

GEE Group Inc.
Form 10-Q
February 14, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **December 31, 2017**

OR

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

Commission File Number 1-05707

GEE GROUP INC.

(Exact name of registrant as specified in its charter)

Illinois
(State or other jurisdiction of incorporation
or organization)

36-6097429
(I.R.S. Employer Identification Number)

184 Shuman Blvd., Suite 420, Naperville, IL 60563

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(Address of principal executive offices)

(630) 954-0400

(Registrant's telephone number, including area code)

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

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

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

| | | | |
|-------------------------|----|---------------------------|----|
| Large accelerated filer | .. | Accelerated filer | .. |
| Non-accelerated filer | .. | Smaller reporting company | x |
| | | Emerging Growth Company | .. |

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

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

The number of shares outstanding of the registrant's common stock as of February 14, 2018 was 10,444,567

GEE GROUP INC.

Form 10-Q

For the Quarter Ended December 31, 2017

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CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

As a matter of policy, the Company does not provide forecasts of future financial performance. The statements made in this quarterly report on Form 10-Q which are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements often contain or are prefaced by words such as "believe", "will" and "expect." These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. As a result of a number of factors, our actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause the Company's actual results to differ materially from those in the forward-looking statements include, without limitation, general business conditions, the demand for the Company's services, competitive market pressures, the ability of the Company to attract and retain qualified personnel for regular full-time placement and contract assignments, the possibility of incurring liability for the Company's business activities, including the activities of its contract employees and events affecting its contract employees on client premises, and the ability to attract and retain qualified corporate and branch management, as well as those risks discussed in the Company's annual report on Form 10-K for the year ended September 30, 2017, and in other documents which we file with the Securities and Exchange Commission. Any forward-looking statements speak only as of the date on which they are made, and the Company is under no obligation to (and expressly disclaims any such obligation to) and does not intend to update or alter its forward-looking statements whether as a result of new information, future events or otherwise.

Table of Contents**PART I – FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.****GEE GROUP INC.****CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**

(In Thousands)

| | December 31, 2017 | September 30, 2017 |
|---|----------------------------------|-----------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 3,480 | \$ 2,785 |
| Accounts receivable, less allowances (December - \$1,659 and September - \$1,712) | 22,669 | 23,178 |
| Other current assets | 1,399 | 3,014 |
| Total current assets | 27,548 | 28,977 |
| Property and equipment, net | 945 | 914 |
| Other long-term assets | 282 | 282 |
| Goodwill | 76,593 | 76,593 |
| Intangible assets, net | 33,653 | 35,049 |
| TOTAL ASSETS | \$ 139,021 | \$ 141,815 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Revolving credit facility | \$ 10,000 | \$ 7,904 |
| Acquisition deposit for working capital guarantee | 1,500 | 1,500 |
| Accrued interest | 1,995 | 2,175 |
| Accounts payable | 2,073 | 3,243 |
| Accrued compensation | 6,127 | 7,394 |
| Other current liabilities | 223 | 515 |
| Short-term portion of subordinated debt | 1,013 | 1,225 |
| Short-term portion of term-note, net of discount | 3,987 | 3,433 |
| Total current liabilities | 26,918 | 27,389 |
| Deferred rent | 120 | 334 |
| Deferred taxes | 930 | 958 |
| Term-loan, net of debt discounts | 40,844 | 42,018 |
| Subordinated debt | 1,000 | 1,000 |
| Subordinated convertible debt | 16,685 | 16,685 |
| Other long-term liabilities | 31 | 35 |
| Total long-term liabilities | 59,610 | 61,030 |

| | | |
|---|-------------------|-------------------|
| Commitments and contingencies | | |
| MEZZANINE EQUITY | | |
| Preferred stock; no par value; authorized - 20,000 shares; issued and outstanding - 5,926 | | |
| Preferred series A stock - 160 authorized; issued and outstanding - none | - | - |
| Preferred series B stock - 5,950 authorized; issued and outstanding - 5,926 | | |
| Liquidation value of the preferred series B stock is approximately \$28,800 | 29,333 | 29,333 |
| SHAREHOLDERS' EQUITY | | |
| Common stock, no-par value; authorized - 200,000 shares; issued and outstanding - 10,015 | | |
| shares at December 31, 2017 and 9,879 shares at September 30, 2017, respectively | - | - |
| Additional paid in capital | 40,405 | 39,517 |
| Accumulated deficit | (17,245) | (15,454) |
| Total shareholders' equity | 23,160 | 24,063 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 139,021 | \$ 141,815 |

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

Table of Contents**GEE GROUP INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**

(In Thousands, Except Per Share Data)

| | Three Months Ended December 31, | |
|--|------------------------------------|----------------|
| | 2017 | 2016 |
| NET REVENUES: | | |
| Contract staffing services | \$ 39,461 | \$ 19,856 |
| Direct hire placement services | 5,771 | 1,150 |
| NET REVENUES | 45,232 | 21,006 |
| Cost of contract services | 29,458 | 15,563 |
| GROSS PROFIT | 15,774 | 5,443 |
| Selling, general and administrative expenses | 12,766 | 4,495 |
| Acquisition, integration and restructuring expenses | 40 | 23 |
| Depreciation expense | 97 | 79 |
| Amortization of intangible assets | 1,396 | 369 |
| INCOME FROM OPERATIONS | 1,475 | 477 |
| Interest expense | (3,294) | (360) |
| INCOME (LOSS) BEFORE INCOME TAX PROVISION | (1,819) | 117 |
| Provision for income tax | 28 | (66) |
| NET INCOME (LOSS) | \$ (1,791) | \$ 51 |
| NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS | \$ (1,791) | \$ 51 |
| BASIC INCOME (LOSS) PER SHARE | \$ (0.18) | \$ 0.01 |
| WEIGHTED AVERAGE NUMBER OF SHARES - BASIC | 9,905 | 9,379 |
| DILUTED INCOME (LOSS) PER SHARE | \$ (0.18) | \$ 0.01 |
| WEIGHTED AVERAGE NUMBER OF SHARES - DILUTED | 9,905 | 9,925 |

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

Table of Contents**GEE GROUP INC.****CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)**

(In Thousands)

| | Common Stock Shares | Additional Paid In Capital | Accumulated Deficit | Total Shareholders' Equity |
|--------------------------------------|------------------------------------|---|--------------------------------|---|
| Balance, September 30, 2016 | 9,379 | \$ 37,615 | \$ (13,082) | \$ 24,533 |
| Amortization of stock option expense | - | 902 | - | 902 |
| Exercise of stock warrants | 500 | 1,000 | - | 1,000 |
| Net loss | - | - | (2,372) | (2,372) |
| Balance, September 30, 2017 | 9,879 | 39,517 | (15,454) | 24,063 |
| Amortization of stock option expense | - | 293 | - | 293 |
| Issuance of stock for interest | 136 | 595 | - | 595 |
| Net loss | - | - | (1,791) | (1,791) |
| Balance, December 31, 2017 | 10,015 | \$ 40,405 | \$ (17,245) | \$ 23,160 |

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

Table of Contents**GEE GROUP INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

(In Thousands)

| | Three Months Ended December | |
|--|-----------------------------|----------|
| | 31, | |
| | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) income | \$ (1,791) | \$ 51 |
| Adjustments to reconcile (net loss) net income to cash used in operating activities: | | |
| Depreciation and amortization | 1,493 | 448 |
| Stock option expense | 293 | 194 |
| Provision for doubtful accounts | (53) | - |
| Amortization of debt discount and non cash extinguishment of debt | 192 | 54 |
| Changes in operating assets and liabilities - | | |
| Accounts receivable | 562 | (1,008) |
| Accrued interest | (178) | - |
| Accounts payable | (577) | (666) |
| Accrued compensation | (1,267) | (262) |
| Other current items, net | 1,295 | 476 |
| Long-term liabilities | (218) | 17 |
| Net cash used in operating activities | (249) | (696) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of property and equipment | (128) | (17) |
| Acquisition payments, net of cash acquired | - | (50) |
| Net cash used in investing activities | (128) | (67) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on the debt related to acquisitions | (212) | (1,089) |
| Payments on senior debt | (812) | - |
| Payments on capital lease | - | (5) |
| Net proceeds from revolving credit | 2,096 | 1,522 |
| Net cash provided by financing activities | 1,072 | 428 |
| Net change in cash | 695 | (335) |
| Cash at beginning of period | 2,785 | 2,528 |
| Cash at end of period | \$ 3,480 | \$ 2,193 |

SUPPLEMENTAL CASH FLOW INFORMATION:

| | | | | |
|--|----|-------|----|-----|
| Cash paid for interest | \$ | 2,699 | \$ | 294 |
| Cash paid for taxes | \$ | - | \$ | - |
| Non-cash financing activities | | | | |
| Stock paid for interest on subordinated notes | \$ | 210 | \$ | - |
| Stock paid for fees in connection with subordinated note | \$ | 385 | \$ | - |

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Description of Business

GEE Group Inc. (the “Company”, “us”, “our” or “we”) was incorporated in the State of Illinois in 1962 and is the successor to the employment offices doing business since 1893. We are a provider of permanent and temporary professional, industrial and physician assistant staffing and placement services in and near several major U.S cities. We specialize in the placement of information technology, engineering, medical and accounting professionals for direct hire and contract staffing for our clients, and provide temporary staffing services for our commercial clients.

2. Significant Accounting Policies and Estimates

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three-month period ended December 31, 2017 are not necessarily indicative of the results that may be expected for the year ending September 30, 2018. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2017 as filed on December 28, 2017.

Liquidity

The Company has experienced significant losses and negative cash flows from operations in the past. Management has implemented a strategy which includes cost reduction efforts, consolidation of certain back office activities to gain efficiencies as well as identifying strategic acquisitions, financed primarily through the issuance of preferred and common stock and convertible debt, to improve the overall profitability and cash flows of the Company.

After the close of business on March 31, 2017, the Company and its subsidiaries, as borrowers, entered into a Revolving Credit, Term Loan and Security Agreement (the “Credit Agreement”) with PNC Bank, National Association (“PNC”), and certain investment funds managed by MGG Investment Group LP (“MGG”). All funds were distributed on

April 3, 2017 (the “Closing Date”).

Under the terms of the Credit Agreement, the Company may borrow up to \$73,750,000 consisting of a four-year term loan in the principal amount of \$48,750,000 and revolving loans in a maximum amount up to the lesser of (i) \$25,000,000 or (ii) an amount determined pursuant to a borrowing base that is calculated based on the outstanding amount of the Company’s eligible accounts receivable, as described in the Credit Agreement. The loans under the Credit Agreement mature on March 31, 2021.

On October 2, 2017, the Company, the other borrower entities and guarantor entities named therein (collectively, the “Loan Parties”), PNC, and certain investment funds managed by MGG (collectively the “Lenders”) entered into a First Amendment and Waiver (the “Amendment”) to the Revolving Credit, Term Loan and Security Agreement dated as of March 31, 2017 (the “Credit Agreement”) by and among the Loan Parties and the Lenders.

The Amendment, which was effective as of October 2, 2017, modified the required principal repayment schedule with respect to the Term Loans. The Amendment also modified the ability of the Loan Parties to repay or make other payments with respect to certain other loans that are subordinated in right of payment to the indebtedness under the Credit Agreement.

Pursuant to the Amendment the Lenders also waived any Event of Default arising out of the Loan Parties’ failure to deliver, on or before October 3, 2017, the materials satisfying the requirements of clauses (i) and (ii) of Section 5 of the Waiver to Revolving Credit, Term Loan and Security Agreement, dated as of August 14, 2017, as amended.

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On November 14, 2017, the Company and its subsidiaries, as Borrowers, each subsidiary of the Company listed as a “Guarantor” on the signature pages thereto (together with each other Person joined thereto as a guarantor from time to time, collectively, the “Guarantors”, and each a “Guarantor”, and together with the Borrowers, collectively, the “Loan Parties” and each a “Loan Party”), certain lenders which now are or which thereafter become a party thereto that make Revolving Advances thereunder (together with their respective successors and assigns, collectively, the “Revolving Lenders” and each a “Revolving Lender”), the lenders which now are or which thereafter become a party thereto that made or acquire an interest in the Term Loans (together with their respective successors and assigns, collectively, the “Term Loan Lenders” and each a “Term Loan Lender”, and together with the Revolving Lenders, collectively, the “Lenders” and each a “Lender”), MGG, as administrative agent for the Lenders (together with its successors and assigns, in such capacity, the “Administrative Agent”), as collateral agent for the Lenders (together with its successors and assigns, in such capacity, the “Collateral Agent”), and as term loan agent (together with its successors and assigns, in such capacity, the “Term Loan Agent” and together with the Administrative Agent and the Collateral Agent, each an “Agent” and, collectively, the “Agents”), entered into a second amendment (the “Second Amendment”) to the Revolving Credit, Term Loan and Security Agreement, dated as of March 31, 2017 (the “Credit Agreement”).

Pursuant to the Second Amendment the Borrowers agreed, among other things, to use commercially reasonable efforts to prepay, or cause to be prepaid, \$10,000,000 in principal amount of Advances (as defined in the Credit Agreement) outstanding, which amount shall be applied to prepay the Term Loans in accordance with the applicable terms of the Credit Agreement. Any prepayment to the term loan is contingent upon a future financing, non-operational cash flow or excess cash flow as defined in the agreement. The Borrowers also agreed to amend (i) the applicable minimum Fixed Charge Coverage Ratios required to be maintained by the Company as set forth in the Second Amendment, (ii) the minimum EBITDA required to be maintained by the Company, as set forth in the Second Amendment and (iii) the maximum senior leverage ratios required to be maintained by the Company, as set forth in the Second Amendment. The Borrowers agreed to pay to the Administrative Agent for the account of the Revolving Lenders, an amendment fee of \$364,140, in connection with their execution and delivery of the Second Amendment. Such fee is payable on the earlier of (a) June 30, 2018 and (b) the first date on which all of the Obligations (as defined in the Credit Agreement) are paid in full in cash and the Total Commitment (as defined in the Credit Agreement) of the Lenders is terminated.

The loans under the credit agreement for the period commencing on the Amendment No. 2 Effective Date up to and including May 31, 2018, (i) so long as the Senior Leverage Ratio is equal to or greater than 3.75 to 1.00, an amount equal to 9.75% for Advances consisting of Domestic Rate Loans and 10.75% for Advances consisting of LIBOR Rate Loans and (ii) so long as the Senior Leverage Ratio is less than 3.75 to 1.00, an amount equal to 9.00% for Advances consisting of Domestic Rate Loans and 10.00% for Advances consisting of LIBOR Rate Loans.

The loans under the credit agreement for the period commencing on June 1, 2018 up to and including August 31, 2018, (i) so long as the Senior Leverage Ratio is equal to or greater than 4.00 to 1.00, an amount equal to 14.00% for Advances consisting of Domestic Rate Loans and 15.00% for Advances consisting of LIBOR Rate Loans and (ii) so long as the Senior Leverage Ratio is less than 4.00 to 1.00, an amount equal to 9.75% for Advances consisting of Domestic Rate Loans and 10.75% for Advances consisting of LIBOR Rate Loans.

The loans under the credit agreement for the period commencing on September 1, 2018 through the remainder of the Term, (i) so long as the Senior Leverage Ratio is equal to or greater than 3.50 to 1.00, an amount equal to 14.00% for Advances consisting of Domestic Rate Loans and 15.00% for Advances consisting of LIBOR Rate Loans and (ii) so long as the Senior Leverage Ratio is less than 3.50 to 1.00, an amount equal to 9.00% for Advances consisting of Domestic Rate Loans and 10.00% for Advances consisting of LIBOR Rate Loans.

At December 31, 2017, approximately \$8,000,000 of the Revolving Credit facility was fixed for a three-month period at an interest of approximately 11.3%.

At December 31, 2017, the Company had approximately \$5,800,000 available on the Revolving Credit facility.

The Company was in compliance with the newly amended financial covenants of the loan for December 31, 2017, the first measurement date under the Amendment.

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As of December 31, 2017, the Company had cash of approximately \$3,480,000, which was an increase of approximately \$695,000 from approximately \$2,785,000 at September 30, 2017. Working capital at December 31, 2017 was approximately \$630,000, as compared to working capital of approximately \$1,588,000 for September 30, 2017. The net loss for the three months ended December 31, 2017, was approximately \$1,791,000.

At December 31, 2017 there was approximately \$999,000 of accrued interest that was payable with the Company's common stock.

On January 4, 2018, the Company issued approximately 41,000 shares of common stock to JAX Legacy related to the accrued interest of approximately \$105,000 on the subordinated note.

On January 4, 2018, the Company issued approximately 280,602 shares of common stock to the SNI Sellers related to accrued interest of approximately \$894,000 on the subordinated note.

Management believes that the future cash flow from operations and the availability under the Revolving Credit Facility will have sufficient liquidity for the next 12 months.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts and transactions of the Company and its wholly-owned subsidiaries. All significant inter-company accounts and transactions are eliminated in consolidation.

Estimates and Assumptions

Management makes estimates and assumptions that can affect the amounts of assets and liabilities reported as of the date of the condensed consolidated financial statements, as well as the amounts of reported revenues and expenses during the periods presented. Those estimates and assumptions typically involve expectations about events to occur subsequent to the balance sheet date, and it is possible that actual results could ultimately differ from the estimates. If differences were to occur in a subsequent period, the Company would recognize those differences when they became known. Significant matters requiring the use of estimates and assumptions include, but may not be limited to, deferred

income tax valuation allowances, accounts receivable allowances, accounting for acquisitions, accounting for derivatives and evaluation of impairment. Management believes that its estimates and assumptions are reasonable, based on information that is available at the time they are made.

Revenue Recognition

Direct hire placement service revenues are recognized when applicants accept offers of employment, less a provision for estimated losses due to applicants not remaining employed for the Company's guarantee period. Contract staffing service revenues are recognized when services are rendered.

Falloffs and refunds during the period are reflected in the unaudited condensed consolidated statements of operations as a reduction of placement service revenues and were approximately \$625,000 and \$90,000 for the three-month period ended December 31, 2017 and 2016 respectively. Expected future falloffs and refunds are reflected in the unaudited condensed consolidated balance sheet as a reduction of accounts receivable and were approximately \$911,000 as of December 31, 2017 and \$997,000 as of September 30, 2017, respectively.

Cost of Contract Staffing Services

The cost of contract services includes the wages and the related payroll taxes and employee benefits of the Company's employees while they work on contract assignments.

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Cash and Cash Equivalents

Highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. At December 31, 2017 and September 30, 2017, there were no cash equivalents. The Company maintains deposits in financial institutions in excess of amounts guaranteed by the Federal Deposit Insurance Corporation. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. We have never experienced any losses related to these balances.

Accounts Receivable

The Company extends credit to its various customers based on evaluation of the customer's financial condition and ability to pay the Company in accordance with the payment terms. An allowance for placement fall-offs is recorded, as a reduction of revenues, for estimated losses due to applicants not remaining employed for the Company's guarantee period. An allowance for doubtful accounts is recorded, as a charge to bad debt expense, where collection is considered to be doubtful due to credit issues. These allowances together reflect management's estimate of the potential losses inherent in the accounts receivable balances, based on historical loss statistics and known factors impacting its customers. The nature of the contract service business, where companies are dependent on employees for the production cycle allows for a small accounts receivable allowance. Based on management's review of accounts receivable, an allowance for doubtful accounts of approximately \$1,659,000 is considered necessary as of December 31, 2017 and \$1,712,000 at September 30, 2017, respectively. The Company charges uncollectible accounts against the allowance once the invoices are deemed unlikely to be collectible. The reserve includes the \$911,000 reserve for permanent placement falloffs considered necessary as of December 31, 2017 and \$997,000 as of September 30, 2017, respectively.

Property and Equipment

Property and equipment are recorded at cost. Depreciation expense is calculated on a straight-line basis over estimated useful lives of five years for computer equipment and two to ten years for office equipment, furniture and fixtures. The Company capitalizes computer software purchased or developed for internal use and amortizes it over an estimated useful life of five years. The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that it may not be recoverable. If the carrying amount of an asset group is greater than its estimated future undiscounted cash flows, the carrying value is written down to the estimated fair value. There was no impairment of property and equipment for the three-months ended December 31, 2017 and 2016.

Goodwill

Goodwill represents the excess of cost over the fair value of the net assets acquired in the various acquisitions. The Company assesses goodwill for impairment at least annually. Testing goodwill for impairment allows the Company to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the entity determines that this threshold is not met, then performing the two-step impairment test is unnecessary. An impairment loss would be recognized to the extent the carrying value of goodwill exceeds its implied fair value.

Fair Value Measurement

The Company follows the provisions of the accounting standard which defines fair value, establishes a framework for measuring fair value and enhances fair value measurement disclosure. Under these provisions, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

The standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use on unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is described below:

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Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

The fair value of the Company's current assets and current liabilities approximate their carrying values due to their short-term nature. The carrying value of the Company's long-term liabilities represents their fair value based on level 3 inputs. The Company's goodwill and other intangible assets are measured at fair value on a non-recurring basis using level 3 inputs, as discussed in Note 5.

Earnings and Loss per Share

Basic loss per share is computed by dividing net loss attributable to common stockholders by the weighted average common shares outstanding for the period. Diluted loss per share is computed giving effect to all potentially dilutive common shares. Potentially dilutive common shares may consist of incremental shares issuable upon the exercise of stock options and warrants and the conversion of notes payable to common stock. In periods in which a net loss has been incurred, all potentially dilutive common shares are considered anti-dilutive and thus are excluded from the calculation. Common share equivalents of approximately 546,118 was included in the computation of diluted earnings per share for the three months ended December 31, 2016. There were approximately 10,274,000 and 475,100 of common stock equivalents excluded for the three months ended December 31, 2017 and December 31, 2016, respectively because their effect is anti-dilutive.

Advertising Expenses

Most of the Company's advertising expense budget is used to support the Company's business. Most of the advertisements are in print or internet media, with expenses recorded as they are incurred. For the three months ended December 31, 2017 and 2016, included in selling, general and administrative expenses was advertising expense totaling approximately \$599,000 and \$288,000, respectively.

Intangible Assets

Customer lists, non-compete agreements, customer relationships, management agreements and trade names were recorded at their estimated fair value at the date of acquisition and are amortized over their estimated useful lives ranging from two to ten years using both accelerated and straight-line methods.

Impairment of Long-lived Assets

The Company records an impairment of long-lived assets used in operations, other than goodwill, when events or circumstances indicate that the asset might be impaired and the estimated undiscounted cash flows to be generated by those assets over their remaining lives are less than the carrying amount of those items. The net carrying value of assets not recoverable is reduced to fair value, which is typically calculated using the discounted cash flow method. The Company did not record any impairment during the three months ended December 31, 2017 and 2016.

Stock-Based Compensation

The Company accounts for stock-based awards to employees in accordance with applicable accounting principles, which requires compensation expense related to share-based transactions, including employee stock options, to be measured and recognized in the financial statements based on a determination of the fair value of the stock options. The grant date fair value is determined using the Black-Scholes-Merton (“Black-Scholes”) pricing model. For all employee stock options, we recognize expense over the requisite service period on an accelerated basis over the employee’s requisite service period (generally the vesting period of the equity grant). The Company’s option pricing model requires the input of highly subjective assumptions, including the expected stock price volatility, expected term, and forfeiture rate. Any changes in these highly subjective assumptions significantly impact stock-based compensation expense.

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Options awarded to purchase shares of common stock issued to non-employees in exchange for services are accounted for as variable awards in accordance with applicable accounting principles. Such options are valued using the Black-Scholes option pricing model.

Upon the exercise of options, it is the Company's policy to issue new shares rather than utilizing treasury shares.

Income Taxes

We account for income taxes under the asset and liability method, 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. Under this method, we determine deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

We recognize interest and penalties related to unrecognized tax benefits on the income tax expense line in the accompanying consolidated statement of operations. As of December 31, 2017 and September 30, 2017, no accrued interest or penalties are included on the related tax liability line in the consolidated balance sheet.

Reclassification

Certain reclassifications have been made to the financial statements as of and for the three months ended December 31, 2016 to conform to the current year presentation. There is no effect on assets, liabilities, equity or net income.

Segment Data

The Company provides the following distinctive services: (a) direct hire placement services, (b) temporary professional services staffing in the fields of information technology, engineering, medical, and accounting, and (c) temporary light industrial staffing. These distinct services can be divided into two reportable segments, Industrial Staffing Services and Professional Staffing Services. Selling, general and administrative expenses are not completely separately allocated among light industrial services and professional staffing services. Operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Other factors, including type of business, type of employee, length of employment and revenue recognition are considered in determining these operating segments.

3. Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delayed the effective date of the new standard from January 1, 2017 to January 1, 2018. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. This ASU permits the use of either the retrospective or cumulative effect transition method. The new standard is effective for the Company beginning October 1, 2018. The Company is in the process of evaluating the impact of adoption of this guidance on its financial statements.

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In November 2015, the FASB issued authoritative guidance which changes how deferred taxes are classified on a company's balance sheet. The new guidance eliminates the current requirement for companies to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, companies will be required to classify all deferred tax assets and liabilities as noncurrent. The new guidance is effective for annual reporting periods beginning after December 15, 2016. Early adoption is permitted for all entities as of the beginning of an interim or annual reporting period. The guidance may be applied either prospectively, for all deferred tax assets and liabilities, or retrospectively (i.e., by reclassifying the comparative balance sheet). If applied prospectively, entities are required to include a statement that prior periods were not retrospectively adjusted. If applied retrospectively, entities are also required to include quantitative information about the effects of the change on prior periods. Except for balance sheet classification requirements related to deferred tax assets and liabilities, the Company does not expect this guidance to have an effect on its financial statements. The adoption of this guidance had no material effect on the Company as of December 31, 2017.

In February 2016, the FASB issued authoritative guidance which changes financial reporting as it relates to leasing transactions. Under the new guidance, lessees will be required to recognize a lease liability, measured on a discounted basis; and a right-of-use asset, for the lease term. The new guidance is effective for annual and interim periods beginning after December 15, 2018. Early application is permitted for all entities upon issuance. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is in the process of evaluating the impact of adoption of this guidance on its financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted. The adoption of this guidance had no effect on the Company as of December 31, 2017.

In August 2016, the FASB issued authoritative guidance designed to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows, including: i) contingent consideration payments made after a business combination; ii) proceeds from the settlement of insurance claims; and iii) proceeds from the settlement of corporate-owned life insurance policies. The new guidance is effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted in any interim or annual period. The Company believes the adoption of this guidance will not have a material impact on its financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The standard will be effective for the Company in

the first quarter of 2019. Early adoption is permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment”. The update simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount. The new rules will be effective for the Company in the first quarter of 2021. Early adoption is permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

No other recent accounting pronouncements were issued by FASB and the SEC that are believed by management to have a material impact on the Company’s present or future financial statements.

Table of Contents**4. Property and Equipment**

Property and equipment, net consisted of the following:

| (In thousands) | Useful Lives | December 31, 2017 | September 30, 2017 |
|---|------------------|----------------------|-----------------------|
| Computer software | 5 years | \$ 1,447 | \$ 1,447 |
| Office equipment, furniture and fixtures and leasehold improvements | 2 to 10 years | 3,371 | 3,243 |
| Total property and equipment, at cost | | 4,818 | 4,690 |
| Accumulated depreciation and amortization | | (3,873) | (3,776) |
| Property and equipment, net | | \$ 945 | \$ 914 |

Leasehold improvements are amortized over the term of the lease.

Depreciation expense for the three- month periods ended December 31, 2017 and 2016 was approximately \$97,000 and \$79,000, respectively.

5. Goodwill and Intangible AssetsGoodwill

The following table sets forth activity in goodwill from September 2016 through December 31, 2017. See Note 12 for details of acquisitions that occurred during the year ended September 30, 2017. (in thousands)

| | |
|-----------------------------------|-----------|
| Goodwill as of September 30, 2016 | \$ 18,590 |
| Acquisition of SNI Companies | 58,003 |
| Goodwill as of September 30, 2017 | \$ 76,593 |
| Goodwill as of December 31, 2017 | \$ 76,593 |

During the three months ended December 31, 2017 and the year ended September 30, 2017 the Company did not record any impairment of goodwill.

Intangible Assets

As of December 31, 2017

| (In Thousands) | Cost | Accumulated Amortization | Net Book Value |
|------------------------|-------------|-------------------------------------|---------------------------|
| Customer Relationships | \$ 29,070 | \$ 5,314 | \$ 23,756 |
| Trade Name | 8,329 | 1,473 | 6,856 |
| Non-Compete Agreements | 4,331 | 1,290 | 3,041 |
| | \$ 41,730 | \$ 8,077 | \$ 33,653 |

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As of September 30, 2017

| (In Thousands) | Accumulated | | Net |
|------------------------|-------------|--------------|------------|
| | Cost | Amortization | Book Value |
| Customer Relationships | \$ 29,070 | \$ 4,601 | \$ 24,469 |
| Trade Name | 8,329 | 1,115 | 7,214 |
| Non-Compete Agreements | 4,331 | 965 | 3,366 |
| | \$ 41,730 | \$ 6,681 | \$ 35,049 |

The amortization expense attributable to the amortization of identifiable intangible assets was approximately \$1,396,000 and \$369,000 for the three-months ended December 31, 2017 and 2016, respectively.

The trade names are amortized on a straight – line basis over the estimated useful life of ten years. Customer relationships are amortized based on the future undiscounted cash flows or straight – line basis over estimated remaining useful lives of five to ten years. Non-compete agreements are amortized based on a straight-line basis over the term of the non-compete agreement, typically five years. Over the next five years and thereafter, annual amortization expense for these finite life intangible assets will total approximately \$33,653,000, as follows: fiscal 2018 - \$4,186,000, fiscal 2019 - \$5,586,000, fiscal 2020 - \$5,005,000, fiscal 2021 - \$4,148,000, fiscal 2022 - \$3,469,000 and thereafter - \$11,259,000.

Long-lived assets, such as purchased intangibles subject to amortization, are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company regularly evaluates whether events and circumstances have occurred that indicate possible impairment and relies on a number of factors, including operating results, business plans, economic projections, and anticipated future cash flows. The Company uses an estimate of the future undiscounted net cash flows of the related asset or asset group over the remaining life in measuring whether the assets are recoverable.

6. Revolving Credit Facility

After the close of business on March 31, 2017, the Company and its subsidiaries, as borrowers, entered into a Revolving Credit, Term Loan and Security Agreement (the “Credit Agreement”) with PNC, and certain investment funds managed by MGG. All funds were distributed on April 3, 2017 (the “Closing Date”).

Under the terms of the Credit Agreement, the Company may borrow up to \$73,750,000 consisting of a four-year term loan in the principal amount of \$48,750,000 and revolving loans in a maximum amount up to the lesser of (i) \$25,000,000 or (ii) an amount determined pursuant to a borrowing base that is calculated based on the outstanding amount of the Company's eligible accounts receivable, as described in the Credit Agreement. The loans under the Credit Agreement mature on March 31, 2021.

On October 2, 2017, the Company, the other borrower entities and guarantor entities named therein (collectively, the "Loan Parties"), PNC, and certain investment funds managed by MGG (collectively the ("Lenders")) entered into a First Amendment and Waiver (the "Amendment") to the Revolving Credit, Term Loan and Security Agreement dated as of March 31, 2017 (the "Credit Agreement") by and among the Loan Parties, and the Lenders.

The Amendment, which was effective as of October 2, 2017, modified the required principal repayment schedule with respect to the Term Loans. The Amendment also modified the ability of the Loan Parties to repay or make other payments with respect to certain other loans that are subordinated in right of payment to the indebtedness under the Credit Agreement.

Pursuant to the Amendment the Lenders also waived any Event of Default arising out of the Loan Parties' failure to deliver, on or before October 3, 2017, the materials satisfying the requirements of clauses (i) and (ii) of Section 5 of the Waiver to Revolving Credit, Term Loan and Security Agreement, dated as of August 14, 2017, as amended.

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Pursuant to the Second Amendment the Borrowers agreed, among other things, to use commercially reasonable efforts to prepay, or cause to be prepaid, \$10,000,000 in principal amount of Advances (as defined in the Credit Agreement) outstanding, which amount shall be applied to prepay the Term Loans in accordance with the applicable terms of the Credit Agreement. Any prepayment to the term loan is contingent upon a future financing, non-operational cash flow or excess cash flow as defined in the agreement. The Borrowers also agreed to amend (i) the applicable minimum Fixed Charge Coverage Ratios required to be maintained by the Company as set forth in the Second Amendment, (ii) the minimum EBITA required to be maintained by the Company, as set forth in the Second Amendment and (iii) the maximum senior leverage ratios required to be maintained by the Company, as set forth in the Second Amendment. The Borrowers agreed to pay to the Administrative Agent for the account of the Revolving Lenders, an amendment fee of \$364,140, in connection with their execution and delivery of the Second Amendment. Such fee is payable on the earlier of (a) June 30, 2018 and (b) the first date on which all of the Obligations (as defined in the Credit Agreement) are paid in full in cash and the Total Commitment (as defined in the Credit Agreement) of the Lenders is terminated.

The loans under the credit agreement for the period commencing on the Amendment No. 2 Effective Date up to and including May 31, 2018, (i) so long as the Senior Leverage Ratio is equal to or greater than 3.75 to 1.00, an amount equal to 9.75% for Advances consisting of Domestic Rate Loans and 10.75% for Advances consisting of LIBOR Rate Loans and (ii) so long as the Senior Leverage Ratio is less than 3.75 to 1.00, an amount equal to 9.00% for Advances consisting of Domestic Rate Loans and 10.00% for Advances consisting of LIBOR Rate Loans.

The loans under the credit agreement for the period commencing on June 1, 2018 up to and including August 31, 2018, (i) so long as the Senior Leverage Ratio is equal to or greater than 4.00 to 1.00, an amount equal to 14.00% for Advances consisting of Domestic Rate Loans and 15.00% for Advances consisting of LIBOR Rate Loans and (ii) so long as the Senior Leverage Ratio is less than 4.00 to 1.00, an amount equal to 9.75% for Advances consisting of Domestic Rate Loans and 10.75% for Advances consisting of LIBOR Rate Loans.

The loans under the credit agreement for the period commencing on September 1, 2018 through the remainder of the Term, (i) so long as the Senior Leverage Ratio is equal to or greater than 3.50 to 1.00, an amount equal to 14.00% for Advances consisting of Domestic Rate Loans and 15.00% for Advances consisting of LIBOR Rate Loans and (ii) so long as the Senior Leverage Ratio is less than 3.50 to 1.00, an amount equal to 9.00% for Advances consisting of Domestic Rate Loans and 10.00% for Advances consisting of LIBOR Rate Loans.

At December 31, 2017, approximately \$8,000,000 of the Revolving Credit facility was fixed for a three-month period at an interest of approximately 11.3%.

At December 31, 2017, the Company had approximately \$5,800,000 available on the Revolving Credit facility.

The Revolving Credit Facility is secured by all of the Company's property and assets, whether real or personal, tangible or intangible, and whether now owned or hereafter acquired, or in which it now has or at any time in the future may acquire any right, title or interests.

The Revolving Credit Facility has the same covenants as the Term-loan (See note 7).

7. Term-loan

After the close of business on March 31, 2017, the Company and its subsidiaries, as borrowers, entered into a Revolving Credit, Term Loan and Security Agreement (the "Credit Agreement") with PNC, and certain investment funds managed by MGG. All funds were distributed on April 3, 2017 (the "Closing Date").

Under the terms of the Credit Agreement, the Company may borrow up to \$73,750,000 consisting of a four-year term loan in the principal amount of \$48,750,000 and revolving loans in a maximum amount up to the lesser of (i) \$25,000,000 or (ii) an amount determined pursuant to a borrowing base that is calculated based on the outstanding amount of the Company's eligible accounts receivable, as described in the Credit Agreement. The loans under the Credit Agreement mature on March 31, 2021.

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Amounts borrowed under the Credit Agreement may be used by the Company to repay existing indebtedness, to partially fund capital expenditures, to fund a portion of the purchase price for the acquisition of all of the issued and outstanding stock of SNI Holdco Inc. pursuant to that certain Agreement and Plan of Merger dated March 31, 2017 (the “Merger Agreement”) (see note 12), to provide for on-going working capital needs and general corporate needs, and to fund future acquisitions subject to certain customary conditions of the lenders. On the closing date of the Credit Agreement, the Company borrowed \$48,750,000 from term-loans and borrowed approximately \$7,476,316 from the Revolving Credit Facility for a total of \$56,226,316 which was used by the Company to repay existing indebtedness, to pay fees and expenses relating to the Credit Agreement, and to pay a portion of the purchase price for the acquisition of all of the outstanding stock of SNI Holdco Inc. pursuant to the Merger Agreement.

On November 14, 2017, the Company and its subsidiaries, as Borrowers, each subsidiary of the Company listed as a “Guarantor” on the signature pages thereto (together with each other Person joined thereto as a guarantor from time to time, collectively, the “Guarantors”, and each a “Guarantor”, and together with the Borrowers, collectively, the “Loan Parties” and each a “Loan Party”), certain lenders which now are or which thereafter become a party thereto that make Revolving Advances thereunder (together with their respective successors and assigns, collectively, the “Revolving Lenders” and each a “Revolving Lender”), the lenders which now are or which thereafter become a party thereto that made or acquire an interest in the Term Loans (together with their respective successors and assigns, collectively, the “Term Loan Lenders” and each a “Term Loan Lender”, and together with the Revolving Lenders, collectively, the “Lenders” and each a “Lender”), MGG, as administrative agent for the Lenders (together with its successors and assigns, in such capacity, the “Administrative Agent”), as collateral agent for the Lenders (together with its successors and assigns, in such capacity, the “Collateral Agent”), and as term loan agent (together with its successors and assigns, in such capacity, the “Term Loan Agent” and together with the Administrative Agent and the Collateral Agent, each an “Agent” and, collectively, the “Agents”), entered into a second amendment (the “Second Amendment”) to the Revolving Credit, Term Loan and Security Agreement, dated as of March 31, 2017 (the “Credit Agreement”).

Pursuant to the Second Amendment the Borrowers agreed, among other things, to use commercially reasonable efforts to prepay, or cause to be prepaid, \$10,000,000 in principal amount of Advances (as defined in the Credit Agreement) outstanding, which amount shall be applied to prepay the Term Loans in accordance with the applicable terms of the Credit Agreement. Any prepayment to the term loan is contingent upon a future financing, non-operational cash flow or excess cash flow as defined in the agreement. The Borrowers also agreed to amend (i) the applicable minimum Fixed Charge Coverage Ratios required to be maintained by the Company as set forth in the Second Amendment, (ii) the minimum EBITA required to be maintained by the Company, as set forth in the Second Amendment and (iii) the maximum senior leverage ratios required to be maintained by the Company, as set forth in the Second Amendment. The Borrowers agreed to pay to the Administrative Agent for the account of the Revolving Lenders, an amendment fee of \$364,140, in connection with their execution and delivery of the Second Amendment. Such fee is payable on the earlier of (a) June 30, 2018 and (b) the first date on which all of the Obligations (as defined in the Credit Agreement) are paid in full in cash and the Total Commitment (as defined in the Credit Agreement) of the Lenders is terminated.

The loans under the credit agreement for the period commencing on the Amendment No. 2 Effective Date up to and including May 31, 2018, (i) so long as the Senior Leverage Ratio is equal to or greater than 3.75 to 1.00, an amount

equal to 9.75% for Advances consisting of Domestic Rate Loans and 10.75% for Advances consisting of LIBOR Rate Loans and (ii) so long as the Senior Leverage Ratio is less than 3.75 to 1.00, an amount equal to 9.00% for Advances consisting of Domestic Rate Loans and 10.00% for Advances consisting of LIBOR Rate Loans.

The loans under the credit agreement for the period commencing on June 1, 2018 up to and including August 31, 2018, (i) so long as the Senior Leverage Ratio is equal to or greater than 4.00 to 1.00, an amount equal to 14.00% for Advances consisting of Domestic Rate Loans and 15.00% for Advances consisting of LIBOR Rate Loans and (ii) so long as the Senior Leverage Ratio is less than 4.00 to 1.00, an amount equal to 9.75% for Advances consisting of Domestic Rate Loans and 10.75% for Advances consisting of LIBOR Rate Loans.

The loans under the credit agreement for the period commencing on September 1, 2018 through the remainder of the Term, (i) so long as the Senior Leverage Ratio is equal to or greater than 3.50 to 1.00, an amount equal to 14.00% for Advances consisting of Domestic Rate Loans and 15.00% for Advances consisting of LIBOR Rate Loans and (ii) so long as the Senior Leverage Ratio is less than 3.50 to 1.00, an amount equal to 9.00% for Advances consisting of Domestic Rate Loans and 10.00% for Advances consisting of LIBOR Rate Loans.

The Credit Agreement is secured by all of the Company's property and assets, whether real or personal, tangible or intangible, and whether now owned or hereafter acquired, or in which it now has or at any time in the future may acquire any right, title or interests.

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The Term Loans were advanced on the Closing Date and are, with respect to principal, payable as follows, subject to acceleration upon the occurrence of an Event of Default under the Credit Agreement or termination of the Credit Agreement and provided that all unpaid principal, accrued and unpaid interest and all unpaid fees and expenses shall be due and payable in full on March 31, 2021. Principal payments are required as follows: Fiscal year 2018 – \$3,636,000, Fiscal year 2019 – \$7,728,000, Fiscal year 2020 – \$8,337,000 and Fiscal year 2021 - \$28,440,000.

The Company shall prepay the outstanding amount of the Term-loans in an amount equal to the Specified Excess Cash Flow Amount (as defined in the agreement) for the immediately preceding fiscal year, commencing with the fiscal year ending September 30, 2018, payable following the delivery to the Agents of the financial statements referred to in the Agreement for such fiscal year but in any event not later than one hundred five (105) days after the end of each such fiscal year (the “Excess Cash Flow Prepayment Date”); provided that (i) if the Specified Term-loan Prepayment Conditions shall not be satisfied on any Excess Cash Flow Prepayment Date, Borrowers shall (A) on the Excess Cash Flow Prepayment Date, pay such portion of the Specified Excess Cash Flow Amount then due for such period that does not cause Borrowers to breach the Specified Term Loan Prepayment Conditions, (B) on the date on which the next Borrowing Base Certificate is due to be delivered to Agents pursuant to the Agreement (the “Borrowing Base Reference Date”), pay the remaining portion of such Specified Excess Cash Flow Amount (or such portion thereof that does not cause Borrowers to breach the Specified Term Loan Prepayment Conditions) and (C) if any Specified Excess Cash Flow Amount for such period remains due and owing after payment of the amount described in preceding clause (ii), on the next Borrowing Base Reference Date and each Borrowing Base Reference Date thereafter, pay such portion of the unpaid Specified Excess Cash Flow Amount that does not cause Borrowers to breach the Specified Term Loan Prepayment Conditions until such Specified Excess Flow Amount then due for such period is paid in full, and (ii) the failure of the Borrowers to make a prepayment of all or any portion of the Specified Excess Cash Flow Amount pursuant the Agreement solely as a result of Borrowers’ failure to satisfy the Specified Term Loan Prepayment Conditions shall not constitute an Event of Default.

The amended Credit Agreement contains certain covenants including the following:

Fixed Charge Coverage Ratio. The Company shall cause to be maintained as of the last day of each fiscal quarter, a Fixed Charge Coverage Ratio for itself and its subsidiaries on a Consolidated Basis of not less the amount set forth in the Credit Agreement of 1.25 to 1.0.

Minimum EBITDA. The Company shall cause to be maintained as of the last day of each fiscal quarter, EBITDA for itself and its subsidiaries on a Consolidated Basis of not less than the amount set forth in the Credit Agreement for each fiscal quarter specified therein, in each case, measured on a trailing four (4) quarter basis as set in the Credit Agreement, which ranges from \$11,000,000 to \$14,000,000 over the term of the Credit Agreement.

Senior Leverage Ratio. The Company shall cause to be maintained as of the last day of each fiscal quarter, a Senior Leverage Ratio for itself and its subsidiaries on a Consolidated Basis of not greater than the amount set forth in the Credit Agreement for each fiscal quarter, in each case, measured on a trailing four (4) quarter basis as set in the agreement, which ranges from 5.25 to 1.0 to 2.5 to 1.0 over the term of the Credit Agreement.

In addition to these financial covenants, the Credit Agreement includes other restrictive covenants. The Credit Agreement permits capital expenditures up to a certain level, and contains customary default and acceleration provisions. The Credit Agreement also restricts, above certain levels, acquisitions, incurrence of additional indebtedness, and payment of dividends.

The Company was in compliance with the non-financial covenants and with the newly amended financial covenants of the loan for December 31, 2017, the first measurement date under the Amendment.

| | December 31, | September 30, |
|---------------------------------|---------------------|----------------------|
| Balance of: | 2017 | 2017 |
| (In thousands) | | |
| Term loan | \$ 47,328 | \$ 48,141 |
| Unamortized debt discount | (2,497) | (2,690) |
| | 44,831 | 45,451 |
| Short term portion of term loan | (3,987) | (3,433) |
| Term loan | \$ 40,844 | \$ 42,018 |

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In connection with the Credit Agreement (the Revolving Credit Facility and the Term-loan), the Company agreed to pay an original discount fee of approximately \$901,300, a closing fee for the term loan of approximately \$75,000, a finder's fee of approximately \$1,597,000 and a closing fee for the revolving credit facility of approximately \$500,000. The total of the loan fees paid is approximately \$3,073,300. The Company has recorded this as a reduction of the term-loan and amortized as interest expense over the term of the loans. During the period ended, December 31, 2017, the Company amortized approximately \$192,000 of the debt discount.

8. Accrued Compensation

Accrued Compensation includes accrued wages, the related payroll taxes, employee benefits of the Company's employees while they work on contract assignments, commissions earned and not yet paid and estimated commission payable.

9. Subordinated Debt – Convertible and Non-Convertible

On October 2, 2015, the Company issued and sold the Subordinated Note to JAX Legacy – Investment 1, LLC (the “Jax”, “Investor”) pursuant to a Subscription Agreement dated October 2, 2015 between the Company and the Investor (the “Subscription Agreement”) in the amount of \$4,185,000. The Subordinated Note was due on October 2, 2018. The Company paid fees of approximately \$25,000 and 3,000 shares of common stock to the Investor, valued at approximately \$23,000. In addition, the Company had approximately \$33,000 of legal fees related to the transaction. Total discount recorded at issuance was approximately \$647,000. Total amortization of debt discount for the year ended September 30, 2017 was approximately \$107,000, and the remaining \$322,000 was written off to loss on extinguishment of debt.

On April 3, 2017, the Company and Jax amended and restated the Subordinated Note in its entirety in the form of a 10% Convertible Subordinated Note (the “10% Note”) in the aggregate principal amount of \$4,185,000. The 10% Note matures on October 3, 2021 (the “Maturity Date”). The 10% Note is convertible into shares of the Company's Common Stock at a conversion price equal to \$5.83 per share. All or any portion of the 10% Note may be redeemed by the Company for cash at any time on or after April 3, 2018 that the average daily VWAP of the Company's Common Stock reported on the principal trading market for the Common Stock exceeds the then applicable Conversion Price for a period of 20 trading days. The redemption price shall be an amount equal to 100% of the then outstanding principal amount of the 10% Note being redeemed, plus accrued and unpaid interest thereon. The Company agreed to issue to the investors in Jax approximately 77,775 shares of common stock, at a value of approximately \$385,000 which was expensed as loss on the extinguishment of debt during the year ended September 30, 2017. On December 13, 2017 the Company issued 135,655 shares of common stock for both the conversion and paid in kind interest through September 30, 2017.

On October 4, 2015, the Company issued to the sellers of Access Data Consulting Corporation a Promissory Note. Interest on the outstanding principal balance of the Promissory Note is payable at the rate of 5.5% per annum. The principal and interest amount of the Promissory Note is payable as follows: (i) for the first twelve months commencing on November 4, 2015 and ending on October 4, 2016, a monthly payment of approximately \$57,000 in principal and interest, (ii) on October 4, 2016 a balloon payment of principal of \$1,000,000, (iii) for the next twelve months commencing on November 4, 2016 and ending on October 4, 2017, a monthly payment of approximately \$28,000 in principal and interest, (iv) on October 4, 2017 a balloon payment of principal of \$1,202,000 and (v) on October 4, 2017 any and all amounts of previously unpaid principal and accrued interest. The Credit Agreement requires this loan to be subordinated to PNC and MGG, however the sellers of Access Data Consulting Corporation have not agreed to the subordination.

On October 4, 2017, the Company executed an Amended and Restated Non-Negotiable Promissory Note in favor of William Daniel Dampier and Carol Lee Dampier (sellers of Access Data Consulting Corporation) in the amount of \$1,202,405 (the "Note"). This Note amends and, as so amended, restates in its entirety and replaces that certain Subordinated Nonnegotiable Promissory Note dated October 4, 2015, issued by the Company to William Daniel Dampier and Carol Lee Dampier in the original principal amount of \$3,000,000. The Company agreed to pay William Daniel Dampier and Carol Lee Dampier 12 equal installments of \$107,675, commencing on November 4, 2017 and ending on October 4, 2018. The entire loan is classified as current and subordinate to the senior debt.

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On January 20, 2017, the Company entered into Addendum No. 1 (the “Addendum”) to the Stock Purchase Agreement dated as of January 1, 2016 (the “Paladin Agreement”) by and among the Company and Enoch S. Timothy and Dorothy Timothy (collectively, the “Sellers”). Pursuant to the terms of the Addendum, the Company and the Sellers agreed (a) that the conditions to the “Earnouts” (as defined in the Paladin Agreement) had been satisfied or waived and (b) that the amounts payable to the Sellers in connection with the Earnouts shall be amended and restructured as follows: (i) the Company paid \$250,000 in cash to the Sellers prior to January 31, 2017 (the “Earnout Cash Payment”) and (ii) the Company shall issue to the Sellers a subordinated promissory note in the principal amount of \$1,000,000 (the “Subordinated Note”), The Subordinated Note shall bear interest at the rate of 5.5% per annum. Interest on the Subordinated Note shall be payable monthly, principle can only be paid in stock until the term-loan and Revolving Credit Facility are repaid. The Subordinated Note shall have a term of three years and may be prepaid without penalty. The principal of and interest on the Subordinated Note may be paid, at the option of the Company, either in cash or in shares of common stock of the Company or in any combination of cash and common stock. The Sellers have agreed that all payments and obligations under the Subordinated Note shall be subordinate and junior in right of payment to any “Senior Indebtedness” (as defined in the Paladin Agreement) now or hereafter existing to “Senior Lenders” (current or future) (as defined in the Paladin Agreement).

On April 3, 2017, the Company issued and paid to certain SNIH Stockholders as part of the Merger Consideration (see note 12) an aggregate of \$12.5 million in aggregate principal amount of its 9.5% Notes. The 9.5% Notes mature on October 3, 2021 (the “Maturity Date”). The 9.5% Notes are convertible into shares of the Company’s Common Stock at a conversion price equal to \$5.83 per share. Interest on the 9.5% Notes accrues at the rate of 9.5% per annum and shall be paid quarterly in arrears on June 30, September 30, December 31 and March 31, beginning on June 30, 2017, on each conversion date with respect to the 9.5% Notes (as to that principal amount then being converted), and on the Maturity Date (each such date, an “Interest Payment Date”). At the option of the Company, interest may be paid on an Interest Payment Date either in cash or in shares of Common Stock of the Company, which Common Stock shall be valued based on the terms of the agreement, subject to certain limitations defined in the loan agreement. Each of the 9.5% Notes is subordinated in payment to the obligations of the Company to the lenders parties to that certain Revolving Credit, Term Loan and Security Agreement, dated as of March 31, 2017 by and among the Company, the Company’s subsidiaries named as borrowers therein (collectively with the Company, the “Borrowers”), the senior lenders named therein and PNC Bank, National Association, as administrative agent and collateral agent (the “Agent”) for the senior lenders (the “Senior Credit Agreement”), pursuant to those certain Subordination and Intercreditor Agreements, each dated as of March 31, 2017 by and among the Company, the Borrowers, the Agent and each of the holders of the 9.5% Notes.

None of the 9.5% Notes issued to the SNIH Stockholders are registered under the Securities Act of 1933, as amended (the “Securities Act”). Each of the SNIH Stockholders who received 9.5% Notes is an accredited investor. The issuance of the 9.5% Notes to such SNIH Stockholders is exempt from the registration requirements of the Act in reliance on an exemption from registration provided by Section 4(2) of the Act.

| Balance as of: | December 31, | September 30, |
|-----------------------|---------------------|----------------------|
| (In thousands) | 2017 | 2017 |

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| | | | | |
|--|----|---------|----|---------|
| JAX Legacy debt | \$ | 4,185 | \$ | 4,185 |
| Access Data debt | | 1,013 | | 1,225 |
| Paladin debt | | 1,000 | | 1,000 |
| 9.5% convertible debt | | 12,500 | | 12,500 |
| | | | | |
| Total subordinated debt, convertible and non-convertible | | 18,698 | | 18,910 |
| | | | | |
| Short-term portion of subordinated debt, convertible and non-convertible | | (1,013) | | (1,225) |
| | | | | |
| Long-term portion of subordinated debt, convertible and non-convertible | \$ | 17,685 | \$ | 17,685 |

Future minimum payments of subordinated debt will total approximately \$18,698,000 as follows: fiscal 2018 - \$1,013,000, fiscal 2019 - \$0, fiscal 2020 - \$1,000,000, fiscal 2021- \$0 and fiscal 2022 - \$16,685,000.

Table of Contents**10. Equity**

On March 31, 2017, the Company issued approximately 500,000 shares of common stock upon exercise of warrants by two officers and received cash of \$1,000,000.

On November 27, 2017, the Company issued approximately 135,655 shares of common stock to JAX Legacy related to the amendment and restatement of the Subordinated Note and the interest through October 4, 2017, of approximately \$553,000.

On January 4, 2018, the Company issued approximately 41,000 shares of common stock to JAX Legacy related to the interest on the Subordinated Note through January 4, 2018, of approximately \$105,000.

On January 4, 2018, the Company issued approximately 280,602 shares of common stock to the SNI Sellers related to the accrued interest of approximately \$894,000 on the Subordinated Note through January 4, 2018.

On January 25, 2018, the Company issued approximately 110,083 shares of common stock to a SNI Sellers for the conversion of approximately 110,083 shares of series B preferred shares.

At December 31, 2017, there were exercisable options granted to purchase approximately 497,000 shares of common stock and exercisable warrants to purchase approximately 497,000 shares of common stock.

Warrants

| (Number of Warrants in Thousands) | Number of Shares | Exercise Price | Expiration |
|-----------------------------------|---------------------|----------------|------------|
| Outstanding at September 30, 2017 | 497 | \$ 3.84 | |
| Warrants exercised | - | - | |
| Warrants granted | - | - | |
| Outstanding at December 31, 2017 | 497 | \$ 3.84 | |

The weighted average exercise price of outstanding warrants was \$3.84 at December 31, 2017 and September 30, 2017, with expiration dates ranging from February 7, 2020 to April 1, 2025.

Stock Options

The Company has recognized compensation expense in the amount of approximately \$293,000 and \$194,000 during the three months ended December 31, 2017 and 2016, respectively, related to the issuance of stock options.

During the three-month period ended December 31, 2017, there were options granted to purchase 120,000 shares of common stock with a weighted average price of approximately \$2.80 per common share. This estimated value was made using the Black-Scholes option pricing model and approximated \$305,000. The stock options vest over a period between a one to a four-year period. The average expected life (years) of the options were 10 years, the estimated stock price volatility was 104% and the risk-free interest rate was 2.2%. At December 31, 2017, there was approximately \$2,083,000 of unamortized compensation.

At December 31, 2017, there were exercisable options granted to purchase approximately 497,000 shares of common stock and exercisable warrants to purchase approximately 375,000 shares of common stock.

Table of Contents**11. Income Tax**

We account for income taxes under the asset and liability method, 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. Under this method, we determine deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

We recognize interest and penalties related to unrecognized tax benefits on the income tax expense line in the accompanying consolidated statement of operations. As of September 30, 2017, no accrued interest or penalties are included on the related tax liability line in the consolidated balance sheet.

The following table presents the provision for income taxes and our effective tax rate for the three months ended December 31, 2017 and 2016:

| | Three Months Ended, December 31, | |
|----------------------------|---|-------------|
| | 2017 | 2016 |
| Provision for Income Taxes | (28) | 66 |
| Effective Tax Rate | 2% | 56% |

The effective income tax rate on operations is based upon the estimated income for the year, and adjustments, if any, in the applicable quarterly periods for the potential tax consequences, benefits, resolutions of tax audits or other tax contingencies.

Our effective tax rate for the three months ended December 31, 2017 is lower than the statutory tax rate primarily due to a tax provision for state income taxes and an increase in the deferred tax liability related to indefinite lived assets being offset by a discrete tax benefit recorded for the impact from the US Tax Reform. The tax provision for the three months ended December 31, 2017 includes discrete tax benefit totaling \$0.4 million relating to the US Tax Reform.

Our effective tax rate for the three months ended December 31, 2016 was higher than the statutory rate primarily due to change in valuation allowance.

On December 22, 2017, President Trump signed into law the "Tax Cuts and Jobs Act" ("US Tax Reform"). The US Tax Reform provides for significant changes in the U.S. Internal Revenue Code of 1986, as amended. Certain provisions of the US Tax Reform will be effective during our fiscal year ending September 30, 2018 with all provisions of the US Tax Reform effective as of the beginning of our fiscal year ending September 30, 2019. As the US Tax Reform was enacted after our year end of September 30, 2017, it had no impact on our fiscal 2017 financial results. The US Tax Reform contains provisions with separate effective dates but is generally effective for taxable years beginning after December 31, 2017.

Beginning on January 1, 2018, the US Tax Reform lowers the US corporate income tax rate to 21% from that date and beyond. We estimate that the revaluation of our US deferred tax assets and liabilities to the 21% corporate tax rate will reduce our net deferred tax liability by approximately \$0.4 million and is reflected as a tax benefit in our results for the quarter ending December 31, 2017.

Although we believe we have accounted for the parts of the US Tax Reform that will have the most significant impact on our financials, the ultimate impact of the US Tax Reform on our reported results in 2018 may differ from the estimates provided herein, due to, among other things, changes in interpretations and assumptions we have made, guidance that may be issued, and other actions we may take as a result of the US Tax Reform different from that presently contemplated.

12. Acquisitions

SNL

The Company entered into an Agreement and Plan of Merger dated as of March 31, 2017 (the “Merger Agreement”) by and among the Company, GEE Group Portfolio, Inc., a Delaware corporation and a wholly owned subsidiary of the Company, (“GEE Portfolio”), SNI Holdco Inc., a Delaware corporation (“SNIH”), Smith Holdings, LLC a Delaware limited liability company, Thrivent Financial for Lutherans, a Wisconsin corporation, organized as a fraternal benefits society (“Thrivent”), Madison Capital Funding, LLC, a Delaware limited liability company (“Madison”) and Ronald R. Smith, in his capacity as a stockholder (“Mr. Smith” and collectively with Smith Holdings, LLC, Thrivent and Madison, the “Principal Stockholders”) and Ronald R. Smith in his capacity as the representative of the SNIH Stockholders (“Stockholders’ Representative”). As a result of the merger, GEE Portfolio became the owner of 100% of the outstanding capital stock of SNI Companies, Inc., a Delaware corporation and a wholly-owned subsidiary of SNI Holdco (“SNI Companies” and collectively with SNI Holdco, the “Acquired Companies”). The aggregate consideration paid for the shares of SNI Holdco (the “Merger Consideration”) was approximately \$66,300,000.

Table of ContentsConsolidated pro-forma unaudited financial statements

The following unaudited pro forma combined financial information is based on the historical financial statements of the Company and SNI Companies, Inc., after giving effect to the Company's acquisition as if the acquisition occurred on April 3, 2017.

The following unaudited pro forma information does not purport to present what the Company's actual results would have been had the acquisitions occurred on October 1, 2016, nor is the financial information indicative of the results of future operations. The following table represents the unaudited consolidated pro forma results of operations for the three months ended December 31, 2016 as if the acquisition occurred on October 1, 2016. The pro forma results of operations for the three months ended December 31, 2016 only include SNI Companies, as all other acquisitions either occurred prior to October 1, 2016 or had an immaterial effect on pro forma balances. Operating expenses have been increased for the amortization expense associated with the estimated fair value adjustment as of each acquisition during the respective period for the expected definite lived intangible assets. Operating expenses have been increased for the amortization expense associated with the fair value adjustment of definite lived intangible assets of approximately \$1,000,000 for the three months ended December 31, 2016 for the SNI acquisition.

(in Thousands, except per share data)

| Pro Forma, unaudited | Three Months Ended December 31, 2016 |
|----------------------------------|---|
| Net sales | \$ 48,601 |
| Cost of sales | \$ 31,324 |
| Operating expenses | \$ 15,693 |
| Net loss | \$ (364) |
| Basic income per common share | \$ 0.04 |
| Dilutive income per common share | \$ 0.04 |

The proforma results of operations for the three months ended December 31, 2016, included approximately \$27,595,000 of sales, and approximately \$376,000 of net income, respectively of SNI Companies.

The Company's consolidated financial statements for the three months ended December 31, 2017 include the actual results of all acquisitions.

13. Commitments and Contingencies

Lease

The Company leases space for all of its branch offices, which are located either in downtown or suburban business centers, and for its corporate headquarters. Branch offices are generally leased over periods from three to five years. The corporate office lease expires in 2018. The leases generally provide for payment of basic rent plus a share of building real estate taxes, maintenance costs and utilities.

Rent expense was approximately \$873,000 and \$272,000 for the three-month periods ended December 31, 2017 and 2016, respectively. As of December 31, 2017, future minimum lease payments due under non-cancelable lease agreements having initial terms in excess of one year, including certain closed offices, totaled approximately \$6,277,000 as follows: fiscal 2018 - \$2,132,000, fiscal 2019 - \$2,329,000, fiscal 2020 - \$1,219,000, fiscal 2021 - \$341,000 fiscal 2022 - \$203,000 and thereafter - \$53,000.

Working Capital Deposit

The Company retained approximately \$1,500,000 of the purchase price, in cash, as a guarantee from the sellers of the SNI Companies that would provide a minimum of \$9,200,000 of working capital, as defined in the purchase agreement. As of December 31, 2017, the Company and the sellers of the SNI Companies have not agreed to the provided working capital and the amount continues to be retained by the Company.

Table of Contents**14. Segment Data**

The Company provides the following distinctive services: (a) direct hire placement services, (b) temporary professional services staffing in the fields of information technology, engineering, medical, and accounting, and (c) temporary light industrial staffing. These distinct services can be divided into two reportable segments, Industrial Staffing Services and Professional Staffing Services. Selling, general and administrative expenses are not completely separately allocated among light industrial services and professional staffing services.

Unallocated Corporate expenses primarily include, certain executive compensation expenses and salaries, certain administrative salaries, corporate legal expenses, stock amortization expenses, consulting expenses, audit fees, corporate rent and facility costs, board fees, acquisition, integration and restructuring expenses and interest expense.

| (In Thousands) | Three Months Ended | |
|---------------------------------------|--------------------|-----------|
| | 2017 | 2016 |
| Industrial Staffing Services | | |
| Industrial services revenue | \$ 5,872 | \$ 5,981 |
| Industrial services gross margin | 15.6% | 16.4% |
| Operating income | \$ 253 | \$ 340 |
| Depreciation & amortization | 66 | 73 |
| Accounts receivable – net | 3,521 | 3,497 |
| Intangible assets | 637 | 854 |
| Goodwill | 519 | 1,084 |
| Total assets | \$ 4,177 | \$ 7,629 |
| Professional Staffing Services | | |
| Permanent placement revenue | \$ 5,771 | \$ 1,150 |
| Placement services gross margin | 100% | 100% |
| Professional services revenue | \$ 33,589 | \$ 13,875 |
| Professional services gross margin | 27.0% | 23.9% |
| Operating income | \$ 2,477 | \$ 1,048 |
| Depreciation and amortization | 1,427 | 375 |
| Accounts receivable – net | 19,148 | 9,080 |
| Intangible assets | 33,016 | 9,871 |
| Goodwill | 76,074 | 17,506 |
| Total assets | \$ 134,844 | \$ 38,631 |
| Unallocated Expenses | | |
| Corporate administrative expenses | \$ 817 | \$ 601 |
| Corporate facility expenses | 105 | 74 |

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| | | |
|---|----------|--------|
| Stock option amortization expense | 293 | 194 |
| Board related expenses | - | 19 |
| Acquisition, integration and restructuring expenses | 40 | 23 |
| Total unallocated expenses | \$ 1,255 | \$ 911 |

Consolidated

| | | |
|----------------------------------|------------|-----------|
| Total revenue | \$ 45,232 | \$ 21,006 |
| Operating income | 1,475 | 477 |
| Depreciation and amortization | 1,493 | 448 |
| Total accounts receivables – net | 22,669 | 12,577 |
| Intangible assets | 33,653 | 10,725 |
| Goodwill | 76,593 | 18,590 |
| Total assets | \$ 139,021 | \$ 46,260 |

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ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

We specialize in the placement of information technology, engineering, and accounting professionals for direct hire and contract staffing for our clients, data entry assistants (medical scribes) who specialize in electronic medical records (EMR) services for emergency departments, specialty physician practices and clinics and provide temporary staffing services for our light industrial clients. The acquisitions of Agile Resources, Inc. a Georgia corporation (“Agile”), Access Data Consulting Corporation, a Colorado corporation (“Access”), Paladin Consulting Inc., a Texas corporation (“Paladin”) and SNI Companies, Inc. a Delaware corporation (“SNI”) expanded our geographical footprint within the placement and contract staffing of information technology.

The Company markets its services using the trade names General Employment Enterprises, Omni One, Ashley Ellis, Agile Resources, Scribe Solutions Inc., Access Data Consulting Corporation, Paladin Consulting Inc., SNI Companies, Inc., Triad Personnel Services and Triad Staffing. As of December 31, 2017, we operated forty-four branch offices in downtown or suburban areas of major U.S. cities in sixteen states. We have one office located in each of Arizona, Connecticut, Georgia, Iowa, Maryland, Minnesota, Pennsylvania, Washington DC and Virginia, two offices in New Jersey, four offices in Colorado, Massachusetts, Illinois and Texas, seven offices in Ohio and ten offices in Florida.

Management has implemented a strategy which included cost reduction efforts as well as identifying strategic acquisitions, financed primarily through the issuance of equity and debt to improve the overall profitability and cash flows of the Company. We believe our current segments complement one another and position us for future growth.

Results of Operations – Three Months Ended December 31, 2017 Compared to the Three Months Ended December 31, 2016

Results of Operations

Net Revenues

Consolidated net revenues are comprised of the following:

Three Months

| (In thousands) | Ended December 31, | | \$ change | % change |
|--------------------------------|---------------------------|-------------|------------------|-----------------|
| | 2017 | 2016 | | |
| Direct hire placement services | \$ 5,771 | \$ 1,150 | \$ 4,621 | 402% |
| Professional contract services | 33,589 | 13,875 | 19,714 | 142 |
| Industrial contract services | 5,872 | 5,981 | (109) | (2) |
| Consolidated Net Revenues | \$ 45,232 | \$ 21,006 | \$ 24,226 | 115% |

Consolidated net revenues increased approximately \$24,226,000 or 115% compared with the same period last year. The Company acquired SNI as of March 31, 2017, which increased the direct hire placement services by approximately \$4,315,000 and increased professional contract services by approximately \$19,945,000. Direct hire placement services excluding SNI is down as the total number of recruiters and sales professionals are down in the Company, however management does expect to increase hiring in the following quarter. Industrial contract services remained consistent with only a slight decrease during the three months ended December 31, 2017. Executive management has started to hire additional national sales force that can be serviced by the expanded geographical service area.

Table of Contents*Cost of Contract Services*

Cost of services includes wages and related payroll taxes and employee benefits of the Company's employees while they work on contract assignments. Cost of contract services for the three-month period ended December 31, 2017 increased by approximately 89% to approximately \$29,458,000 compared with the prior period of approximately \$15,563,000. The increase includes approximately \$14,245,000 in cost of contract services related to SNI. The Cost of contract services, as a percentage of contract revenue, for the three-month period ended December 31, 2017 decreased approximately 9% to 65% compared with the prior period of approximately 74%. The change in the contract revenue gross margin is related to several factors, including the increased permanent placement services from SNI, improved gross margins in industrial contract services and overall improved gross margins in the professional contract services.

Gross Profit percentage by segment:

| | Three Months Ended December 31, 2017 | Three Months Ended December 31, 2016 |
|------------------------------------|---|---|
| Gross Profit Margin % | | |
| Direct hire placement services | 100% | 100% |
| Industrial contract services | 15.6% | 16.4% |
| Professional contract services | 27.0% | 23.9% |
| Combined Gross Profit Margin % (1) | 34.9% | 25.9% |

(1) Includes gross profit from direct hire placements, which all associated costs are recorded as selling, general and administrative expenses.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include the following categories:

- Compensation and benefits in the operating divisions, which includes salaries, wages and commissions earned by the Company's employment consultants and branch managers on permanent and temporary placements.
- Administrative compensation, which includes salaries, wages, payroll taxes and employee benefits associated with general management and the operation of the finance, legal, human resources and information technology functions.

- Occupancy costs, which includes office rent, and other office operating expenses.
- Recruitment advertising, which includes the cost of identifying job applicants.
- Other selling, general and administrative expenses, which includes travel, bad debt expense, fees for outside professional services and other corporate-level expenses such as business insurance and taxes.

The Company's largest selling, general and administrative expense is for compensation in the operating divisions. Most of the Company's sales agents and recruiters are paid on a commission basis and receive advances against future commissions. When commissions are earned, prior advances are applied against them and the sales agent or recruiter is paid the net amount. The Company recognizes the full amount as commission expense, and advance expense is reduced by the amount recovered. Thus, the Company's advance expense represents the net amount of advances paid, less amounts applied against commissions, plus commission accruals for billed but uncollected revenue.

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Selling, general and administrative expenses for the three months ended December 31, 2017 increased by approximately \$8,271,000 or approximately 184% compared to the same period last year. The increase was primarily related to the inclusion of selling, general and administrative expenses of SNI following the acquisition by the Company. Management continues efforts to reduce general and administrative expenses as the Company consolidates the back office and can capitalize on the Company's growth.

Amortization Expense

Amortization expense for the three months ended December 31, 2017, increased \$1,027,000, or 278% compared with the prior period, primarily as a result of the acquisition of SNI in April 2017 and the related amortization of their identified intangible assets.

Interest Expense

Interest expense for the three months ended December 31, 2017, increased by approximately \$2,934,000 or 815% compared with the same period last year primarily as a result of the newly obtained long-term debt, the interest expense for acquisition payments and higher average borrowings related to the new acquisitions.

Liquidity and Capital Resources

The following table sets forth certain consolidated statements of cash flows data (in thousands):

| | For the three months ended December 31, 2017 | For the three months ended December 31, 2016 |
|---|---|---|
| Cash flows used in operating activities | \$ (249) | \$ (696) |
| Cash flows used in investing activities | \$ (128) | \$ (67) |
| Cash flows provided by financing activities | \$ 1,072 | \$ 428 |

As of December 31, 2017, the Company had cash of approximately \$3,480,000, which was an increase of approximately \$695,000 from approximately \$2,785,000 at September 30, 2017. Working capital at December 31, 2017 was approximately \$630,000, as compared to working capital of approximately \$1,588,000 for September 30, 2017. The net loss for the three months ended December 31, 2017, was approximately \$1,791,000.

At December 31, 2017 there was approximately \$999,000 of accrued interest that was payable with the Company's common stock, which was settled in stock on January 9, 2018.

Net cash used in operating activities for the three months ended December 31, 2017 and 2016 was approximately \$(249,000) and \$(696,000), respectively. The fluctuation is due to the significant loss from operations, increase in accrued interest, increase in accounts payable, decrease in accrued compensation, account receivable and increase in other current assets for the quarter ended December 31, 2017 and offset by non-cash related expense for depreciation, amortization and stock compensation.

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Net cash used in investing activities for the three months ended December 31, 2017 and 2016 was approximately \$(128,000) and \$(67,000), respectively. The primary use of cash was for acquisition of furniture and equipment for new offices.

Net cash flows provided by financing activities for the three months ended December 31, 2017 was approximately \$1,072,000 compared to approximately \$428,000 in the three months ended December 31, 2016. Fluctuations in financing activities are attributable to the net borrowings of the revolving credit facility, offset by payment of debt.

All of the Company's office facilities are leased. As of December 31, 2017, future minimum lease payments under non-cancelable lease commitments having initial terms more than one year, including closed offices, totaled approximately \$6,277,000.

On March 31, 2017, the Company and its subsidiaries, as borrowers, entered into a Revolving Credit, Term Loan and Security Agreement (the "Credit Agreement") with PNC Bank, National Association ("PNC"), and certain investment funds managed by MGG Investment Group LP ("MGG").

Under the terms of the Credit Agreement, the Company may borrow up to \$73,750,000 consisting of a four-year term loan in the principal amount of \$48,750,000 and revolving loans in a maximum amount up to the lesser of (i) \$25,000,000 or (ii) an amount determined pursuant to a borrowing base that is calculated based on the outstanding amount of the Company's eligible accounts receivable, as described in the Credit Agreement. The loans under the Credit Agreement mature on March 31, 2021.

Amounts borrowed under the Credit Agreement may be used by the Company to repay existing indebtedness, to partially fund capital expenditures, to fund a portion of the purchase price for the acquisition of all of the issued and outstanding stock of SNI Holdco Inc. pursuant to that certain Agreement and Plan of Merger dated March 31, 2017 (the "Merger Agreement"), to provide for on-going working capital needs and general corporate needs, and to fund future acquisitions subject to certain customary conditions of the lenders. On the closing date of the Credit Agreement, the Company borrowed \$48,750,000 from term-loans and borrowed approximately \$7,476,316 from the Revolving Credit Facility for a total of \$56,226,316 which was used by the Company to repay existing indebtedness, to pay fees and expenses relating to the Credit Agreement, and to pay a portion of the purchase price for the acquisition of all of the outstanding stock of SNI Holdco Inc. pursuant to the Merger Agreement.

The loans under the Credit Agreement will bear interest at rates at the Company's option of LIBOR rate plus 10% or PNC's floating base rate plus 9%. The Term Loans may consist of Domestic Rate Loans or LIBOR Rate Loans, or a combination thereof. At September 30, 2017 the interest rate was approximately 13%.

The Credit Agreement is secured by all of the Company's property and assets, whether real or personal, tangible or intangible, and whether now owned or hereafter acquired, or in which it now has or at any time in the future may acquire any right, title or interests.

The Term Loans were advanced on April 3, 2017 and are, with respect to principal, payable as follows, subject to acceleration upon the occurrence of an Event of Default under the Credit Agreement or termination of the Credit Agreement and provided that all unpaid principal, accrued and unpaid interest and all unpaid fees and expenses shall be due and payable in full on March 31, 2021. Principal payments are required pursuant to the credit agreement, as amended, as follows: Fiscal year 2018 – \$3,636,000, Fiscal year 2019 – \$7,728,000, Fiscal year 2020 – \$8,337,000 and Fiscal year 2021 - \$28,440,000.

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The Credit Agreement contains certain covenants including the following:

Fixed Charge Coverage Ratio. The Company shall cause to be maintained as of the last day of each fiscal quarter, a Fixed Charge Coverage Ratio for itself and its subsidiaries on a Consolidated Basis of not less the amount set forth in the Credit Agreement, which is 1.25 to 1.0.

Minimum EBITDA. The Company shall cause to be maintained as of the last day of each fiscal quarter, EBITDA for itself and its subsidiaries on a Consolidated Basis of not less than the amount set forth in the Credit Agreement for each fiscal quarter specified therein, in each case, measured on a trailing four (4) quarter basis as set in the Credit Agreement, which ranges from \$11,000,000 to \$14,000,000 over the term of the Credit Agreement.

Senior Leverage Ratio. The Company shall cause to be maintained as of the last day of each fiscal quarter, a Senior Leverage Ratio for itself and its subsidiaries on a Consolidated Basis of not greater than the amount set forth in the Credit Agreement for each fiscal quarter, in each case, measured on a trailing four (4) quarter basis as set in the agreement, which ranges from 5.25 to 1.0 to 2.0 to 1.0 over the term of the Credit Agreement.

In addition to these financial covenants, the Credit Agreement includes other restrictive covenants. The Credit Agreement permits capital expenditures up to a certain level, and contains customary default and acceleration provisions. The Credit Agreement also restricts, above certain levels, acquisitions, incurrence of additional indebtedness, and payment of dividends.

On August 31, 2017, the Company entered into a Consent to Extension of Waiver to Revolving Credit, Term Loan and Security Agreement (the “Waiver”). Under the terms of the Waiver, the Lenders and the Agents agreed to extend to October 3, 2017 the deadline by which the Borrowers must deliver to the Agents and the Lenders, (i) updated financial information and projections of the Loan Parties in form and substance satisfactory to the Agents and the Lenders to amend the financial covenant levels set forth in Section 6.5 to the Loan Agreement in a manner acceptable to the Agents and the Lenders in their sole discretion, and (ii) a fully executed amendment to the Loan Agreement that amends the financial covenant levels set forth in Section 6.5 of the Loan Agreement in a manner acceptable to the Agents and the Lenders and any other terms and conditions required by the Agents and the Lenders in their sole discretion. Additionally, the Borrowers paid a \$73,500 consent fee to the Agents for the pro rata benefit of the Lenders, in connection with the Waiver.

In addition, on August 31, 2017, the Company received a waiver (“Additional Waiver”) made to the Revolving Credit, Term Loan and Security Agreement, dated as of March 31, 2017 (the “Credit Agreement”), by and among the Company, the Loan Parties, Administrative Agent and the Term Loan Agent, pursuant to which the Administrative Agent agreed,

and the Administrative Agent has been advised that the Term Loan Agent has agreed, that notwithstanding the terms of Section 6.17(d) of the Credit Agreement, the due date for the Borrowers to deliver to the Agents the Subordination Agreement (Dampier) (as defined in the Credit Agreement) and an amended Subordinated Note (Dampier) (as defined in the Credit Agreement), in each case duly executed by the Persons party thereto and in form and substance satisfactory to the Agents, shall be extended from August 31, 2017 to October 3, 2017.

On October 2, 2017, the Company, the other borrower entities and guarantor entities named therein (collectively, the “Loan Parties”), PNC Bank, National Association (“PNC”), and certain investment funds managed by MGG Investment Group LP (“MGG”) (collectively the (“Lenders”) entered into a First Amendment and Waiver (the “Amendment”) to the Revolving Credit, Term Loan and Security Agreement dated as of March 31, 2017 (the “Credit Agreement”) by and among the Loan Parties, and the Lenders.

The Amendment, which was effective as of October 2, 2017, modified the required principal repayment schedule with respect to the Term Loans. The Amendment also modified the ability of the Loan Parties to repay or make other payments with respect to certain other loans that are subordinated in right of payment to the indebtedness under the Credit Agreement.

Pursuant to the Amendment the Lenders also waived any Event of Default arising out of the Loan Parties’ failure to deliver, on or before October 3, 2017, the materials satisfying the requirements of clauses (i) and (ii) of Section 5 of the Waiver to Revolving Credit, Term Loan and Security Agreement, dated as of August 14, 2017, as amended.

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On November 14, 2017, the Company and its subsidiaries, as Borrowers, each subsidiary of the Company listed as a “Guarantor” on the signature pages thereto (together with each other Person joined thereto as a guarantor from time to time, collectively, the “Guarantors”, and each a “Guarantor”, and together with the Borrowers, collectively, the “Loan Parties” and each a “Loan Party”), certain lenders which now are or which thereafter become a party thereto that make Revolving Advances thereunder (together with their respective successors and assigns, collectively, the “Revolving Lenders” and each a “Revolving Lender”), the lenders which now are or which thereafter become a party thereto that made or acquire an interest in the Term Loans (together with their respective successors and assigns, collectively, the “Term Loan Lenders” and each a “Term Loan Lender”, and together with the Revolving Lenders, collectively, the “Lenders” and each a “Lender”), MGG Investment Group LP (“MGG”), as administrative agent for the Lenders (together with its successors and assigns, in such capacity, the “Administrative Agent”), as collateral agent for the Lenders (together with its successors and assigns, in such capacity, the “Collateral Agent”), and as term loan agent (together with its successors and assigns, in such capacity, the “Term Loan Agent” and together with the Administrative Agent and the Collateral Agent, each an “Agent” and, collectively, the “Agents”), entered into a second amendment (the “Second Amendment”) to the Revolving Credit, Term Loan and Security Agreement, dated as of March 31, 2017 (the “Credit Agreement”).

Pursuant to the Second Amendment the Borrowers agreed, among other things, to use commercially reasonable efforts to prepay, or cause to be prepaid, \$10,000,000 in principal amount of Advances (as defined in the Credit Agreement) outstanding, which amount shall be applied to prepay the Term Loans in accordance with the applicable terms of the Credit Agreement. Any prepayment to the term loan is contingent upon a future financing, non-operational cash flow or excess cash flow as defined in the agreement. The Borrowers also agreed to amend (i) the applicable minimum Fixed Charge Coverage Ratios required to be maintained by the Company as set forth in the Second Amendment, (ii) the minimum EBITDA required to be maintained by the Company, as set forth in the Second Amendment and (iii) the maximum senior leverage ratios required to be maintained by the Company, as set forth in the Second Amendment. The Borrowers agreed to pay to the Administrative Agent for the account of the Revolving Lenders, an amendment fee of \$364,140, in connection with their execution and delivery of the Second Amendment. Such fee is payable on the earlier of (a) June 30, 2018 and (b) the first date on which all of the Obligations (as defined in the Credit Agreement) are paid in full in cash and the Total Commitment (as defined in the Credit Agreement) of the Lenders is terminated.

The Company believes that its current cash on hand and the borrowing availability under the new PNC Credit Agreement will be adequate to fund its working capital needs and provide sufficient cash for the next twelve months from the date of this report.

On October 2, 2015, the Company issued and sold a Subordinated Note in the aggregate principal amount of \$4,185,000 to JAX Legacy – Investment 1, LLC (“Jax”) pursuant to a Subscription Agreement dated October 2, 2015 between the Company and Jax. On April 3, 2017, the Company and Jax amended and restated the Subordinated Note in its entirety in the form of the 10% Convertible Subordinated Note (the “10% Note”) in the aggregate principal amount of \$4,185,000. The 10% Note matures on October 3, 2021 (the “Maturity Date”). The 10% Note is convertible into shares of the Company’s Common Stock at a conversion price equal to \$5.83 per share (subject to adjustment as provided in the 10% Note upon any stock dividend, stock combination or stock split or upon the consummation of certain fundamental transactions) (the “Conversion Price”). The 10% Note is subordinated in payment to the obligations

of the Company to the lenders parties to the Credit Agreement, pursuant to a Subordination and Intercreditor Agreements, dated as of March 31, 2017 by and among the Company, the Borrowers, the Agent and Jax. The 10% Note issued to Jax is not registered under the Securities Act of 1933, as amended (the "Securities Act"). Jax is an accredited investor. The issuance of the 10% Note to Jax is exempt from the registration requirements of the Act in reliance on an exemption from registration provided by Section 4(2) of the Act.

On October 4, 2015, the Company issued to the sellers of Access Data Consulting Corporation a Promissory Note. Interest on the outstanding principal balance of the Promissory Note is payable at the rate of 5.5% per annum. The principal and interest amount of the Promissory Note is payable as follows: (i) for the first twelve months commencing on November 4, 2015 and ending on October 4, 2016, a monthly payment of approximately \$57,000 in principal and interest, (ii) on October 4, 2016 a balloon payment of principal of \$1,000,000, (iii) for the next twelve months commencing on November 4, 2016 and ending on October 4, 2017, a monthly payment of approximately \$28,000 in principal and interest, (iv) on October 4, 2017 a balloon payment of principal of \$1,202,000 and (v) on October 4, 2017 any and all amounts of previously unpaid principal and accrued interest. The Credit Agreement requires this loan to be subordinated to PNC and MGG, however the sellers of Access Data Consulting Corporation have not agreed to the subordination.

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On October 4, 2017, the Company executed an Amended and Restated Non-Negotiable Promissory Note in favor of William Daniel Dampier and Carol Lee Dampier (sellers of Access Data Consulting Corporation) in the amount of \$1,202,405 (the “Note”). This Note amends and, as so amended, restates in its entirety and replaces that certain Subordinated Nonnegotiable Promissory Note dated October 4, 2015, issued by the Company to William Daniel Dampier and Carol Lee Dampier in the original principal amount of \$3,000,000. The Company agreed to pay William Daniel Dampier and Carol Lee Dampier 12 equal installments of \$107,675, commencing on November 4, 2017 and ending on October 4, 2018.

On January 20, 2017, the Company entered into Addendum No. 1 (the “Addendum”) to the Paladin Agreement Pursuant to the terms of the Addendum, the Company and the Sellers agreed (a) that the conditions to the “Earnouts” (as defined in the Paladin Agreement) had been satisfied or waived and (b) that the amounts payable to the Sellers in connection with the Earnouts shall be amended and restructured as follows: (i) the Company shall pay \$250,000 in cash to the Sellers on or prior to January 31, 2017 (the “Earnout Cash Payment”) and (ii) the Company shall issue to the Sellers a subordinated promissory note in the principal amount of \$1,000,000 (the “Subordinated Note”), The Subordinated Note shall bear interest at the rate of 5.5% per annum. Interest on the Subordinated Note shall be payable monthly. The Subordinated Note shall have a term of three years and may be prepaid without penalty. The principal of and interest on the Subordinated Note may be paid, at the option of the Company, either in cash or in shares of common stock of the Company or in any combination of cash and common stock. The Sellers have agreed that all payments and obligations under the Subordinated Note shall be subordinate and junior in right of payment to any “Senior Indebtedness” (as defined in the Paladin Agreement) now or hereafter existing to “Senior Lenders” (current or future) (as defined in the Paladin Agreement). The Company has paid the \$250,000 cash payment to the Sellers.

On April 3, 2017, the Company agreed to issue to certain SNIH Stockholders upon receipt of duly executed letters of transmittal as part of the Merger Consideration, an aggregate of approximately 5,926,000 shares of its Series B Convertible Preferred Stock as part of the Merger Consideration. The Series B Convertible Preferred Stock has a liquidation preference equal to \$4.86 per share and ranks senior to all “Junior Securities” (including the Company’s Common Stock) with respect to any distribution of assets upon liquidation, dissolution or winding up of the Company, whether voluntary or involuntary. In the event that the Company declares or pays a dividend or distribution on its Common Stock, whether such dividend or distribution is payable in cash, securities or other property, including the purchase or redemption by the Company or any of its subsidiaries of shares of Common Stock for cash, securities or property, the Company is required to simultaneously declare and pay a dividend on the Series B Convertible Preferred Stock on a pro rata basis with the Common Stock determined on an as-converted basis assuming all Shares had been converted as of immediately prior to the record date of the applicable dividend or distribution. On April 3, 2017, the Company filed a Statement of Resolution Establishing its Series B Convertible Preferred Stock with the State of Illinois. (the “Resolution Establishing Series”). Except as set forth in the Resolution Establishing Series, the holders of the Series B Convertible Preferred Stock have no voting rights. Pursuant to the Resolution Establishing Series, without the prior written consent of holders of not less than a majority of the then total outstanding Shares of Series B Convertible Preferred Stock, voting separately as a single class, the Company shall not create, or authorize the creation of, any additional class or series of capital stock of the Company (or any security convertible into or exercisable for any class or series of capital stock of the Company) that ranks pari passu with or superior to the Series B Convertible Preferred Stock in relative rights, preferences or privileges (including with respect to dividends, liquidation or voting). Each share of Series B Convertible Preferred Stock is convertible at the option of the holder thereof into one share of Common Stock at an initial conversion price equal to \$4.86 per share, each as subject to

adjustment in the event of stock splits, stock combinations, capital reorganizations, reclassifications, consolidations, mergers or sales, as set forth in the Resolution Establishing Series.

None of the shares of Series B Preferred Stock issued to the SNIH Stockholders are registered under the Securities Act. Each of the SNIH Stockholders who received shares of Series B Preferred Stock is an accredited investor. The issuance of the shares of Series B Preferred Stock to such SNIH Stockholders is exempt from the registration requirements of the Act in reliance on an exemption from registration provided by Section 4(2) of the Act.

On April 3, 2017, the Company issued and paid to certain SNIH Stockholders as part of the Merger Consideration (see note 10) an aggregate of \$12.5 million in aggregate principal amount of its 9.5% Notes. The 9.5% Notes mature on October 3, 2021 (the "Maturity Date"). The 9.5% Notes are convertible into shares of the Company's Common Stock at a conversion price equal to \$5.83 per share. Interest on the 9.5% Notes accrues at the rate of 9.5% per annum and shall be paid quarterly in arrears on June 30, September 30, December 31 and March 31, beginning on June 30, 2017, on each conversion date with respect to the 9.5% Notes (as to that principal amount then being converted), and on the Maturity Date (each such date, an "Interest Payment Date"). At the option of the Company, interest may be paid on an Interest Payment Date either in cash or in shares of Common Stock of the Company, which Common Stock shall be valued based on the terms of the agreement, subject to certain limitations defined in the loan agreement. Each of the 9.5% Notes is subordinated in payment to the obligations of the Company to the lenders parties to the Credit Agreement, pursuant to those certain Subordination and Intercreditor Agreements, each dated as of March 31, 2017 by and among the Company, the other borrowers under the Credit Agreement, the Agent under the Credit Agreement and each of the holders of the 9.5% Notes.

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In recent years, the Company has incurred significant losses and negative cash flows from operations. Management has implemented a strategy which included cost reduction efforts as well as identifying strategic acquisitions, financed primarily through the issuance of common stock, to improve the overall profitability and cash flows of the Company. Management believes with the availability under the Credit Agreement and its current cash, the Company will have sufficient liquidity for the next 12 months.

Off-Balance Sheet Arrangements

As of December 31, 2017, there were no transactions, agreements or other contractual arrangements to which an unconsolidated entity was a party, under which the Company (a) had any direct or contingent obligation under a guarantee contract, derivative instrument or variable interest in the unconsolidated entity, or (b) had a retained or contingent interest in assets transferred to the unconsolidated entity.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

As of December 31, 2017, the Company's management evaluated, with the participation of its principal executive officer and its principal financial officer, the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act"). Based on that evaluation, the Company's principal executive officer and its principal financial officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2017.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting or in any other factors that could significantly affect these controls, during the Company's first quarter ended December 31, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II – OTHER INFORMATION.

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 1A. RISK FACTORS.

Not required.

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

Not required.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable

ITEM 5. OTHER INFORMATION.

None.

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The following exhibits are filed as a part of Part I of this report:

Exhibit No. Description of Exhibit

| | |
|--------------|---|
| <u>31.01</u> | <u>Certifications of the principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.</u> |
| <u>31.02</u> | <u>Certifications of the principal financial officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.</u> |
| <u>32.01</u> | <u>Certifications of the principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act and Section 1350 of Title 18 of the United States Code.</u> |
| <u>32.02</u> | <u>Certifications of the principal financial officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act and Section 1350 of Title 18 of the United States Code.</u> |
| 101.INS | Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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SIGNATURES

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

GEE GROUP INC.
(Registrant)

Date: February 14, 2018

By: */s/ Derek Dewan*
Derek Dewan
Chief Executive Officer
(Principal Executive Officer)

By: */s/ Andrew J. Norstrud*
Andrew J. Norstrud
Chief Financial Officer

(Principal Financial and Accounting
Officer)