Risk Factors Comparison 2024-03-15 to 2023-03-16 Form: 10-K

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There are numerous and varied risks that may prevent us from achieving our goals, including those described below. You should carefully consider the risks described below and the other information included in this Annual Report on Form 10- K, including our consolidated financial statements and related notes. If any of the events or circumstances described below were to occur, our business, the financial condition and the results of operations could be materially adversely affected. As a result, the trading price of our common stock could decline, and investors could lose part or all of their investment. The risks below are not the only risks we face. Additional risks not currently known to us or that we currently deem to be immaterial may also adversely affect our business, financial condition or results of operations. Past financial performance should not be considered to be a reliable indicator of future financial performance, and investors or prospects should not use historical trends to anticipate results or trends in future periods. Risks Related to Our Company and Our Business We operate in a highly competitive industry with low barriers to entry, and may be unable to compete successfully against existing or new competitors. The workforce solution market is highly competitive with limited barriers to entry. We compete in national, regional and local markets with approximately 25, 000 full- service and specialized workforce solution companies. We expect that the level of competition will remain high, which could limit our ability to maintain or increase our market share or profitability. Several of our existing or potential competitors have substantially greater financial, technical and marketing resources than we do, which may enable them to: • Develop and expand their infrastructure and service offerings more quickly and achieve greater cost savings; • Invest in new technologies; • Expand operations into new markets more rapidly; • Devote greater resources to marketing; • Compete for acquisitions more effectively and complete acquisitions more easily; and • Aggressively price products and services and increase benefits in ways that we may not be able to match. In order to compete effectively in our markets, we must target our potential client partners carefully, continue to improve our efficiencies and the scope and quality of our workforce solutions, and rely on our service quality, innovation, education and program clarity. If our competitive advantages are not compelling or sustainable, then we are unlikely to increase or sustain profits and our stock price could significantly decline. In addition, heightened competition among our existing competitors, especially on a price basis, or by new entrants into the market, could create additional competitive pressures that may reduce our margins and adversely affect our business. If we fail to successfully respond to these competitive pressures or to implement our strategies effectively, our revenues or gross margins could be significantly reduced. Our business is subject to risks associated with geographic market concentration. Geographic revenue in excess of 10 % of our consolidated revenue from continuing operations in fiscal year ~~2022~~ **2023** and the related percentage for fiscal years **2022 and** 2021 ~~and 2020~~ was generated in the following areas: ~~202220212020Tennessee10~~ ---- **202320222021Tennessee13 % 10** % 12 % ~~16 % Texas23~~ **Texas25** % 23 % ~~15~~ **23** % Consequently, weakness in economic conditions in these regions could have a material adverse effect on our financial position and results of future operations. A downturn of the U. S. or global economy could result in our client partners using fewer workforce solutions or becoming unable to pay us for our services on a timely basis or at all, which would materially adversely affect our business. Because demand for workforce solutions is sensitive to changes in the level of economic activity, our business may suffer during economic downturns. During periods of weak economic growth or economic contraction, the demand for such workforce solutions typically declines. When demand drops, our operating profit is typically impacted unfavorably as we experience a deleveraging of our selling and administrative expense base as expenses may not decline as quickly as revenues. In periods of decline, we can only reduce selling and administrative expenses to a certain level without negatively impacting the long- term potential of our brands. Additionally, during economic downturns companies may slow the rate at which they pay their vendors, or they may become unable to pay their obligations. If our client partners become unable to pay amounts owed to us, or pay us more slowly, then our cash flow and profitability may materially suffer. Our business depends on a strong reputation and anything that harms our reputation will likely harm our results. As a provider of workforce solutions, as well as consultant services, our reputation is dependent upon the performance of the field talent we place with our client partners and the services rendered by our consultants. We depend on our reputation and name recognition to secure engagements and to hire qualified field talent and consultants. If our client partners become dissatisfied with the performance of those field talent or consultants or if any of those field talent or consultants engage in or are believed to have engaged in conduct that is harmful to our client partners, our ability to maintain or expand our client base may be significantly harmed. Moreover, use of our copyrights, trademarks, service marks, trade names, domain names, or other intellectual property by third parties, including but not limited to unauthorized use by third parties for criminal purposes or otherwise, even if such use is outside our reasonable control, may significantly harm our reputation or the value of our copyrights, trademarks, service marks, trade names, domain names, or other intellectual property, or subject us to legal proceedings, and therefore have a material adverse effect on our business, results of operations, or financial condition ~~. Our rebranding plan may take a significant amount of time and involve substantial costs and may not be favorably received by our client partners. In early 2023, our board of directors approved our management' s plan to rebrand as BGSF, eliminating various current trade names. We intend to complete this rebranding by the end of the second quarter of 2023. We may incur substantial costs as a result of the rebranding and may not be able to achieve or maintain brand name recognition or status that is comparable to the recognition and status previously enjoyed by certain of our brands. The failure of our rebranding initiative could adversely affect our ability to attract and retain client partners, which could cause us not to realize some or all of the anticipated benefits contemplated by the rebranding~~ . We would be adversely affected by the loss of key personnel. Our operations and financial success depend significantly on our leadership management team and team members. The loss of any key members of this group could have a material adverse effect on our business, financial condition and results of operations. We depend on our ability to attract and retain qualified field talent. We depend on our ability to attract qualified field talent who possess the skills and experience necessary to meet the workforce solution requirements of our client partners. We must continually evaluate our base of available qualified personnel to keep pace with changing client partner needs. Competition for individuals with proven professional skills is intense, and demand for these individuals is expected to remain strong for the foreseeable future. There can be no assurance that qualified personnel will continue to be available. Our success is substantially dependent on our ability to recruit and retain qualified field talent. Our workforce solution agreements may be terminated on short notice, leaving us vulnerable to loss of a significant amount of client partners in a short period of time. Our workforce solution agreements with our client partners are generally cancellable by the client partners with little or no notice to us. As a result, a significant number of our client partners can terminate their agreements with us at any time, making us particularly vulnerable to a significant decrease in revenue within a short period of time that could be difficult to quickly replace. If we are unable to retain existing client partners or attract new client partners, our results of operations could suffer. Increasing the growth and profitability of our business is particularly dependent upon our ability to retain existing client partners and capture additional client partners. Our ability to do so is dependent upon our ability to provide high quality workforce solutions and offer competitive prices. If we are unable to execute these tasks effectively, we may not be able to attract a significant number of new client partners and our existing client partners base could decrease, either or both of which could have a materially adverse impact on our revenues. Acquisitions and new business initiatives may not be successful. We expect to continue making acquisitions and entering into new business initiatives, including, but not limited to, dispositions, joint ventures, and strategic investments, as part of our long- term business strategy. These acquisitions and new business initiatives involve significant challenges and risks, including that they may not advance our business strategy, that we may not realize a satisfactory return on our investment, that we may experience difficulty in integrating operations, or diversion of management' s attention from our other business. We may be unable to identify suitable acquisition candidates in the future. Moreover, acquisitions may require substantial capital needs and the incurrence of additional indebtedness which may change significantly our capitalization and results of operations. Further, these acquisitions could result in post- closing discovery of material undisclosed liabilities of the acquired business or assets, title or other defects with respect to acquired assets, discrepancies or errors in furnished financial statements or other information or breaches of representations made by the sellers, or the unexpected loss of key team members or client partners from acquired businesses. These events could cause material harm to our operating results or financial condition. We have debt that could adversely affect our financial health and prevent us from fulfilling our obligations or put us at a competitive disadvantage. While we believe our current debt level is reasonable, we have utilized, and expect to continue to utilize, debt for acquisitions. Our level of debt and the limitations imposed on us by our lenders could have a material impact on investors, including the requirement to use a portion of our cash flow from operations for debt service rather than for our operations and the need to comply with the various covenants associated with such debt. Additionally, we may not be able to obtain additional debt financing for future working capital, capital expenditures or other home office purposes or may have to pay more for such financing. We could also be less able to take advantage of significant business opportunities, such as acquisition opportunities, and to react to changes in market or industry conditions, or we may be disadvantaged compared to competitors with less leverage. We have significant working capital needs and if we are unable to satisfy those needs from cash generated from our operations or borrowings under our revolving credit facility, we may not be able to meet payroll requirements. We require significant amounts of working capital to operate our business. If we experience a significant and sustained drop in operating profits, or if there are unanticipated reductions in cash inflows or increases in cash outlays, we may be subject to cash shortfalls. If such a shortfall were to occur for even a brief period of time, it may have a significant adverse effect on our business. In particular, we use working capital to pay expenses relating to our team members and field talent and to satisfy our workers' compensation and tax liabilities. Generally, we pay our field talent on a weekly basis while we receive payments from our client partners 30 to 90 days after billing. As a result, we must maintain sufficient cash availability to pay team members and field talent and fund related payroll liabilities prior to receiving payment from client partners. We derive working capital for our operations through cash generated by our operating activities and borrowings under our revolving credit facility. We believe that our current sources of capital are adequate to meet our working capital needs. However, our available sources of capital are limited. If our working capital needs increase in the future, we may be forced to seek additional sources of capital, which may not be available on commercially reasonable terms, or at all. ~~The~~ **At the end of fiscal 2023, the** maximum amount we ~~are~~ **were** entitled to borrow under our revolving credit facility **was** ~~is currently~~ $ ~~35~~ **41** . 0 million and the availability of unused funds ~~is~~ **was** affected by financial, business, economic and other factors, as well as by the daily timing of cash collections and cash outflows. We typically experience significant seasonal and other fluctuations in our borrowings and borrowing availability, and we aggressively manage our cash flow to ensure adequate funds to meet working capital needs. Such management steps include working to improve collections, adjusting the timing of cash expenditures and managing operating expenses. However, such steps may not always be successful. Failure to comply with restrictive covenants under our credit agreement could trigger prepayment obligations or additional costs. Our credit agreement includes various financial and other covenants with which we have to comply in order to maintain borrowing availability and avoid default interest, including minimum fixed charge coverage ratio and maximum leverage ratio. Any future failure to comply with our covenants which may occur under our credit agreement could result in an event of default which, if not cured or waived, could trigger prepayment obligations. There can be no assurances that any lender will waive defaults that may occur in the future. If we are forced to refinance our credit agreement, there can be no assurance that such refinancing would be available or that such refinancing would not have a material adverse effect on our business and financial condition. Even if such refinancing were available, the terms could be less favorable and our results of operations and financial condition could be materially adversely affected by increased costs and interest rates. We could be required to write- off goodwill or intangible assets in future periods if our future operating results suffer. In accordance with generally accepted accounting principles, we are required to review our goodwill and intangible assets for impairment at least annually. Our goodwill and intangibles assets ~~from continuing operations~~ were $ **59** ~~55. 2 million and $ 47~~ . 6 million **and $ 30. 4 million** , respectively, at the end of fiscal year ~~2022~~ **2023** . An unfavorable evaluation could cause us to write- off these assets in future periods. Any future write- offs could have a material adverse impact on our results of operations. For example, **in** ~~at the February,~~ 2023 **, the** Board of Director **approved** ~~' s meeting,~~ management ~~'~~ **’** s plan ~~was approved~~ to rebrand as BGSF, eliminating various current trade names. See " Note ~~8~~ **2** - ~~Intangible Assets~~ **Summary of Significant Accounting Policies** " in our Consolidated Financial Statements included elsewhere in this report for additional information. The amount of collateral that we are required to maintain to support our workers' compensation obligations could increase, reducing the amount of capital we have available to support and grow our field operations. We are contractually obligated to collateralize our workers' compensation obligations under our workers' compensation program through irrevocable letters of credit, surety bonds or cash. Our workers' compensation program renews annually on January 1 of each year, and as part of the renewal, collateral is adjusted to reflect current operating levels. These collateral requirements are significant and place pressure on our liquidity and working capital capacity. We believe that our current sources of liquidity are adequate to satisfy our immediate needs for these obligations; however, our available sources of capital are limited. Depending on future changes in collateral requirements, we could be required to seek additional sources of capital in the future, which may not be available on commercially reasonable terms, or at all. We are dependent on workers' compensation insurance coverage at commercially reasonable terms. We provide workers' compensation insurance for our team members and field talent. Our workers' compensation insurance policies are renewed annually. We cannot be certain we will be able to obtain appropriate types or levels of insurance in the future or that adequate replacement policies will be available on commercially reasonable terms. The loss of our workers' compensation insurance coverage would prevent us from doing business in the majority of our markets. Further, we cannot be certain that our current and former insurance carriers will be able to pay claims we make under such policies. The loss of workers ~~'~~ **’** compensation insurance could have a material adverse effect on our financial position and results of operations. Because we assume the obligation to make wage, tax and regulatory payments in respect of our team members and field talent, we are exposed to client partner credit risks. We generally assume responsibility for and manage the risks associated with our team members and field talent payroll obligations, including liability for payment of salaries and wages (including payroll taxes), as well as group health and retirement benefits. These obligations are fixed, whether or not the client partner makes payments required by our workforce solutions agreement, which exposes us to credit risks. We attempt to mitigate this risk by generally invoicing our client partners weekly and having a high number of client partners who are geographically and industry diverse. We also carefully monitor the timeliness of our client partners' payments and impose strict credit standards on our client partners. If we fail to successfully manage our credit risk, we may suffer significant losses which would decrease our profitability. Our business is subject to **foreign,** federal, state and local labor and employment laws and a failure to comply could materially harm our business. We are subject to regulation by numerous **foreign,** federal, state and local regulatory agencies, including but not limited to the U. S. Department of Labor, which sets employment practice standards for workers, and similar state and local agencies. We are subject to the laws and regulations of the jurisdictions within which we operate. While the specific laws and regulations vary among these jurisdictions, some require some form of licensing and often have statutory requirements for workplace safety and notice of change in obligation of workers' compensation coverage in the event of contract termination. Compliance with these requirements imposes some additional financial risk on us, particularly with respect to those client partners who breach their payment obligation to us. Any inability or failure to comply with government regulation could materially harm our business. Increased government regulation of the workplace or of the employer- employee relationship, or judicial or administrative proceedings related to such regulation, could also materially harm our business. The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the " Health Care Reform Laws ") include various health- related provisions that took effect during 2014 and established new regulations on health plans. Although the Health Care Reform Laws do not mandate that employers offer health insurance, beginning in 2015 tax penalties were assessed on employers who do not offer health insurance that meets certain affordability or benefit requirements. A portion of the 2017 Tax Cuts and Jobs Act became effective in 2019 reducing the penalty to zero that requires most individuals to have health insurance, which effectively repealed the Health Care Reform Laws requirement. However, some states have begun proceedings to keep these mandates intact through state legislation. Unless modified by regulations or subsequent legislation, the payment of tax penalties if such coverage is not adequate, may increase our costs. Without the individual mandate, more individuals might decline coverage, which could have an impact on employer premiums. If we are unable to raise the rates we charge our client partners to cover these costs, such increases in costs could materially harm our business. In addition, certain of our client partners may require that we indemnify them against losses in the event that the client partner is determined to be non- compliant with the Health Care Reform Laws with respect to one or more of our field talent assigned to such client partner. While we have not received notice from any client partner that acts or omissions by us may have resulted in losses to the client partner relating to non- compliance with the Health Care Reform Laws, any future liabilities that may be incurred by us pursuant to any such indemnification provisions could materially and adversely affect our results of operations. It is likely that the U. S. Congress will continue to seek to modify, repeal, or otherwise invalidate all, or certain provisions of, the Health Care Reform Laws. It is unclear at this point what the scope of any future such legislation will be and when it will become effective. Because of the uncertainty surrounding this replacement health care reform legislation, we cannot predict with any certainty the likely impact of the Health Care Reform Laws' repeal or the adoption of any other health care reform legislation on our financial condition or operating results. Whether or not there is alternative health care legislation enacted in the U. S., there is likely to be significant disruption to the health care market in the coming months and years and the costs of our health care expenditures may increase. We may be exposed to employment- related claims and losses, including class action lawsuits, which could have a material adverse effect on our business. Workforce solution providers typically assign personnel in the workplaces of other businesses. The risks of these activities include possible claims relating to: • discrimination and harassment; • wrongful termination or denial of employment; • violations of employment rights related to employment screening or privacy issues; • classification of field talent; • assignment of illegal aliens; • violations of wage and hour requirements; • retroactive entitlement to field talent benefits; • errors and omissions by our field talent; • misuse of client partners proprietary information; • misappropriation of funds; • damage to client partners facilities due to negligence of field talent; and • criminal activity. We may incur fines and other losses or negative publicity with respect to these claims. In addition, these claims may give rise to litigation, which could be time- consuming and expensive. New employment and labor laws and regulations may be proposed or adopted that may increase the potential exposure of employers to employment- related claims and litigation. There can be no assurance that the policies we have in place to help reduce our exposure to these risks will be effective or that we will not experience losses as a result of these risks. There can also be no assurance that the insurance policies we have purchased to insure against certain risks will be adequate or that insurance coverage will remain available on commercially reasonable terms or be sufficient in amount or scope of coverage. U. S. federal tax regulations and interpretations could adversely affect us. On December 22, 2017, the Tax Cuts and Jobs Act (the " TCJA ") was signed into law. Notwithstanding the reduction in the corporate income tax rate, the overall impact of these changes on our results of operations will likely evolve as new regulations and interpretations relating to the TCJA are implemented. In addition, various political figures have pledged their support to overturning or modifying key aspects of the TCJA which could further increase the uncertainty relating to the impact of this or any future tax legislation on our results of operations. Natural disasters and unusual weather conditions, pandemic outbreaks, terrorist acts, global political events and other serious catastrophic events could disrupt business and otherwise materially adversely affect our business and financial condition. With operations in many states, we are subject to numerous risks outside of our control, including risks arising from natural disasters, such as fires, earthquakes, hurricanes, floods, tornadoes, unusual weather conditions, pandemic outbreaks and other health emergencies, terrorist acts or disruptive political events, or similar disruptions that could materially adversely affect our business and financial performance. Our operations are often dependent on the ability of team members, field talent and consultants to travel from business to business and from location to location. Any public health emergencies, including a real or potential pandemic such as those caused by the avian flu, SARS, Ebola, COVID-19, or even a particularly virulent flu, could decrease demand for our workforce solutions and our ability to offer them. Uncharacteristic or significant weather conditions can affect travel and the ability of businesses to remain open, which could lead to decreased ability to offer our workforce solutions and materially adversely affect our short- term results of operations. Although we cannot predict such events or their consequences, these events could materially adversely affect our stock price, reputation, business and financial condition. Risks Related to Our Information Technology, Cybersecurity and Data Protection Our results of operations and ability to grow could be materially negatively affected if we cannot successfully keep pace with technological changes impacting the development and implementation of our workforce solutions and the evolving needs of our client partners. Our success depends on our ability to keep pace with rapid technological changes affecting both the development and implementation of our workforce solutions and the needs of our client partners. Technological advances such as artificial intelligence, machine learning, and automation are impacting industries served by all our lines of business. In addition, our business relies on a variety of technologies, including those that support hiring and tracking, order management, billing, and client data analytics. If we do not sufficiently invest in new technology and industry developments, appropriately implement new technologies, or evolve our business at sufficient speed and scale in response to such developments, or if we do not make the right strategic investments to respond to these developments, our workforce solutions, results of operations, and ability to develop and maintain our business could be negatively affected. We are dependent upon technology services, and if we experience damage, service interruptions or failures in our computer and telecommunications systems, or if our security measures are breached, our client partner and field talent relationships and our ability to attract new client partners may be adversely affected. Our business could be interrupted by damage to or disruption of our computer, telecommunications equipment, or software systems, some of which are managed by third- party vendors, and we may lose data. Our client partners' businesses may be adversely affected by any system or equipment failure we experience. As a result of any of the foregoing, our relationships with our client partners may be impaired, we may lose client partners, our ability to attract new client partners may be adversely affected and we could be exposed to contractual liability. Precautions in place to protect us from, or minimize the effect of, such events may not be adequate. In addition, our business involves the storage and transmission of field talent or client partners' proprietary information, and security breaches, computer viruses or ~~Cyber~~ **cyber** - attacks, including attacks motivated by grievances against the business industry in general or against us in particular, could expose us to a risk of loss of this information, litigation and possible liability. If our security measures are breached as a result of third- party action, field talent error, malfeasance or otherwise, and, as a result, someone obtains unauthorized access to client partner data, our reputation may be damaged, we may be subject to government sanctions, our business may suffer and we could incur significant liability. Techniques used to obtain unauthorized access or to sabotage systems change frequently and are growing increasingly sophisticated. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, we could be liable and the market perception of our workforce solutions could be harmed or result in increased costs or loss of revenue. The potential risk of security breaches and cyber- attacks may increase as we introduce new workforce solution offerings. We maintain insurance with respect to many of such claims; however, there can be no assurance that we will continue to be able to obtain insurance at a cost that does not have a material adverse effect upon us or that such claims (whether by reason of us not having sufficient insurance or by reason of such claims being outside the scope of our insurance) will not have a material adverse effect upon us. Changes in data privacy and protection laws and regulations in respect of control of personal information could increase our costs or otherwise adversely impact our operations. In the ordinary course of business, we collect, use, and retain personal information from our team members, field talent candidates, and contractors, including, without limitation, full names, government- issued identification numbers, addresses, birth dates, and payroll- related information. The possession and use of personal information in conducting our business subjects us to a variety of complex and evolving laws and regulations regarding data privacy, protection and security, which, in many cases, apply not only to third- party transactions, but also to transfers of information among us and our subsidiaries. Complying with the enhanced obligations and future laws and regulations relating to data transfer, residency, privacy and protection has increased and may continue to increase our operating costs and require significant management time and attention, while any failure by us or our subsidiaries to comply with applicable laws could result in governmental enforcement actions, fines, and other penalties that could potentially have a material adverse effect on our operations and reputation. Risks Related to the Ownership of Our Securities An investment in our common stock should be considered high risk. An investment in our common stock requires a long- term commitment, with no certainty of return. Investment banks may not agree to underwrite primary or secondary offerings on behalf of our company or its stockholders in the future. If all or any of the foregoing risks occur, it would have a material adverse effect on our company. We cannot predict whether an active trading market for our common stock will continue. Even if an active trading market continues, the market price of our common stock may remain volatile. In the absence of an active trading market: • you may have difficulty buying and selling our common stock at all or at the price you consider reasonable; • market visibility for shares of our common stock may be limited, which may have a depressive effect on the market price for shares of our common stock and on our ability to raise capital or make acquisitions by issuing our common stock. Even if an active market for our common stock continues, of which no assurances can be given, the market price for our common stock may be volatile and subject to wide fluctuations in response to factors including the following: • actual or anticipated fluctuations in our quarterly or annual operating results; • changes in financial or operational estimates or projections; • ~~duration and impact of the COVID- 19 pandemic and efforts to mitigate its spread; •~~ changes in the economic performance or market valuations of companies similar to ours; • conditions in markets generally; • sales of significant amounts of our common stock; and • general economic or political conditions in the United States or elsewhere. The securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of shares of our common stock. We will likely issue additional common stock in the future, which would dilute the holdings of our existing stockholders. In the future we may issue additional securities up to our total authorized and unissued amounts, including shares of our common stock or securities convertible into or exchangeable or exercisable for our common stock, resulting in the dilution of the ownership interests of our stockholders. We may issue additional shares of our common stock or securities convertible into or exchangeable or exercisable for our common stock in connection with hiring or retaining personnel, option exercises **, 2020 ESPP purchases** , future acquisitions or future placements of our securities for capital- raising or other business purposes. Moreover, the exercise of our existing outstanding stock options, which are exercisable for or convertible into shares of our common stock, would dilute our existing common stockholders. Our compliance with complicated regulations concerning corporate governance and public disclosure has resulted and may in the future result in additional expenses. We are faced with expensive, complicated and evolving disclosure, governance and compliance laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes- Oxley Act of 2002, which we refer to as the Sarbanes- Oxley Act, and the Dodd- Frank Wall Street Reform and Consumer Protection Act. New or changing laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. As a result, our efforts to comply with evolving laws, regulations and standards of a public company are likely to continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue- generating activities to compliance activities. Our failure to comply with all laws, rules and regulations applicable to U. S. public companies could subject us or our management to regulatory scrutiny or sanction, which could harm our reputation and stock price. There may be limitations on the effectiveness of our internal controls, and a failure of our control systems to prevent error or fraud may materially harm our company. Proper systems of internal controls over financial reporting and disclosure are critical to the operation of a public company. Should such systems fail to detect or prevent error or fraud, it would leave us without the ability to reliably compile financial information about our company and significantly impair our ability to prevent or detect errors and fraud, all of which would have a negative impact on our company from many perspectives. Moreover, we do not expect that disclosure controls or internal control over financial reporting, even if established, will prevent all errors and fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system' s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Failure of our control systems to prevent and detect errors or fraud could materially adversely impact us. We cannot be sure we will pay dividends in the future, and consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock. While we have declared and paid dividends for the prior thirty- ~~three~~ **seven** quarterly periods, we are limited in our ability to pay dividends by our credit agreement, and therefore, we cannot be certain if we will pay any cash dividends to holders of our common stock in the future. Any future determination with respect to the payment of dividends will be at the discretion of our board of directors and will be dependent upon, among other things, our financial condition, results of operations, capital requirements, the terms of our then existing indebtedness, contractual restrictions, future prospects, general economic conditions and other factors considered relevant by our board of directors. Consequently, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders have purchased their shares. Upon dissolution of our company, you may not recoup all or any portion of your investment. In the event of a liquidation, dissolution or winding- up of our company, whether voluntary or involuntary, the proceeds and / or assets of our company remaining after giving effect to such transaction, and the payment of all of our debts and liabilities will be distributed to the stockholders of common stock on a pro rata basis. There can be no assurance that we will have available assets to pay to the holders of common stock, or any amounts, upon such a liquidation, dissolution or winding- up of our company. In this event, you could lose some or all of your investment. Certain provisions of our organizational documents may make it difficult for stockholders to change the composition of our board of directors and may discourage hostile takeover attempts that some of our stockholders may consider to be beneficial. Certain provisions of our certificate of incorporation and bylaws may have the effect of delaying or preventing changes in control if our board of directors determines that such changes in control are not in the best interests of us and our stockholders. The provisions in such certificate of incorporation and bylaws include, among other things, the following: • a classified board of directors with three- year staggered terms; • the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms, including preferences and voting rights, of those shares without stockholder approval; • stockholder action can only be taken at a special or regular meeting and not by written consent except in limited circumstances; • advance notice procedures for nominating candidates to our board of directors or presenting matters at stockholder meetings; • removal of directors only for cause; • allowing only our board of directors to fill vacancies on our board of directors or increase the size of our board of directors; and • super- majority voting requirements to amend certain provisions of our certificate of incorporation. We have elected in our certificate of incorporation not to be subject to Section 203 of the Delaware General Corporation Law (the " DGCL "), a statutory provision that may have the effect of delaying, hindering or preventing some takeovers of our company. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination, such as a merger, with a person or group owning 15 % or more of the corporation' s voting stock for a period of three years following the date the person became an " interested stockholder, " unless (with certain exceptions) the business combination or the transaction in which the person became an " interested stockholder " is approved in a prescribed manner. Accordingly, we will not be subject to any anti- takeover effects of Section 203. Our certificate of incorporation contains provisions that have the same effect as Section 203, except that they generally provide that Taglich Private Equity LLC, Taglich Brothers, Inc. or any of their respective affiliates or associates, including any investment funds or portfolio companies managed by any of the foregoing, or any other person with whom any of the foregoing act as a group for the purpose of acquiring, voting or disposing of our shares, or any person that becomes an interested stockholder as a result of a transfer of 5 % or more of our voting stock by the forgoing persons to such person, will be excluded from the " interested stockholder " definition in our certificate of incorporation and will therefore not be subject to the restrictions set forth therein that have the same effect as Section 203. While these provisions have the effect of encouraging persons seeking to acquire control of our company to negotiate with our board of directors, they could enable the board of directors to hinder or frustrate a transaction that some, or a majority, of the stockholders might believe to be in their best interests and, in that case, may prevent or discourage attempts to remove and replace incumbent directors. These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management.