GEE Group Inc.
Form 10-K
December 28, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended **September 30, 2017**

¨ 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 (Address of principal executive offices)	**60563** (Zip Code)

Registrant's telephone number, including area code: **(630) 954-0400**

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Name of each exchange on which registered
Common Stock, no par value	**NYSE MKT**

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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

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

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

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

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

The aggregate market value of shares of common stock held by non-affiliates of the registrant on March 31, 2017 was 7,274,956 x $4.95 = $36,011,032.

The number of shares outstanding of the registrant's common stock as of December 27, 2017 was 10,012,847.

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PART I

Forward Looking Statements

This Annual Report on Form 10-K includes 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 (the "Exchange Act"). The Company has based these forward-looking statements on the Company's current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us and the Company's subsidiaries that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "continue" or the negative of such terms or other similar expressions. Factors that might cause or contribute to such a material difference include, but are not limited to, those discussed elsewhere in this Annual Report, including the section entitled "Risk Factors" and the risks discussed in the Company's other Securities and Exchange Commission filings. The following discussion should be read in conjunction with the Company's audited Financial Statements and related Notes thereto included elsewhere in this report.

Item 1. Business.

General

GEE Group Inc. (the "Company", "us", "our" or "we") was incorporated in the State of Illinois in 1962 and is the successor to 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.

The Company has several corporations and names it does business under and are all consolidated under GEE Group, Inc. These names include Triad Personnel Services, Inc., General Employment, Ashley Ellis, Omni One, Scribe Solutions, SNI Companies, Access, Paladin and Agile Resources.

On October 4, 2015, the Company entered a Stock Purchase Agreement with William Daniel Dampier and Carol Lee Dampier (the "Access Sellers") pursuant to which the Company acquired on October 4, 2015, 100% of the outstanding stock of Access Data Consulting Corporation., a Colorado corporation, for a purchase price equal to approximately $16,000,000 in consideration. The purchase price consisted of $8,000,000 in cash (subject to minimum working capital), the issuance to the Access Sellers 327,869 shares of Company common stock, a Promissory note in the aggregate of $3,000,000 and up to $2,000,000 of an "earnout". On April 4, 2016, the Company issued approximately 123,000 of additional shares of common stock to the Sellers of Access Data Consulting Corporation. This was based on market value of the stock on April 4, 2016 being approximately $544,000 less than $2,000,000 six month guaranteed and based on the closing stock price of $4.44 per common share. The Company recognized a loss on change of contingent consideration of approximately $44,000 for the year ended September 30, 2016. The earnout was not achieved. In addition, the Company increased the original purchase price by approximately $600,000 related to a mutual tax election as described in the purchase agreement.

On January 1, 2016, the Company entered a Stock Purchase Agreement (the "Paladin Agreement") with Enoch S. Timothy and Dorothy Timothy. Pursuant to the terms of the Paladin Agreement the Company acquired on January 1, 2016, 100% of the outstanding stock of Paladin Consulting Inc., a Texas corporation ("Paladin"), for a purchase price (the "Purchase Price") equal to $1,750,000, minus the Circle Lending Loan Amount (as defined in the Paladin Agreement) plus up to $1,000,000 in contingent promissory notes, minus the NWC Reduction Amount (as defined in the Paladin Agreement) (if any) plus up to $1,250,000 of "earnouts", for a total of approximately $2,625,000.

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, (the "GEE Portfolio"), SNI Holdco Inc., a Delaware corporation ("SNI Holdco"), 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"). The Merger Agreement provided for the merger subject to the terms and conditions set forth in the Merger Agreement of SNI Holdco with and into GEE Portfolio pursuant to which GEE Portfolio would be the surviving corporation (the "Merger"). The Merger was consummated on April 3, 2017. As a result of the Merger, GEE Portfolio became the owner 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").

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The aggregate consideration paid for the shares of SNI Holdco (the “Merger Consideration”) was $86 million minus the $20,220,710 of Long Term Debt (as defined in the Merger Agreement) of the Acquired Companies immediately before closing plus or minus the “NWC Adjustment Amount” or the difference in the book value of the Closing Net Working Capital (as defined in the Merger Agreement) of the Acquired Companies as compared to the Benchmark Net Working Capital (as defined in the Merger Agreement) of the Acquired Companies of $9.2 million.

On April 3, 2017, the Company paid to certain SNIH Stockholders as part of the Merger Consideration (i) an aggregate of approximately $18,550,000 in cash, (ii) an aggregate of $12.5 million in aggregate principal amount of its 9.5% Convertible Subordinated Notes and (iii) an aggregate of 5,926,000 shares of its Series B convertible preferred stock. 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. The Series B Convertible Preferred Stock has a liquidation preference of $4.86 per share. 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.

At the Closing, $1.5 million of the cash of the Merger Consideration was retained by the Company (the “Working Capital Reserve Fund”) and is subject to payment and adjustment as follows. The Merger Consideration will be adjusted (positively or negatively) based upon the difference in the book value of the Closing Net Working Capital (as defined in the Merger Agreement) as compared to the Benchmark Net Working Capital (as defined in the Merger Agreement) of $9.2 million (such difference to be called the “NWC Adjustment Amount”). If the NWC Adjustment Amount is positive, the Merger Consideration will be increased by the NWC Adjustment Amount. If the NWC Adjustment Amount is negative, the Merger Consideration will be decreased by the NWC Adjustment Amount. If the Merger Consideration increases, then the Company will pay the Stockholders’ Representative account for payment to SNIH Stockholders the amount of the increase plus the Working Capital Reserve Fund in immediately available funds within three (3) business days of a final determination thereof. If the Merger Consideration decreases, then SNIH Stockholders will pay the amount of the decrease to the Company within three (3) business days of a final determination thereof, which first shall be funded from the Working Capital Reserve Fund (which shall be credited to the SNIH Stockholders). If the amount of the Merger Consideration decrease exceeds the Working Capital Reserve Fund, then the SNIH Stockholders, will pay the difference to the Company, severally, not jointly, in accordance with their SNIH Ownership Proportion (as defined in the Merger Agreement), in immediately available funds within twenty (20) days of a final determination. If the Working Capital Reserve Fund exceeds the payment due from SNIH Stockholders then the remaining balance of those funds after the payment to the Company shall be paid to the Stockholders’ Representative’s account for payment to the SNIH Stockholders in immediately available funds.

Services Provided

The Company and its subsidiaries provide the following services: (a) professional placement services specializing in the placement of information technology, engineering, medical data entry assistants (medical scribes) who specialize in electronic medical records (EMR) services for emergency departments, specialty physician practices and clinics and accounting professionals for direct hire and contract staffing, (b) temporary staffing services in light industrial staffing.

Together with its subsidiaries, the Company provides staffing services through a network of branch offices located in major metropolitan areas throughout the United States. The Company’s professional staffing services provide information technology, engineering, medical and accounting professionals to clients on either a regular placement basis or a temporary contract basis. The Company’s industrial staffing business provides weekly temporary staffing for light industrial clients, primarily in Ohio.

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The percentage of revenues derived from each of the Company’s continuing operations is as follows:

	Year Ended September 30,	
	2017	2016
Industrial contract services	18%	26%
Professional contract services	71%	66%
Direct hire placement services	11%	8%

Marketing

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 September 30, 2017, we operated forty-seven 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 and Massachusetts, five offices in Illinois and Texas, seven offices in Ohio and eleven offices in Florida.

The Company markets its staffing services to prospective clients primarily through telephone marketing by its recruiting and sales consultants, and through mailing of employment bulletins which list candidates available for placement and contract employees available for assignment.

There was no customer that represented more than 10% of the Company’s consolidated revenue in fiscal 2017 or fiscal 2016.

Competition

The staffing industry is highly competitive. There are relatively few barriers to entry by firms offering placement services, while significant amounts of working capital typically are required for firms offering contract services. The Company’s competitors include many sole-proprietorship operations, as well as regional and national organizations. Many of them are large corporations with substantially greater resources than the Company.

The Company's professional and industrial staffing services compete by providing highly qualified candidates who are well matched for the position, by responding quickly to client requests, and by establishing offices in convenient locations. As part of its service, the Company provides professional reference checking, scrutiny of candidates' work experience and optional background checks. In general, pricing is secondary to quality of service as a competitive factor. During slow hiring periods, however, competition can put pressure on the Company's pricing.

Recruiting

The success of the Company's services is highly dependent on its ability to obtain qualified candidates. Prospective employment candidates are generally recruited over the telephone, by the Company's employment consultants or through postings on the Internet. For Internet postings, the Company maintains its own web page at www.geegroup.com and uses other Internet job posting bulletin board services. The Company maintains database records of applicants' skills to assist in matching them with job openings and contract assignments. The Company generally screens and interviews all applicants who are presented to its clients.

Employees

As of September 30, 2017, the Company had approximately 475 regular employees and the number of contract service employees varied week to week from a minimum of approximately 2,515 to a maximum of 4,245.

Available Information

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements and amendments to reports filed or furnished pursuant to Sections 13(a), 14 and 15(d) of the Exchange Act. The public may obtain these filings at the Securities and Exchange Commission (the "SEC") Public Reference Room at 100 F Street, NE, Washington DC 20549 or by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at http//www.sec.gov that contains reports, proxy and information statements and other information regarding the Company and other companies that file material with the SEC electronically. Copies of the Company's reports can be obtained, free of charge, electronically through our internet website, http//www.geegroup.com. Information on the Company's website is not incorporated in this report by the foregoing reference.

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Item 1A. Risk Factors.

WE HAVE EXPERIENCED LOSSES FROM OPERATIONS AND MAY NOT BE PROFITABLE IN THE FUTURE.

The Company experienced a loss for the year ended September 30, 2017. There can be no assurance that the Company will not incur losses in the future. There are no assurances that the Company will be able to generate sufficient revenue to meet its operating expenditures or operate profitably in the future.

RECENT GLOBAL TRENDS IN THE FINANCIAL MARKETS COULD ADVERSELY AFFECT OUR BUSINESS, LIQUIDITY AND FINANCIAL RESULTS.

Recent global economic conditions, including disruption of financial markets, could adversely affect our business and results of operations, primarily through limiting our access to credit, our ability to refinance debt and disrupting our customers' businesses, which are heavily dependent on retail and e-commerce transactions. Although we currently believe that we will be able to obtain the necessary financing in the future, there is no assurance that these institutions will be able to loan us the necessary capital, which could have a material adverse impact on our business. In addition, continuation or worsening of general market conditions in the United States economy important to our businesses may adversely affect our customers' level of spending, ability to obtain financing for acquisitions and ability to make timely payments to us for our services, which could require us to increase our allowance for doubtful accounts, negatively impact our days sales outstanding and adversely affect our results of operations.

WE DEPEND ON ATTRACTING, INTEGRATING, MANAGING, AND RETAINING QUALIFIED PERSONNEL.

Our success depends upon our ability to attract, integrate, manage and retain personnel who possess the skills and experience necessary to fulfill our clients' needs. Our ability to hire and retain qualified personnel could be impaired by any diminution of our reputation, decrease in compensation levels relative to our competitors or modifications to our total compensation philosophy or competitor hiring programs. If we cannot attract, hire and retain qualified personnel, our business, financial condition and results of operations may suffer. Our future success also depends upon our ability to manage the performance of our personnel. Failure to successfully manage the performance of our personnel could affect our profitability by causing operating inefficiencies that could increase operating expenses and reduce operating income.

WE MAY NOT BE ABLE TO COMPETE EFFECTIVELY.

Competition in the market for placement and staffing services is intense. The Company faces competition from many larger, more established companies. In addition, other companies could seek to introduce competing services and increased competition could result in a decrease in the price charged by the Company's competitors for their services or reduce demand for the Company's products and services, which would have a material adverse effect on the Company's business, operating results and financial condition. There can be no assurance that the Company will be able to compete successfully with its existing or potential competitors, which may have substantially greater financial, technical, and marketing resources, longer operating histories, greater name recognition or more established relationships in the industry than the Company. If any of these competitors provides competitive services to the marketplace in the future, the Company cannot be sure that it will have the resources or expertise to compete successfully.

CHANGES IN GOVERNMENT REGULATION COULD LIMIT OUR GROWTH OR RESULT IN ADDITIONAL COSTS OF DOING BUSINESS.

We are subject to the same federal, state and local laws as other companies conducting placement and staffing services, which is extensive. The adoption or modification of laws related to the placement and staffing industry, such as the Healthcare for America Plan, could harm our business, operating results and financial condition by increasing our costs and administrative burdens.

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INTERRUPTION OF THE COMPANY'S BUSINESS COULD RESULT FROM INCREASED SECURITY MEASURES IN RESPONSE TO TERRORISM.

The continued threat of terrorism within the United States and the ongoing military action and heightened security measures in response to such threat has and may cause significant disruption to commerce. The U.S. economy in general is being adversely affected by terrorist activities and potential activities. Any economic downturn could adversely impact the Company's results of operations, impair the Company's ability to raise capital or otherwise adversely affect the Company's ability to grow the business. It is impossible to predict how this may affect the Company's business or the economy in the U.S. and in the world. In the event of further threats or acts of terrorism, the Company's business and operations may be severely and adversely affected or destroyed.

SUBSTANTIAL ALTERATION OF THE COMPANY'S CURRENT BUSINESS AND REVENUE MODEL COULD HURT SHORT-TERM RESULTS.

The Company's present business and revenue model represents the current view of the optimal business and revenue structure, which is to derive revenues and achieve profitability in the shortest period. There can be no assurance that current models will not be altered significantly or replaced with an alternative model that is driven by motivations other than near-term revenues and/or profitability (for example, building market share before the Company's competitors). Any such alteration or replacement of the business and revenue model may ultimately result in the deferring of certain revenues in favor of potentially establishing larger market share. The Company cannot assure that any adjustment or change in the business and revenue model will prove to be successful.

THE REQUIREMENTS OF BEING A PUBLIC COMPANY MAY STRAIN OUR RESOURCES AND DISTRACT MANAGEMENT.

As a public company, we are subject to the reporting requirements of the Exchange Act and the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). These requirements are extensive. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal controls over financial reporting.

We may incur significant costs associated with our public company reporting requirements and costs associated with applicable corporate governance requirements. We expect all of these applicable rules and regulations to significantly increase our legal and financial compliance costs and to make some activities more time consuming and costly. This may divert management's attention from other business concerns, which could have a material adverse effect on our business, financial condition and results of operations. We also expect that these applicable rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our Board of Directors or as executive officers. We are currently evaluating and monitoring developments with respect to these rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

FAILURE TO ACHIEVE AND MAINTAIN EFFECTIVE INTERNAL CONTROLS IN ACCORDANCE WITH SECTION 404 OF THE SARBANES-OXLEY ACT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS AND OPERATING RESULTS. IN ADDITION, CURRENT AND POTENTIAL STOCKHOLDERS COULD LOSE CONFIDENCE IN OUR FINANCIAL REPORTING, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR STOCK PRICE.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our operating results could be harmed. We are required to document and test our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal controls over financial reporting. During the course of our testing, we may identify deficiencies which we may not be able to remediate in time for compliance with the requirements of Section 404. In addition, if we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time; we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could also cause investors to lose confidence in our reported financial information, which could have a material adverse effect on our stock price.

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We cannot provide assurance as to the result of these efforts. We cannot be certain that any measures we take will ensure that we implement and maintain adequate internal controls in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

A MORE ACTIVE, LIQUID TRADING MARKET FOR OUR COMMON STOCK MAY NOT DEVELOP, AND THE PRICE OF OUR COMMON STOCK MAY FLUCTUATE SIGNIFICANTLY.

Although our common stock is listed on the NYSE MKT, we cannot assure you that an active public market will develop for our common stock. There has been relatively limited trading volume in the market for our common stock, and a more active, liquid public trading market may not develop or may not be sustained. Limited liquidity in the trading market for our common stock may adversely affect a stockholder's ability to sell its shares of common stock at the time it wishes to sell them or at a price that it considers acceptable. If a more active, liquid public trading market does not develop, we may be limited in our ability to raise capital by selling shares of common stock and our ability to acquire other companies or assets by using shares of our common stock as consideration. In addition, if there is a thin trading market or "float" for our stock, the market price for our common stock may fluctuate significantly more than the stock market as a whole. Without a large float, our common stock would be less liquid than the stock of companies with broader public ownership and, as a result, the trading prices of our common stock may be more volatile. Furthermore, the stock market is subject to significant price and volume fluctuations, and the price of our common stock could fluctuate widely in response to several factors, including:

- our quarterly or annual operating results;
- changes in our earnings estimates;
- investment recommendations by securities analysts following our business or our industry;
- additions or departures of key personnel;
- changes in the business, earnings estimates or market perceptions of our competitors;
- our failure to achieve operating results consistent with securities analysts' projections;
- changes in industry, general market or economic conditions; and
- announcements of legislative or regulatory changes.

The stock market has experienced extreme price and volume fluctuations in recent years that have significantly affected the quoted prices of the securities of many companies, including companies in our industry. The changes often appear to occur without regard to specific operating performance. The price of our common stock could fluctuate based upon factors that have little or nothing to do with our company and these fluctuations could materially reduce our stock price.

NO DIVIDENDS ANTICIPATED.

We intend to retain all future earnings for use in the development of our business and do not anticipate paying any cash dividends on our common stock in the near future.

WE MAY NOT BE ABLE TO OBTAIN THE NECESSARY ADDITIONAL FINANCING TO ACHIEVE OUR STRATEGIC GOALS.

There is no guarantee that we will be able to obtain any additional financing that may be required to continue to expand our business. Our continued viability depends on our ability to raise capital. Changes in economic, regulatory or competitive conditions may lead to cost increases. Management may also determine that it is in our best interest to expand more rapidly than currently intended, to expand marketing activities, to develop new or enhance existing services or products, to respond to competitive pressures or to acquire complementary services, businesses or technologies. In any such case or other change of circumstance, additional financing will be necessary. If any additional financing is required, there can be no assurances that we will be able to obtain such additional financing on terms acceptable to us and at times required by us, if at all. In such event, we may be required to materially alter our business plan or curtail all or a part of our expansion plans.

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WE MAY NOT BE ABLE TO MANAGE EXPECTED GROWTH AND INTERNAL EXPANSION.

We have not yet undergone the significant managerial and internal expansion that we expect will occur, and our inability to manage growth could hurt our results of operations. Expansion of our operations will be required to address anticipated growth of our customer base and market opportunities. Expansion will place a significant strain on our management, operational and financial resources. Currently, we have a limited number of employees. We will need to improve existing procedures and controls as well as implement new transaction processing, operational and financial systems, procedures and controls to expand, train and manage our employee base. Our failure to manage growth effectively could have a damaging effect on our business, results of operations and financial condition.

WE COULD BE HARMED BY IMPROPER DISCLOSURE OR LOSS OF SENSITIVE OR CONFIDENTIAL COMPANY, EMPLOYEE, ASSOCIATE OR CLIENT DATA, INCLUDING PERSONAL DATA.

In connection with the operation of our business, we store, process and transmit a large amount of data, including personnel and payment information, about our employees, clients, associates and candidates, a portion of which is confidential and/or personally sensitive. In doing so, we rely on our own technology and systems, and those of third party vendors we use for a variety of processes. We and our third-party vendors have established policies and procedures to help protect the security and privacy of this information. Unauthorized disclosure or loss of sensitive or confidential data may occur through a variety of methods. These include, but are not limited to, systems failure, employee negligence, fraud or misappropriation, or unauthorized access to or through our information systems, whether by our employees or third parties, including a cyberattack by computer programmers, hackers, members of organized crime and/or state-sponsored organizations, who may develop and deploy viruses, worms or other malicious software programs.

Such disclosure, loss or breach could harm our reputation and subject us to government sanctions and liability under our contracts and laws that protect sensitive or personal data and confidential information, resulting in increased costs or loss of revenues. It is possible that security controls over sensitive or confidential data and other practices we and our third-party vendors follow may not prevent the improper access to, disclosure of, or loss of such information. The potential risk of security breaches and cyberattacks may increase as we introduce new services and offerings, such as mobile technology. Further, data privacy is subject to frequently changing rules and regulations, which sometimes conflict among the various jurisdictions in which we provide services. Any failure or perceived failure to successfully manage the collection, use, disclosure, or security of personal information or other privacy related matters, or any failure to comply with changing regulatory requirements in this area, could result in legal liability or impairment to our reputation in the marketplace.

WE COULD BE ADVERSELY AFFECTED BY RISKS ASSOCIATED WITH ACQUISITIONS AND JOINT VENTURES.

We intend to expand our business through investments in joint ventures with, or acquisitions of, complementary businesses, technologies, services or products, subject to our business plans and management's ability to identify, acquire and develop suitable investments or acquisition targets in both new and existing service categories. In certain circumstances, acceptable investments or acquisition targets might not be available. Acquisitions involve a number of risks, including: (1) difficulty in integrating the operations, technologies, products and personnel of an acquired business, including consolidating redundant facilities and infrastructure; (2) potential disruption of our ongoing business and the distraction of management from our day-to-day operations; (3) difficulty entering markets in which we have limited or no prior experience and in which competitors have a stronger market position; (4) difficulty maintaining the quality of services that such acquired companies have historically provided; (5) potential legal and financial responsibility for liabilities of acquired businesses; (6) overpayment for the acquired company or assets or failure to achieve anticipated benefits, such as cost savings and revenue enhancements; (7) increased expenses associated with completing an acquisition and amortizing any acquired intangible assets; (8) challenges in implementing uniform standards, accounting policies, customs, controls, procedures and policies throughout an acquired business; (9) failure to retain, motivate and integrate key management and other employees of the acquired business; and (10) loss of customers and a failure to integrate customer bases.

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In addition, if we incur indebtedness to finance an acquisition, it may reduce our capacity to borrow additional amounts and require us to dedicate a greater percentage of our cash flow from operations to payments on our debt, thereby reducing the cash resources available to us to fund capital expenditures, pursue other acquisitions or investments in new business initiatives and meet general corporate and working capital needs. This increased indebtedness may also limit our flexibility in planning for, and reacting to, changes in or challenges relating to our business and industry.

The use of our common stock or other securities (including those convertible into or exchangeable or exercisable for our common stock) to finance any such acquisition may also result in dilution of our existing shareholders.

The potential risks associated with future acquisitions could disrupt our ongoing business, result in the loss of key customers or personnel, increase expenses and otherwise have a material adverse effect on our business, results of operations and financial condition.

WE FACE SIGNIFICANT EMPLOYMENT-RELATED LEGAL RISK.

We employ people internally and in the workplaces of other businesses. Many of these individuals have access to client information systems and confidential information. An inherent risk of such activity includes possible claims of errors and omissions; intentional misconduct; release, misuse or misappropriation of client intellectual property, confidential information, funds, or other property; cyber security breaches affecting our clients and/or us; discrimination and harassment claims; employment of illegal aliens; criminal activity; torts; or other claims. Such claims may result in negative publicity, injunctive relief, criminal investigations and/or charges, civil litigation, payment by us of monetary damages or fines, or other material adverse effects on our business.

OUR ABILITY TO UTILIZE OUR NET OPERATING CARRYFOWARDS AND CERTAIN OTHER TAX ATTRIBUTES MAY BE LIMITED.

Federal and state laws impose restrictions on the utilization of net operating loss (“NOL”) and tax credit carryforwards in the event of an “ownership change” as defined by section 382 of the Internal Revenue Code of 1986, as amended (“Section 382”). Generally, an ownership change occurs if the percentage of the value of the stock that is owned by one or more direct or indirect “five percent shareholders” increases by more than 50% over their lowest ownership percentage at any time during the applicable testing period (typically, three years).

Under Section 382, if a corporation undergoes an "ownership change," the corporation's ability to use its pre-change NOL carryforwards and other pre-change tax attributes to offset its post-change income may be limited. We have not completed a study to assess whether an "ownership change" has occurred or whether there have been multiple ownership changes since we became a "loss corporation" as defined in Section 382. Future changes in our stock ownership, which may be outside of our control, may trigger an "ownership change". In addition, future equity offerings or acquisitions that have equity as a component of the purchase price could result in an "ownership change." If an "ownership change" has occurred or does occur in the future, utilization of the NOL carryforwards or other tax attributes may be limited, which could potentially result in increased future tax liability to us.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

The Company's policy is to lease commercial office space for all of its offices. The Company's headquarters are located in a building near Chicago, Illinois. The Company leases approximately 5,000 square feet of space at that location under a lease that will expire in 2018.

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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 September 30, 2017, we operated forty-seven 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 and Massachusetts, five offices in Illinois and Texas, seven offices in Ohio and eleven offices in Florida.

Established offices are operated from leased space ranging from 800 to 7,500 square feet, generally for initial lease periods of one to five years, with cancellation clauses after certain periods of occupancy in some cases. Management believes that existing facilities are adequate for the Company's current needs and that its leasing strategies provide the Company with sufficient flexibility to open or close offices to accommodate business needs.

Item 3. Legal Proceedings.

As of September 30, 2017, the Company was not a party to any material legal proceedings.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

The Company's common stock is listed on the NYSE MKT and is traded under the symbol "JOB." The following table sets forth the quarterly high and low sales prices per share of the Company's common stock on the consolidated market for each quarter within the last two fiscal years.

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Fiscal 2017:				
High	$ 5.58	$ 7.00	$ 5.58	$ 5.27
Low	2.81	4.99	4.06	3.83
Fiscal 2016:				
High	$ 6.89	$ 4.60	$ 5.99	$ 7.70
Low	3.61	3.71	3.56	4.00

Holders of Record

There were approximately 624 holders of record of the Company's common stock on December 27, 2017.

Dividends

No dividends were declared or paid during the years ended September 30, 2017 and September 30, 2016. We do not anticipate paying any cash dividends for the foreseeable future.

During the years ended September 30, 2017 and 2016, no equity securities of the Company were repurchased by the Company.

Securities Authorized for Issuance under Equity Compensation Plans

As of September 30, 2017, there were stock options outstanding under the Company's 1995 Stock Option Plan, Second Amended and Restated 1997 Stock Option Plan, 1999 Stock Option Plan and the 2011 Company Incentive Plan. All four plans were approved by the shareholders. The 1995 Stock Option Plan and the 1999 Stock Option Plan have expired, and no further options may be granted under those plans. During fiscal 2009, the Second Amended and Restated 1997 Stock Option Plan was amended to make an additional 59,200 options available for granting and as of September 30, 2013, there were no shares available for issuance under the Amended and Restated 1997 Stock Option Plan. As of September 30, 2017, there were shares available for issuance under the 2011 Company Incentive Plan, however management does not anticipate issuing any shares under this plan. The plans granted specified numbers of options to non-employee directors, and they authorized the Compensation Committee of the Board of Directors to grant either incentive or non-statutory stock options to employees. Vesting periods are established by the Compensation Committee at the time of grant. All stock options outstanding as of September 30, 2017 and September 30, 2016 were non-statutory stock options, had exercise prices equal to the market price on the date of grant, and had expiration dates ten years from the date of grant.

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On July 23, 2013, the Board of Directors approved the Company's 2013 Incentive Stock Plan (the "2013 Plan"), and resolved to cease issuing securities under all prior Company equity compensation plans. The 2013 Plan was approved by the Company's shareholders at the Annual Meeting of Stockholders on September 9, 2013. The purpose of the 2013 Plan is to provide additional incentives to select persons who can make, are making, and continue to make substantial contributions to the growth and success of the Company, to attract and retain the employment and services of such persons, and to encourage and reward such contributions, by providing these individuals with an opportunity to acquire or increase stock ownership in the Company through either the grant of options or restricted stock. The 2013 Plan is administered by the Compensation Committee or such other committee as is appointed by the Board of Directors pursuant to the 2013 Plan (the "Committee"). The Committee has full authority to administer and interpret the provisions of the 2013 Plan including, but not limited to, the authority to make all determinations with regard to the terms and conditions of an award made under the 2013 Plan. The maximum number of shares that may be granted under the 2013 Plan is 4,000,000. This number is subject to adjustment to reflect changes in the capital structure or organization of the Company.

(number of shares in thousands)

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders	908	$ 5.13	3,075(1)
Equity compensation plans not approved by security holders	—	—	—
Total	908	$ 5.13	3,075(1)

(1) Includes only the number of securities that could be issuable under the 2013 Plan.

On December 12, 2017, the Company issued 135,655 shares of common stock, valued at approximately $595,000 for the conversion of the Jax legacy ("Jax") note and the accrued interest through September 30, 2017. These shares issued to Jax were not registered under the Securities Act. Jax is an accredited investor. The issuance of these shares 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.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion in conjunction with our consolidated financial statements and related notes included elsewhere in this report. Management's discussion and analysis contains forward-looking statements that are provided to assist in the understanding of anticipated future performance. However, future performance involves risks and uncertainties which may cause actual results to differ materially from those expressed in the forward-looking statements. See "*Forward-Looking Statements*".

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 September 30, 2017, we operated forty-seven 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 and Massachusetts, five offices in Illinois and Texas, seven offices in Ohio and eleven offices in Florida.

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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

Net Revenues

Consolidated net revenues are comprised of the following:

	Year Ended September 30,			
(In Thousands)		**2017**		**2016**
Industrial contract services	$	24,851	$	21,916
Professional contract services		95,396		54,249
Direct hire placement services		14,731		6,909
Consolidated net revenues	$	134,978	$	83,074

Consolidated net revenues increased approximately $51,904,000 or 62% compared with the same period last year. The Company acquired SNI as of March 31, 2017, which increased the professional contract services by approximately $40,083,000 and increased direct hire placement services by approximately $9,627,000. Direct hire placement services excluding SNI is down as the total number of recruiters and sales professionals are down in the Company. Industrial contract services increased due to a management effort to replace certain customers lost in the prior year. Executive management has started to hire additional national sales force that can be serviced by the expanded geographical service area.

Cost of Contract Services

Consolidated cost of contract services are comprised of the following:

Year Ended September 30,

(In Thousands)		2017		2016
Industrial contract services	$	20,744	$	19,037
Professional contract services		69,259		40,408
Consolidated cost of contract services	$	90,003	$	59,445

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 year ended September 30, 2017, increased by approximately 51% to approximately $90 million compared with the prior year of approximately $59 million. The increase includes approximately $27 million in cost of contract services related to SNI. Cost of contract services, as a percentage of contract revenue, for the year ended September 30, 2017, decreased by approximately 5% to 67% compared to 72% in the prior year. 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:

Gross Profit Margin %	**Year Ended September 30, 2017**	**Year Ended September 30, 2016**
Direct hire placement services	100%	100%
Industrial contract services	16.5%	13.1%
Professional contract services	27.4%	25.5%
Combined Gross Profit Margin % (1)	33.3%	28.4%

(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, depreciation and amortization, 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.

Selling, general and administrative expenses for the year ended September 30, 2017, increased by approximately $19.6 million to approximately $39.5 million as compared to the prior year of approximately $19.9 million. The increase was primarily related to the inclusion of approximately $21.4 million 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.

Acquisition, Integration and Restructuring Charges

Acquisition, integration and restructuring charges are legal expenses, travel expenses, finder's fees, severance agreements and other expenses that the Company has expensed as incurred and are related to various acquisition transactions the Company has executed. The Company expects to have these expenses each quarter while we continue our growth strategy, however these expenses would not necessarily be incurred by the Company on a recurring basis in normal operations, without acquisitions.

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The acquisition, integration and restructuring charges for the year ended September 30, 2017 was $2,925,000, an increase of approximately $2,223,000 or 317% compared to approximately $702,000 for the year ended September 30, 2016. The increase was primarily related to the evaluation of more potential acquisitions, due diligence performed on several options and the completion of the SNI acquisition.

Depreciation Expense

Depreciation expense for the year ended September 30, 2017, increased $95,000, or 29% compared with the prior year, primarily as a result of the acquisition and the depreciation of their property and equipment.

Amortization Expense

Amortization expense for the year ended September 30, 2017, increased $1,991,000, or 130% compared with the prior year, primarily as a result of the acquisition and the related amortization of their identified intangible assets.

Change in Contingent Consideration

At the time the Company makes an acquisition, the Company estimates contingent consideration, such as earn-outs or other guarantees that could affect the purchase price when the contingency is resolved. Contingent consideration is evaluated by management each quarter or when the contingency is resolved. The change in contingent consideration with respect to the Company's acquisitions was approximately $1,581,000 during the year ended September 30, 2016. In the prior year, the Company recognized a $1,956,000 gain from the reduction in Access contingent consideration as a result of a decrease in expected EBITDA, offset by a $375,000 loss recognized for the increase in Paladin expected contingent consideration as a result of an increase in their expected EBITDA. In the current year, the Company did not recognize or change any contingent.

Loss on Extinguishment of Debt

Loss on the extinguishment of debt for the year ended September 30, 2017, increased $994,000, compared with the prior year as the debt was converted during the current year, which includes the change of the revolving credit facility and other subordinated debt.

Interest Expense

Interest expense for the year ended September 30, 2017, increased $4,393,000, or 274% compared with the prior 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 year ended September 30, 2017	For the year ended September 30, 2016
Cash flows provided by operating activities	$ 222	$ 723
Cash flows used in investing activities	$ (25,606)	$ (9,515)
Cash flows provided by financing activities	$ 25,641	$ 5,388

As of September 30, 2017, the Company had cash of approximately $2,785,000, which was an increase of approximately $257,000 from approximately $2,528,000 at September 30, 2016. Working capital at September 30, 2017 was approximately $1,588,000 as compared to negative working capital of approximately $597,000 for September 30, 2016. The Company’s current ratio was approximately 106%, an increase of approximately 10% from the prior year. Shareholders’ equity as of September 30, 2017, was approximately $24,063,000 which represented approximately 17% of total assets. At the Company’s option, approximately $1,200,000 of its current liabilities related to the acquisitions can be paid in stock at market price, instead of cash. The net loss for the year ended September 30, 2017, was approximately $(2,372,000).

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Net cash provided by operating activities for the years ended September 30, 2017 and 2016 was approximately $222,000 and $723,000 respectively. The fluctuation is due to the significant loss from operations, the increase in allowance for doubtful accounts, increase in accrued interest, increase in accrued deposit, increase in accounts payable, decrease in accrued compensation, account receivable and increase in other current assets for the year ended September 30, 2017 and offset by non-cash related expense for depreciation, amortization and stock compensation, in addition to the non-cash tax provision benefit from the acquisition.

Net cash used in investing activities for the years ended September 30, 2017 and 2016 was approximately $(25,606,000) and approximately $(9,515,000) respectively. The primary use of cash was for the acquisitions of SNI for the year ended September 30, 2017 and Access and Paladin during the year ended September 30, 2016.

Net cash flow provided by financing activities for the years ended September 30, 2017 and 2016 was approximately $25,641,000 and $5,388,000, respectively. Fluctuations in financing activities are attributable to the new term-loan and the level of net borrowings of the Revolving Credit Facility.

All of the Company's office facilities are leased. As of September 30, 2017, future minimum lease payments under non-cancelable lease commitments having initial terms in excess of one year, including closed offices, totaled approximately $7,100,000.

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.

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. For the period ended September 30, 2017 there were no financial covenants required under the new amendment.

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 (see note 13) 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 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.

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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.

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 September 30, 2017, and 2016, and during the two years then ended, 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.

Critical Accounting Policies

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and the rules of the United States Securities and Exchange Commission.

The following accounting policies are considered by management to be "critical" because of the judgments and uncertainties involved, and because different amounts would be reported under different conditions or using different assumptions.

Estimates and Assumptions

Management makes estimates and assumptions that can affect the amounts of assets and liabilities reported as of the date of the 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 derivative liabilities 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 consolidated statements of operations as a reduction of placement service revenues and were approximately $1,495,000 in fiscal 2017 and $470,000 in fiscal 2016. Expected future falloffs and refunds are reflected in the consolidated balance sheet as a reduction of accounts receivable and were approximately $997,000 and $60,000 as of September 30, 2017 and September 30, 2016, respectively.

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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.

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 basis 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.

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 $1,712,000 and $191,000 is considered necessary as of September 30, 2017, and September 30, 2016, respectively. The Company charges uncollectible accounts against the allowance once the invoices are deemed unlikely to be collectible. The reserve includes the $997,000 and $60,000 reserve for permanent placement falloffs considered necessary as of September 30, 2017 and September 30, 2016, respectively.

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, which 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.

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The standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of 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:

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.

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 undiscounted cash flow method. The Company did not record any impairment during the years ended September 30, 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.

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.

See Note 11 for the assumptions used to calculate the fair value of stock-based employee and non-employee compensation. Upon the exercise of options, it is the Company's policy to issue new shares rather than utilizing treasury shares.

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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.

Recent Accounting Pronouncements.

On May 28, 2014, the FASB issued 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 Company is evaluating the effect that ASU 2014-09 will have on the Company’s consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has the Company determined the effect of the standard on the Company’s ongoing financial reporting.

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 Company is in the process of evaluating the impact of adoption of this guidance on its financial statements.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 Company is currently assessing the potential impact of adopting ASU 2016-09 on its financial statements and related disclosures.

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.

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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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

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Item 8. Financial Statements and Supplementary Data.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

GEE Group, Inc.

Naperville, Illinois

We have audited the accompanying consolidated balance sheets of GEE Group, Inc. as of September 30, 2017 and 2016, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years then ended. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of GEE Group, Inc. as of September 30, 2017 and 2016, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Friedman LLP

Marlton, New Jersey

December 28, 2017

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GEE GROUP INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands)

	September 30, 2017	September 30, 2016
ASSETS		
CURRENT ASSETS:		
Cash	$ 2,785	$ 2,528
Accounts receivable, less allowances ($1,712 and $191, respectively)	23,178	11,569
Other current assets	3,014	1,500
Total current assets	28,977	15,597
Property and equipment, net	914	611
Other long-term assets	282	34
Goodwill	76,593	18,590
Intangible assets, net	35,049	11,094
TOTAL ASSETS	$ 141,815	$ 45,926
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Revolving credit facility	$ 7,904	$ 7,073
Acquisition deposit for working capital guarantee	1,500	-
Accrued interest	2,175	54
Accounts payable	3,243	2,224
Accrued compensation	7,394	3,116
Other current liabilities	515	692
Short-term portion of subordinated debt	1,225	1,285
Short-term portion of term-note, net of discount	3,433	-
Contingent consideration	-	1,750
Total current liabilities	27,389	16,194
Deferred rent	334	162
Deferred taxes	958	-
Term-loan, net of debt discounts	42,018	-
Subordinated debt	1,000	4,981
Subordinated convertible debt	16,685	-
Other long-term liabilities	35	56
Total long-term liabilities	61,030	5,199
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	-
SHAREHOLDERS' EQUITY		

Common stock, no-par value; authorized - 200,000 shares; issued and outstanding - 9,879 shares at September 30, 2017 and 9,379 shares at September 30, 2016, respectively		-		-
Additional paid in capital		39,517		37,615
Accumulated deficit		(15,454)		(13,082)
Total shareholders' equity		24,063		24,533
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	141,815	$	45,926

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

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GEE GROUP INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)

	Years Ended September 30, 2017		Years Ended September 30, 2016	
NET REVENUES:				
Contract staffing services	$	120,247	$	76,165
Direct hire placement services		14,731		6,909
NET REVENUES		134,978		83,074
Cost of contract services		90,003		59,445
GROSS PROFIT		44,975		23,629
Selling, general and administrative expenses		39,498		19,863
Acquisition, integration and restructuring expenses		2,925		702
Depreciation expense		426		331
Amortization of intangible assets		3,527		1,536
INCOME (LOSS) FROM OPERATIONS		(1,401)		1,197
Change in contingent consideration		-		1,581
Loss on extinguishment of debt		(994)		-
Interest expense		(5,995)		(1,602)
INCOME (LOSS) BEFORE INCOME TAX PROVISION		(8,390)		1,176
(Provision) Benefit for income tax		6,018		(3)
NET INCOME (LOSS)	$	(2,372)	$	1,173
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$	(2,372)	$	1,173
BASIC INCOME (LOSS) PER SHARE	$	(0.25)	$	0.13
WEIGHTED AVERAGE NUMBER OF SHARES - BASIC		9,630		9,313
DILUTED INCOME (LOSS) PER SHARE	$	(0.25)	$	0.12
WEIGHTED AVERAGE NUMBER OF SHARES - DILUTED		9,630		9,891

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

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GEE GROUP INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In Thousands)

	Common Stock Shares		Additional Paid In Capital		Accumulated Deficit		Total Shareholders' Equity
Balance, September 30, 2015	8,833	$	33,492	$	(14,255)	$	19,237
Shares issued for JAX Legacy debt	95		589		-		589
Issuance of common stock for contingent consideration related to the acquisition of Access Data Consulting Corporation	123		544		-		544
Amortization of stock option expense	-		793		-		793
Issuance of common stock for acquisition of Access Data Consulting Corporation	328		2,197		-		2,197
Net income	-		-		1,173		1,173
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

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

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GEE GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Years Ended September 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (2,372)	$ 1,173
Adjustments to reconcile (net loss) net income to cash provided by operating activities:		
Depreciation and amortization	3,953	1,867
Stock option expense	902	793
Provision for doubtful accounts	1,521	(44)
Tax provision benefit, non cash	(6,012)	-
Amortization of debt discount and non cash extinguishment of debt	1,198	215
Change in contingent consideration	-	(1,581)
Changes in operating assets and liabilities -		
Accounts receivable	(2,393)	(100)
Acquisition deposit	1,500	-
Accrued interest	2,121	-
Accounts payable	446	343
Accrued compensation	214	(871)
Other current items, net	(881)	(1,086)
Long-term liabilities	25	14
Net cash provided by operating activities	222	723
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(250)	(120)
Acquisition payments, net of cash acquired	(25,356)	(9,395)
Net cash used in investing activities	(25,606)	(9,515)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from subordinated debt	-	4,107
Payment on SNI debt	(19,951)	-
Payments on the debt related to acquisitions	(1,285)	(492)
Payments on senior debt	(609)	-
Proceeds from exercise of stock warrants	1,000	-
Payments on capital lease	(21)	(66)
Net proceeds from debt	45,676	-
Net proceeds from short-term debt	831	1,839
Net cash provided by financing activities	25,641	5,388
Net change in cash	257	(3,404)
Cash at beginning of period	2,528	5,932

Cash at end of period	$	2,785	$	2,528
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest	$	3,383	$	1,070
Cash paid for taxes	$	247	$	3
Non-cash financing activities				
Stock paid for prepaid interest on subordinated note	$	-	$	566
Stock paid for fees in connection with subordinated note	$	-	$	23
Issuance of common stock for acquisition	$	-	$	2,197
Note issued in connection with acquisition	$	-	$	3,000
Earn-out liability, contingent consideration, and other liabilities incurred in connection with acquisition	$	-	$	4,246
Payment of contingent consideration with common shares	$	-	$	544
Issuance of preferred stock for acquisition	$	29,333	$	-
Issuance of note payable for acquisition	$	12,500	$	-
Issuance of stock for extinguishment of debt	$	385	$	-

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

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GEE GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 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

Basis of Presentation

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and the rules of the United States Securities and Exchange Commission.

Liquidity

The Company has experienced significant losses and negative cash flows from operations in the past. Management has implemented a strategy which included 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. For the period ended September 30, 2017 there were no financial covenants required under the new amendment.

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 September 30, 2017, approximately $6,000,000 of the Revolving Credit facility was fixed for a three-month period at an interest of approximately 11.3%.

Although the Company did not have financial covenants for the period ended September 30, 2017, the Company was in compliance with non-financial covenants of this loan and management expects to be in compliance with the newly amended financial covenants for December 31, 2017, the first measurement date under the Amendment.

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 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.

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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 consolidated statements of operations as a reduction of placement service revenues and were approximately $1,495,000 in fiscal 2017 and $470,000 in fiscal 2016. Expected future falloffs and refunds are reflected in the consolidated balance sheet as a reduction of accounts receivable and were approximately $997,000 and $60,000 as of September 30, 2017 and September 30, 2016, 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.

Cash and Cash Equivalents

Highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. At September 30, 2017 and September 30, 2016, 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 $1,712,000 and $191,000 is considered necessary as of September 30, 2017, and September 30, 2016, respectively. The Company charges uncollectible accounts against the allowance once the invoices are deemed unlikely to be collectible. The reserve includes the $997,000 and $60,000 reserve for permanent placement falloffs considered necessary as of September 30, 2017 and September 30, 2016, 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 years ended September 30, 2017 and 2016.

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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:

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 577,000 was included in the computation of diluted earnings per share for the year ended September 30, 2016. There were approximately 10,120,958 and 413,000 of common stock equivalents excluded for the year ended September 30, 2017 and September 30, 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 years ended September 30, 2017 and 2016, included in selling, general and administrative expenses was advertising expense totaling approximately $1,710,000 and $834,000, respectively.

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Intangible Assets

Customer lists, non-compete agreements, customer relationships 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 years ended September 30, 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.

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.

See Note 11 for the assumptions used to calculate the fair value of stock-based employee and non-employee compensation. 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 basis 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.

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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.

Reclassification

Certain reclassifications have been made to the financial statements as of and for the years ended September 30, 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 FASB issued 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 Company is evaluating the effect that ASU 2014-09 will have on the Company’s consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has the Company determined the effect of the standard on the Company’s ongoing financial reporting.

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 Company is in the process of evaluating the impact of adoption of this guidance on its financial statements.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 Company is currently assessing the potential impact of adopting ASU 2016-09 on its financial statements and related disclosures.

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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 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.

4. Property and Equipment

Property and equipment consisted of the following as of September 30:

(In thousands)	Useful Lives	2017	2016
Computer software	5 years	$ 1,447	$ 1,447
Office equipment, furniture and fixtures and leasehold improvements	2 to 10 years	3,243	2,514
Total property and equipment, at cost		4,690	3,961
Accumulated depreciation and amortization		(3,776)	(3,350)
Property and equipment, net		$ 914	$ 611

Leasehold improvements are amortized over the term of the lease.

Depreciation expense for the year ended September 30, 2017 and 2016 was approximately $426,000 and $331,000, respectively.

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5. Goodwill and Intangible Assets

Goodwill

The following table sets forth activity in goodwill from September 30, 2015 through September 30, 2017. See Note 13 for details of acquisitions that occurred during the year ended September 30, 2016 and 2017. (thousands)

Goodwill as of September 30, 2015	$	8,220
Acquisition of Access		8,316
Acquisition of Paladin		2,054
Goodwill as of September 30, 2016	$	18,590
Acquisition of SNI Companies		58,003
Goodwill as of September 30, 2017	$	76,593

During the year ended September 30, 2017 and the year ended September 30, 2016 the Company did not record any impairment of goodwill.

Intangible Assets

As of September 30, 2017

(In Thousands)		**Cost**		**Accumulated Amortization**		**Net 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

As of September 30, 2016

(In Thousands)	Cost	Accumulated Amortization	Net Book Value
Customer relationships	$ 10,758	$ 2,662	$ 8,096
Trade name	2,429	285	2,144
Non-compete agreements	1,061	207	854
	$ 14,248	$ 3,154	$ 11,094

The amortization expense attributable to the amortization of identifiable intangible assets was approximately $3,527,000 and $1,536,000 for the years ended September 30, 2017 and 2016, respectively.

The trade names are amortized on a straight – line basis over the estimated useful life of between five and 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 $35,049,000, as follows: fiscal 2018 - $5,582,000, 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

On September 27, 2013, the Company ("Borrower") entered into agreements with ACF FINCO I LP (successor-in-interest to Keltic Financial Partners II, LP) ("ACF") ("Lender"), that provided the Company with long term financing through a six million dollar ($6,000,000) secured revolving note (the "Note"). The Note had a term of three years and has no amortization prior to maturity. The interest rate for the Note was a fluctuating rate that, when annualized, is equal to the greatest of (A) the Prime Rate plus three and one quarter percent (3.25%), (B) the LIBOR Rate plus six and one quarter percent (6.25%), and (C) six and one-half percent (6.50%), with the interest paid on a monthly basis. Loan advances pursuant to the Note are based on the accounts receivable balance and other assets. The Note was 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. On January 1, 2016, the Company entered into an eighth Amendment and Waiver to the Loan and Security Agreement with ACF to increase the maximum amount of revolving credit under the Amended Loan Agreement from $6,000,000 to $10,000,000. On September 27, 2016, the Company entered into a ninth Amendment and Waiver to the Loan and Security Agreement with ACF. Pursuant to the Amendment, the Lender agreed (i) to decrease the annual Facility Fee (as defined in the Credit Agreement) payable by Borrower on the total Revolving Credit Limit (as defined in the Loan Agreement) to 0.75% , (ii) to allow the Borrower to make certain prepayments of amounts owed under the Amended Loan Agreement and the other loan documents on or prior to September 27, 2018, (iii) to amend the provision regarding liquidated damages payable by Borrower in the event of any early termination of the revolving credit line under the Amended Credit Agreement such that Borrower shall pay liquidated damages to Lender in an amount equal to the Revolving Credit Limit multiplied by (X) two percent (2.00%) if such prepayment, repayment, demand or acceleration occurs prior to September 28, 2017, and (Y) one percent (1.00%) if such prepayment, repayment, demand or acceleration occurs on or after September 28, 2017, (iv) to change the minimum EBITDA (as defined in the Amended Credit Agreement) thresholds required to be maintained by the Company as outlined below (v) to extend the Revolving Credit Termination Date to the earliest to occur of (a) September 27, 2018, (b) the date Lender terminates the Revolving Credit pursuant to the terms of the Amended Credit Agreement, and (c) the date on which repayment of the Revolving Credit, or any portion thereof, becomes immediately due and payable pursuant to the terms of the Amended Loan Agreement, (vi) to amend the definition of EBITDA and (vii) to change the Revolving Credit Rate to a fluctuating rate that, when annualized, is equal to the greatest of (A) the Prime Rate plus one and one half percent (1.50%), (B) the LIBOR Rate plus four and one half percent (4.50%), and (C) four and three quarters percent (4.75%). There were several subsequent amendments to the loan.

At September 30, 2016, the interest rate was 4.75%. This loan was repaid and closed as of April 3, 2017, with the proceeds from the PNC Revolving Credit Facility, as noted below. The Company paid approximately $288,000 in fees and are included in the loss on the extinguishment of debt.

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.

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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.

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 September 30, 2017, approximately $6,000,000 of the Revolving Credit facility was fixed for a three-month period at an interest of approximately 11.3%.

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.

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 10), 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.

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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 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.

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.

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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.

At September 30, 2017, based on the new amendment, there was no financial covenants. The Company was in compliance with other non-financial covenants.

Balance of:	**September 30, 2017**
Term loan	$ 48,141,000
Unamortized debt discount	(2,690,000)
	45,451,000
Short term portion of term loan	(3,433,000)
Term loan	$ 42,018,000

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In connection with this both 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 of the term of the loans. During the year ended, September 30, 2017, the Company amortized approximately $492,000 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 133,655 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 (see note 13) 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 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 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 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:	**September 30, 2017**	**September 30, 2016**
JAX Legacy debt	$ 4,185	$ 4,185

Access Data debt		1,225		2,510
Paladin debt		1,000		-
9.5% convertible debt		12,500		-
JAX Legacy debt discount		-		(429)
Total subordinated debt, convertible and non-convertible		18,910		6,266
Short-term portion of subordinated debt, convertible and non-convertible		(1,225)		(1,285)
Long-term portion of subordinated debt, convertible and non-convertible	$	17,685	$	4,981

Future minimum payments of subordinated debt will total approximately $18,910,000 as follows: fiscal 2018 - $1,225,000, fiscal 2019 - $0, fiscal 2020 - $1,000,000, fiscal 2021- $0 and fiscal 2022 - $16,685,000.

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10. Equity

On October 2, 2015, the Company issued approximately 95,000 shares of common stock to JAX Legacy related to the subordinated note. The stock was valued at approximately $589,000.

On October 4, 2015, the Company issued approximately 328,000 shares of common stock to the sellers of Access Data Consulting Corporation. The Company also agreed if the closing price of the Company's common stock on the trading day immediately preceding the day on which the Issued Shares are first freely salable under Rule 144 (the "Rule 144 Date") is less than 90% of the Issue Price, then the Company shall make a one-time adjustment and shall promptly pay to the Sellers, in stock in the form of additional shares of common stock of the Company at the market value on the Rule 144 Date, the difference between the aggregate value of the Issued Shares at the Issue Price and the aggregate value of the Issued Shares at the closing price on the Rule 144 Date.

On April 4, 2016, the Company issued approximately 123,000 shares of common stock to the sellers of Access Data Consulting Corporation related to the guarantee, discussed above. This was based on market value of the stock on April 4, 2016 being approximately $544,000 less than the $2,000,000 six-month guarantee provided in the Access Data Agreement and based on the closing stock price of $4.44 per common share.

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.

Stock Options

The Company has recognized compensation expense in the amount of approximately $902,000 and $793,000 during the years ended September 30, 2017 and 2016, respectively, related to the issuance of stock options.

During the year ended September 30, 2017, there were options granted to purchase 382,000 shares of common stock with a weighted average price of between $4.02 and $5.94 per common share. This estimated value was made using the Black-Scholes option pricing model and approximated $1,864,000. The stock options vest over a three to five-year period. The average expected life (years) of the options were 10, the estimated stock price volatility was 104% and the risk-free interest rate was 2.2%. At September 30, 2017, there was approximately $2,178,000 of unamortized compensation.

At September 30, 2017, there were exercisable options granted to purchase approximately 408,000 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, 2016	997	$ 2.92	
Warrants exercised	(500)	2.00	
Warrants granted	-	-	
Outstanding at September 30, 2017	497	$ 3.84	

The weighted average exercise price of outstanding warrants was $3.84 at September 30, 2017 and 2.92 at September 30, 2016, with expiration dates ranging from February 7, 2020 to April 1, 2025.

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11. Stock Option Plans

As of September 30, 2017, there were stock options outstanding under the Company's 1995 Stock Option Plan, Second Amended and Restated 1997 Stock Option Plan, 1999 Stock Option Plan and the 2011 Company Incentive Plan. All four plans were approved by the shareholders. The 1995 Stock Option Plan and the 1999 Stock Option Plan have expired, and no further options may be granted under those plans. During fiscal 2009, the Second Amended and Restated 1997 Stock Option Plan was amended to make an additional 592,000 options available for granting and as of September 30, 2013 there were no shares available for issuance under the Amended and Restated 1997 Stock Option Plan. As of September 30, 2017, there were no shares available for issuance under the 2011 Company Incentive Plan. The plans granted specified numbers of options to non-employee directors, and they authorized the Compensation Committee of the Board of Directors to grant either incentive or non-statutory stock options to employees. Vesting periods are established by the Compensation Committee at the time of grant. All stock options outstanding as of September 30, 2017 and September 30, 2016 were non-statutory stock options, had exercise prices equal to the market price on the date of grant, and had expiration dates ten years from the date of grant.

On July 23, 2013, the Board of Directors approved the Company's 2013 Incentive Stock Plan (the "2013 Plan"), and resolved to cease issuing securities under all prior Company equity compensation plans. The 2013 Plan was approved by the Company's shareholders at the Annual Meeting of Stockholders on September 9, 2013. The purpose of the 2013 Plan is to provide additional incentives to select persons who can make, are making, and continue to make substantial contributions to the growth and success of the Company, to attract and retain the employment and services of such persons, and to encourage and reward such contributions, by providing these individuals with an opportunity to acquire or increase stock ownership in the Company through either the grant of options or restricted stock. The 2013 Plan is administered by the Compensation Committee or such other committee as is appointed by the Board of Directors pursuant to the 2013 Plan (the "Committee"). The Committee has full authority to administer and interpret the provisions of the 2013 Plan including, but not limited to, the authority to make all determinations with regard to the terms and conditions of an award made under the 2013 Plan. The maximum number of shares that may be granted under the 2013 Plan is 1,000,000. This number is subject to adjustment to reflect changes in the capital structure or organization of the Company.

On August 16, 2017 the Stockholders approved an amendment to the Company's 2013 Incentive Stock Plan to increase the number of shares available for issuance pursuant to awards granted under the Plan from 1,000,000 shares to 4,000,000 shares.

A summary of stock option activity is as follows:

	Year Ended September 30,	
(Number of Options in Thousands)	**2017**	**2016**

Number of options outstanding:		
Beginning of year	568	414
Granted	382	163
Exercised	-	-
Terminated	(42)	(9)
End of year	908	568
Number of options exercisable at end of year	408	230
Number of options available for grant at end of year	3,075	470
Weighted average option prices per share:		
Granted during the year	$ 5.15	$ 5.17
Exercised during the year	-	-
Terminated during the year	4.38	5.99
Outstanding at end of year	5.11	5.09
Exercisable at end of year	4.79	4.39

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Stock options outstanding as of September 30, 2017 were as follows (number of options in thousands):

Range of Exercise Prices	**Number Outstanding**	**Weighted Average Price**	**Number Exercisable**	**Weighted Average Price**	**Average Remaining Life (Years)**
Under $5.00	476	$ 4.00	214	$ 3.31	8.1
5.01 to 10.00	432	$ 6.37	154	$ 6.77	8.0

As of September 30, 2017, the aggregate intrinsic value of outstanding stock options and exercisable stock options was approximately $461,000 and $303,000, respectively.

The average fair value of stock options granted was estimated to be $4.63 per share in fiscal 2017 and $7.00 per share in fiscal 2017 and 2016, respectively. This estimate was made using the Black-Scholes option pricing model and the following weighted average assumptions:

	2017	**2016**
Expected option life (years)	10	10
Expected stock price volatility	104%	125%
Expected dividend yield	—%	—%
Risk-free interest rate	2.20%	2.20%

Stock-based compensation expense attributable to stock options was $902,000 and $793,000 in 2017 and 2016, respectively. As of September 30, 2017, there was approximately $2,178,000 of unrecognized compensation expense related to unvested stock options outstanding, and the weighted average vesting period for those options was 3.5 years.

12. Income Taxes

The components of the provision for income taxes are as follows:

Year Ended September 30,

(In Thousands)		**2017**		**2016**
Current expense (benefit):				
Federal	$	-	$	-
State		126		3
Total current expense (benefit):	$	126	$	3
Deferred expense (benefit):				
Federal	$	(5,549)	$	-
State		(595)		-
Total deferred expense (benefit):	$	(6,144)	$	-
Total income tax expense (benefit):	$	(6,018)	$	3

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A reconciliation of the Company’s statutory income tax rate to the Company’s effective income tax rate is as follows:

	Year Ended September 30,	
(In Thousands)	**2017**	**2016**
Income at US Statutory Rate	$ (2,853)	$ 400
State Taxes, net of Federal benefit	(633)	56
Tax Credits	(99)	
Acquisition Related Costs	476	
Statutory Rate Changes	(571)	
Valuation Allowance	(2,370)	(456)
Other	32	
	$ (6,018)	$ -

The net deferred income tax asset balance related to the following:

	Year Ended September 30,
(In Thousands)	**2017**