UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2024

or

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

For the transition period from to .

Commission File Number: 001-36704

BGSF, INC .

(exact name of registrant as specified in its charter)

Delaware	**26-0656684**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

5850 Granite Parkway, Suite 730
Plano , Texas 75024
(972) 692-2400
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No þ
Securities registered pursuant to Section 12(b) of the Act:

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

As of as of August 5, 2024 there were 10,956,137 shares of the registrant's common stock outstanding.

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Forward-Looking Statements

This Quarterly Report on Form-10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements relate to our expectations for future events and time periods. All statements other than statements of historical fact are statements that could be deemed to be forward-looking statements, including, but not limited to, statements regarding:

- future financial performance and growth targets or expectations;
- market and industry trends and developments; and
- the benefits of our completed and future merger, acquisition and disposition transactions.

You can identify these and other forward-looking statements by the use of words such as “aim,” “potential,” “may,” “could,” “can,” “would,” “might,” “likely,” “will,” “expect,” “intend,” “plan,” “predict,” “ongoing,” “project,” “budget,” “scheduled,” “estimate,” “anticipate,” “believe,” “forecast,” “committed,” “future” or “continue” or the negative thereof or similar variations.

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

- the availability of field talents’ workers' compensation insurance coverage at commercially reasonable terms;
- insurance coverage may not be adequate for our needs (including but not limited to general liability, crime, fiduciary, property, umbrella and excess, and cybersecurity);
- the availability of qualified field talent;
- compliance with federal, state, local labor and foreign labor and employment laws and regulations and changes in such laws and regulations;
- the ability to compete with new competitors and competitors with superior marketing and financial resources;
- management team changes;
- the favorable resolution of current or future litigation;
- the impact of outstanding indebtedness on the ability to fund operations or obtain additional financing;
- our ability to repay, refinance, extend or restructure existing indebtedness at or prior to its maturity date on favorable or comparable terms, or at all;
- the ability to leverage the benefits of recent acquisitions and successfully integrate newly acquired operations;
- the impact of, and the ability to mitigate or manage disruptions posed by pandemics;
- adverse changes in the economic conditions of the industries or markets that we serve;
- disturbances in world financial, credit, and stock markets;
- unanticipated changes in regulations affecting our business;
- a decline in consumer confidence and discretionary spending;
- inflationary pressures and our responses thereto;
- the general performance of the U.S. and global economies;
- continued or escalated conflict in the Middle East or elsewhere;
- the impact of our ongoing strategic alternatives review process; and
- other risks referenced from time to time in our past and future filings with the Securities and Exchange Commission (“SEC”), including in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

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

Where You Can Find Other Information

Our website is https://bgsf.com. Information contained on our website is not part of this Quarterly Report on Form 10-Q. Information that we file with or furnish to the SEC, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to or exhibits included in these reports are available for download, free of charge, on our website soon after such reports are filed with or furnished to the SEC. These reports and other information, including exhibits filed or furnished therewith, are also available at the SEC’s website at www.sec.gov.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

BGSF, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	June 30, 2024	December 31, 2023
ASSETS		
Current assets		
Cash and cash equivalents	$ 226	$ —
Accounts receivable (net of allowance for credit losses of $674 and $ 554 , respectively)	46,430	56,776
Prepaid expenses	2,870	2,963
Other current assets	3,416	7,172
Total current assets	52,942	66,911
Property and equipment, net	1,284	1,217
Other assets		
Deposits	2,093	2,699
Software as a service, net	4,750	5,026
Deferred income taxes, net	7,398	7,271
Right-of-use asset - operating leases, net	4,481	5,435
Intangible assets, net	27,655	30,370
Goodwill	59,151	59,588
Total other assets	105,528	110,389
Total assets	$ 159,754	$ 178,517
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 254	$ 95
Accrued payroll and expenses	14,004	14,902
Line of credit (net of debt issuance costs of $128)	—	24,746
Long-term debt, current portion (net of debt issuance costs of $29 and $0, respectively)	3,371	34,000
Accrued interest	220	438
Income taxes payable	165	282
Contingent consideration, current portion	—	4,208
Convertible note	4,368	4,368
Other current liabilities	2,116	—
Lease liabilities, current portion	1,719	2,016
Total current liabilities	26,217	85,055
Line of credit (net of debt issuance costs of $318)	13,748	—
Long-term debt, less current portion (net of debt issuance costs of $236)	29,514	—
Contingent consideration, less current portion	3,981	4,112
Lease liabilities, less current portion	3,133	3,814
Total liabilities	76,593	92,981
Commitments and contingencies		
Preferred stock, $ 0.01 par value per share, 500,000 shares authorized, - 0 - shares issued and outstanding	—	
Common stock, $ 0.01 par value per share; 19,500,000 shares authorized 10,956,137 and 10,887,509 shares issued and outstanding, respectively, net of 3,930 shares of treasury stock, at cost, respectively.	53	
Additional paid in capital	69,367	68
Retained earnings	13,741	16
Total stockholders' equity	83,161	85
Total liabilities and stockholders' equity	$ 159,754	$ 178

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

BGSF, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share and dividend amounts)

For the Thirteen and Twenty-six Week Periods Ended June 30, 2024 and July 2, 2023

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	2024	2023	2024	2023
Revenues	$ 68,137	$ 80,800	$ 136,903	$ 156,116
Cost of services	44,507	51,226	89,835	99,758
Gross profit	23,630	29,574	47,068	56,358
Selling, general and administrative expenses	21,568	22,584	42,583	45,796
Impairment losses	—	—	—	22,545
Depreciation and amortization	1,981	1,940	3,988	3,696
Operating income (loss)	81	5,050	497	(15,679)
Interest expense, net	(1,061)	(1,502)	(2,297)	(2,703)
(Loss) income before income taxes	(980)	3,548	(1,800)	(18,382)
Income tax (benefit) expense	219	(944)	247	4,520
Net (loss) income	$ (761)	$ 2,604	$ (1,553)	$ (13,862)
Net (loss) income per share:				
Basic	$ (0.07)	$ 0.24	$ (0.14)	$ (1.29)
Diluted	$ (0.07)	$ 0.24	$ (0.14)	$ (1.29)
Weighted-average shares outstanding:				
Basic	10,880	10,759	10,858	10,731
Diluted	10,880	10,770	10,858	10,731
Cash dividends declared per common share	$ —	$ 0.15	$ 0.15	$ 0.30

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

BGSF, Inc. and Subsidiaries
UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands)

For the Twenty-six Week Period Ended June 30, 2024

	Preferred Stock	Common Stock Shares	Common Stock Par Value	Treasury Stock Amount	Additional Paid in Capital	Retained Earnings	Total
Stockholders' equity, December 31, 2023	—	10,888	$ 109	$ (57)	$ 68,551	$ 16,933	$ 85,536
Share-based compensation	—	—	—	—	235	—	235
Issuance of restricted shares	—	11	—	—	(1)	—	(1)
Exercise of common stock options	—	16	—	—	102	—	102
Issuance of ESPP shares	—	14	—	—	112	—	112
Cash dividend declared	—	—	—	—	—	(1,639)	(1,639)
Net loss	—	—	—	—	—	(792)	(792)
Stockholders' equity, March 31, 2024	—	10,929	$ 109	$ (57)	$ 68,999	$ 14,502	$ 83,553
Share-based compensation	—	—	—	—	236	—	236
Issuance of restricted shares	—	12	—	—	—	—	—
Issuance of ESPP shares	—	15	1	—	132	—	133
Net loss	—	—	—	—	—	(761)	(761)
Stockholders' equity, June 30, 2024	—	10,956	$ 110	$ (57)	$ 69,367	$ 13,741	$ 83,161

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

BGSF, Inc. and Subsidiaries
UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands)

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

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

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

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

For the Twenty-six Week Periods Ended June 30, 2024 and July 2, 2023

	2024	2023
Cash flows from operating activities		
Net loss	$ (1,553)	$ (13,862)
Adjustments to reconcile net loss to net cash provided by activities:		
Depreciation	184	238
Amortization	3,804	3,458
Impairment losses	—	22,545
Loss on disposal of property and equipment	9	—
Amortization of debt issuance costs	89	92
Interest expense on contingent consideration payable	(90)	202
Provision for credit losses	1,116	321
Share-based compensation	471	436
Deferred income taxes, net of acquired deferred tax liability	(127)	(5,287)
Net changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	9,230	7,672
Prepaid expenses	93	(93)
Other current assets	1,597	2,572
Deposits	607	(9)
Software as a service	358	362
Accounts payable	160	(1,515)
Accrued payroll and expenses	(219)	(5,033)
Accrued interest	(218)	264
Income taxes receivable and payable	(771)	274
Operating leases	(23)	(88)
Net cash provided by operating activities	14,717	12,549
Cash flows from investing activities		
Businesses acquired, net of cash received	—	(6,740)
Capital expenditures	(995)	(1,490)
Net cash used in investing activities	(995)	(8,230)

	2024	2023
Cash flows from financing activities		
Net (payments) borrowings under line of credit	(10,808)	2
Principal payments on long-term debt	(850)	(2
Payments of dividends	(1,639)	(3
Issuance of ESPP shares	244	
Issuance of shares under the 2013 Long-Term Incentive Plan, net of exercises	102	
Contingent consideration paid	—	(1
Debt issuance costs	(545)	
Net cash used in financing activities	(13,496)	(3
Net change in cash and cash equivalents	226	
Cash and cash equivalents, beginning of period	—	
Cash and cash equivalents, end of period	$ 226	$
Supplemental cash flow information:		
Cash paid for interest, net	$ 2,417	$ 2
Cash paid for taxes, net of refunds	$ 636	$

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

NOTE 1 - NATURE OF OPERATIONS

BGSF, Inc. provides consulting, managed services, and professional workforce solutions to a variety of industries through its various divisions in information technology (“IT”), Finance & Accounting, Managed Solutions, and Property Management (collectively, with its consolidated subsidiaries, the “Company”).

The Company currently operates primarily within the United States of America (“U.S.”) through the Property Management and Professional segments.

The Property Management segment provides office and maintenance field talent in 37 states and D.C., to property management companies responsible for the apartment communities' and commercial buildings' day-to-day operations.

The Professional segment provides specialized talent and business consultants for IT, managed services, finance, accounting, legal, and human resources. The segment operates across the U.S. in three divisions, IT, Managed Solutions, and Finance & Accounting, with the IT division providing additional nearshore and offshore solutions in Colombia and India.

The Company normally experiences seasonal fluctuations. The quarterly operating results are affected by the number of billing days in a quarter, as well as the seasonality of client partners’ business. Demand for the Property Management workforce solutions has typically increased in the second quarter and is highest during the third quarter of the year due to the increased turns in multifamily units during the summer months when schools are not in session. Overall first quarter demand can be affected by adverse weather conditions in the winter months. In addition, the Company's cost of services typically increases in the first quarter primarily due to the reset of payroll taxes.

The ongoing macroeconomic environment and interest rates impacts continue to have an adverse impact on market conditions. These factors may continue to impact labor markets by reducing workforce solutions demand by lengthening client and job candidate decision cycles, increasing early terminations, or diminishing projects. As a result, the Company's business, financial condition and results of operations may continue to be negatively affected.

The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles in the United States of America (“GAAP”), pursuant to the applicable rules and regulations of the SEC. The information furnished herein reflects all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary to present a fair statement of the financial position and operating results of the Company as of and for the respective periods. However, these operating results are not necessarily indicative of the results expected for a full fiscal year or any other future period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted pursuant to such rules and regulations. However, management of the Company believes, to the best of its knowledge, that the disclosures herein are adequate to make the information presented not misleading. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the fiscal year ended December 31, 2023, included in its Annual Report on Form 10-K.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Fiscal Periods

The Company has a 52/53 week fiscal year. Fiscal periods for the consolidated financial statements included herein are as of June 30, 2024 and December 31, 2023, and include the thirteen and twenty-six week periods ended June 30, 2024 and July 2, 2023, referred to herein as Fiscal 2024 and 2023, respectively.

Reclassifications

Certain reclassifications have been made to the 2023 financial statements to conform with the 2024 presentation.

Management Estimates

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

Financial Instruments

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

Cash and Cash Equivalents

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

Concentration of Credit Risk

Concentration of credit risk is limited due to the Company’s diverse client partner base and their dispersion across many different industries and geographic locations nationwide. No single client partner accounted for more than 10% of the Company’s accounts receivable as of June 30, 2024 and December 31, 2023 or revenue for the twenty-six week periods ended June 30, 2024 and July 2, 2023. Geographic revenue in excess of 10% of the Company's consolidated revenue in Fiscal 2024 and the related percentage for Fiscal 2023 was generated in the following areas at:

	Twenty-six Weeks Ended	
	June 30, 2024	July 2, 2023
Tennessee	18 %	11 %
Texas	22 %	27 %

Consequently, weakness in economic conditions in these regions could have a material adverse effect on the Company’s financial position and results of future operations.

Accounts Receivable

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

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
Beginning balance	$ 761	$ 558	$ 554	$ 558
Provision for credit losses, net	491	242	1,116	321
Amounts written off, net	(578)	(242)	(996)	(321)
Ending balance	$ 674	$ 558	$ 674	$ 558

Property and Equipment

Property and equipment are stated net of accumulated depreciation and amortization of $ 4.0 million and $ 4.1 million at June 30, 2024 and December 31, 2023, respectively. During the twenty-six week period ended June 30, 2024, $ 0.2 million was reclassified to Intangible assets from Property and equipment, primarily related to continued IT improvements, and reclassified $ 0.1 million from Property and equipment to Goodwill related to the Arroyo Consulting acquisition.

Deposits

The Company maintains guaranteed costs policies for workers' compensation coverage in monopolistic states and minimal loss retention coverage in all other states. Under these policies, the Company is required to maintain refundable deposits of $ 1.8 million and $ 2.4 million, which are included in Deposits in the accompanying consolidated balance sheets, as of June 30, 2024 and December 31, 2023, respectively.

Software as a Service

The Company capitalizes direct costs incurred in cloud computing implementation costs from hosting arrangements, which are categorized as long-lived assets, and are reported as Software as a service in the accompanying consolidated balance sheets. All other internal-use software development costs are capitalized and reported as a component of computer software within Intangible assets. Software as a service is stated net of accumulated amortization of $ 2.3 million and $ 1.9 million at June 30, 2024 and December 31, 2023, respectively. During the twenty-six week period ended June 30, 2024, the Company added capital expenditures of $ 0.1 million to Software as a service, primarily related to continued IT improvements.

The Company reviews its long-lived assets, primarily Property and equipment and Software as a service, for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Company looks primarily to the undiscounted future cash flows in its assessment of whether or not long-lived assets have been impaired. There were no impairments with respect to long-lived assets during Fiscal 2024 or Fiscal 2023.

Leases

The Company leases all their office space through operating leases, which expire at various dates through 2030. Many of the lease agreements obligate the Company to pay real estate taxes, insurance, and certain maintenance costs, which are accounted for separately. Certain of the Company's lease arrangements contain renewal provisions from 3 to 10 years, exercisable at the Company's option. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company determines if an arrangement is an operating lease at inception. Leases and subleases with an initial term of 12 months or less are not recorded on the balance sheet. All other leases and subleases are recorded on the balance sheet as right-of-use assets and lease liabilities for the lease term.

Right-of-use lease assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term and include options to extend or terminate the lease when they are reasonably certain to be exercised. The present value of lease payments is determined using the incremental borrowing rate based on the information available at lease commencement date, unless the implicit rate in the lease is readily determinable. The Company's operating lease expense is recognized on a straight-line basis over the lease term and is recorded in selling, general and administrative expenses.

Intangible Assets

The Company holds Intangible assets with finite lives. Intangible assets with finite useful lives are amortized over their respective estimated useful lives, ranging from three to ten years , based on a pattern in which the economic benefit of the respective Intangible asset is realized.

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

The Company capitalizes purchased software and internal payroll costs directly incurred in the modification of internal use software. During the twenty-six week period ended June 30, 2024, the Company added $ 0.6 million and reclassified $ 0.2 million to Intangible assets from Property and equipment, primarily related to continued IT improvements, and reclassified $ 0.3 million from Intangible assets to Goodwill related to the Arroyo Consulting acquisition. Software maintenance and training costs are expensed in the period incurred.

The Company evaluates the recoverability of Intangible assets whenever events or changes in circumstances indicate that an Intangible asset's carrying amount may not be recoverable. The Company considered the current and expected future economic and market conditions and its impact on each of the reporting units. The Company annually evaluates the remaining useful lives of all Intangible assets to determine whether events and circumstances warrant a revision to the remaining period of amortization. In Fiscal 2023, management decided to eliminate the use of various trade names and go to market under the BGSF brand. Management's rebranding created an impairment of $ 22.5 million. There were no impairment indicators during Fiscal 2024. See "Note 6 - Intangible Assets."

Goodwill

Goodwill is not amortized, but instead is evaluated at the reporting unit level for impairment annually at the end of each fiscal year, or more frequently, if conditions indicate an earlier review is necessary. The Company considered the current and expected future economic and market conditions and its impact on each of the reporting units. If the Company has determined that it is more likely than not that the fair value for one or more reporting units is greater than their carrying value, the Company may use a qualitative assessment for the annual impairment test. During the twenty-six week period ended June 30, 2024, the Company reclassified $ 0.4 million from Intangible assets and Property and equipment to Goodwill related to the Arroyo Consulting acquisition. The Company determined there were no impairment indicators for goodwill assets during Fiscal 2024 or Fiscal 2023.

Debt Issuance Costs

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

Contingent Consideration

The Company has obligations, to be paid in cash, related to its acquisitions if certain operating and financial goals are met. The fair value of this contingent consideration is determined using expected cash flows and present value technique. The fair value calculation of the expected future payments uses a discount rate commensurate with the risks of the expected cash flow. The resulting discount is amortized as interest expense over the outstanding period using the effective interest method.

Revenue Recognition

The Company derives its revenues in Property Management and Professional segments by providing workforce solutions, placement services, and managed services. Revenues are recognized when promised services are delivered to client partners, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. Revenues as presented on the consolidated statements of operations represent services rendered to client partners less sales adjustments and allowances. Reimbursements, including those related to out-of-pocket expenses, are also included in revenues, and the related amounts of reimbursable expenses are included in cost of services.

The Company records revenue on a gross basis as a principal versus on a net basis as an agent in the presentation of revenues and expenses. The Company has concluded that gross reporting is appropriate because the Company (i) has the risk of identifying and hiring qualified field talent, (ii) has the discretion to select the field talent and establish their price and duties and (iii) bears the risk for services that are not fully paid for by client partners.

Workforce solution revenues - Field talent revenues from contracts with client partners are recognized in the amount to which the Company has a right to invoice, when the services are rendered by the Company’s field talent.

Contingent placement revenues - Any revenues associated with workforce solutions that are provided on a contingent basis are recognized once the contingency is resolved, as this is when control is transferred to the client partner, usually when employment candidates start their employment.

Retained search placement revenues - Any revenues from these workforce solutions are recognized based on the contractual amount for services completed to date which best depicts the transfer of control of services, which is less than 1% of consolidated revenues.

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

The Company estimates the effect of placement candidates who do not remain with its client partners through the guarantee period (generally 90 days) based on historical experience. Allowances, recorded as a liability, are established to estimate these losses. Fees to client partners are generally calculated as a percentage of the new worker’s annual compensation. No fees for placement workforce solutions are charged to employment candidates. These assumptions determine the timing of revenue recognition for the reported period.

Refer to Note 14 for disaggregated revenues by segment.

Payment terms in the Company's contracts vary by the type and location of its client partner and the workforce solutions offered. The term between invoicing and when payment is due is not significant. There were no unsatisfied performance obligations as of June 30, 2024. There were no revenues recognized during the twenty-six week period ended June 30, 2024 related to performance obligations satisfied or partially satisfied in previous periods. There are no contract costs capitalized. The Company did not recognize any contract impairments during the twenty-six week period ended June 30, 2024. The opening balance of accounts receivable at January 1, 2023 was $ 66.3 million.

Share-Based Compensation

The Company recognizes compensation expense in selling, general and administrative expenses over the service period for common stock options or restricted stock that are expected to vest and records adjustments to compensation expense at the end of the service period if actual forfeitures differ from original estimates.

Earnings Per Share

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

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
Weighted-average number of common shares outstanding:	10,880	10,759	10,858	10,731
Effect of dilutive securities:				
Stock options and restricted stock	—	11	—	—
Weighted-average number of diluted common shares outstanding	10,880	10,770	10,858	10,731
Stock options and restricted stock	884	793	884	543
Convertible note	255	255	255	255
Antidilutive shares	1,139	1,048	1,139	798

Income Taxes

The consolidated effective tax rate was 22.3 % and 26.6 % for the thirteen week periods ended June 30, 2024 and July 2, 2023, respectively. The consolidated effective tax rate was 13.7 % and 24.6 % for the twenty-six week periods ended June 30, 2024 and July 2, 2023, respectively. Although both fiscal periods consisted of a federal benefit at statutory rates, Fiscal 2024 had a lower state expense and a temporary book to tax difference for equity related items.

Deferred tax assets and liabilities are recorded for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts are classified as noncurrent in the consolidated balance sheets. Deferred tax assets are also recognized for net operating loss and tax credit carryovers. The overall change in deferred tax assets and liabilities for the period measures the deferred tax expense or benefit for the period. Effects of changes in enacted tax laws on deferred tax assets and liabilities are reflected as adjustments to tax expense in the period of enactment. As of June 30, 2024, the Company has a $ 2.6 million net operating loss carry forward from the 2020 EdgeRock acquisition with no expiration date. These net operating losses are subject to an annual Internal Revenue Code Section 382 limitation of $ 1.3 million.

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

The Company follows the guidance Accounting Standards Codification (“ASC”) Topic 740, Accounting for Uncertainty in Income Taxes. ASC Topic 740 prescribes a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. The Company recognizes any penalties and interest when necessary as part of selling, general and administrative expenses.

Recent Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board (“FASB”) issued ASU 2023-07, Segment Reporting: Improvements to Reportable Segment Disclosures. The new standard provides guidance to improve reportable segment disclosure with enhanced reporting of significant segment expenses. The new guidance is effective after December 15, 2023, and interim periods beginning after December 15, 2024, and early adoption is permitted. The Company is evaluating the impact of the new guidance on its consolidated financial statements and related disclosures.

In December 2023, FASB issued ASU 2023-09, Income Taxes: Improvements to Income Tax Disclosures. The new standard requires annual disclosure of the specific categories in the rate reconciliation, and additional information for reconciling items that meet a quantitative threshold. Additional information may be required on reconciling items. The new guidance is effective after December 15, 2024, and early adoption is permitted. The Company is evaluating the impact of the new guidance on its consolidated financial statements and related disclosures.

NOTE 3 - ACQUISITIONS

Arroyo Consulting

On April 24, 2023, the Company acquired substantially all of the assets, and assumed certain of the liabilities, of Arroyo Consulting for cash consideration of $ 6.8 million. Certain post-closing liabilities were held back of $ 0.4 million and partial security for any indemnification obligations was held back for one year of $ 0.9 million. The purchase agreement further provides for contingent consideration of up to $ 8.5 million based on the performance of the acquired business for the two years following the date of acquisition. The purchase price at closing was paid out of funds under the Company's credit agreement led by BMO, see “Note 8 - Debt”. The purchase agreement contained a provision for a “true up” of acquired working capital, which was paid on July 1, 2024, out of the delayed draw funds under the Company's credit agreement along with the hold backs and the full year one contingent consideration payment.

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

The Fiscal 2023 Arroyo Consulting operations included ten weeks for $ 4.1 million of revenue and $ 1.0 million of operating income, which included $ 0.2 million in amortization expense on acquisition intangibles. The final purchase price has been allocated to the assets acquired and liabilities as follows (in thousands):

Accounts receivable	$	3,476
Prepaid expenses and other assets		72
Property and equipment, net		145
Right-of-use asset - operating lease		141
Intangible assets		11,760
Goodwill (no deductible tax basis)		3,400
Current liabilities assumed		(2,621)
Lease liabilities - operating leases		(85)
Total net assets acquired	$	16,288
Cash	$	6,800
Hold back, working capital*		350
Hold back, indemnities*		850
Working capital adjustment*		679
Fair value of contingent consideration		7,609
Total fair value of consideration transferred for acquired business	$	16,288

*Included in Other current liabilities

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

	Estimated Fair Value		Estimated Useful Lives
Covenants not to compete	$	356	5 years
Client partner list		11,234	10 years
Computer software		170	5 years
Total	$	11,760	

The Company incurred total costs of $ 0.6 million in Fiscal 2024 and Fiscal 2023 related to the Arroyo Consulting acquisition. These costs were expensed as incurred in selling, general and administrative expenses.

Supplemental Unaudited Pro Forma Information

The Company estimates what would have been reported if the revenues and net income of the Arroyo Consulting acquisition had taken place on the first day of Fiscal 2023 (in thousands, except income per share):

	Thirteen Weeks Ended	Twenty-six Weeks Ended
	July 2, 2023	July 2, 2023
Revenues	$ 82,428	$ 162,919
Gross profit	$ 30,026	$ 58,527
Net income (loss)	$ 2,755	$ (12,933)
Income (loss) per share:		
Basic	$ 0.26	$ (1.21)
Diluted	$ 0.26	$ (1.21)

Pro forma net income (loss) includes amortization of primarily client partner lists, interest expense on additional borrowings on the new term loan and the revolving facility (the "Revolving Facility") (see "Note 8 - Debt") at a rate of 7.1 %. The tax benefit of the pro forma adjustments at effective tax rate of 26.6 % and 24.6 % for the thirteen and twenty-six week period ended July 2, 2023, respectively. The pro forma operating results include adjustments to Arroyo Consulting related to synergy adjustments for expenses that would be duplicative and other non-recurring, non-operating and out of period expense items once integrated with the Company. There were no material nonrecurring adjustments.

Amounts set forth above are not necessarily indicative of the results that would have been attained had the Arroyo Consulting acquisition taken place on the first day of Fiscal 2023 or the results that may be achieved by the combined enterprise in the future.

NOTE 4 - OTHER CURRENT ASSETS

Other current assets as of June 30, 2024 and December 31, 2023 consist of the following (in thousands):

	June 30, 2024	December 31, 2023
CARES Act receivable	$ 1,661	$ 2,470
Income tax receivable	1,340	685
Receivable from seller of Arroyo Consulting, net	—	3,843
Other	415	174
Total	$ 3,416	$ 7,172

NOTE 5 - LEASES

The Company's future operating lease obligations that have not yet commenced are immaterial. Short-term leases and subleases were immaterial. The supplemental balance sheet information related to the Company's operating leases were as follows at (dollars in thousands):

	June 30, 2024	December 31, 2023
Weighted average remaining lease term of operating leases	3.3 years	3.5 years
Weighted average discount rate for operating leases	6.7 %	6.5 %

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

	Twenty-six Weeks Ended	
	June 30, 2024	July 2, 2023
Cash paid for operating leases	$ 1,178	$ 1,115
Operating lease expense	$ 1,157	$ 917

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

	June 30, 2024
2024 (remaining)	$ 1,133
2025	1,605
2026	1,227
2027	871
2028	512
Thereafter	74
Total lease payments	5,422
Imputed interest	(570)
Present value of lease liabilities	$ 4,852

NOTE 6 - INTANGIBLE ASSETS

Intangible assets are stated net of accumulated amortization of $ 53.1 million and $ 49.3 million at June 30, 2024 and December 31, 2023, respectively. Amortization expense for Fiscal 2024 and Fiscal 2023 are comprised of following (in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
Client partner lists	$ 1,487	$ 1,482	$ 2,982	$ 2,788
Covenant not to compete	75	67	157	123
Acquisition intangibles	1,562	1,549	3,139	2,911
Computer software - amortization expense	329	280	665	547
Total expense	$ 1,891	$ 1,829	$ 3,804	$ 3,458

NOTE 7 - ACCRUED PAYROLL AND EXPENSES

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

	June 30, 2024	December 31, 2023
Field talent payroll	$ 5,404	$ 5,014
Field talent payroll related	1,671	1,039
Accrued bonuses and commissions	2,079	2,931
Other	4,850	5,918
Accrued payroll and expenses	$ 14,004	$ 14,902

NOTE 8 - DEBT

On July 16, 2019, the Company entered into a Credit Agreement (the “Credit Agreement”), which would have matured on July 16, 2024, led by BMO, as lead administrative agent, lender, letters of credit issuer, and swing line lender. The Company entered into four amendments from August 18, 2022 through May 19, 2023, which changed the interest rate component from LIBOR to the Secured Overnight Financing Rate (“SOFR”), exercised the option to borrow $ 40.0 million, required 2.5 % of the original principal balance of the new term loan, permitted a foreign entity acquisition, modified the distributions terms, and increased a revolving credit facility (the "Revolving Facility") by $ 6.0 million.

On March 12, 2024, the Credit Agreement was amended and restated through the Company’s entry into an Amended and Restated Credit Agreement, maturing March 12, 2028, led by BMO as administrative agent, letter of credit issuer, and swing line lender (the “Restated Agreement”). The Restated Agreement provides for a Revolving Facility permitting the Company to borrow funds from time to time in an aggregate amount up to $ 40 million. The Restated Agreement also provides for a term loan commitment, permitting the Company to borrow funds from time to time (the “Term Loan”) and for a delayed draw term loan commitment of $ 4.3 million. The Company is required to repay the Term Loan in quarterly principal installments equal to 2.5 % of the aggregate principal balance. The Restated Agreement provides for interest either at the Base Rate plus the Applicable Margin, or the Adjusted Term SOFR plus the Applicable Margin (as defined in the Restated Agreement). The Company’s obligations are secured by a first priority security interest in substantially all tangible and intangible property of the Company’s and its subsidiaries. The Restated Agreement provides for a maximum Leverage Ratio and a minimum Fixed Charge Coverage Ratio (as defined in the Restated Amendment). The Company will pay an unused commitment fee on the daily average unused amount of Revolving Facility. The Company was in compliance with the affirmative and negative covenants as of June 30, 2024.

Letter of Credit

In conjunction with the EdgeRock acquisition, the Company entered into a standby letter of credit arrangement, which expires February 12, 2028, for purposes of protecting a lessor against default on lease payments. As of June 30, 2024, the Company had a maximum financial exposure from this standby letter of credit totaling $ 0.1 million, all of which is considered usage against the Revolving Facility. The Company has no history of default, nor is it aware of circumstances that would require it to perform under any of these arrangements and believes that the resolution of any disputes thereunder that might arise in the future would not materially affect the Company’s consolidated financial statements. Accordingly, no liability has been recorded in respect to these arrangements as of June 30, 2024 or December 31, 2023.

Line of Credit

At June 30, 2024 and December 31, 2023, $ 14.1 million and $ 24.9 million respectively, was outstanding on the revolving facilities. Average daily balance for the thirteen week periods ended June 30, 2024 and July 2, 2023 was $ 14.9 million and $ 25.4 million, respectively. Average daily balance for the twenty-six week periods ended June 30, 2024 and July 2, 2023 was $ 17.9 million and $ 23.0 million, respectively.

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

	June 30, 2024		December 31, 2023	
Base Rate	$ 6,566	10.25 %	$ 4,874	9.75 %
SOFR	7,500	8.18 %	3,000	7.69 %
SOFR	—	— %	2,000	7.71 %
SOFR	—	— %	15,000	7.77 %
Total	$ 14,066		$ 24,874	

Long-Term Debt

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

	June 30, 2024		December 31, 2023	
SOFR	$ 33,150	8.18 %	$ 34,000	7.79 %

Convertible Note

At June 30, 2024 and December 31, 2023, the Company had a two-year convertible unsecured promissory note of $ 4.4 million due to the seller with an annual interest rate of 6 %, with interest paid quarterly related to the Horn Solutions acquisition. The promissory note is convertible into shares of our common stock at any time after the one-year anniversary of the promissory note at a conversion price equal to $ 17.12 per share, prior to the maturity date of December 12, 2024. The promissory note is subordinate to the Company's senior debt.

NOTE 9 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

Amounts Recorded at Fair Value	Financial Statement Classification	Fair Value Hierarchy	June 30, 2024	December 31, 2023
Convertible note	Convertible note	Level 2	$ 4,368	$ 4,368
Contingent consideration	Contingent consideration - current and long-term	Level 3	$ 3,981	$ 8,320

The change in the Level 3 fair value measurements from December 31, 2023 to June 30, 2024 is primarily due to the movement of the current portion of the contingent consideration with the net of cash collected under the service agreement to Other current liabilities.

Key inputs in determining the fair value of the contingent consideration as of June 30, 2024 and December 31, 2023 included discount rates of approximately 7 % as well as management's estimates of future sales volumes and earnings before interest, income taxes, depreciation, and amortization ("EBITDA").

NOTE 10 - CONTINGENCIES

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

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

NOTE 11 – EQUITY

Authorized capital stock consists of 19,500,000 shares of common stock, par value $ 0.01 per share and 500,000 shares of undesignated preferred stock, par value $ 0.01 per share.

Restricted Stock

The Company issued net restricted common stock of 23,310 and 34,112 shares to team members and non-team member (non-employee) directors in Fiscal 2024 and Fiscal 2023, respectively. The restricted shares of $ 0.01 par value per share were issued under the 2013 Long-Term Incentive Plan ("2013 Plan") and contain a three-year service condition. The restricted stock constitutes issued and outstanding shares of the Company's common stock, except for the right of disposal, for all purposes during the period of restriction including voting rights and dividend distributions.

NOTE 12 – SHARE-BASED COMPENSATION

Stock Options

For the thirteen week periods ended June 30, 2024 and July 2, 2023, the Company recognized $ 0.1 million of compensation expense related to stock options. For the twenty-six week periods ended June 30, 2024 and July 2, 2023, the Company recognized $ 0.2 million of compensation expense related to stock options. Unamortized share-based compensation expense as of June 30, 2024 amounted to $ 0.6 million which is expected to be recognized over the next 2.1 years. As of June 30, 2024, a total of 1.2 million shares remain available for issuance under 2013 Plan.

A summary of stock option activity is presented as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Total Intrinsic Value of Awards (in thousands)
Options outstanding at December 31, 2023	922,310	$ 15.30	6.0	$ 104
Exercised	(16,298)	$ 6.25		
Options outstanding at June 30, 2024	906,012	$ 15.47	5.6	$ 33
Options exercisable at December 31, 2023	663,740	$ 16.84	5.0	$ 103
Options exercisable at June 30, 2024	649,957	$ 17.11	4.6	$ 130

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested outstanding at December 31, 2023	258,570	$ 7.84
Nonvested outstanding at June 30, 2024	256,055	$ 7.81

Restricted Stock

For the thirteen week periods ended June 30, 2024 and July 2, 2023, the Company recognized $ 0.1 million of compensation expense related to restricted stock awards. For the twenty-six week periods ended June 30, 2024 and July 2, 2023, the Company recognized $ 0.3 million of compensation expense related to restricted stock awards. Unamortized share-based compensation expense as of June 30, 2024 amounted to $ 0.6 million which is expected to be recognized over the next 1.7 years.

NOTE 13 - TEAM MEMBER BENEFIT PLAN

Defined Contribution Plan

The Company provides a defined contribution plan (the “401(k) Plan”) for the benefit of its eligible team members and field talent. The 401(k) Plan allows participants to make contributions subject to applicable statutory limitations. The Company matches participants contributions 100 % up to the first 3 % and 50 % of the next 2 % of a team member's or field talent’s compensation. The Company contributed $ 0.5 million to the 401(k) Plan for the thirteen week periods ended June 30, 2024 and July 2, 2023. The Company contributed $ 1.0 million to the 401(k) Plan for the twenty-six week periods ended June 30, 2024 and July 2, 2023.

NOTE 14 - BUSINESS SEGMENTS

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

Segment income (loss) from operations includes all revenue and cost of services, direct selling expenses, depreciation and amortization expense and excludes all general and administrative (home office) expenses. Assets of home office include cash, unallocated prepaid expenses, property and equipment, deferred income taxes, and other assets. The following table provides a reconciliation of revenue and income (loss) from operations by reportable segment to consolidated results for the periods indicated (in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
Revenue:				
Property Management	$ 25,726	$ 31,071	$ 50,273	$ 59,477
Professional	42,411	49,729	86,630	96,639
Total	$ 68,137	$ 80,800	$ 136,903	$ 156,116
Depreciation:				
Property Management	$ 31	$ 33	$ 63	$ 68
Professional	49	67	101	143
Home office	10	11	20	27
Total	$ 90	$ 111	$ 184	$ 238
Amortization:				
Professional	$ 1,600	$ 1,549	$ 3,216	$ 2,911
Home office	291	280	588	547
Total	$ 1,891	$ 1,829	$ 3,804	$ 3,458
Operating income (loss):				
Property Management	$ 3,203	$ 5,774	$ 6,605	$ 10,464
Professional - without impairment losses	1,556	3,786	3,230	6,413
Professional - impairment losses	—	—	—	(22,545)
Home office	(4,678)	(4,510)	(9,338)	(10,011)
Total	$ 81	$ 5,050	$ 497	$ (15,679)
Capital expenditures:				
Property Management	$ 7	$ 21	$ 20	$ 53
Professional	69	184	132	232
Home office	425	540	843	1,205
Total	$ 501	$ 745	$ 995	$ 1,490

	June 30, 2024	December 31, 2023
Total assets:		
Property Management	$ 22,811	$ 29,884
Professional	112,517	122,751
Home office	24,426	25,882
Total	$ 159,754	$ 178,517

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our accompanying Unaudited Consolidated Financial Statements and related notes thereto and our Annual Report on Form 10-K for the fiscal year ended December 31, 2023. Comparative segment revenues and related financial information are discussed herein and are presented in Note 14 to our Unaudited Consolidated Financial Statements. See "Forward Looking Statements" on page 3 of this report and "Risk Factors" included in our filings with the SEC, including our Quarterly Reports on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended December 31, 2023, for a description of important factors that could cause actual results to differ from expected results.

Our historical financial information may not be indicative of our future performance.

Overview

We provide consulting, managed services, and professional workforce solutions to a variety of industries through our various divisions in information technology ("IT"), Finance & Accounting, Managed Solutions, and Property Management (apartment communities and commercial buildings).

On May 8, 2024, we announced that our Board of Directors has initiated a process to evaluate potential strategic alternatives and engaged financial advisors in an endeavor to maximize shareholder value ("Strategic alternatives review").

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

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

Our Professional segment provides specialized talent and business consultants for IT, managed services, finance, accounting, legal, and human resources. The segment operates across the U.S. in three divisions, IT, Managed Solutions, and Finance & Accounting, with the IT division providing additional nearshore and offshore solutions in Colombia and India.

Our business normally experiences seasonal fluctuations. Our quarterly operating results are affected by the number of billing days in a quarter, as well as the seasonality of our client partners' business. Demand for our Property Management workforce solutions typically increase in the second quarter and is highest during the third quarter of the year due to the increased turns in multifamily units during the summer months when schools are not in session. Overall first quarter demand can be affected by adverse weather conditions in the winter months. In addition, our cost of services typically increases in the first quarter primarily due to the reset of payroll taxes.

Results of Operations

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
	(dollars in thousands)			
Revenues	$ 68,137	$ 80,800	$ 136,903	$ 156,116
Cost of services	44,507	51,226	89,835	99,758
Gross profit	23,630	29,574	47,068	56,358
Selling, general and administrative expenses	21,568	22,584	42,583	45,796
Impairment losses	—	—	—	22,545
Depreciation and amortization	1,981	1,940	3,988	3,696
Operating income (loss)	81	5,050	497	(15,679)
Interest expense, net	(1,061)	(1,502)	(2,297)	(2,703)
(Loss) income before income taxes	(980)	3,548	(1,800)	(18,382)
Income tax benefit (expense)	219	(944)	247	4,520
Net (loss) income	$ (761)	$ 2,604	$ (1,553)	$ (13,862)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
Revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of services	65.3	63.4	65.6	63.9
Gross profit	34.7	36.6	34.4	36.1
Selling, general and administrative expenses	31.7	28.0	31.1	29.3
Impairment losses	—	—	—	14.4
Depreciation and amortization	2.9	2.4	2.9	2.4
Operating income (loss)	0.1	6.3	0.4	(10.0)
Interest expense, net	(1.5)	(1.9)	(1.7)	(1.7)
(Loss) income before income taxes	(1.4)	4.4	(1.3)	(11.8)
Income tax benefit (expense)	0.3	(1.2)	0.2	2.9
Net (loss) income	(1.1) %	3.2 %	(1.1) %	(8.9) %

Thirteen Week Fiscal Period Ended June 30, 2024 ("Fiscal 2024") Compared with Thirteen Week Fiscal Period Ended July 2, 2023 ("Fiscal 2023")

Revenues:

	Thirteen Weeks Ended				
	June 30, 2024			July 2, 2023	
	(dollars in thousands)				
Revenues by segment:					
Property Management	$ 25,726	37.8 %		$ 31,071	38.5 %
Professional	42,411	62.2		49,729	61.5
Total	$ 68,137	100.0 %		$ 80,800	100.0 %

Property Management Revenues**:** Property Management revenues decreased approximately $5.4 million (17.2%). The decrease was primarily due to a reduction in billed hours, which is driven by a combination of increased competition in certain markets and lower demand from cost pressures at the property management companies.

Professional Revenues**:** Professional revenues decreased $7.3 million (14.7%). The April 2023 Arroyo Consulting acquisition contributed $1.6 million of incremental revenues. The remaining Professional segment declined $8.9 million (19.6%), primarily due to a decrease in billed hours as clients continued to delay projects or expand project timelines using less field talent.

Gross Profit:

Gross profit represents revenues from workforce solutions less cost of services expenses, which consist of payroll, payroll taxes, payroll-related insurance, field talent costs, and reimbursable costs.

	Thirteen Weeks Ended			
	June 30, 2024		July 2, 2023	
	(dollars in thousands)			
Gross Profit by segment:				
Property Management	$ 9,596	40.6 %	$ 12,652	42.8 %
Professional	14,034	59.4	16,922	57.2
Total	$ 23,630	100.0 %	$ 29,574	100.0 %

	Thirteen Weeks Ended	
	June 30, 2024	July 2, 2023
Gross Profit Percentage by segment:		
Property Management	37.3 %	40.7 %
Professional	33.1 %	34.0 %
Total	34.7 %	36.6 %

Total Company gross profit decreased approximately $5.9 million (20.1%) due to reduced customer demand in both segments. As a percentage of revenue, gross profit decreased to 34.7% from 36.6%, primarily due to the margin decline in Property Management.

Property Management Gross Profit: Property Management gross profit decreased approximately $3.1 million (24.2%), primarily due to a decrease in total revenue. The gross profit decline was driven by increased competition and lower permanent placement business, which has no cost of service.

Professional Gross Profit: Professional gross profit decreased approximately $2.9 million (17.1%). The April 2023 Arroyo Consulting acquisition contributed $0.5 million of incremental gross profit, while the remaining Professional business decreased approximately $3.4 million (22.1%), primarily due to lower billed hours.

Selling, General and Administrative Expenses: Selling, general and administrative expenses decreased $1.0 million (4.5%), primarily due to expense reduction and cost control efforts in response to the decline in revenues. The components of selling, general and administrative expense are detailed in the following table:

	Thirteen Weeks Ended					
	June 30, 2024		July 2, 2023			
	Amount	% of Revenue	Amount	% of Revenue	$ Change	% Change
	(dollars in thousands)					
Compensation and related	$ 16,150	24 %	$ 17,741	22 %	$ (1,591)	(9) %
Advertising and recruitment	598	1	605	1	(7)	—
Occupancy and office operations	763	1	790	1	(27)	(3)
Travel, meals and entertainment	337	1	398	—	(61)	(15)
Software	1,244	2	1,233	2	11	1
Liability insurance	278	—	272	—	6	2
Professional fees	325	1	440	1	(115)	(26)
Public company related costs	248	—	223	—	25	11
Provision for credit losses	492	1	242	—	250	103
Share-based compensation	236	—	75	—	161	215
Strategic alternatives review	280	—	—	—	280	100
Transaction fees	25	—	435	1	(410)	—
Workers' compensation loss retention return	(95)	—	(491)	(1)	396	—
Other	687	1	619	1	68	11
Total	$ 21,568	32 %	$ 22,582	28 %	$ (1,014)	(5) %

Depreciation and Amortization: Depreciation and amortization charges increased $0.1 million (2.1%) primarily from amortized intangible assets related to internally used software.

Interest Expense, net: Interest expense, net decreased $0.4 million (29.4%) primarily due to reduced accretion in 2024 on contingent consideration associated with Arroyo Consulting and the lower average balance on the Revolving Facility.

Income Tax Benefit (Expense): Income tax expense decreased $1.2 million (123.2%) primarily due to lower pre-tax operating results and lower state tax expense.

Twenty-six Week Fiscal Period Ended June 30, 2024 ("Fiscal 2024") Compared with Twenty-six Week Fiscal Period Ended July 2, 2023 ("Fiscal 2023")

Revenues:	Twenty-six Weeks Ended			
	June 30, 2024		July 2, 2023	
	(dollars in thousands)			
Revenues by segment:				
Property Management	$ 50,273	36.7 %	$ 59,477	38.1 %
Professional	86,630	63.3	96,639	61.9
Total	$ 136,903	100.0 %	$ 156,116	100.0 %

***Property Management Revenues*:** Property Management revenues decreased approximately $9.2 million (15.5%). The decrease was primarily due to a reduction in billed hours, which is driven by a combination of increased competition in certain markets and lower demand from cost pressures at the property management companies.

***Professional Revenues*:** Professional revenues decreased approximately $10.0 million (10.4%). The April 2023 Arroyo Consulting acquisition contributed $7.1 million of incremental revenues. The remaining Professional segment declined $17.1

million (18.5%) primarily due to a decrease in billed hours as clients continued to delay projects or expand project timelines using less field talent.

Gross Profit:

Gross profit represents revenues from workforce solutions less cost of services expenses, which consist of payroll, payroll taxes, payroll-related insurance, field talent costs, and reimbursable costs.

	Twenty-six Weeks Ended							
	June 30, 2024				July 2, 2023			
	(dollars in thousands)							
Gross Profit by segment:								
Property Management	$	18,939	40.2	%	$	23,999	42.6	%
Professional		28,129	59.8			32,359	57.4	
Total	$	47,068	100.0	%	$	56,358	100.0	%

	Twenty-six Weeks Ended			
	June 30, 2024		July 2, 2023	
Gross Profit Percentage by segment:				
Property Management	37.7	%	40.3	%
Professional	32.5	%	33.5	%
Total	34.4	%	36.1	%

Total Company gross profit decreased approximately $9.3 million (16.5%) due to reduced customer demand in both segments. As a percentage of revenue, gross profit has decreased to 34.4% from 36.1%, primarily due to the margin decline in Property Management.

Property Management Gross Profit: Property Management gross profit decreased approximately $5.1 million (21.1%), primarily due to a decrease in total revenues. The gross profit decline was driven by increased competition and lower permanent placement business, which has no cost of service.

Professional Gross Profit: Professional gross profit decreased approximately $4.2 million (13.1%). The April 2023 Arroyo Consulting acquisition contributed $2.3 million of incremental gross profit, while the remaining Professional business decreased $6.5 million (21.1%) primarily due to lower billed hours.

Selling, General and Administrative Expenses: Selling, general and administrative expenses decreased $3.2 million (7.0%) primarily due to expense reduction and cost control efforts in response to the decline in revenues. The components of selling, general and administrative expense are detailed in the following table:

	Twenty-six Weeks Ended					
	June 30, 2024		July 2, 2023			
	Amount	% of Revenue	Amount	% of Revenue	$ Change	% Change
	(dollars in thousands)					
Compensation and related	$ 32,001	23 %	$ 35,692	23 %	$ (3,691)	(10) %
Advertising and recruitment	990	1	1,198	1	(208)	(17)
Occupancy and office operations	1,641	1	1,582	1	59	4
Travel, meals and entertainment	595	—	729	—	(134)	(18)
Software	2,508	2	2,718	2	(210)	(8)
Liability insurance	558	—	538	—	20	4
Professional fees	644	1	898	1	(254)	(28)
Public company related costs	436	—	408	—	28	7
Provision for credit losses	1,116	1	321	—	795	248
Share-based compensation	471	—	436	—	35	8
Strategic alternatives review	348	—	—	—	348	100
Transaction fees	40	—	753	—	(713)	(95)
Workers’ compensation loss retention return	(95)	—	-491	—	396	(81)
Other	1,330	1	1014	1	316	31 %
Total	$ 42,583	31 %	$ 45,796	29 %	$ (3,213)	(7) %

Depreciation and Amortization: Depreciation and amortization charges increased approximately $0.3 million (7.9%) primarily due to amortization of intangible assets related to the 2023 Arroyo Consulting acquisition.

Interest Expense, net: Interest expense decreased $0.4 million (15.0%) primarily due primarily due to reduced accretion in 2024 on contingent consideration associated with Arroyo Consulting and the lower average balance on the Revolving Facility.

Income Tax Benefit (Expense): Income tax benefit decreased $4.3 million (94.5%) primarily due to a higher taxable loss in 2023 related to the trade name impairment.

Use of Non-GAAP Financial Measures

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

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

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

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
	(dollars in thousands)			
Net (loss) income	$ (761)	$ 2,604	$ (1,553)	$ (13,862)
Income tax (benefit) expense	(219)	944	(247)	(4,520)
Interest expense, net	1,061	1,502	2,297	2,703
Operating income (loss)	81	5,050	497	(15,679)
Depreciation and amortization	1,981	1,940	3,988	3,696
Impairment losses	—	—	—	22,545
Share-based compensation	236	75	471	436
Strategic alternatives review	280	—	348	—
Transaction fees	25	435	40	753
Adjusted EBITDA	**$ 2,603**	**$ 7,500**	**$ 5,344**	**$ 11,751**
Adjusted EBITDA Margin (% of revenue)	3.4 %	9.3 %	3.6 %	7.5 %

Liquidity and Capital Resources

Our working capital requirements are primarily driven by field talent payments, tax payments and client partner accounts receivable receipts. Since receipts from client partners lag payments to field talent, working capital requirements increase substantially in periods of growth.

Our primary sources of liquidity are cash generated from operations and borrowings under our amended and restated credit agreement with BMO, that provides for a revolving credit facility maturing March 12, 2028 (the “Revolving Facility”). Our primary uses of cash are payments to field talent, team members, related payroll liabilities, operating expenses, capital expenditures, cash interest, cash taxes, contingent consideration, and debt payments. We believe that the cash generated from operations, together with the borrowing availability under our Revolving Facility, will be sufficient to meet our normal working capital needs for at least the next twelve months, including investments made, and expenses incurred, in connection with opening new markets throughout the next year. Our ability to continue to fund these items may be affected by general economic, competitive and other factors, many of which are outside of our control. If our future cash flow from operations and other capital resources are insufficient to fund our liquidity needs, we may be forced to obtain additional debt or equity capital or refinance all or a portion of our debt.

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

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

	June 30, 2024	December 31, 2023
	(dollars in thousands)	
Working capital	$ 26,725	$ (18,144)

	Twenty-six Weeks Ended	
	June 30, 2024	July 2, 2023
	(dollars in thousands)	
Net cash provided by (used in) operations:		
Operating activities	$ 14,717	$ 12,549
Investing activities	(995)	(8,230)
Financing activities	(13,496)	(3,659)
Net change in cash and cash equivalents	$ 226	$ 660

Operating Activities

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

During Fiscal 2024, net cash provided by operating activities was $14.7 million, an increase of $2.2 million compared with net cash provided by operating activities of $12.5 million for Fiscal 2023. The increase is primarily due to decreased payments on accrued payroll and expenses, increased payments on accounts receivable, and lower payments in accounts payable.

Investing Activities

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

In Fiscal 2024, we made capital expenditures of $1.0 million primarily related to continued IT improvements. In Fiscal 2023, we paid $6.8 million for the acquisition of Arroyo Consulting and made capital expenditures of $1.5 million mainly related to the continued IT improvements.

Financing Activities

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

For Fiscal 2024, we reduced our Revolving Facility $10.8 million, and we disbursed $1.6 million in cash dividends on our common stock, and we paid down $0.9 million on the Term Loan. For Fiscal 2023, we disbursed $3.2 million in cash dividends on our common stock, we paid down $2.0 million on the Term Loan, we made payments of $1.1 million of contingent consideration related to the Momentum acquisition, and borrowed on our Revolving Facility $2.4 million for increased operating needs.

Credit Agreements

On July 16, 2019, the Company entered into a Credit Agreement (the “Credit Agreement”), which would have matured on July 16, 2024, led by BMO, as lead administrative agent, lender, letters of credit issuer, and swing line lender. The Company entered into four amendments from August 18, 2022 through May 19, 2023, which changed the interest rate component from LIBOR to the Secured Overnight Financing Rate (“SOFR”), exercised the option to borrow $40.0 million, required 2.5% of the original principal balance of the new term loan, permitted a foreign entity acquisition, modified the distributions terms, and increased a revolving credit facility (the "Revolving Facility") by $6.0 million.

On March 12, 2024, the Credit Agreement was amended and restated through our entry into an Amended and Restated Credit Agreement, maturing March 12, 2028, led by BMO as administrative agent, letter of credit issuer, and swing line lender (the “Restated Agreement”). The Restated Agreement provides for a revolving credit facility (the "Revolving Facility") permitting us to borrow funds from time to time in an aggregate amount up to $40 million. The Restated Agreement also provides for a term loan commitment, permitting us to borrow funds from time to time (the “Term Loan”) and for a delayed draw term loan commitment of $4.3 million. We are required to repay the Term Loan in quarterly principal installments equal to 2.5% of the aggregate principal balance. The Restated Agreement provides for interest either at the Base Rate plus the Applicable Margin, or the Adjusted Term SOFR plus the Applicable Margin (as defined in the Restated Agreement). Our obligations are secured by a first priority security interest in substantially all tangible and intangible property of ours. The Restated Agreement provides for a maximum Leverage Ratio and a minimum Fixed Charge Coverage Ratio (as defined in the Restated Amendment). We will pay an unused commitment fee on the daily average unused amount of Revolving Facility. We were in compliance with the affirmative and negative covenants as of June 30, 2024.

Off-Balance Sheet Arrangements

<u>Letter of Credit</u>

In March 2020, in conjunction with the EdgeRock acquisition, we entered into a standby letter of credit arrangement, which expires February 12, 2028, for purposes of protecting a lessor against default on lease payments. As of June 30, 2024 and December 31, 2023, we had a maximum financial exposure from this standby letter of credit totaling $0.1 million, all of which is considered usage against our Revolving Facility.

Critical Accounting Policies and Estimates

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

Our significant accounting policies are discussed in Note 2, Summary of Significant Accounting Policies, of the Notes to Unaudited Consolidated Financial Statements included in “Item 1. Financial Statements.” Please also refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 for a more detailed discussion of our critical accounting policies.

As a result of the economic uncertainty, we may need to make necessary changes to accounting policy judgments and estimates over time, which could result in meaningful impacts to our financial statements in future periods. Actual results and outcomes may differ from our estimates and assumptions.

The current inflationary environment and related interest rate impacts continue to have significant adverse impact on the economy and market conditions. These factors may impact labor markets by reducing demand for our workforce solutions, increase early terminations, or diminish projects. As a result, our business, financial condition and results of operations may be negatively affected, and could increase our cost of borrowing.

Revenue Recognition

We derive our revenues from operations in our Property Management and Professional segments. We provide workforce solutions, placement services, and managed services. Revenues are recognized when promised workforce solutions are delivered to client partners, in an amount that reflects the consideration we expect to be entitled to in exchange for those services. We recognize revenue through the following types of services: workforce solutions, contingent placements, retained search placements, and managed services.

Intangible Assets

We hold intangible assets with indefinite and finite lives. Intangible assets with indefinite useful lives are not amortized. Intangible assets with finite useful lives are amortized over their respective estimated useful lives, ranging from three to ten years, based on a pattern in which the economic benefit of the respective intangible asset is realized. We capitalize purchased software and internal payroll costs directly incurred in the modification of software for internal use. Software maintenance and training costs are expensed in the period incurred.

Goodwill

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

Income Taxes

The current provision for income taxes represents estimated amounts payable or refundable on tax returns filed or to be filed for the year. We recognizes any penalties when necessary as part of selling, general and administrative expenses. Deferred tax assets and liabilities are recorded for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts are classified net as noncurrent in the consolidated balance sheets. Deferred tax assets are also recognized for net operating loss and tax credit carryovers. When appropriate, we will record a valuation allowance against net deferred tax assets to offset future tax benefits that may not be realized. We follow the guidance of Accounting Standards Codification (“ASC”) Topic 740, Accounting for Uncertainty in Income Taxes.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements and their potential effect on our results of operations and financial condition, refer to Note 2 in the Notes to the Unaudited Consolidated Financial Statements in this Quarterly Report on Form 10-Q and Note 2 in the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks from transactions we enter into in the normal course of business. Our primary market risk exposure relates to interest rate and inflation risks. Through the current period, we have been able to moderate the negative impacts of an inflationary market by adjusting our pricing model.

Interest Rates

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls Over Financial Reporting

For the fiscal quarter ended June 30, 2024, there have been no changes in our internal control over financial reporting identified in connection with the evaluations required by Rule 13a-15(d) or Rule 15d-15(d) under the Exchange Act that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our team members are working remotely. We are continually monitoring and assessing the impact of the ongoing situation on our internal controls to minimize the impact on their design and operating effectiveness.

Inherent Limitations on Effectiveness of Controls

Our management, including our CEO and our CFO, do not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

No change from the information provided in ITEM 3. LEGAL PROCEEDINGS included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

ITEM 1A. RISK FACTORS

In evaluating us and our common stock, we urge you to carefully consider the risks and other information in this Quarterly Report on Form 10-Q, as well as the risk factors disclosed in Item 1A. of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 (our "2023 Form 10-K"), and filed with the SEC on March 15, 2024, and in our other Quarterly Reports on Form 10-Q filed subsequently with the SEC. Any of the risks discussed in this Quarterly Report on Form 10-Q, and any of the risks disclosed in Item 1A. of Part I of our 2023 Form 10-K or in our other Quarterly Reports on Form 10-Q filed subsequently with the SEC, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, could materially and adversely affect our results of operations or financial condition.

Our strategic alternatives review process may not be successful, may be costly, time-consuming, and complex, and may not yield the desired results

On May 8, 2024, we announced that our Board of Directors had initiated a process to evaluate potential strategic alternatives and had engaged Houlihan Lokey as its financial advisors. We have not set a timetable for completion of this strategic alternatives review process, and our Board of Directors has not approved a definitive course of action. There can be no assurance that this strategic alternatives review process will result in us pursuing any transaction or that any transaction, if pursued, will be completed on attractive terms, or at all. Any potential transaction would be dependent on a number of factors that may be beyond our control, including, among other things, market conditions, industry trends, the interest of third parties, and stockholder support. The process of evaluating strategic alternatives may be costly, time-consuming, and complex. Speculation regarding any developments related to the review of strategic alternatives and perceived uncertainties related to the future of the Company could cause our stock price to fluctuate significantly or otherwise materially impact our stockholder, employee, customer, supplier, and other business relationships. Even if we successfully consummate a transaction from our review of strategic alternatives, we may fail to realize all of the anticipated benefits of any transaction, those benefits may take longer to realize than expected, or we may encounter integration or other difficulties.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Trading Plans

During the fiscal quarter ended June 30, 2024, no director or Section 16 officer of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

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

Exhibit Number	Description
2.1[††]	Asset Purchase Agreement, dated as of April 24, 2023, by and between BGSF Professional, LLC, Arroyo Consulting LLC, Luis Fernando Sanchez, and Maureen E. Herrera (incorporated by reference from the registrant's Current Report on Form 8-K filed on April 26, 2023)
3.1	Certificate of Incorporation of BG Staffing, Inc. (incorporated by reference from Amendment No. 2 to the Company's registration statement on Form S-1 (File No. 333-191683) filed on November 4, 2013).
3.2	Certificate of Amendment to Certificate of Incorporation of BGSF, Inc. (incorporated by reference from the registrant's Current Report on Form 8-K filed on February 12, 2021).
3.3	Bylaws of BG Staffing, Inc. (incorporated by reference from Amendment No. 2 to the Company's registration statement on Form S-1 (File No. 333-191683) filed on November 4, 2013).
4.1	Form of Common Stock Certificate (incorporated by reference from Amendment No. 1 to the Company's registration statement on Form S-1 (File No. 333-191683) filed on October 28, 2013).
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002.
32.1†	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following financial information from BGSF's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2024 formatted in Inline XBRL (Extensible Business Reporting Language) includes: (i) the Unaudited Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Operations and Comprehensive (Loss) Income, (iii) the Unaudited Statements of Changes in Stockholders' Equity, (iv) the Unaudited Consolidated Statements of Cash Flows, and (vi) Notes to the Unaudited Consolidated Financial Statements.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

† This certification is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

†† Pursuant to Item 601(a)(5) of Regulation S-K, certain schedules and similar attachments have been omitted. The Company hereby agrees to furnish a copy of any omitted schedule or attachment to the Securities and Exchange Commission upon request.

SIGNATURES

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

BGSF, INC.

	/s/ Beth Garvey
Name:	Beth Garvey
Title:	President and Chief Executive Officer
	(Principal Executive Officer)
	/s/ John Barnett
Name:	John Barnett
Title:	Chief Financial Officer and Secretary
	(Principal Financial Officer)

Date: August 7, 2024

Exhibit 31.1

Certification of Chief Executive Officer Pursuant to

Section 302 of the Sarbanes-Oxley Act of 2002

I, Beth Garvey, certify that:

1 I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2024 of BGSF, Inc.

2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4 The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

5 The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 7, 2024

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

Exhibit 31.2

Certification of Chief Financial Officer Pursuant to

Section 302 of the Sarbanes-Oxley Act of 2002

I, John Barnett, certify that:

1 I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2024 of BGSF, Inc.

2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2024

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

Exhibit 32.1

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

In connection with the quarterly report of BGSF, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof, we, the undersigned, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of our knowledge, that:

(1) The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
(2) The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 7, 2024

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

This certification accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability pursuant to that section. The certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

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