Staffing 360 Solutions, Inc.
Form 10-K
July 31, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended **May 31, 2015**

or

.. **TRANSACTION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____to _____

COMMISSION FILE NUMBER: 000-54515

STAFFING 360 SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

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

641 Lexington Avenue, Suite 1526

New York, New York 10022

(Address of principal executive offices)

(212) 634-6411

(Registrant's telephone number)

Securities registered under Section 12(b) of the Exchange Act: None.

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

Common Stock, par value $0.00001

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

As of November 30, 2014, the last business day of the registrant’s most recently completed second fiscal quarter the aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was approximately $26,473,245 based on the closing price (last sale of the day) for the registrant’s common stock on the OTC Bulletin Board on November 28, 2014 of $0.82 per share.

As of July 31, 2015, 45,730,174 shares of common stock, $0.00001 par value, were outstanding.

Staffing 360 Solutions, Inc.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

The disclosures set forth in this report should be read in conjunction with our financial statements and notes thereto for the year ended May 31, 2015.

PART I

ITEM 1. BUSINESS

BUSINESS

General

Staffing 360 Solutions, Inc. ("we," "us," "our," "Staffing 360," or the "Company") was incorporated in the State of Nevada on December 22, 2009, as Golden Fork Corporation ("Golden Fork"), which changed its name to Staffing 360 Solutions, Inc., trading symbol "STAF", on March 16, 2012. On July 31, 2012, the Company commenced operations in the staffing sector. As a rapidly growing public company in the international staffing sector, our high-growth business model is based on finding and acquiring, suitable, mature, profitable, operating, domestic and international staffing companies. Our targeted consolidation model is focused specifically on the accounting and finance, information technology ("IT"), engineering, administration and light industrial sectors.

Corporate History

On February 17, 2012, TRIG Special Purpose 1, LLC, a Nevada Corporation, purchased 78.7%, or 2,000,000 shares of common stock, par value of $0.00001, of Golden Fork Corporation.

On March 16, 2012, Golden Fork filed a Certificate of Amendment to its Articles of Incorporation to change its name from Golden Fork to Staffing 360 Solutions, Inc.

On April 13, 2012, the Company changed its name and its trading symbol from "GDNF" to "STAF". Simultaneously, the Company executed a one (1) for three (3) forward split of its issued and outstanding shares of common stock increasing the number from 2,540,000 to 7,620,000.

On July 31, 2012, the Company formed Staffing 360 Alliance, Inc. ("Staffing Alliance"), a wholly-owned subsidiary incorporated in the State of Nevada, which had operations in the staffing sector for a short period of time before ceasing operations in February 2014.

On April 26, 2013, the Company purchased all of the issued and outstanding common stock of The Revolution Group, Ltd., a Massachusetts corporation (subsequently renamed “Cyber 360, Inc.”), which was subsequently sold on January 1, 2015.

On June 28, 2013, the Company filed a Certificate of Amendment to its Articles of Incorporation with the State of Nevada, whereby increasing the authorized number of common stock shares from 75,000,000 to 200,000,000. Additionally, this amendment authorized the issuance of up to 20,000,000 shares of Blank Check Preferred Stock.

On November 4, 2013, the Company purchased all of the issued and outstanding common stock of Control Solutions International, Inc., a Florida corporation, and its wholly owned subsidiary, Canada Control Solutions International, Inc., an Ontario, Canada corporation, from NewCSI, Inc., a Delaware corporation, and its shareholders.

On January 3, 2014, the Company purchased all of the issued and outstanding common stock of Initio International Holdings Limited, a company organized under the laws of England and Wales, and its respective subsidiaries, including but not limited to Monroe Staffing Services, LLC, a Delaware limited liability company.

On February 28, 2014, the Company, through its wholly owned subsidiary, Staffing (UK), purchased substantially all of the business assets of Poolia UK Ltd.

On May 17, 2014, the Company purchased all of the issued and outstanding common stock of PeopleSERVE, Inc., a Massachusetts corporation, and forty-nine percent (49%) of the issued and outstanding common stock of PeopleSERVE PRS, Inc., a Massachusetts corporation, which is a qualified woman-owned business enterprise.

On February 27, 2015, the Company entered into a Stock Purchase Agreement selling all of the issued and outstanding shares of Cyber 360 to some of the former owners of Cyber 360, effective as of January 1, 2015, for an aggregate purchase price of $1.00. In connection with this transaction, the Company issued 1,134,050 common stock shares at a price of $1.00 per share in full settlement of any remaining obligations associated with the earn-out from the original purchase of Cyber 360.

On May 29, 2015, the Company filed a Certificate of Designations, Preferences and Rights of Series A Preferred Stock with the Nevada Secretary of State, whereby the Company designated 1,663,008 shares as Series A Preferred Stock, par value $0.00001 per share. The Series A Preferred Stock shall have a stated value of $1.00 per share. The Certificate of Designation sets forth the powers, preferences, rights, qualifications, limitations and restrictions applicable to the Series A Preferred Stock.

On July 8, 2015, the Company purchased all of the issued and outstanding membership interests of Lighthouse Placement Services, LLC, a Massachusetts limited liability company ("Lighthouse").

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Business Model and Acquisitions

We are a high-growth international staffing company engaged in the acquisition of United States (“U.S.”) and United Kingdom (“U.K.”) based staffing companies. As part of our consolidation model, we pursue a broad spectrum of staffing companies supporting primarily the accounting and finance, IT, engineering, administration and light industrial sectors. Our typical acquisition model is based on paying consideration in the form of cash, stock & earn-out notes. In furthering our business model, the Company is constantly in discussions and negotiations with various suitable, mature acquisition targets.

The Revolution Group, Ltd.

On April 26, 2013, the Company completed its first acquisition by purchasing all of the issued and outstanding stock of The Revolution Group, Ltd. (“TRG”). The aggregate consideration paid by the Company to the TRG shareholders was $2,509,342 (“TRG Purchase Price”), payable as follows: cash at closing of $907,287 and 512,569 restricted common stock shares valued at $0.80 per share totaling $410,055. Additionally, the Company agreed to pay an earn-out of 20% of TRG’s gross profit over the next four (4) years, not to exceed $1,500,000. At closing, the Company estimated the performance-based compensation would be $1,192,000. TRG subsequently changed its name to Cyber 360 Solutions, Inc. (“Cyber 360”) and operated under the name “Cyber 360, Inc.” until being discontinued and sold on January 1, 2015.

Control Solutions International, Inc.

On November 4, 2013, the Company completed its second acquisition by purchasing all of the issued and outstanding common stock of Control Solutions International, Inc. (“CSI”) and its wholly owned subsidiary Canada Control Solutions International, Inc. (“CCSI”). The aggregate consideration was $3,530,454, which was paid as follows: (i) cash of $1,311,454; (ii) issuance of 136,000 restricted common stock shares valued at $0.875 per share totaling $119,000; and (iii) a performance based earn-out equal to 20% of the amount of the consolidated gross profit of CSI and CCSI to be paid over the next four (4) years from the date of the acquisition, not to exceed a total of $2,100,000.

CSI is a professional services company specializing in a broad spectrum of risk management, financial, internal audit and IT solutions. CSI provides consulting and risk advisory services in the U.S., Canada and Brazil.

Initio International Holdings Limited

On January 3, 2014, the Company completed its third acquisition by purchasing all of the issued and outstanding common stock ("Initio Acquisition") of Initio International Holdings Limited ("Initio"). The aggregate consideration was $13,289,563, paid as follows: (i) cash of $6,440,000; (ii) issuance of 3,296,702 restricted common stock shares valued $0.875 per share totaling $2,884,614; and (iii) three (3) year promissory notes in the aggregate principal amount of $3,964,949 bearing interest at six percent (6%) per annum, and amortized on a five (5) year straight line basis.

Initio's U.S. division, Monroe Staffing Services LLC ("Monroe"), was established in 1969 and is a full-service staffing agency serving companies ranging from Fortune 100 companies to new start-ups. Monroe has fifteen (15) offices located in the U.S., including offices in Connecticut, Massachusetts, Rhode Island, New Hampshire and North Carolina. Initio's U.K. division ("Longbridge"), was established in 1989 and is an international multi-sector recruitment company catering to the sales and marketing, technology, legal and information technology solutions sectors.

Poolia UK Ltd.

On February 28, 2014, the Company, through its wholly-owned U.K. subsidiary, Staffing 360 Solutions (UK) Limited ("Staffing (UK)"), completed its fourth acquisition by purchasing certain business assets ("Poolia Acquisition") of Poolia UK Ltd. ("Poolia"). The aggregate consideration paid was $1,626,266, paid as follows: (i) cash at closing of approximately $1,237,500 (£750,000); and (ii) cash subsequent to closing of approximately $388,766.

Poolia UK operates its professional staffing services from its office in London and focuses on providing temporary, contract and permanent qualified professionals to various banking, financial and commercial clients across the U.K.

PeopleSERVE

On May 17, 2014, the Company completed its fifth and sixth acquisitions by purchasing one hundred percent (100%) of the issued and outstanding capital stock of PeopleSERVE, Inc. (“PSI”) and forty-nine percent (49%) of the issued and outstanding capital stock of PeopleSERVE PRS, Inc. (“PRS”). The aggregate purchase price was $8,387,108, paid as follows: (i) cash of $2,705,675; (ii) 1,127,365 restricted common stock shares valued at $1.93 totaling $2,175,814; (iii) an unsecured promissory note of $2,367,466; and (iv) Net Working Capital (as defined in the PS Purchase Agreement filed with Form 8-K dated May 20, 2014) of $1,138,153.

PSI and PRS provide IT staffing support to companies in the governmental, commercial and educational sectors principally in the State of Massachusetts.

Lighthouse Placement Services

On July 8, 2015, the Company completed its seventh acquisition by purchasing one hundred percent (100%) of the members interests in Lighthouse Placement Services, LLC (“Lighthouse”). The aggregate purchase price was $6,245,948, paid as follows: (i) cash of $2,498,379; (ii) 624,595 restricted common stock shares valued at $1.00 totaling $624,595; (iii) three (3) year unsecured promissory note of $2,498,379 and (iv) two (2) year unsecured promissory note of $624,595.

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

Operating History

The Company has been successful in growing and expanding through multiple acquisitions supported by above average organic revenue growth as published by Staffing Industry Analysts. Our business plan for continued growth through acquisitions is subject to certain inherent risks, including accessing capital resources, potential cost overruns and possible rejection of our business model and/or sales methods. Therefore, we provide no assurance that the

Company will be successful in carrying out our business plan. We continue to pursue additional debt and equity financing to fund our business plan. We have no assurance that future financing will be available to us on acceptable terms or at all.

Industry Background

The staffing industry is divided into three (3) major segments: temporary help services, professional employer organizations and placement agencies. Temporary help services provide workers for limited periods, often to substitute for absent permanent workers or to help during periods of peak demand. These workers, who are employees of the temporary help agency, will generally fill clerical, technical, or industrial positions. Professional employer organizations (PEOs), sometimes referred to as employee leasing agencies, contract to provide workers to customers for specific functions, often related to human resource management. In many cases, customers' employees are hired by a PEO and then contracted back to the customer. Placement agencies, sometimes referred to as executive recruiters or headhunters, find workers to fill permanent positions at customer companies. These agencies may specialize in placing senior managers, mid-level managers, technical workers, or clerical and other support workers.

The Company considers itself a temporary staffing company within the broader staffing industry. However, the Company provides permanent placements at the request of existing clients and consulting services such as risk audits, due diligence for mergers and acquisition targets, and internal audit assessments.

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

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

To a great extent, clients follow the seasonal retail cycles but precede them by two (2) to three (3) months. There are two (2) distinct “peak” seasons: August to October, preceding the Holiday season; April to June, preceding the summer season. Both provide extended spikes to the baseline revenue average of companies in the staffing sector.

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

For many staffing companies, demand is lower late in the fourth calendar quarter and early in the first calendar quarter, partly because of holidays, and higher during the rest of the year. Staffing companies may have high receivables from customers. Temp agencies and PEOs must manage a high cash flow and may maintain high cash balances because they funnel payroll payments from employers.

Staffing companies are regulated by the U.S. Department of Labor (DOL) and the Equal Employment Opportunity Commission (EEOC), and often by state authorities. At issue is the relationship between the agency and the temporary employees, or employee candidates. Many federal anti-discrimination rules regulate the type of information that employment firms can request from candidates or provide to customers about candidates. PEOs are often considered co-employers along with the client, but the PEO is responsible for employee wages, taxes and benefits. State regulation aims to ensure that PEOs provide the benefits they promise to workers.

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

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

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

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

Some of the best opportunities for temporary employment are in industries traditionally active in seasonal cycles, such as manufacturing, construction, wholesale and retail. However, seasonal demand for workers creates cash flow fluctuations throughout the year. Cash flow imbalances also occur because agencies must pay workers even though they haven't been paid by customers.

Trends in the Staffing Business

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

Temporary workers are becoming such a large factor at some companies that personnel agency staff sometimes work at the customer's site to recruit, train, and manage. The Company has a number of on-sight relationships with its customers. Agencies try to match the best qualified employees for the customer's needs, but often provide additional training specific to that company, such as instruction in the use of proprietary software.

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

We believe the trends of outsourcing entire departments and dependence on temporary and leased workers will expand opportunities for personnel agencies. Taking advantage of their expertise in assessing worker capabilities, some agencies manage clients' entire human resource functions. Human resources outsourcing (HRO) may include management of payroll, tax filings, and benefit administration services. HRO may also include recruitment process outsourcing (RPO), where an agency manages all recruitment activities for a client.

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

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

Competition

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

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

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

Employees

We currently employ 142 full-time employees and one (1) part-time employee as part of our internal operations, of which:

- Ninety-eight (98) of our employees are employed by Monroe in one of the following states: Connecticut, Massachusetts, Rhode Island, New Hampshire, and North Carolina;
- Twenty-six (26) of our employees are employed by Longbridge Recruitment in London, United Kingdom;

- Eight (8) of our employees are employed by PSI based in Massachusetts;
- Seven (7) of our employees are employed by CSI based in Massachusetts; and
- Four (4) of our employees are employed at our corporate headquarters in New York, New York.

Additionally, the Company employs more than 3,400 individuals that are placed directly with our clients through our various operating subsidiaries.

ITEM 1A. RISK FACTORS.

Not required for smaller reporting companies

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The Company currently leases nineteen (19) facilities:

State	**Location**	**Lease Term**
New York	641 Lexington Avenue, Suite 1526 NY, NY 10022	Month to month
Massachusetts	187 Plymouth Avenue, Fall River, MA 01103	24 months
Massachusetts	1985 Main Street Springfield, MA 01103	24 months
Massachusetts	29 Mountain East Street Worcester, MA 01606	24 months
Massachusetts	643 Veterans of Foreign Wars Pkwy, Chestnut Hill, MA 02467	12 months
Massachusetts	500 West Cummings Park, Suite 2550, Woburn, MA 01801	60 months
Massachusetts	40 Central Street, Unit #1, Lowell, MA 01852	24 months
Massachusetts	344 Boston Post Road East, 2nd Floor, Marlborough, MA 01752	24 months
Connecticut	35 Nutmeg Drive, Trumbull, CT 06611	60 months
Connecticut	1800 Barnum Avenue, Stratford CT 06614	45 months
Connecticut	20 North Plains Industrial Road, Wallingford, CT 06492	24 months
Connecticut	887 Main Street, Manchester, CT 06040	36 months

Connecticut	767 Wolcott Street, Waterbury, CT 06703	60 months
Connecticut	973 Orange Avenue, West Haven, CT 06516	60 months
Rhode Island	400 Reservoir Avenue, #2J, Providence, RI 02907	24 months
New Hampshire	814 Elm Street, Manchester, New Hampshire 03101	24 months
North Carolina	718 Jake Alexander Blvd West, Salisbury, NC 28147	24 months
North Carolina	2520 Somerset Drive, Unit #2520, Winston-Salem, NC 27103	24 months
United Kingdom	18 King William Street, London EC4N 7BP	24 months

These leases expire at various times from 2015 through 2020.

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ITEM 3. LEGAL PROCEEDINGS.

Staffing 360 Solutions, Inc. (claim by NewCSI, Inc.)

On May 22, 2014, NewCSI Inc. ("NCSI"), the former owners of Control Solutions International, filed a complaint in the United States District Court for the Western District of Texas, Austin Division, against the Company arising from the terms of the CSI Stock Purchase Agreement dated August 14, 2013. NCSI claims that the Company breached a provision of the CSI Stock Purchase Agreement ("SPA § 2.7") which required the Company to calculate within 90 days after December 31, 2013 and pay to NCSI fifty percent (50%) of certain "Deferred Tax Assets". The Complaint sought payment of the amount allegedly owed under SPA § 2.7 and acceleration of earn-out payments provided for in the CSI Stock Purchase Agreement of $1,400,000, less amounts paid to date, and attorneys' fees. The Company responded denying the material allegations and interposing numerous affirmative defenses. On October 8, 2014, NCSI filed a Motion of Summary Judgment (the "Motion"). On March 30, 2015, a Magistrate Judge of the District Court issued a Report and Recommendation that the District Court deny the Motion. The Recommendation became a final decision on April 13, 2015.

On December 31, 2014, NCSI filed an amended complaint to which NCSI added an additional count asserting an "Adjustment Event" had occurred requiring an acceleration of earn-out payments provided for in the CSI Stock Purchase Agreement of $2,100,000, less amounts paid to date ($1,670,635 at December 31, 2014), required should S360 or NCSI "be unable, or admit in in writing, its inability, to its debts as they become due." The Company responded denying the material allegations and interposing numerous affirmative defenses. The Earn-out liability was fully expensed at the time of the acquisition and fully accrued for on the Company's balance sheet as part of the purchase accounting at the time of the acquisition.

The final pretrial conference in this matter was held April 22, 2015. A jury was selected on May 14, 2015, and the trial was held May 18-20, 2015. On May 20, 2015, the jury rendered a verdict, finding that S360 had not complied with SPA § 2.7 and owed $154,433, but that NCSI had not proved that S360 or NCSI had become unable to pay debts as they came due. The Court had held that it was not a question for the jury to decide if damages for breach of SPA § 2.7 should include accelerated earn-out payments.

On June 3, 2015, NCSI filed a Motion for Entry of Judgment as Matter of Law seeking entry of a judgment in the amount of $154,433, plus accelerated earn-out in the amount of $1,152,143, plus statutory interest. NCSI did not challenge the jury verdict on the ability to pay issue. Also on June 3, 2015, S360 filed a Motion for Entry of Judgment as a Matter of Law seeking entry of judgment against NCSI on the jury's finding that it had not complied with SPA § 2.7, or, in the alternative, for a reduction of damages to $54,452 and to hold that NCSI may not be awarded accelerated earn-out payments as that would result in an illegal penalty. As of July 1, 2015, the motions have been fully briefed and submitted to the Court.

We believe that the Company acted in a manner consistent with our contractual rights, and we intend to aggressively defend the Company against this claim which we believe is not meritorious. Nevertheless, there can be no assurance that the outcome of this litigation will be favorable to the Company.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY.

Market Information

Shares of Staffing's common stock are traded on the OTCBB tier of the over-the-counter securities market run by FINRA, as well as OTCQB run by OTC Markets, under the ticker symbol "STAF". The high and low sales price per share of the Company's common stock for each quarter during the last two (2) fiscal years are shown below.

	High	Low
Fiscal Year 2015, Quarters Ended		
August 31, 2014	$2.20	$1.45
November 30, 2014	2.04	0.60
February 28, 2015	0.80	0.25
May 31, 2015	0.94	0.25
Fiscal Year 2014, Quarters Ended		
August 31, 2013	1.80	0.55
November 30, 2013	2.05	1.01
February 28, 2014	2.10	1.05
May 31, 2014	2.19	1.55

As of July 30, 2015, the Company's common stock was trading at $0.58.

Holders of Common Stock

As of July 30, 2015, there were 808 shareholders of record of the Company's common stock.

Dividends

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

Recent Sales of Unregistered Securities

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

ITEM 6. SELECTED FINANCIAL DATA.

Not required for smaller reporting companies.

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

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

Overview

The Company was incorporated in the State of Nevada on December 22, 2009, as Golden Fork Corporation. On March 16, 2013, the Company filed an Amendment to change its name to Staffing 360 Solutions, Inc.

On July 31, 2012, the Company formed Staffing 360 Alliance, Inc. ("Staffing Alliance"), a wholly owned subsidiary, incorporated in the State of Nevada, which had operations in the staffing sector for a short period of time before ceasing operation in February 2014.

On April 26, 2013, the Company purchased all of the issued and outstanding common stock of The Revolution Group, Ltd. ("TRG"), a Massachusetts corporation (subsequently renamed "Cyber 360, Inc."). The aggregate consideration paid was approximately $2.5 million, payable in cash, common stock and a percentage of its future gross profits. TRG operated under the name Cyber 360 until it was disposed of on January 1, 2015. (See Note 14 - Acquisitions).

On June 28, 2013, the Company filed a Certificate of Amendment to its Articles of Incorporation with the State of Nevada, whereby increasing the authorized number of common stock shares from 75,000,000 to 200,000,000. Additionally, this amendment authorized the issuance of up to 20,000,000 shares of Blank Check Preferred Stock.

On November 4, 2013, the Company purchased all of the issued and outstanding common stock ("CSI Acquisition") of CSI and its wholly owned subsidiary, CCSI from NCSI. The aggregate consideration paid was approximately $3.5 million, payable in cash, common stock and a percentage of future gross profits from CSI and CCSI. (See Note 14 - Acquisitions).

On January 3, 2014, the Company purchased all of the issued and outstanding common stock of Initio and its Subsidiaries. The aggregate consideration paid was approximately $13.29 million, payable in cash, common stock and promissory notes. Certain Initio shareholders have been appointed to the Company's board of directors, entered into employment agreements with the Company, and Initio was renamed Staffing (UK). (See Note 14 - Acquisitions).

On February 28, 2014, the Company, through its wholly owned subsidiary, Staffing (UK), purchased certain business assets of Poolia UK Ltd. ("Poolia UK"). All subsequent business activity from this acquisition is recorded under Staffing (UK). The aggregate consideration paid was $1,626,266. (See Note 14 - Acquisitions).

On May 17, 2014, the Company purchased all of the issued and outstanding common stock of PSI, and forty-nine percent (49%) of the issued and outstanding common stock of PRS (PSI and PRS collectively are the "PS"). The aggregate consideration ("PS Purchase Price") paid for PS was approximately $8.4 million. (See Note 14 - Acquisitions).

On February 27, 2015, the Company entered into a Stock Purchase Agreement selling all of the issued and outstanding shares of Cyber 360 to some of the former owners of Cyber 360, effective as of January 1, 2015, for an aggregate purchase price of $1.00. In connection with this transaction, the Company issued 1,134,050 common stock shares at a price of $1.00 per share in full settlement of any remaining obligations associated with the earn-out from the original purchase of Cyber 360.

On May 29, 2015, the Company filed a Certificate of Designations, Preferences and Rights of Series A Preferred Stock with the Nevada Secretary of State, whereby the Company designated 1,663,008 shares as Series A Preferred Stock, par value $0.00001 per share. The Series A Preferred Stock shall have a stated value of $1.00 per share. The Certificate of Designation sets forth the powers, preferences, rights, qualifications, limitations and restrictions applicable to the Series A Preferred Stock.

On July 8, 2015, the Company completed its seventh acquisition by purchasing one hundred percent (100%) of the members interests in Lighthouse. The aggregate purchase price was $6,245,948, paid as follows: (i) cash of $2,498,379; (ii) 624,595 restricted common stock shares valued at $1.00 totaling $624,595; (iii) three (3) year unsecured promissory note of $2,498,379 and (iv) two (2) year unsecured promissory note of $624,595.

Operating History

We began generating revenue in October 2012. To date, the Company has purchased seven (7) operating businesses: Cyber 360, CSI, Staffing (UK), Poolia UK, PSI, forty-nine percent (49%) of PRS, and Lighthouse. Our business plan is to expand and grow through multiple acquisitions while continuing to supplement this with above average market organic growth. The Company, less the discontinued operations of Cyber 360, which was sold effective January 1, 2015, generated revenue of $172,225, $41,198,162 and $128,829,330 for the fiscal years ended May 2013, 2014 and 2015, respectively. This growth has been achieved primarily through acquisitions, while existing operations continue to grow organically at a robust pace.

Through the date of this filing, the Company raised capital by conducting financings through debt and equity transactions as follows:

- In April 2014, the Company commenced its best efforts private offering of twelve percent (12%) Series A Bonds with seventy (70) accredited investors. In fiscal 2014 and 2015, the Company raised $2,998,500 and $1,060,000, respectively and on July 29, 2014, the Company completed the Series A Bond offering for an aggregate of $4,058,500. In addition to the Series A Bonds, each Purchaser of the Bonds received equity consideration at a rate of 5,000 common stock shares for each $50,000 investment for a total of 405,850 common stock shares.

- From April 21, 2014 through May 27, 2014, the Company raised $950,000 from two (2) accredited investor through the issuance of five (5) short-term, twelve percent (12%), convertible promissory notes. The holders of these notes received an aggregate of 190,000 common stock shares. These notes had varying maturity dates.

- From May 14, 2014 through May 19, 2014, the Company raised $600,000 from five (5) accredited investors through the issuance of five (5) short-term twelve percent (12%) convertible promissory notes. These note holders received an aggregate of 120,000 common stock shares. On July 14, 2014, all five (5) of these holders converted $600,000 of principal into four hundred thousand (400,000) common stock shares and $11,868 of unpaid interest into 7,912 common stock shares.

- On May 27, 2014, the Company raised $50,000 from one (1) accredited investor through the issuance of a short-term twelve percent (12%) convertible promissory note. The note holder received 10,000 common stock shares. On July 25, 2014, the Company repaid this note, including all unpaid interest.

- On June 22, 2014, the Company raised $100,000 from one (1) accredited investor through the issuance of one (1) short-term twelve percent (12%) convertible promissory note. The note holder received 20,000 common stock shares. In August 2014, this note was repaid in full.

- In June 2014, the Company issued a non-interest bearing promissory note in the amount of $100,000 to a director and shareholder of the Company. The promissory note was due upon demand. The Company issued 5,000 common stock shares to the note holder as additional consideration. In June 2014, the Company repaid this promissory note in full.

- In July 2014, the Company issued three (3) non-interest bearing promissory notes in the aggregate amount of $280,000 to three (3) related parties. The promissory notes were due upon demand. The first was issued on July 16, 2014 to a company owned by a former employee, Vice Chairman, President and Secretary of the Company, in the amount of $30,000. On July 25, 2014, this note was paid in full. The second was issued on July 17, 2014 to the Company's Chief Financial Officer, in the amount of $150,000. The Company issued 10,000 common stock shares to the Chief Financial Officer as additional consideration. On July 25, 2014, this note was paid in full. The third was issued on July 8, 2014 to a company of which a director and shareholder of the Company is a Managing Member in the amount of $100,000. The Company issued 7,000 common stock shares to the note holder as additional consideration. On July 29, 2014, this note was paid in full.

- Effective July 25, 2014, the Company joined with its subsidiaries, Monroe, PSI and PRS, (collectively the "Borrowers") in an Amended and Restated Credit and Security Agreement and a new Credit and Security Agreement with Wells Fargo Bank, NA. This facility increased the line of credit amount from $14,000,000 to $15,000,000 and modified the covenants to permit transferring of funds amongst the Borrowers. All other terms and conditions remained unchanged.

- In August 2014, the Company issued a non-interest bearing promissory note in the amount of $125,000 to a company of which a director and shareholder of the Company is a Managing Member. The promissory note was due upon demand. The Company issued 7,500 common stock shares to the note holder as additional consideration. On August 28, 2014, this note was paid in full.

- In July and August 2014, the Company issued promissory notes to Sterling National bank totaling $625,000. These notes bore interest at eighteen percent (18%) per annum and was due upon demand. On or before October 3, 2014, these notes and interest of $7,277 were paid in full.

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- In August 2014, the Company issued a twelve percent (12%) interest bearing promissory note in the amount of $150,000 to a brother of a former employee, Vice Chairman, President and Secretary of the Company. The promissory note is due upon demand. The Company issued 15,000 common stock shares to the note holder as additional consideration. As of May 31, 2015, this note has been paid in full.

- On September 2, 2014, the Company issued a non-interest bearing promissory note in the amount of $125,000 to a company of which a director and shareholder of the Company is a Managing Member. The promissory note was due upon demand. The Company issued 7,500 common stock shares to the note holder as additional consideration. As of May 31, 2015, this note has been paid in full.

- On September 15, 2014, the Company issued a non-interest bearing promissory note in the amount of $50,000 to a company owned by a director and shareholder of the Company. The promissory note is due upon demand. The Company issued 2,500 common stock shares to the note holder as additional consideration. As of May 31, 2015, this note has been paid in full.

- On November 24, 2014, the Company completed its Series B Bond offering of twelve percent (12%) convertible bonds with twenty-one (21) accredited investors. The Company issued Bonds in the aggregate of $981,500. The Company issued 98,150 common stock shares as equity consideration to the bondholders. In addition, the Company issued 5,889 common stock shares to the placement agent.

- On December 10, 2014, the Company issued a twelve percent (12%) convertible note in the amount of $100,000. The Company issued 10,000 common stock shares as additional consideration. On May 11, 2015, the parties agreed to extend the maturity date of the note, $100,000 in principal and $11,474 in accrued interest, to October 15, 2015 in exchange for 27,869 common stock shares valued at $18,115. At May 31, 2015, the principal amount outstanding was $100,000.

- On December 16, 2014, the Company issued a promissory note to Sterling National bank in the amount of $250,000. The note bears interest at eighteen percent (18%) per annum and has a maturity date of March 31, 2015. At May 31, 2015, the principal balance outstanding was $51,598. Subsequently, this note was repaid in full on July 24, 2015.

- On February 5, 2015, the Company issued a convertible promissory note in the amount of $204,000. The note bears interest at eight percent (8%) per annum, contains a graduating prepayment premium ranging between ten percent (10%) and thirty-five percent (35%) and becomes convertible after 180 days and matures on November 2, 2015. At May 31, 2015, the principal balance outstanding was $204,000. Subsequently, this note was repaid in full on July 24, 2015.

- On April 8, 2015, the Company cancelled the Wells Fargo Credit Facility. Associated with this cancellation, the Company paid an early termination fee of $100,000. At May 31, 2015, the balance outstanding under this facility was zero.

- On April 8, 2015, Monroe and PSI entered into a four (4) year $22 million revolving loan facility with MidCap Funding X Trust (“MidCap”), with the option to increase the amount to up to $47.0 million. The interest rate is four percent (4.0%) plus LIBOR, with a LIBOR floor of 1.0% per annum. At May 31, 2015, the balance outstanding was $10,376,493.

- On April 8, 2015, PRS entered into a four (4) year $3 million revolving loan facility with MidCap. The Company holds a forty-nine (49%) equity interest in PRS. The interest rate is four percent (4.0%) plus LIBOR, with a LIBOR floor of 1.0% per annum. At May 31, 2015, the balance outstanding was $1,244,399.

- On April 8, 2015, the Company entered into a four (4) year term loan and a four (4) year additional term loan in the amounts of $3,000,000 and $700,000, respectively with MidCap. The loans bear interest at nine percent (9.0%) plus LIBOR and four percent (4.0%) plus LIBOR, respectively, with a LIBOR floor of one percent (1.0%). Through the date of this filing, the Company has repaid $187,500 towards the term loan leaving a balance of $2,812,500. No payments have been made towards the additional term loan.

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- On June 23, 2015, the Company issued a six (6) month $359,000 convertible promissory note. The financing had an OID of $54,000 and is convertible into common stock at a price of $1.15 per share. As of the date of this filing, this note remains outstanding as of the date of this filing.

- On July 8, 2015, the Company issued a twenty-one (21) month $3.92 million convertible debenture. The financing had an OID of twelve percent (12%) and is convertible into common stock at a price of $1.00 per share at lender's election. In connection with the financing, the Company issued 1,250,000 common stock shares and certain common stock purchase warrants. The primary purpose of this financing was to fund the Lighthouse Acquisition. (See Note 16 – Subsequent Events). This note remains outstanding as of the date of this filing.

- On July 24, 2015, the Company, through its wholly owned subsidiary CSI, issued a promissory note to Sterling National Bank in the amount of $350,000. The note bears interest at eighteen percent (18%) per annum and has a maturity date of October 24, 2017.

The Company intends to continue to conduct additional financings, as may be needed, to fund additional acquisitions.

Restructuring Plan and Implementation:

During the first and second quarters of fiscal 2015, the Company conducted a thorough review and evaluation of its business operations and strategies, the forecast for the staffing industry, and the business environment in general. The Company concluded that it was imperative to take immediate action to reduce short and medium-term debt service obligations, consulting/advisory agreements, employment costs and other corporate commitments that were overburdening the Company's working capital and ability to fund continuing business operations, raise additional equity capital and/or debt, and execute its business plan. As such, on September 3, 2014, the Company formally established a Restructuring Committee, comprised of a Chairman and four (4) others selected from its board of directors to evaluate and formalize a Restructuring Plan. The Restructuring Plan was presented and adopted by the board of directors on September 3, 2014. Management planned to pursue each of the initiatives of the Restructuring Plan, some of which were contingent upon third parties' acceptance of the restructuring terms and may not be fully achieved.

Cost Reduction or Restructuring Goals and Key Initiatives:

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

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<u>Short- and Medium-term debt service</u>: The approved Restructuring Plan authorized management to approach existing debt holders with this proposal. The Company offered equity in the form of common stock and/or warrants in exchange for conversion or deferral of existing notes/obligations. The Company exchanged equity with a fair value in excess of the aggregate amount of debt being extinguished. Upon execution of all necessary agreements, the Company recognized a loss on the transaction. In accordance with ASC 470-40-2, the difference between the reacquisition price of debt and the net carrying amount of the extinguished debt shall be recognized currently in the period of extinguishment as losses or gains. Gains and losses shall not be amortized to future periods. The modification expense was measured at fair value on the date of the agreement and recorded in accordance with ASC 470-40-2; and

o Notes Payable and Other Debt obligations: The Restructuring Plan offered a meaningful incentive to outstanding Notes Payable holders to convert their principal and accrued interest to common stock and/or warrants rather than a cash payment; Note holders converted $3,056,030 of principal and interest into 3,358,391 common stock shares and 3,694,230 warrants exercisable for a term of ten (10) years at $1.25. This action is anticipated to reduce the Company's future cash outflows by approximately $889,000 in the calendar year of 2015, and by a further $2,313,000 in the calendar year of 2016.

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- o Modification of Series A Bonds: The Restructuring Plan modified the terms of the Series A Bonds conversion price from $1.50 to $1.00 with the intention of providing a meaningful incentive for the Series A Bond holders to convert their principal and interest to common stock and/or warrants on or before the maturity date of October 15, 2014, rather than redeem for cash; Bondholders converted $3,709,655 of principal and interest into 3,709,687 common stock shares and 1,854,859 warrants exercisable for a term of three (3) years at $2.00. The Company recorded a modification expense of $2,927,959 related to changing the conversion price of these bonds.

- o Modification of Series B Bonds: The Restructuring Plan modified the terms of the Series B Bonds conversion price from $1.50 to $1.20 with the intention of providing a meaningful incentive for the Series B Bond holders to convert their principal and interest to common stock by the maturity date of September 15, 2015, rather than redeem for cash. No Bondholders have elected to convert as of May 31, 2015. The Company recorded a modification expense of $154,489 related to changing the conversion price of these bonds;

- o Earn-out Liabilities: The Restructuring Plan offered a meaningful incentive to the Earn-out liability holders to convert their contingent future payments to common stock rather than cash payments. In conjunction with the sale of Cyber 360, effective January 1, 2015, the former shareholders of TRG were offered the opportunity and elected to convert their remaining Earn-out liability of $1,134,050 into common stock shares at $1.00 per share. As a result, the Company issued 1,134,050 common stock shares and recorded a gain on conversion of earn-out of $485,835 on February 27, 2015.

- Operational and Corporate commitments: The approved Restructuring Plan authorized management to cancel various on-going consulting and employment agreements and incur certain costs associated with this restructuring. In accordance with ASC 470-25-12, which states, *a liability for costs to terminate a contract before the end of its term shall be recognized when the entity terminates the contract in accordance with the contract terms.* These amounts were recorded in the operating section of the Statement of Operations on a line item titled Reorganization of Business Expenses and a liability for the amount owed on the balance sheet.

- o Consulting Agreements: The Company cancelled various on-going consulting agreements. The measurement date to record the expense was the date upon which the Company decided to cancel the agreement. The Company expensed $73,875 as a result of the cancellation of these agreements. This action is anticipated to reduce the Company's future cash outflows by approximately $432,000 in the calendar year of 2015.

- o Employment: The Company severed employment with an employee. The measurement date to record the expense was the date upon which the Company agreed to separate employment. The Company expensed $691,966 related to the aforementioned severed employment. This action is anticipated to increase the Company's future cash outflows by approximately $50,000 during the calendar year of 2015, and thereafter to reduce the Company's future cash outflows by approximately $624,000 annually in perpetuity.

- o Restructuring Fees: The Company estimated the cost associated with this restructuring to be approximately $175,000. U.S. GAAP does not allow for a general accrual for restructuring costs.

Therefore, any such costs have been and will continue to be expensed as incurred. To date, these fees have totaled $792,650 and are properly classified in Professional fees - Restructuring.

Results of Operations

The Company continues to aggressively pursue and acquire staffing companies. To date the Company has acquired seven (7) staffing companies. As a consequence of this, and specifically the transaction costs of the acquisition program and the cost of obtaining financing, the Company generated a loss of $18.0 million in the year-ended May 31, 2015. In addition, during 2015, the Company recorded approximately $703,000 of non-cash impairment charges against its Intangible assets relating to the acquisition of CSI. Additionally, the Company incurred approximately $2.5 million of non-cash amortization of intangibles. While we accept that two (2) of our acquisitions have under-performed from a GAAP perspective, and we have since divested Cyber360, we view our M&A program in its totality as a success. In the medium to long-term we will view this impairment as a cost of getting our growth program in place.

From a revenue perspective, the Company delivered $128.8 million for the year, of which $32.2 million was in the final quarter of the year. The Company believes the acquisitions consummated during calendar year 2014 are performing as expected. We are confident that we can continue to grow these businesses and that they will allow us to attract further acquisitions in line with our stated Strategic Plan of achieving $300 million of annualized revenue.

The Company is vigilant in managing its operations and has developed a “Pathway to Profitability” program that is monitored constantly. This Pathway to Profitability includes overhead control, operational reviews, cash management, adequate capitalization, and our merger & acquisition program. Young, growing companies often confront struggles such as integration, financing, etc. We have invested for our future in building a strong corporate team which allows stronger financial reporting, compliance and commercial management. This investment has contributed to our losses in the short-term but would not need material additions to it as we grow, both organically and through acquisition.

The following table sets forth the results of our operations for the years ended May 31, 2015 and 2014 indicated as a percentage of revenue:

	Years Ended May 31, 2015		2014	
Service revenue	$128,829,330	100%	$41,198,162	100%
Direct cost of services	106,280,617	82%	33,394,503	81%
Gross profit	22,548,713	18%	7,803,659	19%
Operating expenses	30,018,209	23%	17,686,323	43%
Loss from operations	(7,469,496)	(6)%	(9,882,664)	(24)%
Other expenses	(10,551,267)	(8)%	(2,784,712)	(7)%
Net loss	$(18,020,763)	(14)%	$(12,667,376)	(31)%

Service revenue

We began to generate revenue in October 2012. As of May 31, 2015, the Company had five (5) operating entities – CSI, Staffing (UK), Poolia UK, PSI and PRS.

CSI was acquired on November 4, 2013. It provides consulting and risk advisory services principally in the U.S. and Canada but also has a network of affiliated entities across thirty-three (33) countries through which our services are provided. It recognizes revenue ratably over the period in which the service is provided. The costs of the service provision are recognized as the cost and time is incurred.

Staffing (UK) (including its subsidiary Monroe) was acquired on January 3, 2014. It provides temporary staffing and permanent placement services in the U.S. and the U.K. Revenue is derived from gross billings, which are based on (i) the payroll cost of its worksite employees; and (ii) a markup computed as a percentage of the payroll cost. The gross billings are invoiced concurrently with each periodic payroll of its worksite employees.

Poolia UK was acquired on February 28, 2014. Poolia UK operates its professional staffing services from its office in London and focuses on providing temporary, contract and permanent qualified professionals to various banking, financial and commercial clients across the U.K.

PSI was acquired on May 17, 2014. It provides temporary staffing and permanent placement services primarily in the IT sector. Revenue is derived from gross billings, which are based on (i) the payroll cost of its worksite employees; and (ii) a markup computed as a percentage of the payroll cost. The gross billings are invoiced concurrently with each periodic payroll of its worksite employees.

PRS was acquired on May 17, 2014. It provides temporary staffing and payrolling services primarily in the IT sector. Revenue is derived from gross billings, which are based on (i) the payroll cost of its worksite employees; and (ii) a markup computed as a percentage of the payroll cost. The gross billings are invoiced concurrently with each periodic payroll of its worksite employees.

For the year ended May 31, 2015, we had revenue of $128,829,330 compared to $41,198,162 for the year ended May 31, 2014. The increase in revenue is due to the full year impact of the five (5) acquisitions combined with strong organic growth.

Direct cost of services

Cost of revenue includes the cost of labor and other overhead costs (payroll wages, taxes and related insurance) as they relate to employees (temporary and permanent) as well as sub-contractors and consultants. For the years ended May 31, 2015 and 2014, cost of revenue was $106,280,617 and $33,394,503, respectively. The increase is related to the cost of revenue of the Company’s five (5) acquisitions, a full year of which was recorded for the first time in the fiscal year ended May 31, 2015.

Gross profit and gross margin

Our gross profit for the years ended May 31, 2015 and 2014 was $22,548,713 and $7,803,659, respectively, representing gross margin of 18% and 19% respectively. The decrease in margin is related to the gross profit margin of the Company’s five (5) acquisitions, all of which took place during the fiscal year ended May 31, 2014. Gross margin as a percentage of revenue for the year ended May 31, 2015 represents a full year for each of our acquisitions, and is approximately in line with our expectations for gross margin as a percentage of revenue if our business mix remains as it is currently.

Operating expenses

For the year ended May 31, 2015, operating expenses amounted to $30,018,209 as compared to $17,686,323 for the year ended May 31, 2014, an increase of $12,331,886 or 70%. While operating expenses increased significantly on an absolute basis, as a percentage of revenue, we saw an improvement from 43% for the year ended May 31, 2014 to 23% for the year ended May 31, 2015. As we continue to grow revenue, and further leverage our existing support functions, we expect operating expenses as a percentage of revenue to continue to trend lower. For the years ended May 31, 2015 and 2014, operating expenses consisted of the following:

	Years Ended May 31,	
	2015	2014
General and administrative	$5,122,180	$2,598,105
Compensation	16,579,759	6,618,051
Director and consulting fees – Related parties	445,630	458,968
Impairment of goodwill	-	2,700,255
Impairment of intangible assets	703,222	833,592
Depreciation and amortization	2,711,476	1,198,117
Professional fees	3,588,673	3,279,235
Salaries and wages – Restructuring	74,619	-
Professional fees – Restructuring	792,650	-
Total operating expenses	$30,018,209	$17,686,323

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For the year ended May 31, 2015, the increase in our operating expenses as compared to the year ended May 31, 2014 was primarily attributable to:

- An increase of $2,524,075 in general and administrative expenses for the year ended May 31, 2015 as compared to the year ended May 31, 2014. The increase is primarily attributable to the implementation of the Company's business plan in relation to costs incurred for the full year May 31, 2015, whereas the year ended May 31, 2014 only included partial years for each acquired company. General and administrative expenses declined from 6.3% of revenue to 4.0% from the year ended May 31, 2014 to the year ended May 31, 2015, respectively.

- An increase in compensation of $9,961,708. The increase is primarily attributable to the implementation of the Company's business plan in relation to costs incurred for the full year ended May 31, 2015, whereas the year ended May 31, 2014 only included partial years for each acquired company. For the years ended May 31, 2014 and 2015, compensation expense declined as a percentage of revenue from 16.1% to 12.9%. This decline was consistent with our expectation, and we expect compensation expense as a percentage of revenue to continue to decline as revenue grows.

- A decrease of $13,338 in director and consulting fees to related parties incurred for administrative overhead services and business development services is primarily attributable to the Company's review of and subsequent decrease in consulting agreements primarily related to investor relations and raising capital.

- An increase of $1,513,359 in depreciation and amortization expense for the year ended May 31, 2015 as compared to the year ended May 31, 2014. Amortization expense relates to the amortization of intangible assets related to the acquisitions of Control Solutions International on November 4, 2013, Staffing UK on January 3, 2014, Poolia on February 28, 2014 and PeopleSERVE, Inc. and PeopleSERVE PRS, Inc. on May 17, 2014. The Company's intangible assets are being amortized on a straight line basis over the estimated life of four (4) years except for Trade Names which are being amortized over fifteen (15) years. Depreciation expense relates to the fixed assets of the Company's subsidiaries and the fixed assets the Company acquired. The increase is primarily driven by expenses being recognized for each company for the full year ended May 31, 2015, whereas the year ended May 31, 2014 only included partial years for each acquired company.

- An increase of $309,438 in professional fees in the year ended May 31, 2015 as compared to the year ended May 31, 2014. The increase primarily relates to increases in accounting, consulting and legal fees related to the implementation of the Company's business plan, specifically due diligence (legal and accounting) of potential acquisition targets, as well as, litigation, legal and auditing costs associated with acquisitions. This is expected to continue as the Company continues to acquire new businesses. The increase also relates to the professional fees relating to running a public company (accounting, auditing, legal, transfer agent, and filing fees). For the years ended May 31, 2014 and 2015, professional fees declined as a percentage of revenue from 8.0% to 2.8%.

- For the year ended May 31, 2015, the Company recorded no impairment in its goodwill, compared to $2,700,225 for the year ended May, 31, 2014. During the year ended May 31, 2014 the Company fully impaired its goodwill asset related to the acquisition of Cyber 360 for a total of $1,412,646 and impaired $1,287,609 related to the full impairment associated with the acquisition of CSI. The Company periodically reviews its goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable or annually if not done earlier. The valuations provided were performed by an independent professional valuation services' calculations.

For the year ended May 31, 2015, the Company recorded an impairment to its intangible assets totaling $703,222 compared to an impairment charge of $833,592 for the year ended May 31, 2014. For the year ended May 31, 2014, the Company fully impaired its intangible assets related to the acquisition of Cyber 360 for a total of $823,567 and impaired $10,025 related to the acquisition of CSI. For the year ended May 31, 2015, the Company impaired the remaining balance of its intangible assets related to the acquisition of CSI totaling $703,222. The Company periodically reviews its intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable or annually if not done earlier. The valuations provided were performed by an independent professional valuation services' calculations.

Other Expenses

For the years ended May 31, 2015 and 2014, we incurred interest and financing expense of $5,865,499 and $2,725,646, respectively, relating to interest for convertible notes and other notes payable, accounts receivable financing, amortization of beneficial conversion feature, debt discount and amortization of deferred financing costs. In addition, for the years ended May 31, 2015 and 2014, the Company incurred restructuring costs totaling $4,369,723 and $0, respectively. The restructuring charges in fiscal 2015 were due to the Company's implementation of its restructuring plan.

Net Loss

As a result of the factors described above, our net losses for the years ended May 31, 2015 and 2014 were $18,020,763 and $12,667,376, respectively, or a net loss per common share of $0.46 and $0.65 (basic and diluted), respectively.

Liquidity and Capital Resources

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

As of May 31, 2015, the Company had a working capital deficiency of $6,594,882, and had an accumulated deficit of $34,407,771 and for the year ended May 31, 2015 has a net loss and net cash used in operations of $18,020,763 and $4,556,742, respectively.

Our primary uses of cash have been for professional fees related to our operations and financial reporting requirements and for the payment of compensation and benefits and consulting fees to related parties. All funds received have been expended in growing the business, implementing our business plan and funding operations. The following trends are reasonably likely to result in a material decrease in our liquidity over the near to long term:

- An increase in working capital requirements to finance targeted acquisitions,

- Addition of administrative and sales personnel as the business grows,
- Increases in advertising, public relations and sales promotions for existing and new brands as we expand within existing markets or enter new markets,
- The costs associated with being a public company, and
- Capital expenditures to add technologies.

As a result of our financings, we believe that we will be able to implement our business plan and pursue the acquisition of a broad spectrum of staffing agencies primarily in the accounting and finance, IT, engineering, administration and light industrial sectors. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. However, the trading price of our common stock and a downturn in the U.S. equity and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Furthermore, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. Currently, dilutive common share equivalents totaling 31,908,424 consist of shares issuable upon the conversion of existing convertible notes, convertible Preferred Stock and the exercise of stock options and warrants.

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

Operating activities

For the year ended May 31, 2015, net cash used in operations of $4,556,742 was primarily attributable to the net loss of $17,549,955 offset by changes in operating assets and liabilities totaling $1,069,488, which primarily relates to accounts receivable of $1,723,349, prepaid expenses of $142,127, deferred finance costs of $1,427,613, other assets of $380,320, accounts payable and accrued expenses of $2,677,054, dividends payable of $49,890, interest payable – long-term of $118,384 and other current liabilities of $141,627, non-cash adjustments of $14,051,091 of depreciation and amortization, and impairment of intangibles totaling $7,612,168, share based compensation totaling $4,271,469, modification expense of $3,092,876, gain on settlement of debt of $920,729, gain on conversion of Earn-out liability of $485,835, interest paid in common stock of $419,944 and write-off of fixed assets of $46,113. Cash used in operations of $4,477,176 in 2014 was primarily attributable to the net loss of $12,637,200 offset by changes in operating assets and liabilities totaling $334,260, which primarily relates to accounts payable and accrued expenses of $1,179,107, prepaid expenses of $28,444, deferred financing of $1,349,128, other assets of $212,102 and accounts receivable of $33,130, non-cash adjustments of $8,428,588 of depreciation and amortization and impairment of goodwill and intangibles of $6,978,296 and share based compensation of $1,470,831.

Investing activities

For the year ended May 31, 2015, net cash flows used in investing activities was $2,014,255 and was attributable to the purchase of fixed assets of $255,272, payments due to sellers of Poolia and People Serve totaling $1,347,215, payments of $382,791 made for the earn-out agreement relating to the acquisition of Cyber 360 on April 26, 2013 and CSI on November 3, 2013 and cash relinquished in sale of subsidiary (Cyber 360) of $28,977. For the year ended May 31, 2014, net cash flows used in investing activities was $11,618,186 and was attributable to the acquisition related cash acquired of $835,342, the purchase of fixed assets of $150,689, payments due to sellers of Poolia and PeopleSERVE totaling $137,591 and the payments of $525,572 made for the earn-out agreement relating to the acquisition of Cyber 360 on April 26, 2013 and CSI on November 3, 2013. The Company also made cash payments totaling $11,639,676 towards the purchases of CSI, Staffing (UK), Poolia UK, PSI and PRS.

Financing activities

For the year ended May 31, 2015, net cash flows provided by financing activities totaled $5,285,063 and was attributable to proceeds relating to accounts receivable financing of $1,755,411, proceeds of $404,000 from the issuance of convertible promissory notes, proceeds of $5,405,000 from the issuance of promissory notes and proceeds of $2,041,500 from the issuance of convertible bonds. In addition, the Company repaid $1,100,000 in convertible notes, and repaid promissory notes of $3,220,848. For the year ended May 31, 2014, net cash flows provided by financing activities totaled $17,180,400 and was attributable to proceeds relating to accounts receivable financing of $1,820,855, proceeds of $3,255,000 from the issuance of convertible promissory notes, proceeds of $340,000 from the issuance of promissory notes, proceeds of $2,998,500 from the issuance of convertible bonds and $10,565,000 relating to proceeds from the sale of common stock and warrants. In addition, the Company repaid $688,075 in convertible notes, and made payments to a private placement agent totaling $1,110,880.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our significant accounting policies are fully described in Note 3 to our consolidated financial statements for the fiscal year ended May 31, 2015 contained herein.

Recent Accounting Pronouncements

In April 2015, the FASB issued authoritative guidance regarding Interest - Imputation of Interest, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance is effective for fiscal years and interim reporting periods within those years beginning after December 31, 2015, with early adoption permitted. The standard will be effective for the Company's fiscal year beginning April 1, 2016. The Company does not expect the adoption of this guidance to have a material effect on our consolidated financial statements.

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

Not required for smaller reporting companies.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Staffing 360 Solutions, Inc.

We have audited the accompanying consolidated balance sheets of Staffing 360 Solutions, Inc. (the "Company") as of May 31, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the two year period ended May 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Staffing 360 Solutions, Inc. at May 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the years in the two (2) year period ended May 31, 2015, in conformity with U.S. generally accepted accounting principles.

New York, NY

July 31, 2015

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STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	May 31, 2015	2014
ASSETS		
Current Assets:		
Cash and equivalents	$19,194	$1,295,733
Accounts receivable, net	18,759,616	16,387,565
Deferred financing, net	1,151,434	342,745
Prepaid expenses and other current assets	1,023,453	827,481
Total Current Assets	20,953,697	18,853,524
Property and equipment, net	506,005	449,257
Goodwill	8,399,786	8,318,637
Intangible assets, net	10,568,862	13,803,305
Other assets	1,903,905	1,523,585
Non-current assets from discontinued operations	-	47,154
Total Assets	$42,332,255	$42,995,462
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$7,090,856	$5,369,223
Accounts payable and accrued expenses - Related parties	175,000	136,914
Accrued payroll and taxes	4,015,594	3,659,891
Convertible notes payable, net	202,068	620,172
Promissory notes	1,646,442	1,578,291
Earn-out liability	270,180	850,216
Accounts receivable financing	13,015,618	10,798,713
Bonds payable, net	1,086,400	1,499,660
Other current liabilities - Due to sellers	-	1,347,215
Other current liabilities	46,421	188,048
Total Current Liabilities	27,548,579	26,048,343
Dividends payable	49,890	-
Interest payable	123,832	5,448
Earn-out liability	1,287,407	1,916,212
Promissory notes	3,820,487	4,406,049
Total Liabilities	32,830,195	32,376,052
Stockholders' Equity:		
Preferred stock, $0.00001 par value, 20,000,000 shares authorized; Series A Preferred Stock, 1,663,008 designated, $1.00 stated value, 1,663,008 and 0 shares issued and	17	-

outstanding as of May 31, 2015 and 2014, respectively		
Common stock, $0.00001 par value, 200,000,000 shares authorized; 43,688,120 and 32,950,537 shares issued and outstanding as of May 31, 2015 and 2014, respectively	437	329
Additional paid in capital	42,883,511	26,411,211
Accumulated other comprehensive loss	(27,479)	(37,549)
Accumulated deficit	(34,407,771)	(16,337,118)
Total Staffing 360 Solutions, Inc. Stockholders' Equity	8,448,715	10,036,873
Non-controlling interest	1,053,345	582,537
Total Equity	9,502,060	10,619,410
Total Liabilities and Stockholders' Equity	$42,332,255	$42,995,462

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

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended May 31, 2015	2014
Revenue	$128,829,330	$41,198,162
Cost of Revenue	106,280,617	33,394,503
Gross Profit	22,548,713	7,803,659
Operating Expenses:		
Salaries and wages	16,579,759	6,618,051
Professional fees	3,588,673	3,279,235
Consulting fees - Related parties	445,630	458,968
Depreciation and amortization	2,711,476	1,198,117
General and administrative expenses	5,122,180	2,598,105
Impairment of goodwill	-	2,700,255
Impairment of intangibles	703,222	833,592
Salaries and Wages - Restructuring	74,619	-
Professional Fees - Restructuring	792,650	-
Total Operating Expenses	30,018,209	17,686,323
Loss From Operations	(7,469,496)	(9,882,664)
Other Income / (Expenses):		
Interest expense	(1,645,533)	(479,609)
Amortization of deferred financing	(646,838)	(1,006,383)
Amortization of beneficial conversion feature	(2,474,820)	(673,568)
Amortization of debt discount	(1,098,308)	(566,086)
Interest expense - Restructuring	(2,541,816)	-
Other income / (loss)	141,595	-
Gain on conversion of Earn-out liability - Restructuring	485,835	-
Gain on settlement of debt - Restructuring	779,134	-
Modification Expense - Restructuring	(3,092,876)	-
Loss Before Provision For Income Tax	(17,563,123)	(12,608,310)
Income tax benefit / (expense)	60,322	(69,968)
Net Loss From Continued Operations	$(17,502,801)	$(12,678,278)
Net Income / (Loss) From Discontinued Operations	$(47,154)	$20,539
Net Loss	$(17,549,955)	$(12,657,739)

Net income attributable to non-controlling interest	470,808	9,637
Net Loss Attributable To Staffing 360 Solutions, Inc.	$(18,020,763)	$(12,667,376)
Dividends - Series A preferred stock	49,890	-
Net loss attributable to common stock	$(18,070,653)	$(12,667,376)
Basic And Diluted Income / (Loss) from Continued Operations	$(0.46)	$(0.65)
Basic And Diluted Income / (Loss) from Discontinued Operations	$(0.00)	$0.00
Basic And Diluted Income / (Loss) per Share	$(0.46)	$(0.65)
Weighted Average Shares Outstanding - Basic And Diluted	38,291,636	19,471,886

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

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STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	For the Years Ended May 31,	
	2015	2014
Net Loss	$(17,549,955)	$(12,657,739)
Other Comprehensive Loss		
Foreign exchange translation	10,070	(37,549)
Comprehensive Loss Attributable to the Company	$(17,539,885)	$(12,695,288)

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

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

	Preferred Stock		Common Stock		Common Stock	Additional	Accumulated Other	Non-	
	Shares	Par Value	Shares	Par Value	to be issued	Paid In Capital	Comprehensive Loss	controlling Interest	Accumula Deficit
Balance May 31, 2013	-	$-	12,288,138	$123	$527,789	$3,920,194	$-	$-	$(3,669,7
Common stock issued pursuant to private placements	-	-	10,627,783	106	(350,000)	10,564,894	-	-	-
Common stock issued to consultants	-	-	831,055	8	(137,289)	1,025,370	-	-	-
Common stock issued pursuant to conversion of liabilities	-	-	196,950	2	-	177,314	-	-	-
Common stock issued pursuant to conversion of financings	-	-	1,766,111	18	-	1,704,982	-	-	-
Shares issued in connection with financings	-	-	1,118,600	11	-	1,288,277	-	-	-
Shares issued to board of directors	-	-	132,912	1	(22,500)	132,977	-	-	-
Shares issued to employees	-	-	90,000	1	(18,000)	113,499	-	-	-
Share issued to acquisitions	-	-	4,560,067	46	-	5,179,383	-	-	-
Payment to private placement agent in relation to private placements	-	-	-	-	-	(1,110,880)	-	-	-
Shares issued to private placement agent in relation to private placements	-	-	921,150	9	-	(9)	-	-	-
Shares issued to private placement agent in relation to convertible debt and bond offerings	-	-	417,772	4	-	786,204	-	-	-
Options issued to employees	-	-	-	-	-	198,974	-	-	-
Warrants issued in connection with	-	-	-	-	-	80,825	-	-	-

conversion of promissory notes									
Beneficial Conversion Feature	-	-	-	-	-	2,349,207	-	-	-
Other comprehensive loss	-	-	-	-	-		(37,549)	-	-
Non-controlling interest attributable to purchase of 49% of PeopleSERVE PRS, Inc.	-	-	-	-	-	-	-	572,900	-
Net income (loss)	-	-	-	-	-	-	-	9,637	(12,667,
Balance May 31, 2014	**-**	**-**	**32,950,537**	**329**	**-**	**26,411,211**	**(37,549)**	**582,537**	**(16,337,**
Shares issued for conversion of officers bonuses	1,663,008	17	-	-	-	778,270	-	-	-
Common stock issued to consultants	-	-	232,500	2	-	214,997	-	-	-
Common stock issued pursuant to conversion of convertible notes payable	-	-	400,000	4	-	599,996	-	-	-
Common stock issued pursuant to conversion of accrued interest related to convertible notes payable	-	-	7,912	0	-	11,868	-	-	-
Shares issued in connection with convertible notes	-	-	84,500	1	-	123,344	-	-	-
Shares issued to board of directors as compensation	-	-	302,500	3	-	283,526	-	-	-
Shares issued to private placement agent	-	-	16,509	0	-	27,832	-	-	-
Shares issued in connection with convertible bonds - Series A	-	-	106,000	1	-	174,141	-	-	-
Shares issued in connection with settlement agreement	-	-	275,000	3	-	255,747	-	-	-
Common stock issued as interest on debt	-	-	432,820	4	-	309,236	-	-	-
Shares issued in connection with convertible bonds - Series B	-	-	98,150	1	-	123,504	-	-	-
Shares issued in connection with	-	-	92,904	1	-	93,780	-	-	-

extensions of convertible bonds - Series A									
Shares issued in connection with extensions of convertible note	-	-	26,036	0	-	16,923	-	-	-
Shares issued as conversion of Accounts payable	-	-	236,624	2	-	215,672	-	-	-
Shares issued as conversion of Initio Promissory Notes-Debt	-	-	3,056,030	31	-	2,290,180	-	-	-
Shares issued as conversion of Initio Promissory Notes-Interest	-	-	302,361	3	-	226,186	-	-	-
Modification expense	-	-	-	-	-	3,092,876	-	-	-
Shares issued in connection with convertible bonds - Series A	-	-	3,709,687	37	-	3,709,618	-	-	-
Shares issued for conversion of Earn-out liability	-	-	1,134,050	11	-	340,204	-	-	-
Shares issued as a bonus	-	-	224,000	2	-	188,158	-	-	-
Beneficial Conversion Feature	-	-	-	-	-	845,500	-	-	-
Warrants issued	-	-	-	-	-	2,213,073	-	-	-
Options issued	-	-	-	-	-	337,669	-	-	-
Dividends - Preferred Stock - Series A	-	-	-	-	-	-	-	-	(49,890
Other comprehensive income (loss)	-	-	-	-	-	-	10,070	-	-
Non-controlling interest attributable to purchase of 49% of PeopleSERVE PRS, Inc.	-	-	-	-	-	-	-	470,808	-
Net loss	-	-	-	-	-	-	-	-	(18,020,
Balance May 31, 2015	1,663,008	$17	43,688,120	$437	-	$42,883,511	$(27,479)	$1,053,345	$(34,407,

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

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STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended May 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(17,549,955)	$(12,657,739)
Adjustments to reconcile net loss from operations to net cash used in operating activities:		
Net income (loss) from discontinued operations	47,154	(20,539)
Depreciation	157,759	113,451
Write-off of fixed assets	46,113	-
Amortization of intangible assets	2,531,221	1,084,961
Amortization of deferred finance costs	646,838	1,006,383
Amortization of debt discount	1,098,308	673,568
Amortization of beneficial conversion feature	2,474,820	566,086
Change in fair value of goodwill	(81,149)	-
Impairment of goodwill	-	2,700,255
Impairment of intangibles	703,222	833,592
Stock based compensation	2,058,396	1,470,831
Warrants issued as interest to note holders	2,213,073	-
Modification expense	3,092,876	-
Gain on settlement of debt	(920,729)	-
Gain on conversion of Earn-out liability	(485,835)	-
Interest paid in common stock	419,944	-
Changes in operating assets and liabilities:		
Accounts receivable	(1,723,349)	33,130
Prepaid expenses	(142,127)	(28,444)
Deferred financing	(1,427,613)	(1,349,128)
Other assets	(380,320)	(212,102)
Accounts payable and accrued expenses	2,426,987	552,539
Accounts payable - Related parties	38,086	(124,676)
Accrued payroll and taxes	211,981	751,244
Other current liabilities	(141,627)	43,177
Interest payable - Long term	118,384	-
NET CASH USED IN OPERATING ACTIVITIES - CONTINUING OPERATIONS	(4,567,542)	(4,563,411)
NET CASH USED IN OPERATING ACTIVITIES - DISCONTINUED OPERATIONS	10,800	86,235
NET CASH USED IN OPERATING ACTIVITIES	(4,556,742)	(4,477,176)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition related cash acquired	-	835,342
Acquisition - Payments due to seller	(1,347,215)	(137,591)
Payment towards Earn-out liability	(382,791)	(525,572)

Purchase of fixed assets	(255,272)	(150,689)
Cash relinquished in sale of subsidiary	(28,977)	-
Cash paid for purchase of subsidiary	-	(11,639,676)
NET CASH USED IN INVESTING ACTIVITIES	(2,014,255)	(11,618,186)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from convertible notes payable	404,000	3,255,000
Repayment of convertible notes payable	(1,100,000)	(688,075)
Proceeds from promissory notes payable	5,405,000	340,000
Repayment of promissory notes	(3,220,848)	-
Proceeds from accounts receivable financing	1,755,411	1,820,855
Payments to private placement agent	-	(1,110,880)
Proceeds from pipe financing	-	10,565,000
Proceeds from sale of bonds	2,041,500	2,998,500
NET CASH PROVIDED BY FINANCING ACTIVITIES	5,285,063	17,180,400
NET INCREASE / (DECREASE) IN CASH	(1,285,934)	1,085,038
Effect of variation of exchange rate on cash held in foreign currency	9,395	-
CASH - Beginning of year	1,295,733	219,132
CASH - End of year	$19,194	$1,304,170
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$999,567	$3,189
Income taxes	$151,875	$-
SUPPLEMENTAL SCHEDULES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Intangible asset	$-	$13,335,087
Goodwill	$81,149	$8,427,593
Common stock issued in connection with purchase of subsidiary	$-	$5,197,429
Assets acquired from purchase of subsidiary	$-	$1,392,509
Promissory notes issued in connection with acquisitions	$-	$6,332,415
Conversion of accounts payable to common stock	$215,674	$100,981
Conversion of a convertible note payable	$600,000	$1,705,000
Earn-out liability	$-	$2,100,000
Conversion of interest related to a convertible note payable	$-	$76,334
Warrants issued in connection with conversion of convertible notes	$-	$80,825
Shares issued in connection with convertible promissory notes	$123,345	$1,288,288
Shares issued in connection with bonds	$360,372	$-
Common stock issued to placement agent	$27,832	$-
Beneficial conversion feature in relation to issuance of debt	$845,500	$2,349,207
Debt discount in relation to issuance of debt	$420,992	$-
Conversion of accrued interest to common stock	$203,343	$-
Conversion of convertible bonds	$3,528,500	$-
Conversion of Initio promissory notes	$2,994,202	$-
Dividends declared – Series A preferred stock	$49,890	$-

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

STAFFING 360 SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Staffing 360 Solutions, Inc. ("we," "us," "our," "Staffing 360," or the "Company") was incorporated in the State of Nevada on December 22, 2009, as Golden Fork Corporation ("Golden Fork"), which changed its name to Staffing 360 Solutions, Inc., ticker symbol "STAF", on March 16, 2012.

On July 31, 2012, the Company formed Staffing 360 Alliance, Inc. ("Staffing Alliance"), a wholly-owned subsidiary incorporated in the State of Nevada, which had operations in the staffing sector for a short period of time before ceasing operations in February 2014.

On April 26, 2013, the Company purchased all of the issued and outstanding common stock ("TRG Acquisition") of The Revolution Group, Ltd. ("TRG"), a Massachusetts corporation (subsequently renamed "Cyber 360, Inc."). The aggregate consideration paid was approximately $2.5 million, payable in cash, common stock and a percentage of future gross profits. TRG operated under the name Cyber 360, Inc. until it was disposed of on January 1, 2015. (See Note 14 - Acquisitions).

On June 28, 2013, the Company filed a Certificate of Amendment to its Articles of Incorporation with the State of Nevada, whereby increasing the authorized number of common stock shares from 75,000,000 to 200,000,000. Additionally, this amendment authorized the issuance of up to 20,000,000 shares of Blank Check Preferred Stock.

On November 4, 2013, the Company purchased all of the issued and outstanding common stock ("CSI Acquisition") of Control Solutions International, Inc. ("CSI"), a Florida corporation, and its wholly owned subsidiary, Canada Control Solutions International, Inc., an Ontario, Canada corporation ("CCSI"), from NewCSI, Inc., a Delaware corporation ("NCSI"), and the shareholders of NCSI. The aggregate consideration paid was approximately $3.5 million, payable in cash, common stock and a percentage of future gross profits. (See Note 14 - Acquisitions).

On January 3, 2014, the Company purchased all of the issued and outstanding common stock of Initio International Holdings Limited ("Initio"), a company organized under the laws of England and Wales, and its subsidiaries, including

Monroe Staffing Services, LLC, a Delaware limited liability company (“Monroe”) (Monroe together with all of Initio’s subsidiaries is the “Subsidiaries”). The aggregate consideration paid was approximately $13.29 million, payable in cash, common stock and promissory notes. Subsequently, Initio was renamed Staffing 360 Solutions Limited (“Staffing (UK)”). (See Note 14 - Acquisitions).

Initio is a United Kingdom domiciled full-service staffing company with established brands in the U.K. and U.S. Initio’s U.K. division, Longbridge, was established in 1989 as an international multi-sector recruitment company with a long successful history of catering to the sales and marketing, technology, legal and IT solutions sectors. Initio’s U.S. division, Monroe, was established in 1969 as a full-service consulting and staffing agency serving companies ranging from Fortune 100 to new start-ups. Monroe has fifteen (15) offices and five (5) on-site locations throughout Connecticut, Massachusetts, Rhode Island, New Hampshire and North Carolina.

On February 28, 2014, the Company, through its wholly owned subsidiary, Staffing (UK), purchased substantially all of the business assets (“Poolia Acquisition”) of Poolia UK Ltd. (“Poolia UK”). All subsequent business activity is under a Staffing (UK) subsidiary. The aggregate consideration paid was £500,000 (“Fixed Consideration”), plus an amount equal to the net asset value at the completion date of the acquisition (“NAV Consideration,” together with the Fixed Consideration, collectively, the “Poolia Purchase Price”). The Fixed Consideration and a sum of £250,000, being an advance payment of the NAV Consideration, was paid at closing. Subsequent to closing, the balance of the NAV Consideration was paid to Poolia UK for a total Poolia Purchase Price of $1,626,266. (See Note 14 - Acquisitions).

On May 17, 2014, the Company purchased all of the issued and outstanding common stock of PeopleSERVE, Inc., a Massachusetts corporation ("PSI"), and forty-nine percent (49%) of the issued and outstanding common stock of PeopleSERVE PRS, Inc., a Massachusetts corporation ("PRS") (PSI and PRS collectively are the "PS"). The aggregate consideration ("PS Purchase Price") paid was approximately $8.4 million. (See Note 14 - Acquisitions).

At closing, the Company paid: (i) cash of approximately $2.7 million; (ii) 1,127,365 common stock shares based on the market closing price on the date of purchase of $1.93 for a total fair value of approximately $2.2 million; (iii) an unsecured promissory note in the amount of approximately $2.4 million; and (iv) approximately $1.1 million of Net Working Capital.

NOTE 2 – RESTRUCTURING PLAN AND IMPLEMENTATION

During the first and second quarters of fiscal 2015, the Company conducted a thorough review and evaluation of its business operations and strategies, a forecast for the staffing industry, and the business environment in general. The Company concluded that it was imperative to take immediate action to reduce short and medium-term debt service obligations, consulting/advisory agreements, employment costs and other corporate commitments that were overburdening the Company's working capital and ability to fund continuing business operations, raise additional equity capital and/or debt, and execute its business plan. As such, on September 3, 2014, the Company formally established a Restructuring Committee, comprised of a Chairman and four (4) others selected from its board of directors to evaluate and formalize a Restructuring Plan. The Restructuring Plan was presented and adopted by the board of directors on September 3, 2014. Management planned to pursue each of the initiatives of the Restructuring Plan, some of which were contingent upon third parties' acceptance of the restructuring terms and may not be fully achieved.

Cost Reduction or Restructuring Goals and Key Initiatives:

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

- Short- and Medium-term debt service: The approved Restructuring Plan authorized management to approach existing debt holders with this proposal. The Company offered equity in the form of common stock and/or warrants in exchange for conversion or deferral of existing notes/obligations. The Company exchanged equity with a fair value in excess of the aggregate amount of debt being extinguished. Upon execution of all necessary agreements, the Company recognized a loss on the transaction. In accordance with ASC 470-40-2, the difference between the reacquisition price of debt and the net carrying amount of the extinguished debt shall be recognized currently in the period of extinguishment as losses or gains. Gains and losses shall not be amortized to future periods. The modification expense was measured at fair value on the date of the agreement and recorded in accordance with ASC 470-40-2; and

  - Notes payable and Other debt obligations: The Restructuring Plan offered a meaningful incentive to outstanding Notes payable holders to convert their principal and accrued interest to common stock and/or warrants rather than a cash payment; Note holders converted $3,056,030 of principal and interest to 3,358,391 common stock shares and 3,694,230 warrants exercisable for a term of ten (10) years at $1.25. This action is anticipated to reduce the Company's future cash outflows by approximately $889,000 in the calendar year of 2015, and by a further $2,313,000 in the calendar year of 2016.

  - Modification of Series A Bonds: The Restructuring Plan modified the terms of the Series A Bonds conversion price from $1.50 to $1.00 with the intention of providing a meaningful incentive for the Series A Bond holders to convert their principal and interest to common stock and/or warrants on or before the maturity date of October 15, 2014, rather than redeem for cash; Bondholders converted $3,709,655 of principal and interest to 3,709,687 common stock shares and 1,854,859 warrants exercisable for a term of three (3) years at $2.00. The Company recorded a modification expense of $2,927,959 related to changing the conversion price of these bonds.

  - Modification of Series B Bonds: The Restructuring Plan modified the terms of the Series B Bonds conversion price from $1.50 to $1.20 with the intention of providing a meaningful incentive for the Series B Bond holders to convert their principal and interest to common stock by the maturity date of September 15, 2015, rather than redeem for cash. No Bondholders have elected to convert as of May 31, 2015. The Company recorded a modification expense of $154,489 related to changing the conversion price of these bonds;

  - Earn-out liabilities: The Restructuring Plan offered a meaningful incentive to the Earn-out liability holders to convert their contingent future payments to common stock rather than cash payments. In conjunction with the sale of Cyber 360, effective January 1, 2015, the former shareholders of TRG were offered the opportunity and elected to convert their remaining Earn-out liability of $1,134,050 into common stock shares at $1.00 per share. As a result, the Company issued 1,134,050 common stock shares and recorded a gain on conversion of earn-out of

$485,835 on February 27, 2015.

- Operational and Corporate commitments: The approved Restructuring Plan authorized management to cancel various on-going consulting and employment agreements and incur certain costs associated with this restructuring. In accordance with ASC 470-25-12, which states, *a liability for costs to terminate a contract before the end of its term shall be recognized when the entity terminates the contract in accordance with the contract terms.* These amounts were recorded in the operating section of the Statement of Operations on a line item titled Reorganization of Business Expenses and a liability for the amount owed on the balance sheet.

- Consulting agreements: The Company cancelled various on-going consulting agreements. The measurement date to record the expense was the date upon which the Company decided to cancel the agreement. The Company expensed $73,875 as a result of the cancellation of these agreements. This action is anticipated to reduce the Company's future cash outflows by approximately $432,000 in the calendar year of 2015.

- Employment: The Company severed employment with an employee. The measurement date to record the expense was the date upon which the Company agreed to separate employment; The Company expensed $691,966 related to the aforementioned severed employment. This action is anticipated to increase the Company's future cash outflows by approximately $50,000 during the calendar year of 2015, and thereafter to reduce the Company's future cash outflows by approximately $624,000 annually in perpetuity.

- Restructuring fees: The Company estimated the cost associated with this restructuring to be approximately $175,000. U.S. GAAP does not allow for a general accrual for restructuring costs. Therefore, any such costs have been and will continue to be expensed as incurred. To date, these fees have totaled $792,650 and are properly classified in Professional fees - Restructuring.

Discontinued Operations

On January 27, 2015, the board of directors of the Company met without any representation of the officers, former owners or Earn-out liability holders of Cyber 360 and discussed the possibility of discontinuing the Cyber 360 operations. Their independent decision was that they approved and authorized the discontinuance of Cyber 360 operations and to move immediately thereafter towards selling the Cyber 360 operations. Subsequently, the Company presented an arm's length transaction to some of the former TRG owners. On February 27, 2015, the Company entered into a Stock Purchase Agreement to sell Cyber 360 to some of the former TRG owners with an effective date of January 1, 2015 for an aggregate purchase price of $1.00 and the settlement of the remaining earn-out obligation under the original purchase agreement. In connection with the sale, all agreements executed in connection with the original acquisition of Cyber 360's business (previously known as The Revolution Group) in April 2013 ("Original Sale") and all obligations thereunder, except as set forth below, were terminated. As a result of the sale, the Company no longer owns Cyber 360, Inc. (FKA: Staffing 360 Group, Inc.), a Nevada corporation, or its subsidiary Cyber 360 Inc. (FKA: TRG), a Massachusetts corporation.

In connection with the sale and in full settlement of the remaining earn-out obligations, the Company issued 1,134,050 shares of the Company's common stock with a fair value of $0.30 per share. These shares are entitled to customary piggy-back registration rights but are subject to a lock-up restriction until the earlier of February 27, 2016 or a sale, liquidation, merger or similar reorganization of the Company resulting in the exchange of all outstanding Company shares for other property.

In accordance with ASC 205-20, the results of the discontinued business have been presented as discontinued operations for the fiscal year ended May 31, 2015. Previously reported results for comparable periods in fiscal year 2014 have also been restated to reflect this reclassification.

The operational results of Cyber 360 are presented in the “Net income from discontinued operations” line item on the Condensed Consolidated Statements of Operations. The assets and liabilities of the discontinued business are presented on the Condensed Consolidated Balance Sheets as assets and/or liabilities from discontinued operations.

Other than consolidated amounts reflecting operating results and balances for both the continuing and discontinued operations, all remaining amounts presented in the accompanying condensed consolidated financial statements and notes reflect the financial results and financial position of the Company's continuing operations.

Revenue, operating income, and net income from discontinued operations were as follows:

	For the Fiscal Years Ended May 31,	
	2015 (Unaudited)	2014 (Unaudited)
Revenue	$ 1,935,854	$ 4,580,331
Operating income/ (loss)	$ (43,991)	$ 22,002
Net income/ (loss) from discontinued operations	$ (47,154)	$ 20,539

The major classes of assets and liabilities from discontinued operations were as follows:

	January 1, 2015 (Unaudited)	May 31, 2014
Cash and equivalents	$ 44,931	$ 28,978
Accounts receivable, net	463,620	648,701
Prepaid expenses and other current assets	26,783	53,848
Current assets from discontinued operations	535,334	731,527
Property and equipment, net	4,471	5,349
Non-current assets from discontinued operations	4,471	5,349
Accounts payables and accrued expenses	92,961	84,505
Accrued payroll and taxes	59,618	143,722
Accounts receivable financing	400,531	461,494
Current liabilities from discontinued operations	$ 553,110	$ 689,721

NOTE 3 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>

<u>Year End and Principles of Consolidation</u>

These consolidated financial statements and related notes are presented in accordance with generally accepted accounting principles (“GAAP”) in the United States, and are expressed in U.S. dollars. The Company’s consolidated fiscal year-end is May 31. Some of the Company’s subsidiaries have varying year-ends.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. As described below, the Company consolidates PRS, an entity of which it owns 49%, since the Company is deemed to be the primary beneficiary of this entity. All significant inter-company transactions are eliminated.

Variable Interest Entities

Current accounting guidance provides a framework for identifying a Variable Interest Entity ("VIE") and determining when a company should include the assets, liabilities, non-controlling interests, and results of activities of the VIE in its consolidated financial statements. In general, a VIE is an entity or other legal structure used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to make significant decisions about its activities, or (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations. Generally, a VIE should be consolidated if a party with an ownership, contractual, or other financial interest in the VIE has the power to direct the VIE's most significant activities and the obligation to absorb losses or right to receive benefits of the VIE that could be significant to the VIE. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities, and non-controlling interest at fair value and subsequently account for the VIE as if it were consolidated based on majority voting interest. On May 17, 2014, the Company purchased 49% of the issued and outstanding common stock of PRS. Pursuant to ASC 810, PRS is deemed to be a variable interest entity since the Company is the primary beneficiary of PRS. Accordingly, the Company consolidated the results of PRS from May 17, 2014 through May 31, 2014 and May 31, 2015. As of May 31, 2015 the total assets and liabilities of PRS, which are consolidated, are $2,531,166 and $1,610,498, respectively. The total revenue and expenses consolidated for fiscal 2014 (since May 17, 2014) were $300,879 and $281,983, respectively, and for fiscal 2015 are $11,176,809 and $10,253,656, respectively.

Non-controlling Interests

Non-controlling interest in our subsidiary is recorded in accordance with the provisions of ASC 810 “Consolidation”, and is reported as a component of equity, separate from the parent company’s equity. Purchase or sale of equity interests that does not result in a change of control is accounted for as equity transactions. Results of operations attributable to the non-controlling interest is included in our consolidated results of operations and, upon loss of control, the interest sold, as well as interest retained, if any, will be reported at fair value with any gain or loss recognized in earnings.

Use of Estimates

The preparation of consolidated financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses in the reporting period. We regularly evaluate our estimates and assumptions related to valuation, impairment testing, Earn-out liabilities, stock-based compensation and deferred income tax assets valuation allowances. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by us may differ materially and adversely from our estimates. To the extent there are material differences between our estimates and the actual results, our future results of operations will be affected. Significant estimates for the years ended May 31, 2015 and 2014, respectively, include the valuation of intangible assets, including goodwill, liabilities associated with earn-out obligations and testing our long-lived assets for impairment.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with original maturities of three months or less when acquired, to be cash equivalents. The Company had no cash equivalents at May 31, 2015 or 2014.

Accounts Receivable

Accounts receivable are presented net of an allowance for doubtful accounts. The Company maintains allowances for doubtful accounts for estimated losses. The Company reviews the accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, a customer's historical payment history, its current credit-worthiness and current economic trends. Accounts are written off after exhaustive efforts at collection. At May 31, 2015 and 2014, the Company had an allowance for doubtful accounts of $270,045 and $561,311, respectively.

Income Taxes

The Company is governed by the Income Tax Law of the United States. The Company utilizes ASC Topic 740, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The Company applied the provisions of ASC 740-10-50, “Accounting for Uncertainty in Income Taxes”, which provides clarification related to the process associated with accounting for uncertain tax positions recognized in the financial statements. Audit periods remain open for review until the statute of limitations has passed. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Company’s liability for income taxes. Any such adjustment could be material to the Company’s results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. As of the date of this filing, the Company is current on all corporate, federal and state tax returns.

The U.K. and Canadian domiciled entities file separate tax returns in their respective jurisdictions.

Foreign Currency Translation

Assets and liabilities of subsidiaries operating in foreign countries are translated into U.S. dollars using both the exchange rate in effect at the balance sheet date or historical rate, as applicable. Results of operations are translated using the average exchange rates prevailing throughout the year. The effects of exchange rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are included in a separate component of stockholders’ equity (accumulated other comprehensive loss), while gains and losses resulting from foreign currency transactions are included in operations.

Amortization of Deferred Financing Costs

Costs incurred in connection with obtaining financing are deferred and amortized on a straight-line basis over the term of the related loan, which is not materially different than the effective interest method. As of May 31, 2015 and 2014, accumulated amortization of deferred financing costs totaled $646,838 and $1,006,383, respectively.

Business Combinations

In accordance with Accounting Standards Codification 805, "Business Combinations" ("ASC 805") the Company records acquisitions under the purchase method of accounting, under which the acquisition purchase price is allocated to the assets acquired and liabilities assumed based upon their respective fair values. The Company utilizes management estimates and, in some instances, may retain the services of an independent third-party valuation firm to assist in determining the fair values of assets acquired, liabilities assumed and contingent consideration granted. Such estimates and valuations require us to make significant assumptions, including projections of future events and operating performance.

Fair Value of Financial Instruments

In accordance with Accounting Standards Codification 820, "Fair Value Measurements and Disclosures" ("ASC 820"), the Company measures and accounts for certain assets and liabilities at fair value on a recurring basis. ASC 820 establishes a common definition for fair value to be applied to existing generally accepted accounting principles that require the use of fair value measurements, and establishes a framework for measuring fair value and standards for disclosure about such fair value measurements.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1:	Observable inputs such as quoted market prices in active markets for identical assets or liabilities
Level 2:	Observable market-based inputs or unobservable inputs that are corroborated by market data
Level 3:	Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

The Company did not have any Level 2 or Level 3 assets or liabilities as of May 31, 2015 or 2014, with the exception of its notes payable (See Note 6), convertible notes payable (See Note 5), bonds payable (See Note 7) and its Earn-out liabilities (See Note 12).

Cash is considered to be highly liquid and easily tradable as of May 31, 2015 and 2014 and therefore classified as Level 1 within our fair value hierarchy.

Accounting Standards Codification 825-10-25, "Fair Value Option" (ASC 825-10-25) expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. The Company did not elect the fair value options for any of its qualifying financial instruments.

Convertible Instruments

The Company evaluates and accounts for conversion options embedded in its convertible instruments in accordance with accounting standards for "Accounting for Derivative Instruments and Hedging Activities."

Accounting standards generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur, and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. Professional standards also provide an exception to this rule when the host instrument is deemed to be conventional as defined under professional standards as "The Meaning of Conventional Convertible Debt Instrument."

The Company accounts for convertible instruments (when it has determined that the embedded conversion options should not be bifurcated from their host instruments) in accordance with professional standards when "Accounting for Convertible Securities with Beneficial Conversion Features," as those professional standards pertain to "Certain Convertible Instruments." Accordingly, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption. The Company also records when necessary deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note.

ASC 815-40 provides that, among other things, generally, if an event is not within the entity's control could or require net cash settlement, then the contract shall be classified as an asset or a liability.

Revenue Recognition

Control Solutions International Inc.: CSI recognizes revenue primarily on a time and materials basis as the services are performed and amounts are earned. The Company considers amounts earned once evidence of an arrangement has been obtained, services are rendered, fees are fixed or determinable, and collectability is reasonably assured.

- Revenue earned in excess of billings is recorded as unbilled accounts receivable until billed. Billings in excess of revenue is recorded as advanced billings until revenue recognition criteria are met. Deposits and prepayments from customers are carried as deferred revenue until the requirements for revenue recognition are met.

- Reimbursements, including those relating to travel, other out-of-pocket expenses and third-party costs, are not included in revenue. They are applied to Cost of services resulting in Cost of services reflecting the net amount of expenses not reimbursed by clients.

Staffing 360 Solutions (UK) Limited: Staffing (UK) and its various subsidiaries, follow paragraph 605-10-S99-1 of the FASB Accounting Standards Codification for revenue recognition. The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, and (ii) the services have been rendered to the customer, and (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured.

PeopleSERVE, Inc. and PeopleSERVE PRS, Inc.: PS recognizes revenue from the sale of staffing services as the services are performed, along with related labor costs and payroll taxes. The Company recognizes revenue for permanent employee placements when contractual contingencies, generally the passage of time, are satisfied. The Company's revenue recognition policies comply with ASC 605, "Revenue Recognition." The Company is the primary obligor in its transactions, and has responsibility for fulfillment, including the acceptability of services ordered and purchased by customers. In addition, the Company has all credit risk, retains substantially all risk and rewards of the services rendered, has sole discretion in staffing engagements and sets the billing rates of its consultants. Accordingly, the Company records all transactions at the gross revenue amount billed, consistent with the provisions of ASC 605. Typically, contracts require clients to pay for out-of-pocket expenses, principally travel related expenses. Accordingly, revenue includes amounts billed for these costs and the cost of revenue includes the corresponding actual costs. The Company provides certain customers a five percent (5.0%) discount on certain contracts if paid within thirty (30) days of the invoice date. Accounts receivable result from services provided to clients. The Company carries its accounts receivable at net realizable value. At the closing of the Company's fiscal period, a portion of receivables may not be invoiced. These unbilled receivables are typically billed within thirty (30) days of the close of the fiscal period.

Stock-Based Compensation

The Company accounts for stock-based instruments issued to employees in accordance with ASC Topic 718. ASC Topic 718 requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity based compensation issued to employees. The Company accounts for non-employee share-based awards in accordance with ASC Topic 505-50.

Earnings (Loss) per Common Share

The Company utilizes the guidance per FASB Codification ASC 260 - Earnings per Share ("ASC 260"). Basic earnings per share are calculated by dividing income available to stockholders by the weighted average number of common stock shares outstanding during each period. Diluted earnings per share are computed using the weighted average number of common stock shares and dilutive common share equivalents outstanding during the period. Dilutive common stock share equivalents consist of common shares issuable upon the conversion of convertible notes and the exercise of stock options and warrants (calculated using the modified treasury stock method). Such securities, shown below, presented on a common share equivalent basis and outstanding as of May 31, 2015 and 2014 have been excluded from the per share computations, since its inclusion would be anti-dilutive:

	For the Fiscal Year Ended May 31, 2015	2014
Convertible bonds - Series A	193,758	2,021,779
Convertible bonds - Series B	834,324	-
Convertible promissory notes	641,367	1,073,494
Convertible preferred shares	2,161,910	-
Warrants	12,459,029	6,760,809
Options	3,375,000	1,900,000
Total	19,665,388	11,756,082

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed on the straight-line method. The depreciation and amortization methods are designed to amortize the cost of the assets over their estimated useful lives, in years, of the respective assets as follows:

Computers	3-5 years
Computer equipment	3-5 years
Network equipment	3-5 years
Software	3-5 years
Office equipment	3-7 years
Furniture and fixtures	3-7 years
Leasehold improvements	3-5 years

Amortization of leasehold improvements is computed using the straight-line method over the shorter of the life of the lease or the estimated useful life of the assets. Maintenance and repairs are charged to expense as incurred. Major improvements are capitalized. At the time of retirement or disposition of property and equipment, the cost and accumulated depreciation are removed from the accounts and any gains or losses are reflected in Other income/ (loss).

Long-Lived Assets

In accordance with ASC 360 - Property, Plant, and Equipment ("ASC 360"), the Company periodically reviews its long-lived assets, including goodwill and other intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows will not be sufficient to recover an asset's carrying amount. The amount of impairment is measured as the difference between the estimated fair value and the book value of the underlying asset.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations. ASC 350-30-35-4 requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis and between annual tests when circumstances indicate that the recoverability of the carrying amount of goodwill may be in doubt. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit. During fiscal years 2015 and 2014, the Company impaired $0 and $2,700,255, respectively, of goodwill associated with the Cyber 360 and CSI acquisitions.

In recording the purchase accounting for previous acquisitions the Company estimated the fair value of identifiable intangible assets and goodwill. In fiscal 2014, the Company retained the services of an independent valuation consultant to test the previously estimated allocations. The valuation resulted in the revisions of the Company's estimated allocations which were retroactively reflected in the Company's consolidated financial statements for the fiscal year ended May 31, 2014. In fiscal 2015, the Company again retained the services of an independent valuation consultant to test the Goodwill and Intangible Assets values for the year ended May 31, 2015.

Goodwill represents the excess of the purchase price over the estimated fair market value of identifiable net assets at the date of acquisition in a business combination. Other intangible assets are identifiable assets that lack physical substance, which are acquired as part of a business combination or other transaction. Intangible assets with definite lives are amortized on a straight-line basis over their useful lives. Goodwill and other intangible assets with indefinite lives are not amortized and are tested for impairment at least annually.

The Company has the option to perform a qualitative assessment for impairment of its goodwill and indefinite-lived intangible assets to determine if it is more likely than not that the fair value of a reporting unit or indefinite-lived intangible asset is below its carrying value. If the Company determines based on a qualitative assessment that it is more likely than not that the fair value of a reporting unit or indefinite-lived intangible asset is greater than its carrying value, then it would not be required to perform the two-step quantitative impairment test described below. If necessary, the Company will perform a quantitative assessment for impairment of its goodwill and indefinite-lived intangible assets using the two-step approach.

The first step of the quantitative impairment test requires that the Company determine the fair value of each reporting unit and then compare that fair value to the reporting unit's carrying amount. The Company uses the income approach to determine the fair value of its reporting units. The Company applies a valuation technique consistent with the income approach to measure the fair value of its indefinite-lived intangible assets. The income approach is based on the present value of estimated discounted cash flows and terminal value projected for each reporting unit. The income approach requires significant judgments, including the projected results of operations, the weighted-average cost of capital ("WACC") used to discount the cash flows and terminal value assumptions. The projected results of operations are based on the Company's best estimates of future economic and market conditions, including growth rates, estimated earnings and cash expenditures. The WACC is determined based on the Company's capital structure, cost of capital, inherent business risk profile and long-term growth expectations, as reflected in the terminal value.

The second step of the quantitative impairment test is performed if the first step indicates that impairment exists. The second step of the impairment assessment involves allocating the reporting unit's fair value to all of its recognized and unrecognized assets and liabilities in order to determine the implied fair value of the reporting unit's goodwill and intangible assets as of the assessment date. The implied fair value of the reporting unit's goodwill and other intangible assets is then compared to the carrying amount of goodwill and other intangible assets to quantify an impairment charge as of the assessment date.

Based upon the results of the independent valuation, the Company did not impair or adjust the goodwill and intangible totals for the fiscal year ended May 31, 2015.

Intangible Assets

In connection with the CSI Acquisition (See Note 14 - Acquisitions), the Company identified and recognized an intangible asset of $912,000 representing trade name, customer relationships and employment agreements/non-competes. The assets were being amortized on a straight line basis over their estimated life of four (4) years, other than the trade name which was amortized over fifteen (15) years. CSI customer relationships were valued based on the discounted cash flow method applied to projected future cash flows as estimated by Company management. This method resulted in the sum of the future net cash flows discounted to its present day value. The valuation provided for the trade name, customer relationships and employment agreements/non-competes was based on independent professional valuation services' calculations. The Company recorded amortization expense of $91,099 and $107,654 for the fiscal years ended May 31, 2015 and 2014, respectively. Based upon the impairment analysis performed as of November 30, 2014, the Company impaired the trade name, customer relationships and employment agreements/non-competes in the amount of $703,222. The intangible asset balance, net of impairment and accumulated amortization, at May 31, 2015 and 2014 was $0 and $794,321, respectively.

In connection with the acquisition of Staffing (UK) (See Note 14 - Acquisitions), the Company identified and recognized an intangible asset of $10,311,465 representing trade name, customer relationships and employment agreements/non-competes. The assets are being amortized on a straight line basis over their estimated life of four (4) years, other than the trade name which is amortized over fifteen (15) years. Staffing (UK) customer relationships were valued based on an estimate of the discounted cash flow method applied to projected future cash flows as estimated by Company management. This method results in the sum of the future net cash flows discounted to its present day value. The valuation provided for the trade name, customer relationships and employment agreements/non-competes was based on independent professional valuation services' calculations. At May 31, 2015 and 2014, the intangible asset balance, net of accumulated amortization, was $7,889,933 and $9,599,250, respectively.

In connection with the Poolia Acquisition (See Note 14 - Acquisitions), the Company identified and recognized an intangible asset of $465,321 representing customer relationships and employment agreements/non-competes. The assets are being amortized on a straight line basis over their estimated life of four (4) years. Poolia customer relationships were valued based on an estimate of the discounted cash flow method applied to projected future cash flows as estimated by Company management. This method results in the sum of the future net cash flows discounted to its present day value. The valuation provided for the trade name, customer relationships and employment agreements/non-competes was based on independent professional valuation services' calculations. At May 31, 2015 and 2014, the intangible asset balance, net of accumulated amortization, was $319,908 and $436,238, respectively.

In connection with the acquisition of PSI and PRS (See Note 14 - Acquisitions), the Company identified and recognized an intangible asset of $2,999,100 representing trade name, customer relationships and employment agreements/non-competes. The assets are being amortized on a straight line basis over their estimated life of four (4) years, other than the trade name which is amortized over fifteen (15) years. PS customer relationships were valued using the discounted replacement cost approach. This method is based on acquisition costs invested to attract each customer and relied on the actual selling costs incurred and allocated to new customer generation over the preceding four (4) years. The valuation provided for the trade name, customer relationships and employment agreements/non-competes was based on independent professional valuation services' calculations. At May 31, 2015 and 2014, the intangible asset balance, net of accumulated amortization, is $2,359,022 and $2,973,497, respectively.

Reclassifications

Certain reclassifications have been made to conform the prior period data to the current presentations. These reclassifications had no effect on the reported results.

Recent Accounting Pronouncements

In April 2015, the FASB issued authoritative guidance regarding Interest - Imputation of Interest, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance is effective for fiscal years and interim reporting periods within those years beginning after December 31, 2015, with early adoption permitted. The standard will be effective for the Company's fiscal year beginning April 1, 2016. The Company does not expect the adoption of this guidance to have a material effect on our consolidated financial statements.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	May 31, 2015	2014
Computer software	$107,315	$113,615
Office equipment	30,391	38,098
Computer equipment	312,720	210,561

Furniture and fixtures	184,555	105,637
Website	32,117	32,117
Leasehold improvements	75,530	28,093
Total cost	742,628	528,121
Accumulated depreciation	(236,623)	(78,864)
Total	$506,005	$449,257

Depreciation and amortization expense for the fiscal years ended May 31, 2015 and 2014 was $157,759 and $125,512, respectively.

NOTE 5 - CONVERTIBLE NOTES PAYABLE

During the year ended May 31, 2014, notes issued in fiscal year 2013 in the principal amount of $50,000 and interest of $4,274 were converted into common stock shares of 111,111 and 9,498, respectively.

From April 21, 2014 through May 27, 2014, the Company raised $950,000 from two (2) accredited investors through the issuance of five (5) short-term, twelve percent (12%), convertible promissory notes. The holders of these notes received an aggregate of 190,000 common stock shares. These notes had varying maturity dates.

- On July 14, 2014, the Company amended and restated one (1) of the five (5) aforementioned promissory notes in the amount of $250,000. The Company repaid $150,000 and the remaining balance of $100,000 was amended and restated with the same basic terms as the original promissory note other than it became due upon demand. This note holder receives 5,000 common stock shares monthly for every $100,000 loaned. The holders may convert, at their sole election, the principal amount and unpaid interest into common stock shares at $1.50 per share. This note was paid in full in April 2015.

- On July 14, 2014, the Company amended and restated one (1) of the five (5) aforementioned promissory notes in the amount of $200,000. The balance of $200,000 was amended and restated with the same basic terms as the original promissory note other than it became due upon demand. The note holder receives 2,500 common stock shares monthly for every $100,000 loaned. The holders may convert, at their sole election, the principal amount and unpaid interest into common stock shares at $1.50 per share. This note was paid in full in April 2015.

- On July 31, 2014, the Company amended and restated one (1) of the five (5) aforementioned promissory notes in the amount of $200,000. The balance of $200,000 was amended and restated with the same basic terms as the original promissory note other than it became due upon demand. The note holder receives 5,000 common stock shares monthly for every $100,000 loaned. The holders may convert, at their sole election, the principal amount and unpaid interest into common stock shares at $1.50 per share. This note was paid in full in April 2015.

- On July 31, 2014, the Company amended and restated one (1) of the five (5) aforementioned promissory notes in the amount of $100,000. The balance of $100,000 was amended and restated with the same basic terms as the original promissory note other than it became due upon demand. The note holder receives 5,000 common stock shares monthly for every $100,000 loaned. The holders may convert, at their sole election, the principal amount and unpaid interest into common stock shares at $1.50 per share. This note was paid in full in April 2015.

- On July 31, 2014, the Company amended and restated one (1) of the five (5) aforementioned promissory notes in the amount of $200,000. The balance of $200,000 was amended and restated with the same basic terms as the original promissory note other than it became due upon demand. The note holder receives 5,000 common stock shares monthly for every $100,000 loaned. The holders may convert, at their sole election, the principal amount and unpaid interest into common stock shares at $1.50 per share. This note was paid in full in April 2015.

From May 14, 2014 through May 19, 2014, the Company raised $600,000 from five (5) accredited investors through the issuance of five (5) short-term twelve percent (12%) convertible promissory notes. These notes were payable upon the earlier of the (i) completion of the Company’s Series A Bond offering, (ii) completion of the Company’s senior debt facility, or (iii) July 12, 2014. These note holders received an aggregate of 120,000 common stock shares. These holders were entitled to convert, at their sole election, the principal amount and any unpaid interest into common stock shares at $1.50 per share. On July 14, 2014, all five (5) of these holders converted principal of $600,000 into 400,000 common stock shares and accrued interest of $11,868 into 7,912 common stock shares.

On May 27, 2014, the Company raised $50,000 from an accredited investor through the issuance of a short-term twelve percent (12%) convertible promissory note. This note was payable upon the earlier of the (i) completion of the Company’s Series A Bond offering, (ii) completion of the Company’s senior debt facility, or (iii) July 12, 2014. The note holder received 10,000 common stock shares. The note holder was entitled to convert, at his sole election, the principal amount and any unpaid interest into common stock shares at $1.50 per share. On July 25, 2014, the Company repaid this note, including all unpaid interest.

In connection with the above notes, and pursuant to that certain placement agent agreement dated January 23, 2014 between the Company and a placement agent, the Company paid the placement agent $5,000 and issued 1,000 common stock shares.

On June 22, 2014, the Company raised $100,000 from an accredited investor through the issuance of a short-term twelve percent (12%) convertible promissory note. This note was payable upon the earlier of the (i) completion of the Series A Bond Offering, (ii) completion of the Company's senior debt facility, or (iii) eight (8) weeks from the original issuance date. The note holder received 20,000 common stock shares. The holder was entitled to convert, at his sole election, the principal amount and any unpaid interest due under the note into common stock shares at $1.50 per share. In August 2014, this note was repaid in full. The Company recorded a debt discount of $28,876 and a beneficial conversion feature of $64,210 for the issuance of the 20,000 common stock shares.

On December 10, 2014, the Company issued a twelve percent (12%) promissory note in the amount of $100,000. On or prior to the maturity date, April 15, 2015, the holder may elect to convert all or part of the principal and accrued interest into common stock shares at $1.00 per share. In addition, for every $1.00 of principal converted, the Company will issue a warrant to purchase one-half of a common stock share at $2.00 per common stock share exercisable for a term of three (3) years. As additional consideration, the Company agreed to issue 10,000 common stock shares upon execution of this agreement. Accordingly, the Company recorded a debt discount of $4,762 for the 10,000 common stock shares issued. The Company recorded amortization expense of $4,762 for the fiscal year ended May 31, 2015. On May 11, 2015, the Company agreed to extend the maturity date of the note, $100,000 in principal and $11,474 in accrued interest and agreed to extend the maturity to October 15, 2015 in exchange for 27,869 common stock shares, valued at $18,115. At May 31, 2015, the principal amount outstanding was $100,000. Net of the remaining debt discount of $0, the remaining loan balance was $100,000.

On February 5, 2015, the Company issued an eight percent (8%) promissory note in the amount of $204,000 due in nine (9) months, with the conversion feature commencing 180 days after the loan issuance date. The loan is convertible at a 39% discount of the average share price on the lowest three (3) trading prices during the ten (10) days prior to conversion. In connection with this note, the Company recorded a $177,559 discount related to the beneficial conversion feature of the note to be amortized over the life of the note or until the note was converted or repaid. The Company has recorded amortization expense amounting to $75,630 for the fiscal year ended May 31, 2015. Net of the remaining discount related to the beneficial conversion feature of $101,932, the remaining loan balance was $102,068.

	May 31, 2015	2014
Beginning balance	$1,600,000	$50,000
Proceeds	404,000	1,600,000
Fair value of common stock issued for conversion of convertible notes payable	-	(50,000)
Repayment of loans	(1,100,000)	-
Conversion of loans	(600,000)	-

Debt discount for restricted stock and beneficial conversion feature for convertible notes payable – net of accumulated amortization of $1,494,544 and $341,241, respectively	(101,932)	(979,828)
Net balance	$202,068	$620,172

For the fiscal year ended May 31, 2014, the Company issued 320,000 common stock shares associated with the above notes. The Company recorded a debt discount of $442,035 with associated amortization of $116,289 and a beneficial conversion feature of $879,035 with associated amortization of $224,952 for the issuance of the 320,000 common stock shares. At May 31, 2014, the net outstanding loan balance, net of the remaining debt discount of $979,828, was $620,172.

Cumulatively, the Company recorded $475,673 in debt discount and a total beneficial conversion feature of $1,120,803 in relation to the above notes. In addition, the Company recorded accumulated amortization totaling $1,494,544. During the fiscal year ended May 31, 2015, the Company received proceeds of $404,000, repaid principal of $1,100,000 and converted $600,000 of principal into 400,000 shares of common stock. At May 31, 2015, the net outstanding loan balance, net of the remaining debt discount of $101,932, was $202,068.

During the fiscal year ended May 31, 2015, the Company recorded $107,700 of interest expense and converted $11,686 of accrued interest into 7,912 common stock shares and paid accrued interest totaling $95,242. Accrued interest as of May 31, 2015 is $10,798.

For the fiscal years ended May 31, 2015 and 2014, the Company recorded amortization expense of $1,153,302 and $341,241, respectively.

NOTE 6 – <u>PROMISSORY NOTES</u>

Promissory notes – short-term consisted of the following:

	May 31, 2015	2014
Beginning balance	$-	$-
Proceeds	1,705,000	340,000
Payments	(1,653,402)	(340,000)
Debt discount (Net of accumulated amortization of $89,706 and $61,026, respectively)	-	-
Promissory notes – Seller note - Staffing (UK) – current portion	55,689	789,136
Promissory notes – Seller note - PS – current portion	789,155	789,155
Promissory notes – Midcap Financial Trust Term Loan– current portion	750,000	-
Total Promissory notes – short-term	$1,646,442	$1,578,291

Promissory notes – long-term consisted of the following:

	May 31, 2015	2014
<u>Promissory notes – Staffing (UK)</u>:		
Beginning balance	$3,616,874	$3,964,940

Payments	(361,324)	(348,066)
Conversions	(3,056,030)	-
	199,520	3,616,874
Less current portion	(55,689)	(789,136)
	143,831	2,827,738
<u>Promissory note – PS</u>:		
Beginning balance	2,367,466	2,367,466
Payment	(789,155)	-
	1,578,311	2,367,466
Less current portion	(789,155)	(789,155)
	789,156	1,578,311
Promissory note – Midcap Financial Trust – Term Loan		
Beginning balance	3,000,000	-
Payment	(62,500)	-
	2,937,500	-
Less current portion	(750,000)	-
	2,187,500	-
Promissory note – Midcap Financial Trust – Additional Term Loan		
Beginning balance	700,000	-
Payment	-	-
	700,000	-
Less current portion	-	-
	700,000	-
Total Promissory notes – long-term	$3,820,487	$4,406,049

Promissory notes - short-term:

Pursuant to the promissory note agreements dated September 27, 2013, October 18, 2013 and October 28, 2013, the Company issued notes in the amount of $40,000, $200,000 and $100,000, respectively. The promissory notes bear interest at the rate of twelve percent (12%) per annum and were due at the earlier of the completion of the Company's $1.5 million bridge financing or ninety (90) days from the date of the note. As additional consideration, the note holders received an aggregate of 25,000 common stock shares for each $100,000 invested or a prorated portion thereof. The Company issued 85,000 common stock shares. The Company recorded a debt discount of $61,026 and amortization of $61,026. On November 12, 2013 and November 19, 2013, the Company re-paid $300,000 in principal and $3,189 in interest. On March 21, 2014, the Company repaid $40,000 in principal and $1,933 in interest. At May 31, 2015, this note has been paid in full.

In June, 2014, the Company issued a promissory note in the amount of $100,000 to a company of which a previous director and shareholder of the Company is a Managing Member. The promissory note was non-interest bearing and due upon demand. The Company issued 5,000 common stock shares to the note holder as additional consideration. At May 31, 2015, this note has been paid in full.

In July 2014, the Company issued three (3) non-interest bearing promissory notes in the aggregate amount of $280,000 to three related parties. The promissory notes were due upon demand. The first was issued on July 16, 2014 to a company owned by a former employee, Vice Chairman, President and Secretary of the Company, in the amount of $30,000. The second was issued on July 17, 2014 to the Company's Chief Financial Officer in the amount of $150,000. The Company issued 10,000 common stock shares to the Chief Financial Officer as additional consideration. The third was issued on July 8, 2014 to a company of which a former director and shareholder of the Company is a Managing Member in the amount of $100,000. The Company issued 7,000 common stock shares to the note holder as additional consideration. At May 31, 2015, these notes have been paid in full.

In August 2014, the Company issued a non-interest bearing promissory note in the amount of $125,000 to a company of which a former director and shareholder of the Company is a Managing Member. The promissory note was due upon demand. The Company issued 7,500 common stock shares to the note holder as additional consideration. At May 31, 2015, this note has been paid in full.

In July and August 2014, the Company issued promissory notes to Sterling National bank totaling $625,000. These notes bear interest at eighteen percent (18%) per annum and were due upon demand. At May 31, 2015, these notes and interest of $7,277 have been paid in full.

In August 2014, the Company issued a twelve percent (12%) interest bearing promissory note in the amount of $150,000 to a brother of a former employee, Vice Chairman, President and Secretary of the Company. The promissory note is due upon demand. The Company issued 15,000 common stock shares to the note holder as additional consideration. At May 31, 2015, this note has been paid in full.

On September 2, 2014, the Company issued a promissory note in the amount of $125,000 to a company of which a former director and shareholder of the Company is a Managing Member. The promissory note is due upon demand. The Company issued 7,500 common stock shares to the note holder as additional consideration. At May 31, 2015, this note has been paid in full.

On September 15, 2014, the Company issued a promissory note in the amount of $50,000 to a company of which a former director and shareholder of the Company is a Managing Member. The promissory note is due upon demand. The Company issued 2,500 common stock shares to the note holder as additional consideration. At May 31, 2015, this note has been paid in full.

As a result of the 54,500 common stock shares issued as additional consideration above, the Company recorded at the time of issuance a debt discount of $89,706. Since these notes are due on demand, the debt discount was fully amortized at the time of issuance.

On December 16, 2014, the Company issued a promissory note to Sterling National bank in the amount of $250,000. The note bears interest at eighteen (18%) per annum and originally had a maturity date of March 31, 2015 that has subsequently been modified to have no maturity date. Through May 31, 2015, the Company had repaid principal of $198,402 leaving $51,598 outstanding.

As of May 31, 2015, twelve (12) Initio promissory note holders converted an aggregate principal amount of $3,056,030 and interest of $302,361 into: (i) 3,358,391 common stock shares (at the rate of $1.00 per share), and (ii) warrants to purchase 3,694,230 common stock shares at $1.25 per share, exercisable for ten (10) years from the date of conversion (See Note 6 – Promissory Notes). From this conversion, 2,065,379 common stock shares and 2,271,918 warrants were issued on November 30, 2014, 1,225,066 common stock shares and 1,347,572 warrants were issued on January 2, 2015 and, 67,946 common stock shares and 74,740 warrants were issued on May 12, 2015.

Promissory notes – long-term:

Staffing 360 Solutions (UK): Pursuant to the purchase of Staffing 360 Solutions (UK) ("Staffing (UK)"), the Company executed and delivered three (3) year promissory notes ("Initio Promissory Notes") in the aggregate principal amount of $3,964,949 to the shareholders of Staffing (UK). The Initio Promissory Notes bear interest at the rate of six percent (6%) per annum and amortize straight line over five (5) years. As of May 31, 2015, the Company has paid $708,890 in principal ($360,824 during the year ended May 31, 2015 and $348,066 during the fiscal year ended May 31, 2014). As of May 31, 2015, eleven (12) Initio promissory note holders converted an aggregate principal amount of $3,056,030 and interest of $302,361 into: (i) 3,358,391 common stock shares (at the rate of $1.00 per share), and (ii) warrants to purchase 3,694,230 common stock shares at $1.25 per share, exercisable for ten (10) years from the date of conversion (See Note 6 – Promissory Notes). From this conversion, 2,065,379 common stock shares and 2,271,918 warrants were issued on November 30, 2014, 1,225,066 common stock shares and 1,347,572 warrants were issued on January 2, 2015 and, 67,946 common stock shares and 74,740 warrants were issued on May 12, 2015.

The remaining principal balance outstanding is $199,552. During the fiscal year ended May 31, 2015, the Company recorded $110,416 of interest expense and paid accrued interest totaling $94,433.

The future payments related to the Initio Promissory Notes are as follows:

Year ended May 31,	Amount
2016	$55,689
2017	143,831
Total	$199,520

Brendan Flood, a related party and the Company's Executive Chairman, was a shareholder of Staffing (UK), and was issued a three (3) year promissory note. Mr. Flood's portion of the $3,964,949 aggregate principal amount totaled $2,064,880. Mr. Flood was paid $378,561 in principal and $98,290 in interest since inception through November 30, 2014. On November 30, 2014, Mr. Flood converted the remaining promissory note principal, $1,720,733, and interest through maturity of $170,248, into (i) 1,890,981 common stock shares, at the rate of $1.00 per share, and (ii) warrants to purchase 2,080,080 common stock shares at the price of $1.25 per share, exercisable for ten (10) years from the date of conversion. This conversion satisfied his note in full as of November 30, 2014.

Matt Briand, a related party and the Company's Chief Executive Officer and President, was a shareholder of Staffing (UK) and was issued a three (3) year promissory note. Mr. Briand's portion of the $3,964,949 aggregate principal amount totaled $1,115,144. Mr. Briand was paid $204,443 in principal and $52,987 in interest since inception through November 30, 2014. On November 30, 2014, Mr. Briand converted the remaining Promissory note principal, $929,287, and interest through maturity, $91,943, into (i) 1,021,230 common stock shares, at the rate of $1.00 per share, and (ii) warrants to purchase 1,123,353 common stock shares at the price of $1.25 per share, exercisable for ten (10) years from the date of conversion. The conversion was effective as of November 30, 2014 with the common stock shares and warrants being issued on January 2, 2015. This conversion satisfied his note in full as of January 2, 2015.

Promissory note - PS: Pursuant to the purchase of PSI and PRS, the Company executed and delivered to the seller a three (3) year promissory note (“PS Promissory Note”) in the principal amount of $2,367,466. The seller continues serving as President and Chief Executive of PSI and PRS. The PS Promissory Note bears interest at the rate of six percent (6%) per annum and is amortized straight line over five (5) years. As of May 31, 2015, the Company has paid $789,155 in principal. The remaining principal balance is $1,578,311.

Year ended May 31,	Amount
2016	$789,155
2017	789,156
Total	$1,578,311

For the fiscal year ended May 31, 2015 and 2014, the Company’s interest expense for long-term notes amounted to $123,832 and $0, respectively. As of May 31, 2015 and 2014, accrued and unpaid interest under the long-term notes amounted to $123,832 and $5,448, respectively, and are included in Interest Payable – long-term.

Promissory note – Midcap Financial Trust – Term Loan: On April 8, 2015, the Company entered in to a four (4) year Term Loan agreement with Midcap Financial Trust in the amount of $3,000,000. The principal balance is payable in full on the April 8, 2019. This loan bears interest at 9.0% plus LIBOR, with a LIBOR floor of 1.0% per annum.

Through May 31, 2015, the Company has repaid principal and accrued interest of $62,500 and $19,667, respectively. At May 31, 2015, the remaining principal balance was $2,937,500. For the year ended May 31, 2015, interest expense related to the Term Loan amounted to $43,646. As of May 31, 2015 and 2014, accrued interest amounted to $18,756 and $0, respectively, and is included in Accounts Payable and Accrued Expenses.

Year ended May 31,	Amount
2016	$750,000
2017	750,000
2018	750,000
2019	687,500
Total	$2,937,500

Promissory note – Midcap Financial Trust – Additional Term Loan: The Term Loan provides for an Additional Term Loan of up to $1,350,000 bearing interest at 4.0% plus LIBOR, with a LIBOR floor of 1.0% per annum, provided, that the Additional Term Loan shall be limited to an amount equal to five percent (5.0%) of each $1,000,000 of the aggregate net amount of the Eligible Accounts (as such term is defined in the S360 Credit Agreement) minus the amount of any reserves and/or adjustments provided for in the S360 Credit Agreement. The outstanding principal balance of the Additional Term Loan shall be payable in full on the April 8, 2019.

At May 31, 2015, the outstanding balance is $700,000. For the year ended May 31, 2015, interest expense related to the Additional Term Loan amounted to $2,139, of which $2,139 has been repaid. As of May 31, 2015 and 2014, accrued interest amounted to $0 and $0, respectively.

Year ended May 31,	Amount
2016	$-
2017	-
2018	-
2019	700,000
Total	$700,000

MidCap Warrant: In addition to the Midcap Financial Trust Term Loan and Additional Term Loan, the Company issued to MidCap a warrant to purchase 120,000 unregistered shares of the Company's common stock, par value $0.00001, with an exercise price of $1.25. The warrant is exercisable for a term of four (4) years and contains customary stock-based anti-dilution protection provisions and piggyback registration rights for the holders thereof.

NOTE 7 – <u>BONDS – SERIES A</u>

Bonds – Series A consisted of the following:

	May 31,	
	2015	2014