

GENERAL EMPLOYMENT ENTERPRISES INC
Form 10-Q
April 16, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2012

OR

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

Commission File Number 1-05707

GENERAL EMPLOYMENT ENTERPRISES, 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)

One Tower Lane, Suite 2200, Oakbrook Terrace, Illinois 60181
(Address of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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 No

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

Large accelerated filer

Accelerated filer

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CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

As a matter of policy, the Company does not provide forecasts of future financial performance. The statements made in this Form 10-Q Quarterly Report which are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements often contain or are prefaced by words such as “believe”, “will” and “expect.” These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. As a result of a number of factors, our actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause the Company’s actual results to differ materially from those in the forward-looking statements include, without limitation, general business conditions, the demand for the Company’s services, competitive market pressures, the ability of the Company to attract and retain qualified personnel for regular full-time placement and contract assignments, the possibility of incurring liability for the Company’s business activities, including the activities of its contract employees and events affecting its contract employees on client premises, and the ability to attract and retain qualified corporate and branch management, as well as those risks discussed in the Company’s annual report on Form 10-K for the year ended September 30, 2012, and in other documents which we file with the Securities and Exchange Commission. Any forward-looking statements speak only as of the date on which they are made, and the Company is under no obligation to (and expressly disclaims any such obligation to) and does not intend to update or alter its forward-looking statements whether as a result of new information, future events or otherwise.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

GENERAL EMPLOYMENT ENTERPRISES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(In Thousands)

	December 31, 2012	September 30, 2012
ASSETS		
CURRENT ASSETS:		
Cash	\$247	\$364
Accounts receivable, less allowances (December - \$220; September - \$259)	7,611	6,761
Other	216	246
Total current assets	8,074	7,371
Property and equipment, net	563	518
Goodwill	1,106	1,106
Intangible assets, net	2,125	2,204
TOTAL ASSETS	\$11,868	\$11,199
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term debt	\$3,095	\$2,404
Accounts payable	121	173
Accrued compensation	2,952	3,068
Other current liabilities	1,216	1,196
Total current liabilities	7,384	6,841
Long-term liabilities	191	253
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Preferred stock; authorized - 100 shares; no par value; issued and outstanding - none	-	-
Common stock, no-par value; authorized - 50,000 shares; issued and outstanding - 21,699 shares at December 31, 2012 and September 30, 2012	10,455	10,453
Accumulated deficit	(6,162)	(6,348)
Total Shareholders' Equity	4,293	4,105
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$11,868	\$11,199

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

IndexGENERAL EMPLOYMENT ENTERPRISES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(In Thousands, Except Per Share Data)

	Three Months Ended December 31,	
	2012	2011
NET REVENUES:		
Contract staffing services	\$12,487	\$10,907
Direct hire placement services	2,156	1,873
NET REVENUES	14,643	12,780
Cost of contract services	10,437	9,322
Selling, general and administrative expenses	3,871	3,283
Amortization of intangible assets	79	100
INCOME FROM OPERATIONS	256	75
Interest expense	(70)	(52)
NET INCOME	\$186	\$23
NET INCOME PER SHARE - BASIC	\$0.01	\$0.00
NET INCOME PER SHARE - DILUTED	\$0.01	\$0.00
WEIGHTED AVERAGE NUMBER OF SHARES - BASIC	21,699	21,699
WEIGHTED AVERAGE NUMBER OF SHARES - DILUTED	22,107	21,928

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

IndexGENERAL EMPLOYMENT ENTERPRISES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)

(In Thousands)

	Common Stock Shares	Common Stock Amount	Accumulated Deficit	Total Shareholders' Equity
Balance, September 30, 2011	21,699	\$ 10,031	\$ (5,337)	\$ 4,694
Stock compensation expense	-	422	-	422
Net loss	-	-	(1,011)	(1,011)
Balance, September 30, 2012	21,699	\$ 10,453	\$ (6,348)	\$ 4,105
Stock compensation expense	-	2	-	2
Net income	-	-	186	186
Balance, December 31, 2012	21,699	\$ 10,455	\$ (6,162)	\$ 4,293

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

IndexGENERAL EMPLOYMENT ENTERPRISES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(In Thousands)

	Three Months Ended December 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 186	\$ 23
Adjustments to reconcile net income to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	121	134
Stock compensation expense	2	6
Provision for doubtful accounts	32	-
Changes in assets and liabilities -		
Accounts receivable	(882)	(860)
Accounts payable	(52)	(85)
Accrued compensation	(116)	141
Other current items, net	50	(40)
Long-term liabilities	(62)	-
Net cash used by operating activities	(721)	(681)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(87)	(10)
Net cash used in investing activities	(87)	(10)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term debt, net	691	422
Net cash provided by financing activities	691	422
Net decrease in cash	(117)	(269)
Cash at beginning of period	364	314
Cash at end of period	\$ 247	\$ 45
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	\$ 60	\$ 37
Cash paid for taxes	\$ -	\$ -

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Description of Business

General Employment Enterprises, Inc. (the “Company,” “we,” “our” or “us”) 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 and accounting professionals to clients on either a regular placement basis or a temporary contract basis. The Company’s agricultural staffing services provide agricultural workers for farms and groves. The Company’s industrial staffing business provides weekly temporary staffing for light industrial clients in Ohio and Pennsylvania.

The Company has experienced significant losses in the past. Management has implemented a strategy which included cost reduction efforts as well as identifying strategic acquisitions, financed primarily through the issuance of stock, to improve the overall profitability and cash flows of the Company. The Company entered into an account purchase agreement with Wells Fargo Business Credit to provide working capital financing. The account purchase agreement allows Wells Fargo to advance the Company funds on accounts receivable at its sole discretion. In the event Wells Fargo elects not to advance us funds on our accounts receivable balance or the performance of the acquired entities does not meet our expectations, the Company could experience liquidity constraints.

2. Significant Accounting Policies and Estimates

The accompanying unaudited condensed consolidated financial statements of General Employment Enterprises, Inc. and its subsidiaries (the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three month period ended December 31, 2012 are not necessarily indicative of the results that may be expected for the year ending September 30, 2013. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2012.

Principles of Consolidation

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

Estimates and Assumptions

Management makes estimates and assumptions that can affect the amounts of assets and liabilities reported as of the date of the 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, 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.

Cost of Contract Staffing Services

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

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Income Taxes

We record a provision for income taxes for the anticipated tax consequences of the reported results of operations using the asset and liability method. Under this method, we recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, as well as for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. We record a valuation allowance to reduce our deferred tax assets to the net amount that we believe is more likely than not to be realized.

Due to the sale of shares of common stock to LEED HR during fiscal 2012 and the resulting change in control, the Company may be limited by Section 382 of the Internal Revenue Code as to the amount of net operating losses that may be used in future years.

We recognize tax benefits from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. Although we believe that we have adequately reserved for our uncertain tax positions, we can provide no assurance that the final tax outcome of these matters will not be materially different. We make adjustments to these reserves when facts and circumstances change, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on our financial condition and operating results.

Cash and Cash Equivalents

Highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. At December 31, 2012 and September 30, 2012, 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. All of our non-interest bearing cash balances were fully insured at December 31, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there was no limit to the amount of insurance for eligible accounts. Beginning 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution, and our non-interest bearing cash balances may again exceed federally insured limits.

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 \$220,000 and \$259,000 is considered necessary as of December 31, 2012 and September 30, 2012, respectively. The Company charges uncollectible accounts against the allowance once the invoices are deemed unlikely to be collectible.

Property and Equipment

Property and equipment are recorded at cost. Depreciation expense is calculated on a straight-line basis over estimated useful lives of five years for computer equipment and two to ten years for office equipment, furniture and fixtures.

The Company capitalizes computer software purchased or developed for internal use and amortizes it over an estimated useful life of five years. The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that it may not be recoverable. If the carrying amount of an asset group is greater than its estimated future undiscounted cash flows, the carrying value is written down to the estimated fair value. There was no impairment of property and equipment for the three month periods ended December 31, 2012 and December 31, 2011.

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Goodwill

Goodwill represents the excess of cost over the fair value of the net assets acquired in the acquisition of On-Site Services, Inc. (“On-site”), DMCC Staffing, LLC (“DMCC”) and RFFG of Cleveland, LLC (“RFFG of Cleveland”) and the Ashley Ellis, LLC (“Ashley Ellis”). The Company assesses goodwill for impairment at least annually. The Company early adopted, Intangibles – Goodwill and Other (Topic 350): 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.

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.

Intangible Assets

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

Impairment of Long-lived Assets

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

Stock-Based Compensation

Compensation expense is recorded for the fair value of stock options issued to directors and employees. The expense is measured as the estimated fair value of the stock options on the date of grant and is recorded over the vesting periods.

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Segment Data

The Company has three operating business segments a) Contract staffing services, b) Direct hire placement services and c) Management services. These operating segments were determined based primarily on how the chief operating decision maker views and evaluates our operations. 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

In July 2012, the FASB issued ASU 2012-02 – Testing Indefinite-Lived Intangible Assets for Impairments (“ASU 2012-02”, which amends the guidance in ASC 350-30 on testing indefinite-lived intangible assets, other than goodwill, for impairments. FASB issued ASU 2012-12 in response to feedback on ASU 2011-08, which amended the goodwill impairment testing requirements by allowing an entity to perform a qualitative impairment assessment before proceeding to the two-step impairment test. Similarly, under ASU 2012-02, an entity testing an indefinite-lived intangible asset for impairment has the option of performing a qualitative assessment before calculating the fair value of the asset. If the entity determines, on the basis of quantitative factors, that the fair value of the indefinite-lived intangible asset is more likely than not (i.e. a likelihood of more than 50 percent) not impaired, the entity would not need to calculate the fair value of the asset. ASU 2012-02 does not revise the requirement to test indefinite-lived intangible assets annually for impairment. In addition, the ASU 2012-02 does not amend the requirement to test these assets for impairment between annual tests if there is a change in the events or circumstances; however, it does revise the examples of events and circumstances that an entity should consider in interim periods. ASU 201-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The Company’s adoption of this guidance did not have a material effect on the Company’s consolidated financial statements.

Other recent accounting pronouncements issued by FASB and the SEC did not or are not believed by management to have a material impact on the Company’s present or future financial statements.

4. Property and Equipment

Property and equipment, net consisted of the following:

(In thousands)	Useful Lives	December 31, 2012	September 30, 2012
Computer software	5 years 2 to 10	\$ 1,447	\$ 1,447
Office equipment, furniture and fixtures and leasehold improvements	years	2,395	2,311
Total property and equipment, at cost		3,842	3,758
Accumulated depreciation and amortization		(3,279)	(3,240)
Property and equipment, net		\$ 563	\$ 518

Leasehold improvements are amortized over the term of the lease.

Depreciation expense for the three month period ended December 31, 2012 and 2011 was approximately \$42,000 and \$34,000, respectively.

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5. Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of cost over the fair value of the net assets acquired from various acquisitions. Goodwill is not amortized. The Company performs a goodwill impairment test annually, by reporting unit, in the fourth quarter of the fiscal year, or whenever potential impairment triggers occur. Should the two-step process be necessary, the first step of the impairment test identifies potential impairment by comparing the fair value of a reporting unit to its carrying value, including goodwill. In applying a fair-value-based test, estimates are made of the expected future cash flows to be derived from the reporting unit. Similar to the review for impairment of other long-lived assets, the resulting fair value determination is significantly impacted by estimates of future margins, capital needs, economic trends and other factors. If the carrying value of the reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the amount of impairment loss, if any. The second step of the impairment test compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. An impairment loss would be recognized to the extent the carrying value of goodwill exceeds its implied fair value.

Intangible Assets

As of December 31, 2012

(In Thousands)	Cost	Accumulated Amortization	Loss on impairment of Intangible assets	Net Book Value
Customer Relationships	\$2,690	\$ 578	\$ -	\$2,112
Trade Name	17	4	-	13
	\$2,707	\$ 582	\$ -	\$2,125

As of September 30, 2012

(In Thousands)	Cost	Accumulated Amortization	Loss on impairment of Intangible assets	Net Book Value
Non-Compete	\$89	\$ 48	\$41	\$-
Customer Relationships	2,913	662	60	2,191
Management Agreement	1,396	270	1,126	-
Trade Name	17	4	-	13
	\$4,415	\$ 984	\$ 1,227	\$2,204

Amortization expense was approximately \$79,000 for the three months ended December 31, 2012 and was approximately \$100,000 for the three months ended December 31, 2011.

Finite life intangible assets are comprised of non-compete agreements, management agreements, trade names and customer relationships. The non-compete agreements and trade names are amortized on a straight – line basis over the estimated useful lives of 5 years. Customer relationships are amortized based on the future undiscounted cash flows over estimated remaining useful lives of three to 10 years. The management agreement intangible was being amortized over the five year term of the agreement. Over the next five years, annual amortization expense for these finite life intangible assets will be \$393,000 in 2013, \$376,000 in 2014, \$359,000 in 2015, \$340,000 in 2016 and \$322,000 in 2017 and \$335,000 thereafter.

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Long-lived assets, such as purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company evaluates, regularly, 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.

During the three month periods ended December 31, 2012 and 2011, the Company did not record any impairment of intangible assets.

During the year ended, September 30, 2012, the Company recorded an impairment charge of approximately \$101,000 for the remaining unamortized amount of the non-compete and a certain amount of the customer relationship intangible asset related to the agricultural operation. In addition the Company recorded an impairment charge of approximately \$173,000 related to the goodwill of the agriculture operation. The impairment charge represents the difference between the fair value and the carrying value of the intangible assets. The agricultural operation has limited margins and lost a large customer and management determined that the present value of the future cash flows associated with the operation did not support the recorded value.

6. Short-term Debt

The Company entered into a two-year, \$4,500,000 account purchase agreement (“AR Credit Facility”) with Wells Fargo Bank N.A. (“Wells Fargo”) which has been subsequently amended. The AR Credit Facility as amended, provides for borrowings, on a revolving basis, of up to 85% of the Company’s eligible accounts receivable less than 90 days old and bears interest at a rate equal to the three month LIBOR (minimum of 0.5%) plus 5.25% (effective rate was 5.75% as of December 31, 2012 and September 30, 2012). Under the terms and subject to the conditions in the agreement, Wells Fargo may determine which receivables are eligible receivables, may determine the amount it will advance on any such receivables, and may require the Company to repay advances made on receivables and thereby repay amounts outstanding under the AR Credit Facility on demand. Wells Fargo also has the right to require the Company to repurchase receivables that remain outstanding 90 days past their invoice date. The Company continues to be responsible for the servicing and administration of the receivables purchased and carries the receivables and any outstanding borrowings on its consolidated balance sheet.

On January 14, 2013, the Company and Wells Fargo Bank, National Association entered into a Fifth Amendment (the “Fifth Amendment”) to its AR Credit Facility. The Fifth Amendment extended the term of the AR Credit Facility to December 14, 2013. Notwithstanding the foregoing extension, Wells Fargo may issue a written notice to the Company shortening the term of the AR Credit Facility to a date 60 days following such notice in the event that (i) the Company is not dismissed without prejudice from a recently brought lawsuit entitled Derby Capital LLC and Derby Capital JOB LLC, as plaintiffs, vs. Trinity HR Services, LLC, et al., as defendants, a lawsuit seeking to establish relative ownership among stockholders which the Company believes it should not be a party to, (ii) the Company fails to furnish Wells Fargo its audited financial statements for its fiscal year ended September 30, 2012 by March 15, 2013 or if the results in such audited financial statements are not satisfactory to Wells Fargo in its sole discretion, (iii) background checks of newly appointed officers of the Company are unsatisfactory to Wells Fargo in its sole discretion, or (iv) significant changes have occurred to the composition of the Company’s Board of Directors as determined by Wells Fargo in its sole discretion. In March 2013, the Company and Wells Fargo entered into a Sixth Amendment to the AR Credit Facility that extended the required delivery date on certain of the foregoing requirements, such as the audited financial statements, until April 30, 2013. To date, the Company has not received notice from Wells Fargo of any intent to shorten the term of the AR Credit Facility.

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As of December 31, 2012, the borrowing base availability under this agreement was approximately \$100,000 and the outstanding borrowings, which are classified as short-term debt on the condensed consolidated balance sheet, were approximately \$3,095,000. Total interest expense related to the line of credit for the three months ending December 31, 2012 and December 31, 2011 approximated \$45,000 and \$44,000, respectively.

The AR Credit Facility includes certain covenants which require compliance until termination of the agreement. As of the date of this report, the Company was in compliance with all such covenants.

7. Long-Term Liabilities

In connection with the completion of the sale of shares of common stock to PSQ in fiscal 2009, the Company's then Chairman, Chief Executive Officer and President (the "former CEO") retired from those positions and his employment agreement with the Company was replaced by a new consulting agreement. Under the consulting agreement, the Company became obligated to pay an annual consulting fee of \$180,000 over a five-year period and to issue 500,000 shares of common stock to the former CEO for no additional consideration. During fiscal 2009, the Company recorded a liability for the net present value of the future payments in the amount of \$790,000 and recorded additional common stock in the amount of \$280,000 based on a quoted market price of \$0.56 per share on the date of the award. On January 31, 2013, Mr. Imhoff Jr. retired from all positions with the Company, however he will continue to receive his monthly payments required under his consulting agreement. As of December 31, 2012, the liability for future payments was reflected on the condensed consolidated balance sheet as accrued compensation of \$180,000 and long-term liability of \$79,000.

8. Contingencies and Commitments

In March 2012, the Company became aware of a lien on its business by the Ohio Bureau of Workers Compensation for \$229,000, which has been fully accrued for. The Company believes this claim represents unpaid workers compensation premium for a period prior to the acquisition of certain assets of RFFG of Cleveland in November 2010. The Company is currently defending its position in this matter. As of the date of this report, there were no other material legal proceedings pending against the Company.

Effective November 1, 2010, the Company, through its wholly-owned subsidiary, Triad Personnel Services, Inc. (Triad), entered into an asset purchase agreement (the "Asset Purchase Agreement"), dated as of October 29, 2010, with DMCC, RFFG of Cleveland, and Thomas J. Bean, for the purchase of certain assets of DMCC and RFFG of Cleveland, primarily customer lists, comprising DMCC's and RFFG of Cleveland's services business.

In conjunction with the Asset Purchase Agreement for DMCC and RFFG of Cleveland, BMP, an Ohio corporation and a wholly-owned subsidiary of the Company, entered into a management service agreement (the "Management Agreement") with RFFG effective November 1, 2010. Due to an unresolved issue with the Ohio Bureau of Workers Compensation, RFFG ceased operations as of July 15, 2011 and, as a result, the Management Agreement was effectively terminated.

Commencing in 2011, under the Asset Purchase Agreement, if the aggregate EBITDA of the businesses acquired, plus any management fees paid to the Company under the Management Agreement meets certain targets (each, an "EBITDA Target") over a four-year period ending December 31, 2014 (the "Earnout Period"), the Company will be required to make earn-out payments to DMCC and RFFG of Cleveland, each payable in three equal installments. In the event that an EBITDA Target for a certain period is not met, the earn-out payment in respect to such period will be reduced proportionately. The EBITDA Targets are \$300,000, \$600,000, \$900,000 and \$1,200,000 for each of the three-, six-, nine- and twelve-month periods, respectively, in the fiscal year ending December 31, 2011 and earn-out payments will consist of quarterly payments of \$150,000, payable in three equal monthly installments, if the relevant

EBITDA Targets are met. Starting in the fiscal year ending December 31, 2012, the EBITDA Targets will be adjusted annually to reflect the EBITDA for the twelve-month period ending on December 31st of the most recently completed fiscal year (each, an "Annual EBITDA Target") and earn-out payments for the year will be adjusted to equal 50% of the relevant Annual EBITDA Target divided by four. At the end of each fiscal year during the Earnout Period, if the aggregate EBITDA for the 12-month period then ended is greater than the Annual EBITDA Target for such year, then the Company will pay to DMCC and RFFG of Cleveland the amount of such excess, 50% in cash and 50% in shares of common stock. Through December 31, 2012, approximately \$382,000 has been earned related to the purchase agreement earn-out, net of off-sets, and the Company has made one \$50,000 cash payment against this liability. Subsequent to December 31, 2012, the Company has paid an additional \$110,000 cash payment against this liability.

The Company is currently in discussions with RFFG to amend the Asset Purchase Agreement as it relates to the earn-out since the value of the Management Agreement was a significant value of the original agreement and was terminated in July 2011.

The accounting guidance requires that contingent consideration be added to the purchase price and the resultant liability be recorded at fair value. Given the terms of the earn-out provisions of the Asset Purchase Agreement, the Company believes that the earn-out will be paid and accordingly, has included the fair value of the projected total earn-out payments in the total consideration paid for the acquisition. Any subsequent changes in the estimated fair value of this contingent consideration will be recorded in the Company's statement of operations. At December 31, 2012 the expected earn-out liability is approximately \$870,000 based on the original present value accounting for the transaction.

As with any asset purchase of a business the purchaser may be held accountable for the seller's debts and liabilities where; (i) there is an express or implied agreement of assumption; (ii) the transaction amounts to a de facto consolidation or merger of the buyer or seller corporation; (iii) the purchaser is merely a continuation of the seller; or (iv) the transaction is for the fraudulent purpose of escaping liability for the seller's obligations. There are always several factors in the determination of any successor corporation legal liabilities related to the predecessor company. Other than the current litigation related to the Ohio Bureau of Workers Compensation, the Company has not been noticed of any additional claims, however additional claims could be material to the business.

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Lease

The Company leases space for all of its branch offices, which are located either in downtown or suburban business centers, and for its corporate headquarters. Branch offices are generally leased over periods from three to five years. The corporate office lease expires in 2015. The leases generally provide for payment of basic rent plus a share of building real estate taxes, maintenance costs and utilities.

Rent expense was \$277,000 and \$221,000 for the three month periods ended December 31, 2012 and December 31, 2011, respectively. As of December 31, 2012, future minimum lease payments due under non-cancelable lease agreements having initial terms in excess of one year, including certain closed offices, totaled approximately \$2,200,000, as follows: fiscal 2013 - \$922,000, fiscal 2014 - \$733,000, fiscal 2015 - \$424,000, fiscal 2016 - \$99,000 and thereafter - 22,000.

9. Segment Data

As a result of the acquisition of certain of the assets of DMCC and RFFG of Cleveland the Company's internal reporting was adjusted and as a result, the Company re-assessed its segment presentation.

The Company provides the following distinctive services: (a) direct hire placement services, (b) temporary professional services staffing in the fields of information technology, engineering, and accounting, (c) temporary staffing in the agricultural industry, (d) temporary light industrial staffing and (e) management services. Intersegment net service revenues are not significant. Revenues generated from the temporary professional services staffing, temporary staffing in the agricultural industry and light industrial staffing are classified as contract staffing services revenues in the statements of operations. Selling, general and administrative expenses are not separately allocated among agricultural, professional services or industrial staffing services within the contract staffing services sector for internal reporting purposes.

(In Thousands)	Three Months Ended	
	December 31, 2012	2011
Direct Hire Placement Services		
Revenue – net	\$ 2,156	\$ 1,873
Placement services gross margin	100%	100%
Operating loss	(273)	(203)
Depreciation & amortization	56	64
Accounts receivable – net	1,137	1,043
Intangible assets – net	435	555
Goodwill	24	24
Total assets		