth of 27.3%, compared to growth in revenue of 27.0%, and is further discussed in the gross profit and gross margin comments below.

Gross profit and gross margin

Gross profit for the period December 27, 2015 to December 31, 2016 and for the period December 28, 2014 to December 26, 2015 was $31,869 and $25,276, respectively, representing gross margin of 17.4% and 17.5% for each period, respectively. The decrease in margin is primarily attributable to the acquisition of The JM Group and strong organic growth in the Light Industrial segment (both at lower margins than the Company's average).

Operating expenses

For the period December 27, 2015 to December 31, 2016, operating expenses amounted to $34,978 as compared to $30,798 for the period December 28, 2014 to December 26, 2015, an increase of $4,180 or 13.6%. Total operating expenses increased on an absolute

basis, mainly resulting from the acquisition of Lighthouse and The JM Group, partially offset by decreases in professional fees and non-cash compensation expenses. However, as a percentage of revenue, these amounts were an improvement from 21.3% for the period December 28, 2014 to December 31, 2015 to 19.1% for the period December 27, 2015 to December 31, 2016.

While cash operating expenses, defined as Total operating expenses excluding Depreciation and amortization as well as other non-cash charges, grew on an absolute basis from $25,016 to $31,147 for the period December 28, 2014 to December 26, 2015 and for the period December 27, 2015 to December 31, 2016, respectively, this represents a decline as a percentage of revenue from 17.3% to 17.0% for the same periods.

Other Expenses

For the period December 27, 2015 to December 31, 2016 and for the period December 28, 2014 to December 26, 2015, Other Expenses primarily includes interest and financing expense of $5,035 and $3,933, respectively, other expense (income) of $(365) and $(22), respectively and other restructuring costs totaling $19 and $(428), respectively. The restructuring charges in 2016 were residual charges resulting from the Company's implementation of its Restructuring Plan during 2015.

Non-GAAP Measures and Key Performance Indicators

To supplement our consolidated financial statements presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"), we also use non-GAAP financial measures and Key Performance Indicators ("KPIs") in addition to our GAAP results. We believe non-GAAP financial measures and KPIs may provide useful information for evaluating our cash operating performance, ability to service debt, compliance with debt covenants and measurement against competitors. This information should be considered as supplemental in nature and should not be considered in isolation or as a substitute for the related financial information prepared in accordance with GAAP. In addition, these non-GAAP financial measures may not be comparable to similarly entitled measures reported by other companies.

We present the following non-GAAP financial measure and KPIs in this report:

Revenue and Gross Profit by Service Segment We use this KPI to measure the Company's mix of Revenue and respective profitability between its two main lines of business due to their differing margins. For clarity, these lines of business are not the Company's operating segments, as this information is not currently regularly reviewed by the chief operating decision maker to allocate capital and resources. Rather, we use this KPI to benchmark the Company against the industry.

The following table details Revenue and Gross Profit by Sector for the transition period ended December 31, 2016 and for the period June 1, 2015 to December 26, 2015, respectively:

	Transition Period ended December 31, 2016	Mix	For the Period June 1, 2015 -	Mix

				December 26, 2015 (Unaudited)	
Light Industrial	$	60,529	55%	$ 52,721	58%
Professional		48,893	45%	38,711	42%
Total Service Revenue	$	109,422		$ 91,432	
Light Industrial		9,351	49%	7,827	48%
Professional		9,786	51%	8,489	52%
Total Gross Profit	$	19,137		$ 16,316	
Light Industrial		15.4	%	14.8	%
Professional		20.0	%	21.9	%
Total Gross Margin		17.5	%	17.8	%

The following table details Revenue and Gross Profit by Sector for the fiscal years ended May 31, 2016 and 2015, respectively:

	Fiscal Years Ended May 31,			
	2016	Mix	2015	Mix
Light Industrial	$90,296	55%	$79,499	62%
Professional	75,256	45%	49,330	38%
Total Service Revenue	$165,552		$128,829	
Light Industrial	13,206	45%	10,842	48%
Professional	15,841	55%	11,706	52%
Total Gross Profit	$29,047		$22,548	
Light Industrial	14.6 %		13.6 %	
Professional	21.0 %		23.7 %	
Total Gross Margin	17.5 %		17.5 %	

The following table details Revenue and Gross Profit by Sector for the period December 27, 2015 to December 31, 2016 and for the period December 28, 2014 to December 26, 2015, respectively:

	For the Period December 27, 2015 - December 31, 2016 (Unaudited)	Mix	For the Period December 28, 2014 - December 26, 2015 (Unaudited)	Mix
Light Industrial	$ 98,104	53%	$ 85,388	59%
Professional	85,438	47%	59,020	41%
Total Service Revenue	$ 183,542		$ 144,408	
Light Industrial	14,731	46%	12,197	48%
Professional	17,138	54%	13,079	52%
Total Gross Profit	$ 31,869		$ 25,276	
Light Industrial	15.0 %		14.3 %	
Professional	20.1 %		22.2 %	
Total Gross Margin	17.4 %		17.5 %	

Adjusted EBITDA This measure is defined as net loss attributable to common stock before: interest expense, benefit from (provision for) income taxes; income (loss) from discontinued operations, net of tax; other (income) expense, net, in operating income (loss); amortization and impairment of identifiable intangible assets; impairment of goodwill;

depreciation; operational restructuring and other charges; other income (expense), net, below operating income (loss); non-cash expenses associated with stock compensation; and charges the Company considers to be non-recurring in nature such as legal expenses associated with litigation, professional fees associated potential and completed acquisitions. We use this measure because we believe it provides a more meaningful understanding of the profit and cash flow generation of the Company.

The following table provides a reconciliation of Adjusted EBITDA for the transition period ended December 31, 2016 and for the period June 1, 2015 to December 26, 2015 respectively, to its most directly comparable GAAP measure:

	Transition Period Ended December 31, 2016	For the Period June 1, 2015 - December 26, 2015 (Unaudited)
Net loss attributable to common stock	$ (3,726)	$ (5,329)
Interest expense	1,382	1,527
Provision (benefit) for income taxes	16	(9)
Depreciation and amortization (1)	3,182	3,388
EBITDA	854	(423)
Acquisition, capital raising and other non-recurring expenses (2)	1,670	1,045
Other non-cash charges (3)	447	1,616
Restructuring charges	10	12
Impairment of intangibles	—	—
Modification expense	2	40
Dividends - Series A preferred stock	116	116
Other income / (expense)	162	(39)
Net income attributable to non-controlling interest	—	(9)
Adjusted EBITDA	$ 3,261	$ 2,358
Gross Profit	$ 19,137	$ 16,316
Adjusted operating expenses (4)	$ 15,876	$ 13,958
Adjusted operating expenses percentage of gross profit	83.0 %	85.5 %

(1) Includes amortization included in other expenses.
(2) Acquisition, capital raising and other non-recurring expenses primarily relate to capital raising expenses, acquisition and integration expenses and legal expenses incurred in relation to matters outside the ordinary course of business.
(3) Other non-cash charges primarily relate to staff option and share compensation expense, expense for shares issued to directors for board services, and consideration paid for consulting services.
(4) Adjusted operating expenses are defined as the operating expenses of the Company included in the definition of Adjusted EBITDA.

Adjusted EBITDA for the transition period ended December 31, 2016 of $3,261, a 38.2% increase from $2,359 for the period June 1, 2015 to December 26, 2015. This growth is attributable to earnings from the acquisition of Lighthouse and The JM Group, successful execution of our Pathway to Profitability initiative, as well as flow through of revenue arising from organic growth.

The following table provides a reconciliation of Adjusted EBITDA for the fiscal years ended May 31, 2016 and 2015 respectively, to its most directly comparable GAAP measure:

	Fiscal Years Ended May 31,	
	2016	2015
Net loss attributable to common stock	$(9,713)	$(18,071)
Interest expense	2,699	1,646
Provision (benefit) for income taxes	17	(60)
Depreciation and amortization (1)	5,508	6,931
EBITDA	(1,489)	(9,554)
Acquisition, capital raising and other non-recurring expenses (2)	3,665	2,209
Other non-cash charges (3)	2,180	1,778
Restructuring charges	21	5,237
Impairment of intangibles	—	703
Modification expense	72	—
Dividends - Series A preferred stock	200	50
Other income / (expense)	(566)	(142)
Net income attributable to non-controlling interest	28	471
Adjusted EBITDA	$4,111	$752
Gross Profit	$29,047	$22,548
Adjusted operating expenses (4)	$24,936	$21,796
Adjusted operating expenses percentage of gross profit	85.8 %	96.7 %

(1) Includes amortization included in other expenses.
(2) Acquisition, capital raising and other non-recurring expenses primarily relate to capital raising expenses, acquisition and integration expenses and legal expenses incurred in relation to matters outside the ordinary course of business.
(3) Other non-cash charges primarily relate to staff option and share compensation expense, expense for shares issued to directors for board services, and consideration paid for consulting services.
(4) Adjusted operating expenses are defined as the operating expenses of the Company included in the definition of Adjusted EBITDA.

Adjusted EBITDA for the fiscal year ended May 31, 2016 of $4,111, grew over 400% from $752 for the fiscal year ended May 31, 2015. This growth is attributable to earnings from the acquisition of Lighthouse and The JM Group, successful execution of our Pathway to Profitability initiative, as well as flow through of revenue arising from organic growth.

The following table provides a reconciliation of Adjusted EBITDA for the period December 27, 2015 to December 31, 2016 and for the period December 28, 2014 to December 26 2015 respectively, to its most directly comparable GAAP measure:

	For the Period December 27, 2015 - December 31, 2016 (Unaudited)	For the Period December 28, 2014 - December 26, 2015 (Unaudited)
Net loss attributable to common stock	$ (8,110)	$ (9,440)
Interest expense	2,554	2,081
Provision (benefit) for income taxes	42	(17)
Depreciation and amortization (1)	5,302	4,760
EBITDA	(212)	(2,616)
Acquisition, capital raising and other non-recurring expenses (2)	4,290	2,410
Other non-cash charges (3)	1,011	2,861
Restructuring charges	19	(415)
Impairment of intangibles	—	—
Modification expense	33	40
Dividends - Series A preferred stock	200	166
Other income / (expense)	(365)	(22)
Net income attributable to non-controlling interest	37	246
Adjusted EBITDA	$ 5,013	$ 2,670
Gross Profit	$ 31,869	$ 25,276
Adjusted operating expenses (4)	$ 26,856	$ 22,606
Adjusted operating expenses percentage of gross profit	84.3 %	89.4 %

(1) Includes amortization included in other expenses.
(2) Acquisition, capital raising and other non-recurring expenses primarily relate to capital raising expenses, acquisition and integration expenses and legal expenses incurred in relation to matters outside the ordinary course of business.
(3) Other non-cash charges primarily relate to staff option and share compensation expense, expense for shares issued to directors for board services, and consideration paid for consulting services.
(4) Adjusted operating expenses are defined as the operating expenses of the Company included in the definition of Adjusted EBITDA.

Adjusted EBITDA for the period December 27, 2015 to December 31, 2016 of $5,013, grew 87.8% from $2,670 for the period December 28, 2014 to December 26, 2015. This growth is attributable to earnings from the acquisition of Lighthouse and The JM Group, successful execution of our Pathway to Profitability initiative, as well as flow through of revenue arising from organic growth.

Operating Leverage This measure is calculated by dividing the growth in Adjusted EBITDA by the growth in Gross Profit, on a trailing 12-month basis. We use this KPI because we believe it provides a measure of the Company's efficiency for converting incremental gross profit into Adjusted EBITDA. The period December 27, 2105 to December 31, 2016 includes the Transition Period, Operating Leverage for the Transition Period is not separately shown as it would be duplicative.

The following table details the Company's Operating Leverage for the fiscal years ended May 31, 2016 and 2015, respectively:

	Fiscal Years Ended May 31,	
	2016	2015
Gross Profit - Current Year	$29,047	$22,548
Gross Profit - Prior Year	22,548	7,804
Gross Profit - Growth	$6,499	$14,744
Adjusted EBITDA - Current Year	4,111	752
Adjusted EBITDA - Prior Year	752	(2,673)
Adjusted EBITDA - Growth	$3,359	$3,425
Operating Leverage	51.7 %	23.2 %

The following table details the Company's Operating Leverage for the period December 27, 2015 to December 31, 2016 and for the period December 28, 2014 to December 26, 2015, respectively:

	For the Period December 27, 2015 - December 31, 2016 (Unaudited)	For the Period December 28, 2014 - December 26, 2015 (Unaudited)
Gross Profit - Current Year	$ 31,869	$ 25,276
Gross Profit - Prior Year	25,276	20,960
Gross Profit - Growth	$ 6,593	$ 4,316
Adjusted EBITDA - Current Year	5,013	2,670
Adjusted EBITDA - Prior Year	2,670	(2,666)
Adjusted EBITDA - Growth	$ 2,343	$ 5,336
Operating Leverage	35.5 %	123.6 %

Operating leverage in TTM December 26, 2015 is unusually high due to the reversal from negative TTM Adjusted EBITDA - Prior Year to positive TTM Adjusted EBITDA - Current Year.

Leverage Ratio Calculated as Total Long Term Debt, Net, gross of any Original Issue Discount, plus Earnouts, less assets held against Long Term Debt, divided by Adjusted EBITDA for the trailing 12-months. We use this KPI as an indicator of the Company's ability to service its debt prospectively.

The following table details the Company's Leverage Ratio as of May 31, 2016 and 2015, respectively:

	Fiscal Years Ended May 31,	
	2016	2015
Total Long Term Debt, Net	$9,284	$4,903
Addback: Total Debt Discount and Deferred Financing Costs	2,693	1,323
Earnouts	2,640	1,557
Less: Surety Bond	(1,405)	(1,405)
Total Long Term Debt	$13,212	$6,378
Adjusted EBITDA - TTM	$4,111	$752
Leverage Ratio	3.2x	8.5x

The following table details the Company's Leverage Ratio as of December 31, 2016 and December 26, 2015, respectively:

	For the Period December 27, 2015 - December 31, 2016 (Unaudited)	For the Period December 28, 2014 - December 26, 2015 (Unaudited)
Total Long Term Debt, Net	$ 7,636	$ 9,529
Addback: Total Debt Discount and Deferred Financing Costs	1,374	4,257
Earnouts	2,347	2,722
Less: Surety Bond	(1,405)	—
Total Long Term Debt	$ 9,952	$ 16,508
Adjusted EBITDA - TTM	$ 5,013	$ 2,670
Leverage Ratio	2.0x	6.2x

Liquidity and Capital Resources

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations, and otherwise operate on an ongoing basis. Historically, we have funded our operations through promissory notes, bonds, convertible notes, private placement offerings and from advances from our majority shareholders/officers/directors.

Our primary uses of cash have been for professional fees related to our operations and financial reporting requirements and for the payment of compensation, benefits and consulting fees. The following trends may occur as the Company continues to execute on its strategy:

- An increase in working capital requirements to finance targeted acquisitions,
- Addition of administrative and sales personnel as the business grows,
- Increases in advertising, public relations and sales promotions for existing and new brands as we expand within existing markets or enter new markets,
- A continuation of the costs associated with being a public company, and
- Capital expenditures to add technologies.

As a result of our recent financings, we believe that we will be able to fund our operations, implement our business plan and pursue the acquisition of a broad spectrum of staffing companies through the next twelve months. However, we will need to raise additional capital to pursue growth opportunities, improve our infrastructure and otherwise make investments in assets and personnel that will allow us to remain competitive. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. However, the trading price of our common stock and a potential downturn in the U.S. equity and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect amounts owed to us, or experience

unexpected cash requirements that would force us to seek alternative financing. Furthermore, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock.

Our liquidity may be negatively impacted by the significant costs associated with our public company reporting requirements, costs associated with newly applicable corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 and other rules implemented by the Securities and Exchange Commission. We expect all of these applicable rules and regulations could significantly increase our legal and financial compliance costs and increase the use of resources.

As of December 31, 2016, the Company had a working capital deficiency of $15,091, an accumulated deficit of $47,847, for the transition period ended December 31, 2016 a net loss of $3,610, and, as of the date these financial statements are issued, the Company has approximately $4,377 associated debt and other amortizing obligations, due in the next 12 months.

The amounts due discussed above, are a subset of the Company's total gross debt obligations as of December 31, 2016 of $9,010, as compared with $11,977 as of the Company's most recent year ended May 31, 2016. Those balances are comprised of various instruments that can be summarized as follows:

	December 31, 2016	May 31, 2016	2015
Bonds	$ 50	$55	$1,156
Convertible Notes	5,632	7,521	304
Promissory Notes	441	933	1,777
Term Loans	2,887	3,468	2,989
Total Long-Term Debt	$ 9,010	$11,977	$6,226

These obligations mature over the period between January 2017 and April 2019, with interest being paid primarily at the same time principal is paid.

Other significant obligations of the Company as of December 31, 2016 not classified as debt are:

- A loan from Midcap Financial Trust X in the amount of $1,300 associated with the Company's accounts receivable revolving credit facility. The balance originally matured in full in April 2019. However, in January 2017, in connection with the financing from Jackson Investment Group, LLC (see below), that obligation was amended such that it would amortize $50 per month beginning in February 2017. In addition, in the event the Company raises cumulative capital in the amount of $2,500, the Company must make a lump-sum principal payment in the amount of $500, and a further $500 if the Company raises cumulative capital in the amount of $4,000.
- An earn-out liability associated with the Company's acquisition of CSI in the amount of $1,320. As this balance is currently in dispute (see NewCSI, Inc. vs. Staffing 360 Solutions, Inc. in Legal Proceedings), the Company has a surety bond posted in the amount of $1,405 to fund the balance, while the case is ongoing, in the event the Company loses its appeal. Payments continue to be made monthly in the amount of 20% of CSI's consolidated gross profit.
- An earn-out liability associated with the Company's acquisition of The JM Group in the amount of $1,026 that was due in November 2016. While unpaid, the balance accrues interest of 10.25% per annum. This balance was paid in January 2017 along with accrued interest.
- A liability to former officers of the Company (see Staffing 360 Solutions, Inc. v. Former Officers of Staffing 360 Solutions, Inc. in Legal Proceedings) in the amount of $1,607 including accrued interest. Until paid, the balance accrues interest of 9% per annum. The Company is awaiting an order from the Court confirming the award. Until then, the timing of paying this liability is not yet known but has been classified within Other Current Liabilities.

In January 2017, the Company entered into an amendment agreement in which, the parties refinanced an aggregate amount of $2,708 million of notes and extended all amortization payments (collectively "the Amendment") to October 1, 2018. The new gross balance of the remaining note was $3,126. The Amendment had an 8% interest rate, with no interest payments due until October 1, 2017, payable quarterly thereafter, and an overall term of 21 months with principal due at maturity. The Amendment was convertible into shares of common stock at a price of $3.00 per share at holder's election, and the holder has agreed to eliminate the 20% pre-payment penalty for an early redemption. In connection with the refinancing, the Company issued the holder 600,000 shares of common stock. Later in January 2017, the amended note was paid in full.

In addition, in January 2017, the Company closed financing with Jackson Investment Group, LLC (“JIG”) in the amount of $7,400 million. The financing is a term loan, maturing in July 2018 and carries interest at 6%. No interest or principal is due until maturity. In connection with the transaction, JIG received 1,650,000 shares of common stock and 3,150,000 warrants, exercisable for five years, with a cash exercise price of $1.35. At JIG’s election, 50% of accrued interest may be converted into shares of common stock at a conversion price of $2.00.

In connection with the JIG financing, in addition to paying $3,126 to satisfy the Amendment, the Company satisfied in full the earn-out liability associated with the Company’s acquisition of The JM Group of $1,026 and related interest, as well as approximately, $562 of debt obligations that were due in January 2017.

In April 2017, the Company amended the note and warrant purchase agreement with JIG and entered into a second subordinated secured note with JIG for $1,650. Under the terms of this amended agreement, the Company issued to JIG 296,984 shares of common stock, with an additional 370,921 shares of common stock to be issued upon shareholder approval of the issuance of shares to JIG in

excess of the 19.99% limit, and amended the warrant agreement to allow JIG to purchase up to an additional 825,463 shares of common stock at $1.00 per share. The original warrant agreement was also amended to increase JIG's warrants to 3,702,075 based on the anti-dilution clause contained therein, and adjust the exercise price to $1.00 per warrant. The second note accrues interest on the principal amount at a rate of 6% per annum and has a maturity date of June 8, 2019; however, in the event the Company satisfies all of its outstanding obligations with Midcap Financial Trust, the maturity date will be adjusted to July 25, 2018. No interest or principal is payable until maturity. At any time during the term of the note, upon notice to JIG, the Company may also, at its option, redeem all or some of the then outstanding principal amount of the note by paying to JIG an amount not less than $100 of the outstanding principal (and in multiples of $100), plus any accrued but unpaid interest and liquidated damages and other amounts due under the note. The note's principal is not convertible into shares of common stock; however, 50% of the accrued interest on the note can be converted into shares of common stock, at the sole election of JIG prior to maturity, at a conversion price equal to $1.50 per share. The proceeds of this transaction were used to redeem the remaining shares and conversion rights of the Series D Preferred Stock.

While management's projected cash flows are forecasted to be sufficient to meet the Company's obligations over the next 12 months, management believes it is prudent to continue its capital raising efforts in case its forecast is not achieved. Management's plan to continue as a going concern includes raising capital in the form of debt or equity, increased gross profit from organic revenue growth and managing and reducing operating and overhead costs.

However, management cannot provide any assurances that the Company will be successful in accomplishing any of its plans. Management also cannot provide any assurance that unforeseen circumstances that could occur at any time within the next twelve months or thereafter will not increase the need for the Company to raise additional capital on an immediate basis. In addition, the Company has received a letter of support from a significant shareholder pertaining to the arbitration loss, whereby the shareholder has agreed to provide funds to the Company sufficient to settle the arbitration loss in full referred to in Note 12, in return for consideration as may be agreed.

However, based upon an evaluation of the Company's continued growth trajectory, past success in raising capital and meetings its obligations as well as its plans for raising capital discussed above, management believes that the Company is a going concern.

Operating activities

For the transition period ended December 31, 2016, net cash used in operations was $1,208. The Company's principal source of financing for its operation is its accounts receivable lines of credit which is included in financing activities. During the transition period, net draws from such lines of credit were $1,739. Net cash used was primarily attributable to the net loss of $3,610, changes in operating assets and liabilities totaling $1,232, offset by non-cash adjustments of $3,634. Changes in operating assets and liabilities primarily relates to an increase in accounts receivable of $1,896, an increase in other assets of $627, offset by a decrease in prepaid expenses of $399, an increase in accounts payable and accrued expenses of $542, and increase in other of $380. Non-cash adjustments of $3,634 primarily relates to depreciation and amortization of $1,773, amortization of debt discount and beneficial conversion feature of $1,409, share based compensation totaling $392, loss on settlement of debt of $162, offset by other of $104.

For the year ended May 31, 2016, net cash provided by operations was $2,094. The Company's principal source of financing for its operation is its accounts receivable lines of credit which is included in financing activities. During the year ended May 31, 2016, net draws from such lines of credit were $850. Net cash provided by operating

activities was primarily attributable to the net loss of $9,485 offset by changes in operating assets and liabilities totaling $4,231, which primarily relates to a decrease in accounts receivable of $2,098, a decrease in prepaid expenses of $55, an increase in other assets of $637, an increase in accounts payable and accrued expenses of $2,800, a decrease in other current liabilities of $10, an increase in other long-term liabilities of $388 and a decrease in other of $288, non-cash adjustments of $5,508 of depreciation and amortization, share based compensation totaling $2,151, modification expense of $93, gain on settlement of debt of $566, interest paid in common stock of $113 and write-off of fixed assets of $49.

Cash used in operations was $3,129 for the fiscal year ended May 31, 2015, The Company's principal source of financing for its operation is its accounts receivable lines of credit which is included in financing activities. During the year ended May 31, 2015, net draws from such lines of credit were $1,755. Net cash used on operating activities was primarily attributable to the net loss of $17,550 offset by changes in operating assets and liabilities totaling $306, which primarily relates to an increase in accounts payable and accrued expenses of $2,656, an increase in prepaid expenses of $142, an increase in other assets of $380, an increase in accounts receivable of $1,723, a decrease in other current liabilities of $142, an increase in other long-term liabilities of $118 and a decrease in other of $81, non-cash adjustments of $6,931 of depreciation and amortization, impairment of intangibles of $703, warrants issued for interest of $2,213, modification expense of $3,093, gain on settlement of debt of $921, gain on conversion of earn-out liability of $486, interest paid in stock of $420, write-off of fixed assets of $46 and share based compensation of $2,058.

Investing activities

For the transition period ended December 31, 2016, net cash flows used in investing activities was $1,269 and was attributable to payments to sellers of Lighthouse and JM Group of $946, fixed assets purchases of $221, and payments due to earn outs for $102.

For the year ended May 31, 2016, net cash flows used in investing activities was $5,290 and was attributable to the purchase of fixed assets of $205, payments due to earn-out agreements totaling $160, posting of surety bond of $1,405, purchase of variable interest entity of $101 and acquisition of businesses, net of cash acquired of $3,419.

For the year ended May 31, 2015, net cash flows used in investing activities was $2,014 and was attributable to the purchase of fixed assets of $255, payments due to sellers totaling $1,347, payments of $383 made for the earn-out agreement and cash relinquished in sale of subsidiary (Cyber 360) of $29.

Financing activities

For the transition period ended December 31, 2016, net cash flows provided by financing activities totaled $1,160 and was attributable to proceeds private placements of $2,495, proceeds from accounts receivable financing of $1,739, proceeds from promissory notes issued of $670, offset by repayments of promissory notes $2,607, repayment of accounts receivable over advance of $863, and financing costs associated with private placements of $274.

For the year ended May 31, 2016, net cash flows provided by financing activities totaled $5,146 and was attributable to proceeds relating to accounts receivable financing of $1,713, proceeds of $4,742 from the issuance of convertible promissory notes, proceeds from private placements of $2,851 and proceeds of $1,990 from the issuance of promissory notes. In addition, the Company paid $896 in third-party financing costs, repaid $664 in convertible notes, repaid promissory notes of $3,115, repaid bonds totaling $1,102 and paid third-party financing costs associated with private placements totaling $302.

For the year ended May 31, 2015, net cash flows provided by financing activities totaled $3,857 and was attributable to proceeds relating to accounts receivable financing of $1,755, proceeds of $404 from the issuance of convertible promissory notes, proceeds of $5,405 from the issuance of promissory notes and proceeds of $2,042 from the issuance of convertible bonds. In addition, the Company paid $1,428 in third-party financing costs, repaid $1,100 in convertible notes, and repaid promissory notes of $3,221.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our significant accounting policies are fully described in Note 2 to our consolidated financial statements for the transition period ended December 31, 2016 contained herein.

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-04, "Intangibles – Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment". The amendments in this update modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will

determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. The guidance is effective for annual periods fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of adopting this guidance.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805) Clarifying the Definition of a Business”. The amendments in this update is to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company is currently evaluating the impact of adopting this guidance.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230) Restricted Cash”. The new guidance requires that the reconciliation of the beginning-of-period and end-of-period amounts shown in the statement of cash flows include

restricted cash and restricted cash equivalents. If restricted cash is presented separately from cash and cash equivalents on the balance sheet, companies will be required to reconcile the amounts presented on the statement of cash flows to the amounts on the balance sheet. Companies will also need to disclose information about the nature of the restrictions. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting this guidance.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments". The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. ASU 2016-15 is effective for the Company beginning in the first quarter of fiscal 2019. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. The Company is currently evaluating the impact of adopting this guidance.

In March 2016, the FASB issued ASU 2016-09, "Stock Compensation", regarding the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is to be applied for annual periods beginning after December 15, 2016 and interim periods within those annual periods, and early adoption is permitted. The guidance requires companies to apply the requirements retrospectively, modified retrospectively, or prospectively depending on the amendment(s) applied. The Company is currently evaluating the impact of adopting this guidance.

In February 2016, the FASB issued ASU 2016-02, "Leases" (Topic 842). This guidance will be effective for public entities for fiscal years beginning after December 15, 2018 including the interim periods within those fiscal years. Early application is permitted. Under the new provisions, all lessees will report a right-of-use asset and a liability for the obligation to make payments for all leases with the exception of those leases with a term of 12 months or less. All other leases will fall into one of two categories: (i) Financing leases, similar to capital leases, which will require the recognition of an asset and liability, measured at the present value of the lease payments and (ii) Operating leases which will require the recognition of an asset and liability measured at the present value of the lease payments. Lessor accounting remains substantially unchanged with the exception that no leases entered into after the effective date will be classified as leveraged leases. For sale leaseback transactions, the sale will only be recognized if the criteria in the new revenue recognition standard are met. The Company is currently evaluating the impact of adopting this guidance.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities", which amends the guidance relating to the classification and measurement of financial instruments. Changes to the current guidance primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the ASU clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The new standard is effective for fiscal years and interim periods beginning after December 15, 2017, and upon adoption, an entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet at the beginning of the first reporting period in which the guidance is effective. Early adoption is not permitted except for the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. The Company is currently evaluating the impact of adopting this guidance.

In September 2015, the FASB issued ASU 2015-16, "Simplifying the Accounting for Measurement–Period Adjustments". Changes to the accounting for measurement-period adjustments relate to business combinations. Currently, an acquiring entity is required to retrospectively adjust the balance sheet amounts of the acquiree recognized at the acquisition date with a corresponding adjustment to goodwill as a result of changes made to the balance sheet amounts of the acquiree. The measurement period is the period after the acquisition date during which

the acquirer may adjust the balance sheet amounts recognized for a business combination (generally up to one year from the date of acquisition). The changes eliminate the requirement to make such retrospective adjustments, and, instead require the acquiring entity to record these adjustments in the reporting period they are determined. The new standard is effective for both public and private companies for annual reporting periods beginning after December 15, 2015. The Adoption of this guidance has no material impact on the Company's financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers". ASU 2014-09 supersedes the revenue recognition requirements of FASB ASC Topic 605, "Revenue Recognition" and most industry-specific guidance throughout the ASC, resulting in the creation of FASB ASC Topic 606, "Revenue from Contracts with Customers". ASU 2014-09 requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This ASU provides alternative methods of adoption. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers, Deferral of the Effective Date". ASU 2015-14 defers the effective date of ASU 2014-09 by one year to December 15, 2017 for fiscal years, and interim periods within those years, beginning after that date and permits early adoption of the standard, but not before the original effective date for fiscal years beginning after December 15, 2016. In March 2016, the FASB issued ASU 2016-08, "Revenue from

Contracts with Customers, Principal versus Agent Considerations" (Reporting Revenue Gross versus Net) clarifying the implementation guidance on principal versus agent considerations. Specifically, an entity is required to determine whether the nature of a promise is to provide the specified good or service itself (that is, the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (that is, the entity is an agent). The determination influences the timing and amount of revenue recognition. In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers, Identifying Performance Obligations and Licensing", clarifying the implementation guidance on identifying performance obligations and licensing. The amendments in this ASU clarify the two following aspects (a) contracts with customers to transfer goods and services in exchange for consideration and (b) determining whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time). The effective date and transition requirements for ASU 2016-08 and ASU 2016-10 are the same as the effective date and transition requirements for ASU 2014-09. The Company is currently assessing the potential impact of adopting ASU 2014-09, ASU 2016-08 and ASU 2016-10 on its financial statements and related disclosures.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not required for smaller reporting companies.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Staffing 360 Solutions, Inc.:

We have audited the accompanying consolidated balance sheets of Staffing 360 Solutions, Inc. (the "Company") as of December 31, 2016, May 31, 2016 and 2015 and the related consolidated statements of operations, comprehensive loss, statements of changes in equity and cash flows for the period in the transition year ended December 31, 2016 and the two years in the period ended May 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Staffing 360 Solutions, Inc. at December 31, 2016, May 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for the transition period ended December 31, 2016 and each of the years in the two year period ended May 31, 2016, in conformity with U.S. generally accepted accounting principles.

/s/ RBSM LLP

New York, NY

April 12, 2017

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STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(All amounts in thousands, except share and par values)

	December 31, 2016	May 31, 2016	May 31, 2015
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 650	$ 1,969	$ 19
Accounts receivable, net	22,274	20,378	18,760
Prepaid expenses and other current assets	613	1,012	1,023
Total Current Assets	23,537	23,359	19,802
Property and equipment, net	919	880	506
Goodwill	15,779	14,833	8,400
Identifiable Intangible assets, net	9,149	10,741	10,569
Other assets	4,573	3,946	1,904
Total Assets	$ 53,957	$ 53,759	$ 41,181
LIABILITIES AND EQUITY			
Current Liabilities:			
Accounts payable and accrued expenses	$ 18,110	$ 17,595	$ 11,282
Current portion of long term debt	3,639	6,098	2,591
Accounts receivable financing	15,605	14,729	13,016
Other current liabilities	1,274	1,497	317
Total Current Liabilities	38,628	39,919	27,206
Long-term debt	3,997	3,186	2,312
Other long-term liabilities	3,054	3,142	2,161
Total Liabilities	45,679	46,247	31,679
Series D Preferred Stock, 5,000 designated, $10,000 stated value; 93, 0 and 0 shares issued			
and outstanding, respectively	612	—	—
Commitments and contingencies	—	—	—
Equity:			
Staffing 360 Solutions, Inc. Equity:			
Preferred stock, $0.00001 par value, 20,000,000 shares authorized;			
Series A Preferred Stock, 1,663,008 designated, $10.00 stated value, 1,663,008	—	—	—
shares issued and outstanding as of December 31, 2016, May 31, 2016 and 2015,			

respectively			
Series B Preferred Stock, 200,000 designated, $10.00 stated value, 0, 133,000 and 0 shares issued and outstanding as of December 31, 2016, May 31, 2016 and 2015, respectively	—	—	—
Series C Preferred Stock, 2,000,000 designated, $1.00 stated value, 0, 175,439 and 0 shares issued and outstanding as of December 31, 2016, May 31, 2016 and 2015, respectively	—	—	—
Common stock, $0.00001 par value, 20,000,000 shares authorized; 9,139,795, 6,306,744 and 4,368,924 shares issued and outstanding as of December 31, 2016, May 31, 2016 and 2015, respectively	—	—	—
Additional paid in capital	54,658	51,474	42,884
Accumulated other comprehensive income	855	159	(27)
Accumulated deficit	(47,847)	(44,121)	(34,408)
Total Staffing 360 Solutions, Inc. Equity	7,666	7,512	8,449
Non-controlling interest	—	—	1,053
Total Equity	7,666	7,512	9,502
Total Liabilities, Mezzanine Equity and Equity	$ 53,957	$ 53,759	$ 41,181

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

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(All amounts in thousands, except share and per share values)

	Transition Period Ended December 31,	Fiscal Years Ended May 31,	
	2016	2016	2015
Revenue	$ 109,422	$ 165,552	$ 128,829
Cost of revenue, excluding depreciation and amortization stated below	90,285	136,505	106,281
Gross Profit	19,137	29,047	22,548
Operating Expenses:			
Selling, general and administrative expenses, excluding depreciation and amortization stated below	17,993	30,781	25,736
Depreciation and amortization	1,773	2,864	2,711
Impairment of identifiable intangibles	—	—	703
Operating expenses - restructuring	—	—	867
Total Operating Expenses	19,766	33,645	30,017
Loss From Operations	(629)	(4,598)	(7,469)
Other (Expenses) Income:			
Interest expense	(1,382)	(2,699)	(1,646)
Amortization of beneficial conversion feature	(430)	(727)	(2,475)
Amortization of debt discount and deferred financing	(979)	(1,917)	(1,745)
Other (expense) income	(162)	566	142
Gain on conversion of earn-out liability - restructuring	—	—	486
Interest expense - restructuring	—	—	(2,542)
Gain on settlement of debt - restructuring	—	—	779
Modification expense	(2)	(72)	—
Modification expense - restructuring	(10)	(21)	(3,093)
Total Other Expenses	(2,965)	(4,870)	(10,094)
Loss Before Provision For Income Tax	(3,594)	(9,468)	(17,563)
(Provision for) benefit from income taxes	(16)	(17)	60
Net Loss From Continued Operations	(3,610)	(9,485)	(17,503)

Net Loss From Discontinued Operations	—	—	(47)
Net Loss	(3,610)	(9,485)	(17,550)
Net income attributable to non-controlling interest	—	28	471
Net Loss Before Preferred Share Dividends	(3,610)	(9,513)	(18,021)
Dividends - Series A preferred stock	116	200	50
Net loss attributable to common stock	$(3,726)	$(9,713)	$(18,071)
Basic and Diluted Net Loss per Share:			
Continuing Operations	$(0.45)	$(1.93)	$(4.57)
Discontinued Operations	$—	$—	$(0.01)
Attributable to Common Stock	$(0.46)	$(1.98)	$(4.72)
Weighted Average Shares Outstanding – Basic and Diluted	8,105,236	4,909,809	3,829,164

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

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(All amounts in thousands)

	Transition Period Ended December 31,	Fiscal Years Ended May 31,	
	2016	2016	2015
Net Loss	$ (3,610)	$(9,485)	$(17,550)
Other Comprehensive Income			
Foreign exchange translation	696	186	10
Comprehensive Loss Attributable to the Company	$ (2,914)	$(9,299)	$(17,540)

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

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(All amounts in thousands, except share and par values)

	Preferred Stock - Series A		Preferred Stock - Series B		Preferred Stock - Series C		Preferred Stock - Series D		Common Stock		Additional	Accumulated Other Comprehensive	Non-controlling	Accumulated	Total
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Shares	Par Value	Shares	Par Value	Paid In Capital	Income (Loss)	Interest	Deficit	Equity
Balance May 31, 2014	—	$ —	—	$ —	—	$ —	—	$ —	3,295,073	$ —	$ 26,410	$ (37)	$ 583	$ (16,337)	$ 10,619
Shares issued for conversion of officers bonuses	1,663,008	—	—	—	—	—	—	—	—	—	778	—	—	—	778
Common stock issued to consultants	—	—	—	—	—	—	—	—	23,250	—	215	—	—	—	215
Common stock issued pursuant to conversion of convertible notes payable	—	—	—	—	—	—	—	—	40,000	—	600	—	—	—	600
Common stock issued pursuant to conversion of accrued interest related to convertible notes payable	—	—	—	—	—	—	—	—	791	—	12	—	—	—	12
Shares issued in connection with convertible notes	—	—	—	—	—	—	—	—	8,450	—	123	—	—	—	123
Shares issued to board of directors as compensation	—	—	—	—	—	—	—	—	30,250	—	284	—	—	—	284
	—	—	—	—	—	—	—	—	1,651	—	28	—	—	—	28

Shares issued to private placement agent															
Shares issued in connection with convertible bonds - Series A	—	—	—	—	—	—	—	—	10,600	—	174	—	—	—	174
Shares issued in connection with settlement agreement	—	—	—	—	—	—	—	—	27,500	—	256	—	—	—	256
Common stock issued as interest on debt	—	—	—	—	—	—	—	—	43,375	—	309	—	—	—	309
Shares issued in connection with convertible bonds - Series B	—	—	—	—	—	—	—	—	9,815	—	124	—	—	—	124

	Preferred Stock - Series A Shares	Par Value	Preferred Stock - Series B Shares	Par Value	Preferred Stock - Series C Shares	Par Value	Preferred Stock - Series D Shares	Par Value	Common Stock Shares	Par Value	Additional Paid In Capital	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Accumulated Deficit	Total Equity
Shares issued in connection with extensions of convertible bonds - Series A	—	—	—	—	—	—	—	—	9,290	—	94	—	—	—	94
Shares issued in connection with extensions of convertible note	—	—	—	—	—	—	—	—	2,604	—	17	—	—	—	17
Shares issued as conversion of accounts payable	—	—	—	—	—	—	—	—	23,662	—	216	—	—	—	216
Shares issued as conversion of Initio Promissory Notes - Debt	—	—	—	—	—	—	—	—	305,603	—	2,290	—	—	—	2,290
Shares issued as conversion of Initio Promissory Notes - Interest	—	—	—	—	—	—	—	—	30,236	—	226	—	—	—	226
Modification expense	—	—	—	—	—	—	—	—	—	—	3,093	—	—	—	3,093
Shares issued in connection with convertible bonds - Series A	—	—	—	—	—	—	—	—	370,969	—	3,710	—	—	—	3,710
Shares issued for conversion of earnout liability	—	—	—	—	—	—	—	—	113,405	—	340	—	—	—	340
Shares issued as a bonus	—	—	—	—	—	—	—	—	22,400	—	188	—	—	—	188
Beneficial conversion feature	—	—	—	—	—	—	—	—	—	—	846	—	—	—	846
Warrants issued	—	—	—	—	—	—	—	—	—	—	2,213	—	—	—	2,213
Options issued	—	—	—	—	—	—	—	—	—	—	338	—	—	—	338
	—	—	—	—	—	—	—	—	—	—	—	—	—	(50)	(50)

Dividends - Preferred Stock - Series A															
Foreign currency translation gain	—	—	—	—	—	—	—	—	—	—	—	10	—	—	10
Non-controlling interest	—	—	—	—	—	—	—	—	—	—	—	—	470	—	470
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(18,021)	(18,021)
Balance May 31, 2015	1,663,008	—	—	—	—	—	—	—	4,368,924	—	42,884	(27)	1,053	(34,408)	9,502

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(All amounts in thousands, except share and par values)

	Preferred Stock - Series A		Preferred Stock - Series B		Preferred Stock - Series C		Preferred Stock - Series D		Common Stock		Additional	Accumulated Other	Non-		
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Shares	Par Value	Shares	Par Value	Paid In Capital	Comprehensive Income (Loss)	controlling Interest	Accumulated Deficit	Total Equity
Balance May 31, 2015	1,663,008	$—	—	$—	—	$—	—	$—	4,368,924	$—	$42,884	$(27)	$1,053	$(34,408)	$9,502
Common stock issued to consultants	—	—	—	—	—	—	—	—	81,746	—	349	—	—	—	349
Common stock issued pursuant to issuance of convertible notes payable	—	—	—	—	—	—	—	—	125,000	—	507	—	—	—	507
Shares issued to board of directors as compensation	—	—	—	—	—	—	—	—	107,000	—	531	—	—	—	531
Shares issued to employees	—	—	—	—	—	—	—	—	260,310	—	879	—	—	—	879
Modification expense	—	—	—	—	—	—	—	—	—	—	93	—	—	—	93
Shares issued pursuant to acquisition of subsidiary	—	—	—	—	—	—	—	—	102,460	—	700	—	—	—	700
Beneficial conversion feature	—	—	—	—	—	—	—	—	—	—	1,105	—	—	—	1,105
Fair value of warrants issued	—	—	—	—	—	—	—	—	—	—	413	—	—	—	413
	—	—	—	—	—	—	—	—	—	—	358	—	—	—	358

Fair value of options issued															
Shares issued in connection with extensions of convertible bonds - Series A	—	—	—	—	—	—	—	—	4,375	—	24	—	—	—	24
Shares issued in connection with extensions of convertible bonds - Series B	—	—	—	—	—	—	—	—	2,750	—	12	—	—	—	12
Shares issued to private placement agent in relation to extension of Series B bond offerings	—	—	—	—	—	—	—	—	29,731	—	114	—	—	—	114
Shares issued in connection with conversion of accrued bonuses	—	—	—	—	—	—	—	—	17,709	—	42	—	—	—	42
Preferred shares issued in connection with convertible notes	—	—	133,000	—	—	—	—	—	—	—	315	—	—	—	315

	Preferred Stock - Series A		Preferred Stock - Series B		Preferred Stock - Series C		Preferred Stock - Series D		Common Stock		Additional	Accumulated Other Comprehensive	Non-		
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Shares	Par Value	Shares	Par Value	Paid In Capital	Income (Loss)	controlling Interest	Accumulated Deficit	Total Equity
Shares issued in connection with promissory notes	—	—	—	—	—	—	—	—	25,000	—	65	—	—	—	65
Common shares issued for private placement	—	—	—	—	—	—	—	—	888,705	—	2,090	—	—	—	2,090
Preferred shares issued for private placement	—	—	—	—	175,439	—	—	—	—	—	460	—	—	—	460
Dividends - Preferred Stock - Series A	—	—	—	—	—	—	—	—	—	—	—	—	—	(200)	(200)
Tender offer	—	—	—	—	—	—	—	—	164,477	—	(18)	—	—	—	(18)
Warrant exchange	—	—	—	—	—	—	—	—	128,557	—	(430)	—	—	—	(430)
Foreign currency translation gain	—	—	—	—	—	—	—	—	—	—	—	186	—	—	186
Non-controlling interest	—	—	—	—	—	—	—	—	—	—	—	—	28	—	28
Purchase of non-controlling interest	—	—	—	—	—	—	—	—	—	—	981	—	(1,081)	—	(100)
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(9,513)	(9,513)
Balance May 31, 2016	1,663,008	—	133,000	—	175,439	—	—	—	6,306,744	—	51,474	159	—	(44,121)	7,512

	Preferred Stock - Series A		Preferred Stock - Series B		Preferred Stock - Series C		Preferred Stock - Series D		Common Stock		Additional Paid In	Accumulated Other Comprehensive Income	Non-controlling	Accumulated	Total
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Shares	Par Value	Shares	Par Value	Capital	(Loss)	Interest	Deficit	Equity
Balance May 31, 2016	1,663,008	$—	133,000	$—	175,439	$—	—	$—	6,306,744	$—	$51,474	$159	$-	$(44,121)	$7,512
Common stock issued to consultants	—	—	—	—	—	—	—	—	38,297	—	66	—	—	—	66
Shares issued to board of directors as compensation	—	—	—	—	—	—	—	—	12,750	—	20	—	—	—	20
Shares issued to employees	—	—	—	—	—	—	—	—	9,800	—	43	—	—	—	43
Modification expense	—	—	—	—	—	—	—	—	—	—	12	—	—	—	12
Shares issued pursuant to acquisition of subsidiary	—	—	—	—	—	—	—	—	20,000	—	20	—	—	—	20
Fair value of options issued	—	—	—	—	—	—	—	—	—	—	210	—	—	—	210
Shares issued in connection with convertible notes	—	—	(133,000)	—	—	—	—	—	133,000	—	—	—	—	—	—
Shares issued in connection with extension of convertible notes	—	—	—	—	—	—	—	—	890,910	—	1,149	—	—	—	1,149
Shares issued in connection with extension of convertible bonds - Series B	—	—	—	—	—	—	—	—	1,250	—	2	—	—	—	2
Common shares issued for private placement	—	—	—	—	—	—	—	—	210,645	—	426	—	—	—	426
	—	—	—	—	(175,439)	—		—	175,439	—	—	—	—	—	—

Shares issued in connection with conversion of private placement															
Dividends - Preferred Stock - Series A	—	—	—	—	—	—	—	—	—	—	—	—	—	(116)	(116)
Preferred shares issued - Series D	—	—	—	—	—	—	93	—	1,340,960	—	1,183	—	—	—	1,183
Shares issued in connection with LTIP	—	—	—	—	—	—	—	—	—	—	53	—	—	—	53
Foreign currency translation gain	—	—	—	—	—	—	—	—	—	—	—	696	—	—	696
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(3,610)	(3,610)
Balance December 31, 2016	1,663,008	$—	—	$—	—	$—	93								