Staffing 360 Solutions, Inc.
Form 10-K
August 29, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended May 31, 2016

or

¨ TRANSACTION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

COMMISSION FILE NUMBER: 000-54515

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, Suite 1526

New York, New York 10022

(Address of principal executive offices)

(212) 634-6411

(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 o No x

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 o No x

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Date 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 x No o

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 or any amendment to this Form 10-K. o

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 x

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

As of November 30, 2015, 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 $20,640,644 based on the closing price (last sale of the day) for the registrant's common stock on the Nasdaq exchange on November 30, 2015 of $4.97 per share.

As of August 29, 2016, 7,516,295 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 (“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 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, I 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 year ended May 31, 2016.

PART I

ITEM 1. BUSINESS

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 (“Golden Fork”), 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, unless otherwise indicated.

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 and light industrial 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 has been successful in growing and expanding through multiple acquisitions and organic revenue growth. 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 the Company 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.

Industry Background

The staffing industry is divided into three major segments: temporary help services, professional employer organizations (“PEOs”) and placement agencies. Temporary help 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 employees of the temporary help 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, customers’ 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 consulting services such as risk audits, due diligence for mergers and acquisition targets, and internal audit assessments.

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.

Job growth drives demand for the personnel staffing industry. The profitability of individual companies depends on good marketing and availability of qualified employees. Large companies enjoy economies of scale in marketing and back-office operations. Small companies can compete successfully by specializing in an industry or a job function.

To a great extent, clients follow the seasonal retail cycles but precede them by two to three months. There are two distinct “peak” seasons: August to October, preceding the Holiday season; April to June, preceding the summer season. Both provide extended spikes to the baseline revenue average of companies in the staffing sector.

Major end-use customers include businesses from a wide range of industries. 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 retainer or a contingency basis. Clients may retain an agency for a specific job search or on contract for a specific period. Temporary help 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. Temp 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 customers.

The revenue of personnel agencies depends on the number of jobs they fill, which in turn depends on economic growth. 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. 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 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 large financial incentive to avoid agencies.

Many personnel agencies 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 an agency. Individual staff members, rather than the agency itself, usually develop strong relationships with customers. Staff members who move to another agency 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. At issue is the relationship between the agency and the temporary employees, or employee candidates. Many federal anti-discrimination rules regulate the type of information that employment firms can request from candidates or provide to customers about candidates. 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 personnel agency 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.

Temporary workers are becoming such a large factor at some companies that personnel agency staff sometimes work at the customer's site to recruit, train, and manage. The Company has a number of on-sight relationships with its customers. Agencies 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 due to fraud scandals. In addition to stiffer background checks, headhunters check the credit of prospective employees.

We believe the trends of outsourcing entire departments and dependence on temporary and leased workers will expand opportunities for personnel agencies. Taking advantage of their expertise in assessing worker capabilities, some agencies manage 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 companies are the strongest competitors. The most significant competitive factors in the staffing business are price and reliability of service. The Company believes its competitive advantage is 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 rung 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 180 employees as part of our internal operations. Additionally, the Company employs more than 4,000 individuals that are placed directly with our clients through our various operating subsidiaries.

ITEM 1A. RISK FACTORS.

Not required for smaller reporting companies.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The Company currently leases 21 facilities, all of which are used for office space:

State	Location	Lease Term
New York	641 Lexington Avenue, Suite 1526 NY, NY 10022	Month to month
Massachusetts	34 Rogers Rd, Haverhill, MA 01835-6946	48 months
Massachusetts	187 Plymouth Avenue, Fall River, MA 02722	24 months
Massachusetts	1985 Main Street Springfield, MA 01103	24 months
Massachusetts	29 Mountain East Street Worcester, MA 01606	24 months
Massachusetts	643 Veterans of Foreign Wars Pkwy, Chestnut Hill, MA 02467	12 months
Massachusetts	500 West Cummings Park, Suite 2550, Woburn, MA 01801	60 months
Massachusetts	40 Central Street, Unit #1, Lowell, MA 01852	24 months
Massachusetts	344 Boston Post Road East, 2nd Floor, Marlborough, MA 01752	24 months
Connecticut	35 Nutmeg Drive, Trumbull, CT 06611	60 months
Connecticut	1800 Barnum Avenue, Stratford CT 06614	45 months
Connecticut	20 North Plains Industrial Road, Wallingford, CT 06492	24 months
Connecticut	887 Main Street, Manchester, CT 06040	36 months
Connecticut	767 Wolcott Street, Waterbury, CT 06703	60 months
Connecticut	973 Orange Avenue, West Haven, CT 06516	60 months
Rhode Island	400 Reservoir Avenue, #2J, Providence, RI 02907	36 months
New Hampshire	814 Elm Street, Manchester, New Hampshire 03101	24 months
North Carolina	718 Jake Alexander Blvd West, Salisbury, NC 28147	Month to month
North Carolina	2520 Somerset Drive, Unit #2520, Winston-Salem, NC 27103	24 months
North Carolina	3805 Concord Parkway South, Suite 132, Concord, NC 28027	24 months
United Kingdom	3a London Wall Buildings, London Wall, London, EC2M 5SY United Kingdom	60 months

These leases expire at various times from 2016 through 2020.

ITEM 3. LEGAL PROCEEDINGS.

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

On May 22, 2014, 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 CSI Stock Purchase Agreement dated August 14, 2013. NewCSI claims that the Company breached a provision of the CSI 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. The Complaint sought payment of the amount allegedly owed under SPA § 2.7 and acceleration of earn-out payments provided for in the CSI 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 to date ($1,671 at December 31, 2014), should Staffing 360 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 Staffing 360 had not complied with SPA § 2.7 and owed $154, but that NewCSI had not proven that Staffing 360 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, Staffing 360 filed a Motion for Entry of Judgment as a Matter of Law seeking entry of judgment against NewCSI on the jury's finding that Staffing 360 had not complied with SPA § 2.7, or, in the alternative, for a reduction of damages to $54 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 August 3, 2016, the Company was notified that oral argument for the appeal is tentatively scheduled for the week of October 31, 2016.

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, which is now pending before the Fifth Circuit, 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, Staffing 360 initiated an arbitration before JAMS against three officers of Staffing 360, each a former Staffing 360 officer and employee. In its demand for arbitration and statement of claim, Staffing 360 alleged that these individuals breached their employment agreements with Staffing 360 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, which is estimated to be at least $1,313 in the aggregate. On July 20, 2016, the arbitrator decided in favor of both of the respondents' motions. This amount has already been fully accrued for and expensed on the Company's financial statements. Due to the subsequent notice of this ruling, the accrual for this loss represents the primary difference to the preliminary results reported by the Company in its pre-announcement of earnings on June 23, 2016. The Company is awaiting the respondents' motion to confirm the award. The final amount, which will be fixed by the arbitrator following additional submissions, may exceed $1,313.

Other Claims

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 Staffing 360'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 are shown below. Please note that historical share prices before September 17, 2015, have been adjusted to account for the 1-10 reverse stock split on September 17, 2015.

	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

As of August 26, 2016, the Company's common stock was trading at $1.57.

Holders of Common Stock

As of August 26, 2016, there were 1,758 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 of directors 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.

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.

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with our financial statements and related notes appearing elsewhere in this Annual Report. This section includes a number of forward-looking statements that reflect our current views with respect to future events and financial performance. Forward-looking statements are often identified by words like believe, expect, estimate, anticipate, intend, plan, goal, target and similar expressions, or words which, by their nature, refer to future events. You should not place undue certainty on these forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our predictions.

Overview

Staffing 360 Solutions, Inc. ("we," "us," "our," "Staffing 360," or the "Company"), trading symbol "STAF", is incorporated in 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, United States ("U.S.") and United Kingdom ("U.K.") based staffing companies. Our targeted consolidation model is focused specifically on the accounting and finance, information technology ("IT"), engineering, administration and light industrial disciplines.

Business Model, Operating History and Acquisitions

We began generating revenue in October 2012. To date, the Company has completed seven acquisitions and divested of one business, Cyber 360. Our business plan is to expand and grow through multiple acquisitions while continuing to supplement this with organic growth. The Company, excluding discontinued operations, generated revenue of $0.2 million, $41.2 million, $128.8 million and $165.6 million for the fiscal years ended May 2013, 2014, 2015 and 2016, respectively. This growth has been achieved primarily through acquisitions, while existing operations continue to grow organically.

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 accounting and finance, IT, engineering, administration and light industrial 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.

Control Solutions International, Inc.

On November 4, 2013, the Company completed the acquisition of Control Solutions International, Inc. ("CSI") and its wholly owned subsidiary Canada Control Solutions International, Inc. ("CCSI"). The aggregate consideration was $3,530, which was paid as follows: (i) cash of $1,311; (ii) issuance of 13,600 restricted common stock shares valued at $8.75 per share totaling $119; and (iii) a performance based earn-out equal to 20% of the amount of the consolidated gross profit of CSI and CCSI to be paid over the next four years from the date of the acquisition, not to exceed a total of $2,100.

CSI is a professional services company specializing in a broad spectrum of risk management, financial, internal audit and IT solutions.

Initio International Holdings Limited

On January 3, 2014, the Company completed the acquisition of Initio International Holdings Limited ("Initio") (the "Initio Acquisition"). The aggregate consideration was $13,290, paid as follows: (i) cash of $6,440; (ii) issuance of

329,671 restricted common stock shares valued $8.75 per share totaling $2,885; and (iii) three year promissory notes in the aggregate principal amount of $3,965 bearing interest at 6% per annum.

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 light industrial, accounting and finance, IT, engineering and administration. Monroe has 15 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 information technology solutions sectors.

Poolia UK Ltd.

On February 28, 2014, the Company acquired certain business assets of Poolia UK Ltd. (“Poolia”) (the “Poolia Acquisition”) for aggregate consideration paid of $1,626, paid as follows: (i) cash at closing of approximately £750 ($1,238); and (ii) cash subsequent to closing of approximately $389.

Poolia UK 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.

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”). The aggregate purchase price was $8,387, paid as follows: (i) cash of $2,706; (ii) 112,737 restricted common stock shares valued at $19.30 totaling $2,176; (iii) an unsecured promissory note of $2,367; and (iv) Net Working Capital (defined) of $1,138. 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 principally in the State of Massachusetts.

Lighthouse Placement Services

On July 8, 2015, the Company acquired Lighthouse Placement Services, LLC, which later converted from an LLC to a corporation called Lighthouse Placement Services, Inc. (“Lighthouse”) for an aggregate purchase price of $6,246, paid as follows: (i) cash of $2,498; (ii) 62,460 restricted common stock shares valued at $10.00 totaling $625; (iii) three year unsecured promissory note of $2,498; and (iv) two-year unsecured promissory note of $625.

Lighthouse specializes in placing professionals in the engineering, pharmaceutical, biotechnology and IT sectors.

The JM Group

On November 5, 2015, the Company acquired The JM Group Limited (“The JM Group”). The aggregate purchase price was $3,517, paid as follows: (i) cash of £750 (approximately $1,155); (ii) 40,000 restricted common stock shares valued at $4.70 totaling $188; (iii) six month unsecured promissory note of £500 (approximately $770); (iv) performance based compensation in an amount in cash equal to £850 (approximately $1,310); and (v) an aggregate of 20,000 shares of common stock valued at $4.70 totaling $94, if the Anniversary Gross Profit (defined) of The JM Group is 100% or more than the Completion Gross Profit (defined). If the Anniversary Gross Profit is greater than or equal to 75% of the Completion Gross Profit, but less than 100% of The JM Group’s Completion Gross Profit, an amount of shares equal to the product of (i) the Anniversary Gross Profit divided by the Completion Gross Profit and (ii) 20,000. If the Anniversary Gross Profit is less than 75% of the Completion Gross Profit, no shares are due.

The JM Group provides IT workforce solutions to a diverse set of clients across the financial services, professional services and corporate sectors in the United Kingdom.

The Company has been successful in growing and expanding through multiple acquisitions and organic revenue growth as published. 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 the Company 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.

Restructuring Plan and Implementation:

During the first and second quarters of fiscal 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 Restructuring Plan, referred to as “Pathway to Profitability”. The Restructuring Plan was presented and adopted by the board of directors on September 3, 2014.

Management planned to pursue each of the initiatives of the Restructuring Plan, some of which were contingent upon third parties' acceptance of the restructuring terms and was not fully achieved. As of May 31, 2016, this Restructuring Plan is complete.

Cost Reduction or Restructuring Goals and Key Initiatives:

Certain targeted initiatives have been and are being achieved through the following actions:

- Short- and Medium-term debt service: The approved Restructuring Plan authorized management to approach existing debt holders with various proposals:
  - 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.
  - Modification of Series A Bonds: The Restructuring Plan 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.
  - 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. No bondholders elected to convert as of May 31, 2016.
- 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.
  - Consulting Agreements: The Company cancelled various on-going consulting agreements, improving the Company's operating cash flow by approximately $486 per year.
  - 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

The Company continues to aggressively pursue and acquire staffing companies. To date the Company has six staffing companies in its portfolio.

In fiscal 2016, the Company generated $165.6 million of revenue, of which $44.4 million was generated in the fiscal fourth quarter. 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 is vigilant in managing its operations and keeping to its "Pathway to Profitability" program, which is monitored on an ongoing basis. This Pathway to Profitability includes overhead control, operational reviews, cash management, adequate capitalization, and our merger & acquisition program. We have invested in our future by building a strong corporate executive team, which allows for stronger financial reporting, compliance and commercial management. This investment has contributed to our losses in the short-term, but we expect this will allow us to grow more quickly and will not require material additions to our management team as we grow, both organically and through acquisition.

The following table sets forth the results of our operations for the years ended May 31, 2016 and 2015 indicated as a percentage of revenue:

	Years Ended May 31,			
	2016		2015	
Service revenue	$165,552	100%	$128,829	100%
Direct cost of services	136,505	82%	106,281	82%
Gross profit	29,047	18%	22,548	18%
Operating expenses	33,645	20%	30,017	23%
Loss from operations	(4,598)	(3)%	(7,469)	(6)%
Other expenses	(4,870)	(3)%	(10,094)	(8)%
Income tax benefit / (expense)	(17)	(0)%	60	0%
Net Income / (Loss) Income from Discontinued Operations	—	0%	(47)	(0)%
Net loss	$(9,485)	(6)%	$(17,550)	(14)%

Service revenue

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

Direct cost of services

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 years ended May 31, 2016 and 2015, cost of revenue was $136,505 and $106,281, respectively, or growth of 28.4%, which is in line with the change in revenue.

Gross profit and gross margin

Our gross profit for the 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 course of 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 year ended May 31, 2016, operating expenses amounted to $33,645 as compared to $30,017 for the 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 year ended May 31, 2015 to 20.3% for the year ended May 31, 2016.

While cash operating expenses grew on an absolute basis from $23,958 to $28,601 for the 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. As we continue to grow revenue, and further leverage our existing support functions, we expect operating expenses as a percentage of revenue to continue to trend lower.

For the years ended May 31, 2016 and 2015, operating expenses were comprised of the following:

	Years Ended May 31,	
	2016	2015
General and administrative	$5,646	$5,122
Compensation	19,336	16,580
Director and consulting fees – Related parties	531	445
Impairment of intangible assets	—	703
Depreciation and amortization	2,864	2,711
Professional fees	5,268	3,589
Operating Expenses – Restructuring	—	867
Total operating expenses	$33,645	$30,017

In almost all instances, the increase in our operating expenses for the year ended May 31, 2016 as compared to the year ended May 31, 2015 was primarily attributable to the acquisition of Lighthouse and The JM Group, partially offset by the Company's Pathway to Profitability initiative. In addition, the growth in professional fees resulted from due diligence (legal and accounting) of potential acquisition targets, as well as legal and other professional expenses associated with the Company's case with NewCSI (see Item 3) and various financing transactions.

Lastly, for the year ended May 31, 2016, the Company recorded no impairment to its intangible assets, compared to $703 for the year ended May, 31, 2015. During the year ended May 31, 2015, the Company impaired the remaining balance of its intangible assets related to the acquisition of CSI totaling $703.

Other Expenses

For the 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 fiscal 2016 were residual charges as a result of the Company's implementation of its Restructuring Plan during fiscal 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 may also use non-GAAP financial measures and Key Performance Indicators ("KPIs") in addition to our GAAP results. We believe non-GAAP financial measures 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 years ended May 31, 2016 and 2015, respectively:

	Years Ended May 31,			
	2016		2015	
		Mix		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	%

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 to its most directly comparable GAAP measure:

	Years Ended May 31,	
	2016	2015
Net loss attributable to common stock	$(9,713)	$(18,071)
Interest expense	2,699	1,646
Provision for (benefit from) 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	3,665	2,209
Other non-cash charges	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	(566)	(142)
Net income attributable to non-controlling interest	28	471
Adjusted EBITDA	$4,111	$752

(1) Includes amortization included in other income/(expenses).

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.

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.

Adjusted EBITDA for the year ended May 31, 2016 of $4,111, grew over 400% from $752 for the 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.

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

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 %

Leverage Ratio Calculated as Total Long Term Debt, gross of any Original Issue Discount, less cash and cash equivalents, 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:

	Years Ended May 31,	
	2016	2015
Total Long Term Debt	$11,863	$6,754
Addback: Total Original Issue Discount	1,414	172
Less: Cash and Cash Equivalents	(1,969)	(19)
Net Debt	$11,308	$6,907
Adjusted EBITDA	$4,111	$752
Leverage Ratio	2.8x	9.2x

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. In the year ended May 31, 2016, the Company generated positive operating cash flow totaling $2,094.

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 financings, we believe that we will be able to implement our business plan and pursue the acquisition of a broad spectrum of staffing agencies primarily in the accounting and finance, IT, engineering, administration and light industrial disciplines. 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. As of May 31, 2016, dilutive common share equivalents totaling 2,695,856 consist of shares issuable upon the conversion of existing convertible notes, convertible Preferred Stock and the exercise of stock options and warrants.

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 to significantly increase our legal and financial compliance costs and to make some activities more time consuming and costly.

As of May 31, 2016, the Company had a working capital deficiency of $16,559, an accumulated deficit of $44,121, for the year ended May 31, 2016 a net loss of $9,485, and, as of the date these financial statements are issued, the Company has approximately $9.3 million associated with long term debt and other amortizing obligations, due in the next 12 months. In addition, subsequent to year end, the Company received an unfavorable ruling in the matter of Staffing 360 Solutions, Inc. v. Former Officers of Staffing 360 Solutions, Inc., resulting in the Company having to accrue $1,313 as of May 31, 2016. The timing of payment of this loss is awaiting determination by the arbitrator in the matter but is expected to be due within in a few months. The Company’s projected cash flows from operations for the same period are not sufficient to address these obligations in the normal course. As a result, the Company will need to seek additional funding through capital raises to meet some of these short term obligations.

Management's plan to continue as a going concern includes raising capital through in the form of debt or equity, increased gross profit from organic revenue growth and managing and reducing operating and overhead costs. As of the date of these financial statements are being issued, the Company has received a memorandum of understanding and is in discussions with one investor for capital that would be at least sufficient to meet all of the obligations discussed above. In addition, the Company has the ability to raise additional capital through private investments.

However, management cannot provide any assurances that the Company will be successful in accomplishing any of its plans. The ability of the Company to continue as a going concern is dependent upon the management's ability to successfully secure additional sources of financing and increased profitable operations. 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.

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 year ended May 31, 2016, net cash provided by operations of $2,094 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 of $3,129 in 2015 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 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 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 fiscal year ended May 31, 2016 contained herein.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued authoritative guidance 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 Accounting Standards Update ("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, 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 November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes". Currently deferred taxes for each tax jurisdiction are presented as a net current asset or liability and net noncurrent asset or liability on the balance sheet. To simplify the presentation, the new guidance requires that deferred tax liabilities and assets for all jurisdictions along with any related valuation allowances be classified as noncurrent in a classified statement of financial position. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016, and early adoption is permitted. 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 Company is currently evaluating the impact of adopting this guidance.

In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606)". The amendments in this ASU defer the effective date of ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)". Public business entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is still evaluating the impact of adopting this guidance.

In April 2015, the FASB issued ASU 2015-03, "Imputation of Interest – Simplifying the Presentation of Debt Issuance Costs." This guidance requires that the debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the debt liability, consistent with the presentation of a debt discount. This amendment is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The Company is currently evaluating the impact on its consolidated financial statements of adopting this new guidance but at this time does not expect it to have a material impact on the Company's consolidated financial statements.

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 May 31, 2016 and 2015, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the two-year 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 May 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the years in the two (2) year period ended May 31, 2016, in conformity with U.S. generally accepted accounting principles.

/s/ RBSM LLP

New York, NY

August 29, 2016

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

	May 31, 2016	2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,969	$ 19
Accounts receivable, net	20,378	18,760
Deferred financing, net - current	644	343
Prepaid expenses and other current assets	1,012	1,023
Total Current Assets	24,003	20,145
Property and equipment, net	880	506
Deferred financing, net - non-current	693	808
Goodwill	14,833	8,400
Intangible assets, net	10,741	10,569
Other assets	3,946	1,904
Total Assets	$ 55,096	$ 42,332
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 17,595	$ 11,282
Current portion of debt	6,741	2,934
Accounts receivable financing	14,729	13,016
Other current liabilities	1,497	317
Total Current Liabilities	40,562	27,549
Long-term debt	5,122	3,820
Other long-term liabilities	1,900	1,461
Total Liabilities	47,584	32,830
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 and 1,663,008 shares issued and outstanding as of May 31, 2016 and 2015, respectively	—	—
Series B Preferred Stock, 200,000 designated, $10.00 stated value, 133,000	—	—

and 0 shares issued and outstanding as of May 31, 2016 and 2015, respectively		
Series C Preferred Stock, 500,000 designated, $1.00 stated value, 175,439 and 0 shares issued and outstanding as of May 31, 2016 and 2015, respectively	—	—
Common stock, $0.00001 par value, 20,000,000 shares authorized; 6,306,744 and 4,368,924 shares issued and outstanding as of May 31, 2016 and 2015, respectively	—	—
Additional paid in capital	51,474	42,884
Accumulated other comprehensive income (loss)	159	(27)
Accumulated deficit	(44,121)	(34,408)
Total Staffing 360 Solutions, Inc. Equity	7,512	8,449
Non-controlling interest	—	1,053
Total Equity	7,512	9,502
Total Liabilities and Equity	$55,096	$42,332

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

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STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	For the Years Ended May 31	
	2016	2015
Revenue	$165,552	$128,829
Cost of revenue, excluding depreciation and amortization stated below	136,505	106,281
Gross Profit	29,047	22,548
Operating Expenses:		
Selling, general and administrative expenses, excluding depreciation and amortization stated below	30,781	25,736
Depreciation and amortization	2,864	2,711
Impairment of intangibles	—	703
Operating expenses - restructuring	—	867
Total Operating Expenses	33,645	30,017
Loss From Operations	(4,598)	(7,469)
Other Income / (Expenses):		
Interest expense	(2,699)	(1,646)
Amortization of deferred financing	(826)	(647)
Amortization of beneficial conversion feature	(727)	(2,475)
Amortization of debt discount	(1,091)	(1,098)
Other income	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	(72)	—
Modification expense - restructuring	(21)	(3,093)
Total Other Expenses	(4,870)	(10,094)
Loss Before Provision For Income Tax	(9,468)	(17,563)
(Provision for) benefit from income taxes	(17)	60
Net Loss From Continued Operations	(9,485)	(17,503)
Net Loss From Discontinued Operations	—	(47)
Net Loss	(9,485)	(17,550)

Net income attributable to non-controlling interest	28	471
Net Loss Before Preferred Share Dividends	(9,513)	(18,021)
Dividends - Series A preferred stock	200	50
Net loss attributable to common stock	$(9,713)	$(18,071)
Basic and Diluted Net Loss per Share:		