GENERAL EMPLOYMENT ENTERPRISES INC
Form 10-K
January 13, 2014

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, 2013

o 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	36-6097429
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

184 Shuman Blvd., Suite 420, Naperville, IL	60563
(Address of principal executive offices)	(Zip Code)

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

One Tower Lane, Suite 2200, Oakbrook Terrace, IL 60181
(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. x

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

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 28, 2013 was 4,471,171 x 0.38 = $1,699,045.

The number of shares outstanding of the registrant's common stock as of January 13, 2014 was 22,799,675.

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PART I

Forward Looking Statement

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," "anti "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

General Employment Enterprises, 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. In 1987, the Company established Triad Personnel Services, Inc., a wholly-owned subsidiary, incorporated in the State of Illinois. In June 2010, the Company purchased certain assets of On-Site Services, a temporary staffing agricultural business. In December 2010, the Company purchased certain assets of DMCC Staffing, LLC ("DMCC") and RFFG of Cleveland, LLC ("RFFG of Cleveland") an industrial staffing business located in the state of Ohio. In August 2011, the Company purchased certain assets of Ashley Ellis, LLC ("Ashley Ellis"), a professional staffing and placement business. The principal executive office of the Company is located at 184 Shuman Blvd., Suite 420, Naperville, Illinois.

Services Provided

The Company provides the following distinctive services: (a) professional placement services specializing in the placement of information technology, engineering, and accounting professionals for direct hire and contract staffing, (b) temporary staffing services in the agricultural industry, which was discontinued as of July 7, 2013, and (c) temporary staffing services in light industrial staffing.

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 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 in Ohio and Pennsylvania.

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

	Year Ended September 30,	
	2013	2012

Industrial contract services	64 %	63 %
Professional contract services	20 %	20 %
Direct hire placement services	16 %	17 %

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Marketing

The Company markets its services using the trade names General Employment Enterprises, Omni One, Business Management Personnel, Ashley Ellis, Triad Personnel Services, Triad Staffing, Generation Technologies, BMCH, and BMCHPA. As of September 30, 2013, it operated twenty-one branch offices in downtown or suburban areas of major U.S. cities in eleven states. The offices were located in Arizona, California (3), Florida (2), Georgia, Illinois (2), Indiana, Massachusetts, North Carolina, Ohio (7), Pennsylvania and Texas.

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 2013 or in fiscal 2012.

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 a large number of 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 considered to be secondary to quality of service as a competitive factor. During slow hiring periods, however, competition can put pressure on the Company's pricing.

The agricultural staffing service was considered a niche business that required a high capital reserve to cover the weekly payroll. There were few businesses in this market. The Company discontinued this business as of July 7, 2013.

Recruiting

The success of the Company's services is highly dependent on its ability to obtain qualified candidates. Prospective employment candidates are generally recruited through telephone contact by the Company's employment consultants or through postings on the Internet. For Internet postings, the Company maintains its own web page at www.generalemployment.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, 2013, the Company had approximately 160 regular employees and the number of contract service employees varied week to week from a minimum of approximately 500 to a maximum of 4,000.

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.generalemployment.com.

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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 significant losses for the year ended September 30, 2013. There can be no assurance that the Company will not incur losses in the future. The Company's operating expenses have increased as the business has grown and can be expected to increase significantly because of expansion efforts. There is no assurance that the Company will be able to generate sufficient revenue to meet its operating expenditures or continue to operate profitably.

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 purchases 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.

ONE OF OUR BOARD OF DIRECTORS, TOGETHER WITH HIS AFFILIATES, CONTROLS A MAJORITY OF THE COMBINED VOTING POWER OF OUR COMMON STOCK, WHICH MAY GIVE RISE TO CONFLICTS OF INTERESTS.

Michael Schroering, our former Chief Executive Officer and current director, together with his affiliates, control approximately 70% of the Company's voting shares outstanding. As a result, Mr. Schroering and his affiliates are able to control all matters requiring the Company's shareholders' approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may delay, prevent or deter a change in control, and could deprive the Company's shareholders of an opportunity to receive a premium for their common stock as part of a sale of the Company or its assets. The interests of Mr. Schroering and his affiliates may not always coincide with your interests or the interests of other shareholders, and they may act in a manner that advances their best interests and not necessarily those of other shareholders.

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.

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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.

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.

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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.

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.

WE HAVE EXPERIENCED A SIGNIFICANT CHANGE IN THE COMPOSITION OF OUR BOARD OF DIRECTORS AND SENIOR MANAGEMENT, INCLUDING THE DEPARTURE OF OUR FORMER CHAIRMAN, CHIEF EXECUTIVE OFFICER, CHIEF FINANCIAL OFFICER, AND PRESIDENT. FAILURE OF ANY NEW MANAGEMENT AND BOARD OF DIRECTORS MEMBERS TO INTEGRATE THEMSELVES INTO, AND EFFECTIVELY MANAGE, OUR BUSINESS COULD RESULT IN MATERIAL HARM TO THE COMPANY.

On February 22, 2013, Jarett A. Misch, our former Chief Financial Officer and Treasurer resigned from all positions with the Company. On January 31, 2013, Herbert F. Imhoff Jr., our former President and a director, retired from all positions with the Company. On December 26, 2012, Salvatore J. Zizza, our former Chief Executive Officer and Chairman of the Board, retired from all positions with the Company, and Mr. Schroering was appointed by the Board as Chief Executive Officer and Chairman of the Board. Mr. Schroering resigned his position as Chief Executive Officer and Chairman of the Board of Directors on November 3, 2013, however remains as a Board of Directors member. On October 2, 2012, Edward O. Hunter was appointed to the Board of Directors to fill the vacancy created by the resignation of Charles W.B. Wardell III on September 4, 2012. Andrew J. Norstrud was appointed Chief Financial Officer on March 29, 2013, and subsequently has assumed the Principle Executive Officer role upon Michael Schroering’s resignation.

The failure of our directors or any new members of management to perform effectively or the loss of any of the directors or members of management could have a significant negative impact on our business, financial condition and results of operations. In addition, our Board of Directors and management may institute strategies that differ from those we are applying currently. If any new strategies are adopted, it may take management a significant amount of time to fully implement such new strategies. If any new strategies are unsuccessful or if we are unable to execute them successfully, there could be a significant negative impact on our business, financial condition, and results of operations.

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WE HAVE NOT REGISTERED WITH THE SEC OR LISTED WITH THE NYSE MKT, THE SHARES UNDERLYING OPTIONS ISSUED UNDER OUR 2011 INCENTIVE PLAN.

We have issued options to purchase 1.3 million shares of our common stock under the 2011 Incentive Plan, all of which are fully vested and exercisable. We have not yet filed a registration statement on Form S-8, registering the shares underlying such options, nor have we listed such shares with the NYSE MKT. If we do not register these shares, the Company may be subject to civil or other penalties (including sanctions) by regulatory authorities and/or shareholders for certain violations of federal or state securities laws. We may also be subject to the suspension of trading in, or removal from listing from, the NYSE MKT for failure to comply with the NYSE MKT listing agreement.

WE ARE NOT CURRENTLY IN COMPLIANCE WITH THE NYSE MKT LLC'S REPORTING REQUIREMENTS AND FAILURE TO REGAIN AND MAINTAIN COMPLIANCE WITH THIS STANDARD COULD RESULT IN DELISTING AND ADVERSELY AFFECT THE MARKET PRICE AND LIQUIDITY OF OUR COMMON STOCK AND OUR ABILITY TO RAISE ADDITIONAL CAPITAL.

Our common stock is currently listed on the NYSE MKT LLC ("NYSE MKT"). Companies trading on the NYSE MKT must be reporting issuers under Section 12 of the Exchange Act and must be current in their reports filed under Section 13 of the Exchange Act. If we fail to remain current on our reporting requirements, we could be removed from the NYSE MKT.

On January 17, 2013 and February 21, 2013, the Company received notices from the NYSE MKT staff indicating that the Company is below certain of the NYSE MKT's continued listing standards due to the Company's delinquency in filing its Annual Report on Form 10-K for the fiscal year ended September 30, 2012, and the delinquency in filing its Quarterly Report on Form 10-Q for the quarter ended December 31, 2012, as set forth in sections 134 and 1101 of the NYSE MKT Company Guide. The Company was afforded the opportunity to submit a plan of compliance to the NYSE MKT and on January 31, 2013, presented its plan for both reports to the NYSE MKT. On March 5, 2013, the NYSE MKT notified the Company that it accepted the Company's plan of compliance and granted the Company an extension until April 17, 2013, to regain compliance with the continued listing standards. The Company has since become compliant will all delinquencies in filings.

On June 6, 2013, the Company received a letter from NYSE MKT which stated, among other things, that the Company has equity less than $4 million and has sustained losses from continuing operations and/or net losses in three of its four most recent fiscal years and, in the opinion of NYSE MKT, it is questionable as to whether the Company will be able to continue operations and/or meet its obligations as they mature based on its current overall financial condition, pursuant to Sections 1003(a)(ii) and 1003(a)(iv) of the NYSE MKT's Company Guide, respectively. The Company was afforded the opportunity to submit a plan of compliance to the NYSE MKT and on July 8, 2013, presented its plan to correct its deficiencies related to Sections 1003(a)(ii) and 1003(a)(iv) of the NYSE MKT's Company Guide. On August 27, 2013, NYSE MKT notified the Company that it accepted the Company's plan of compliance and granted the Company an extension until October 7, 2013, to obtain the necessary financing to provide the necessary cash flow to continue operations and/or meet its obligations as they mature and until June 6, 2014, to have the required $4 million in equity. On October 29, 2013, the Company received a letter from the NYSE MKT stating that, based on the review of the information provided by the Company, the Company has made significant progress towards regaining compliance with Section 1003(a)(iv) of the Company Guide. Based on the Company's progress to date and actions the Company plans to implement in the future, in accordance with Section 1009 of the Company Guide, the NYSE MKT has determined to extend the Financial Impairment Plan Period until February 21, 2014. The foregoing is subject to the Company making a public announcement by November 4, 2013, continuing to provide updates to the NYSE MKT staff and continuing to show progress in regaining compliance. The plan period for the Company to regain compliance with Section 1003(a)(ii) remains June 6, 2014. On November 4, 2013, a press release announcing the acceptance by the NYSE MKT LLC of the plan was issued.

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VOLATILITY OF THE MARKET PRICE OF THE COMPANY'S STOCK IS LIKELY TO OCCUR DUE TO THE LOW TRADING VOLUME OF OUR STOCK.

The market price of the Company's common stock may be volatile, which could cause the value of your investment to decline. Any of the following factors could affect the market price of our common stock:

- Changes in earnings estimates and outlook by financial analysts;
- Our failure to meet investors' performance expectations;
- General market and economic conditions; and
- Our small trading volume.

ACCORDING TO THE SEC, THE MARKET FOR PENNY STOCKS HAS SUFFERED FROM PATTERNS OF FRAUD AND ABUSE.

Such patterns include:

- Control of the market for the security by one or a few broker–dealers that are often related to thepromoter or issuer;
- Manipulation of prices through prearranged matching of purchases and sales and false andmisleading press releases;
- "Boiler room" practices involving high-pressure sales tactics and unrealistic price projections byinexperienced sales persons;
- Excessive and undisclosed bid–ask differentials and markups by selling broker–dealers; and
- The wholesale dumping of the same securities by promoters and broker–dealers after prices havebeenmanipulated to a desired level, along with the inevitable collapse of those prices withconsequentinvestor losses.

In addition, many of the risks described elsewhere in this "Risk Factors" section could adversely affect the Company's stock price. The stock markets have experienced price and volume volatility that have affected many companies' stock prices. Stock prices for many companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. These types of fluctuations may affect the market price of our common stock.

APPLICABILITY OF LOW PRICED STOCK RISK DISCLOSURE REQUIREMENTS COULD DISCOURAGE BROKERS FROM MAKING A MARKET IN OUR STOCK.

The Company's common stock may be considered a low priced security under rules promulgated under the Exchange Act. Under these rules, broker-dealers participating in transactions in low priced securities must first deliver a risk disclosure document which describes that risks associated with such stock, the broker-dealer's duties, the customer's rights and remedies, and certain market and other information, and make a suitability determination approving the customer for low priced stock transactions based on the customer's financial situation, investment experience and objectives. Broker-dealers must also disclose these restrictions in writing and provide monthly account statements to the customer, and obtain specific written consent of the customer. With these restrictions, the likely effect of designation as a low price stock would be to decrease the willingness of broker-dealers to make a market for the stock, to decrease the liquidity of the stock and to increase the transaction costs of sales and purchase of such stocks compared to other securities.

NO DIVIDENDS ANTICIPATED.

The Company intends to retain all future earnings for use in the development of the Company's business and does not anticipate paying any cash dividends on the Common Stock in the near future.

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

On September 27, 2013, the Company entered into agreements with Keltic Financial Partners II LP (“Keltic”) that provide the Company with long term financing through a six million dollar ($6,000,000) secured revolving note (the “Note”). The Note has a term of three years and has no amortization prior to maturity. The interest rate for the Note is 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%), interest is paid on a monthly basis. Loan advances pursuant to the Note are based on the accounts receivable balance and other assets. Upon execution of the Note, approximately three million fifty thousand dollars ($3,050,000) was advanced for the full repayment of debt owed to Wells Fargo and fees from Wells Fargo related to the early termination of their debt agreement. At the time of close, there was approximately nine hundred thousand ($900,000) of availability under the new Note in excess of amounts paid to extinguish the debt and fees with Wells Fargo. The Company expects to incur certain cash expense and commitment fees related to obtaining the agreement of approximately $170,000, which has been paid prior to the closing of the Note or will be paid over the next six months. The Note is secured by all of the Company’s property and assets, whether real or personal, tangible or intangible, and whether now owned or hereafter acquired, or in which it now has or at any time in the future may acquire any right, title or interests.

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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.

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.

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.

The Company's staffing offices are located in downtown and suburban business centers in the following eleven states: Arizona, California, Florida, Georgia, Illinois, North Carolina, Indiana, Ohio, Texas, Massachusetts and Pennsylvania. Established offices are operated from leased space ranging from 800 to 2,000 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, 2013, there were no other material legal proceedings pending against the Company.

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.

The Amended and Restated Purchase agreement with RFFG required the issuance of 1.1 million shares of common stock. The stock was officially issued on July 2, 2013. The stock price on July 2, 2013 was $0.2999 and there were shares traded that day at that price. The value related to this transaction on July 2, 2013 was $329,890.

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 2013:				
High	$ .47	$ .37	$ .56	$ .68
Low	.16	.27	.31	.42
Fiscal 2012:				
High	$ .33	$ .53	$ .69	$ .65
Low	.18	.22	.41	.25

Holders of Record

There were approximately 600 holders of record of the Company's common stock on January 13, 2014.

Dividends

No dividends were declared or paid during the years ended September 30, 2013 and September 30, 2012. We do not anticipate paying any cash dividends for the foreseeable future.

During the two years ended September 30, 2013 and 2012, no equity securities of the Company were repurchased by the Company.

Securities Authorized for Issuance under Equity Compensation Plans

As of September 30, 2013, 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, 2013, there were no shares available for issuance under the 2011 Company Incentive Plan.

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 10,000,000. 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	1,478	$ 0.40	10,000 -	(1)
Equity compensation plans not approved by security holders	—	—	—	
Total	1,478	$ 0.40	10,000	(1)

(1) Includes 10,000,000 shares issuable under the 2013 Plan.

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.

Overview

The Company was incorporated in the State of Illinois in 1962 and is the successor to employment offices doing business since 1893. The Company provides the following distinctive services: (a) professional placement services specializing in the placement of information technology, engineering, and accounting professionals for direct hire and contract staffing, (b) temporary staffing services in the agricultural industry which was discontinued as of July 7, 2013, and (c) temporary staffing services in light industrial staffing.

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 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 in Ohio and Pennsylvania.

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. We believe our current segments complement one another and position us for future growth.

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As of July 7, 2013, the Company's Board of Directors determined that the best course of action related to the Agricultural Division was to terminate its operations, to liquidate its assets, and to focus the business on the light industrial and professional divisions. On July 7, 2013, all staffing was discontinued and the entire operations of the Agricultural Division were discontinued as of August 1, 2013. All employees have been terminated and a one-time expense of approximately $150,000 was recognized as of September 30, 2013.

Results of Operations

Net Revenues

Consolidated net revenues are comprised of the following:

(In Thousands)	Year Ended September 30, 2013	2012
Industrial contract services	$29,816	$28,206
Professional contract services	9,371	9,132
Direct hire placement services	7,317	7,215
Consolidated net revenues	$46,504	$44,553

Consolidated net revenues increased approximately $1,951 or 4% compared with the same period last year. The increase in revenue was primarily due to the work performed related to Hurricane Sandy. Management has taken significant action during the course of the year to improve both revenue growth and profitability, including the termination or replacement of senior management. The current management of the Company believes that the changes will eliminate several of the ongoing issues and strengthen the Company's revenue potential.

Cost of Contract Services

Consolidated cost of contract services are comprised of the following:

(In Thousands)	Year Ended September 30, 2013	2012
Industrial contract services	$26,058	$23,368
Professional contract services	6,260	7,363
Consolidated cost of contract services	$32,318	$30,731

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, 2013, increased by approximately 5% to approximately $32 million compared with the prior year of approximately $31 million. Cost of contract services, as a percentage of contract revenue, for the year ended September 30, 2013, remained consistent with the prior year. There have been significant increases in the workers compensation rates in Ohio, however this was offset in 2013 from a $410,000 rebate received from the Ohio Bureau of Workers Compensation. The Company is in the process of increasing our rates in 2014 to account for the increases in workers compensation and the Affordable Care Act costs, however management believes that the overall gross margin will decrease as the Company will not be able to increase the rates and maintain the same profit as it has in the past.

Gross Profit percentage by segment:

Gross Profit Margin %	Year Ended September 30, 2013		Year Ended September 30, 2012	
Direct hire placement services	100	%	100	%
Industrial contract services	14.3	%	14.2	%
Professional contract services	33.2	%	28.4	%
Combined Gross Profit Margin % (1)	30.5	%	31.0	%

(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 in the operating divisions, which includes commissions earned by the Company's employment consultants and branch managers on permanent and temporary placements. It also includes salaries, wages, unrecovered advances against commissions, payroll taxes and employee benefits associated with the management and operation of the Company's staffing offices.
- 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 employment consultants are paid on a commission basis and receive advances against future commissions. When commissions are earned, prior advances are applied against them and the consultant is paid the net amount. At that time, 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.

Selling, general and administrative expenses for the year ended September 30, 2013, increased by approximately $1.3 million to approximately $15.2 million as compared to the prior year of approximately $13.9 million. The increase was primarily related to the significant increase in professional fees and a one-time expense for terminated employees and the San Mateo terminated lease. Management expects these higher than normal expenses to be significantly reduced in the first quarter of fiscal 2014 and overall expenses are not expected to continue to grow at a higher pace than revenue and should decrease significantly once the Company is able to capitalize on the consolidation of the acquisitions.

Amortization of intangible assets

For the year ended September 30, 2013, there was a decrease in the amortization of intangible assets of approximately $74,000 which was primarily due to the impairment of a long term intangible asset in the prior year. During the year ended September 30, 2012, the Company wrote off the intangible assets and goodwill of approximately $274,000 related to the Agricultural Division due to the loss of a large customer in 2012.

Interest expense

Interest expense for the year ended September 30, 2013, increased $47,000, or 23% compared with the prior year primarily as a result of higher borrowings.

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Discontinued Operations

As a result of terminating our Agricultural Division in July of 2013, we have reclassified the operations of that division to loss from discontinued operations, in the accompanying statement of operations. For the years ended September 30, 2013 and 2012 the Company recognized a loss of $324,000 and $109,000, respectively, for this division. There continues to be approximately $238,000 of accounts receivable related to this division that management believes will be collected in 2014, however, if we are unable to collect this receivable, it would result in an additional $238,000 of expense.

Taxes

There were no credits for income taxes as a result of the pretax losses incurred during the periods because there was not sufficient assurance that future tax benefits would be realized.

Liquidity and Capital Resources

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

	For the year ended September 30, 2013	For the year ended September 30, 2012
Cash flows (used in) provided by operating activities	$ (1,112)	$ 204
Cash flows used in investing activities	$ (341)	$ (511)
Cash flows provided by financing activities	$ 1,413	$ 466

As of September 30, 2013, the Company had cash and cash equivalents of $361,000, which was a decrease of approximately $3,000 from approximately $364,000 at September 30, 2012. Negative working capital at September 30, 2013 was approximately $781,000, as compared to net working capital of approximately $541,000 for September 30, 2012. The Company's current ratio was approximately 0.91, a decrease of approximately 0.19 from the prior year. Shareholders' equity as of September 30, 2013, was approximately $2,613,000 which represented approximately 23% of total assets. The net loss for the year ended September 30, 2013, was approximately $1,890,000.

Net cash (used in) provided by operating activities for the years ended September 30, 2013 and 2012 was approximately ($1,071,000) and $95,000, respectively. The fluctuation is due to the significant loss sustained during the year ended September 30, 2013.

Net cash used in investing activities for the years ended September 30, 2013 and 2012 was ($345,000) and ($511,000) respectively. The decrease was due to a higher amount of property and equipment acquired in the prior year and payments in 2012 for a prior year acquisitions. The Company used cash to acquire equipment in the amount of approximately $191,000, net of a sale lease back agreement the Company entered into during the year.

Net cash flow provided by financing activities for the year ended September 30, 2013 was $1,413,000 compared to $466,000 in the year ended September 30, 2012. Fluctuations in financing activities are attributable to the level of borrowings.

All of the Company's office facilities are leased. As of September 30, 2013, future minimum lease payments under non-cancelable lease commitments having initial terms in excess of one year, including closed offices, totaled approximately $1.9 million.

On April 22, 2013, the Company finalized an Amendment to the Asset Purchase Agreement by and among DMCC Staffing, LLC, an Ohio limited liability company, RFFG of Cleveland, LLC an Ohio limited liability company (each a “Seller” and together, “Sellers”), the Company, and Triad Personnel Services, Inc., an Illinois corporation and wholly owned subsidiary of the Company (“Buyer”).
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The Company agreed to pay the Sellers additional cash consideration of between $550,000 and $650,000 depending on the length of payment terms and 1,100,000 shares of common stock, in full satisfaction of all amounts owed to Seller, related to the Asset Purchase Agreement. The Company issued 1,100,000 shares of common stock on July 2, 2013, which was valued at approximately $330,000. During the year ended September 30, 2013, the Company paid $200,000 of the cash consideration noted above. The Company has accrued $350,000 at September 30, 2013, for the balance of the liability, however has elected to pay the remaining amount over two years. The total payments over the two years will be approximately $450,000 with the additional $100,000 to be recorded as interest expense.

In connection with the completion of the sale of shares of common stock to PSQ in fiscal 2009, Herbert F. Imhoff, Jr., the Company's then Chairman and Chief Executive Officer 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 Mr. Imhoff, Jr. for no additional consideration, and the Company recorded a liability for the net present value of the future fee payments in the amount of $790,000. As of September 30, 2013, $135,000 remains payable under this agreement and is included in accrued compensation on the Company's balance sheet. On January 31, 2013, Mr. Imhoff Jr. retired from all positions with the Company, however he will continue to receive his monthly payments related to the accrued compensation of $135,000.

On September 27, 2013, the Company entered into agreements with Keltic Financial Partners II LP ("Keltic") that provide the Company with long term financing through a six million dollar ($6,000,000) secured revolving note (the "Note"). The Note has a term of three years and has no amortization prior to maturity. The interest rate for the Note is 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%), interest is paid on a monthly basis. Loan advances pursuant to the Note are based on the accounts receivable balance and other assets. Upon execution of the Note, approximately three million fifty thousand dollars ($3,050,000) was advanced for the full repayment of debt owed to Wells Fargo and fees from Wells Fargo related to the early termination of their debt agreement. At the time of close, there was approximately nine hundred thousand ($900,000) of availability under the new Note in excess of amounts paid to extinguish the debt and fees with Wells Fargo. The Company incurred certain cash expense and commitment fees related to obtaining the agreement of approximately $170,000, which has been paid prior to the closing of the Note or will be paid over the next six months. The Note 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 Keltic facility includes certain covenants which require compliance until termination of the agreement.

The Company has several administrative covenants and the following financial covenant:

The Company must maintain the following EBITDA:

(a) The Fiscal Quarter ending on December 31, 2013, to be less than Three Hundred Seventy Thousand and 00/100 Dollars ($370,000.00);

(b) The six (6) consecutive calendar month period ending on March 31, 2014, to be less than Seven Hundred Fifteen Thousand and 00/100 Dollars ($715,000.00);

(c) The nine (9) consecutive calendar month period ending on June 30, 2014, to be less than One Million One Hundred Thirty Thousand and 00/100 Dollars ($1,130,000.00);

(d) The Fiscal Year ending on September 30, 2014, to be less than One Million Three Hundred Thousand and 00/100 Dollars ($1,300,000.00); and

(e) For any period commencing on or after October 1, 2014, no less than such amounts as are established by Lender for such period based on the annual financial projections including such period delivered by Borrower pursuant the agreement. Borrower acknowledges and agrees that the above EBITDA covenant levels, and Lender's adjustment in accordance with the preceding sentence, have been established by Lender based on Borrower's operations as conducted on the Effective Date, and that any material change to such operations, whether by Strategic Acquisition or otherwise, will necessitate an adjustment by Lender of the above EBITDA covenant levels, and that Lender will make such adjustments in Lender's permitted discretion.

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As of the date of this report, the Company was in compliance with all administrative and financial covenants.

The Company believes that the borrowing availability under the Keltic facility will be adequate to fund the working capital needs. 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. In addition, as discussed above, the Company entered into the Keltic facility to provide working capital financing.

Due to the LEED HR purchasing a majority ownership 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.

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 current cash flow from operations and the availability under the Keltic facility, the Company will have sufficient liquidity for the next 12 months.

Off-Balance Sheet Arrangements

As of September 30, 2013 and 2012, 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.

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

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 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.

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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.

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 private 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.

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 $272,000 and $259,000 is considered necessary as of September 30, 2013, and September 30, 2012, respectively. The Company charges uncollectible accounts against the allowance once the invoices are deemed unlikely to be collectible. Based on management's review of accounts receivables related to discontinued operations, an allowance of approximately $35,000 is considered necessary as of September 30, 2013.

Goodwill

Goodwill represents the excess of cost over the fair value of the net assets acquired in the acquisitions of DMCC Staffing, LLC, RFFG of Cleveland, LLC, and Ashley Ellis, LLC. 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.

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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 had three operating business segments a) Contract staffing services, b) Direct hire placement services and c) Management services until July 15, 2011, when the Company stopped performing these services. These operating segments were determined based primarily on how the chief operating decision maker views and evaluates our operations until October 1, 2012, when the management services were discontinued. 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. We did not provide management services during the year ended September 30, 2013, and management does not currently intend to provide management services in the future.

Recent Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, A Similar Tax Loss, or a Tax Credit Carryforward Exists (A Consensus the FASB Emerging Issues Task Force). ASU 2013-11 provides guidance on financial statement presentation of unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The FASB's objective in issuing this ASU is to eliminate diversity in practice resulting from a lack of guidance on this topic in current U.S. GAAP. This ASU applies to all entities with unrecognized tax benefits that als