

GENERAL EMPLOYMENT ENTERPRISES INC
Form 10-Q
May 15, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended **March 31, 2015**

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)

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

(Address of principal executive offices)

(630) 954-0400

(Registrant's telephone number, including area code)

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

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 "

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

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

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

The number of shares outstanding of the registrant's common stock as of May 14, 2015 was 30,893,014.

GENERAL EMPLOYMENT ENTERPRISES, INC.

Form 10-Q

For the Quarter Ended March 31, 2015

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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, 2014, 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.

PART I – FINANCIAL INFORMATION**Item 1. Financial Statements.**

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

| | March 31, 2015 | September 30, 2014 |
|---|---------------------------|-----------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 888 | \$ 168 |
| Accounts receivable, less allowances (March - \$425; September - \$395) | 5,592 | 4,907 |
| Other current assets | 736 | 1,650 |
| Total current assets | 7,216 | 6,725 |
| Property and equipment, net | 396 | 453 |
| Goodwill | 1,106 | 1,106 |
| Intangible assets, net | 1,392 | 1,560 |
| TOTAL ASSETS | \$ 10,110 | \$ 9,844 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Short-term debt | \$ 3,380 | \$ 2,711 |
| Accounts payable | 483 | 910 |
| Accrued compensation | 1,664 | 2,633 |
| Convertible note payable - current portion, net of | 63 | 35 |

| | | |
|---|------------------|-----------------|
| discount | | |
| Derivative liability | 470 | 131 |
| Other current liabilities | 732 | 1,214 |
| Total current liabilities | 6,792 | 7,634 |
| Convertible note payable, net of discount | - | 132 |
| Other long-term liabilities | - | 13 |
| Total long-term liabilities | - | 145 |
| Commitments and contingencies | | |
| SHAREHOLDERS' EQUITY | | |
| Preferred stock; no par value; authorized - 20,000 shares; issued and outstanding - 200 shares at March 31, 2015 and none at September 30, 2014 | 1,961 | - |
| Common stock, no-par value; authorized - 200,000 shares; issued and outstanding - 30,232 shares at March 31, 2015 and 25,899 shares at September 30, 2014 | - | - |
| Additional paid in capital | 14,402 | 11,658 |
| Accumulated deficit | (13,045) | (9,593) |
| Total shareholders' equity | 3,318 | 2,065 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 10,110 | \$ 9,844 |

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

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GENERAL EMPLOYMENT ENTERPRISES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
(In Thousands, Except Per Share Data)

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|---------------------------------|-----------------|-------------------------------|-----------------|
| | 2015 | 2014 | 2015 | 2014 |
| NET REVENUES: | | | | |
| Contract staffing services | \$ 8,314 | \$ 7,858 | \$ 16,546 | \$ 16,927 |
| Direct hire placement services | 1,482 | 1,776 | 2,932 | 3,514 |
| NET REVENUES | 9,796 | 9,634 | 19,478 | 20,441 |
| Cost of contract services | 7,017 | 6,713 | 13,685 | 14,325 |
| Selling, general and administrative expenses | 3,203 | 3,478 | 6,277 | 6,699 |
| Amortization of intangible assets | 81 | 82 | 166 | 163 |
| LOSS FROM OPERATIONS | (505) | (639) | (650) | (746) |
| Change in fair value of derivative liability | 796 | - | (2,319) | - |
| Interest expense | (126) | (88) | (273) | (208) |
| Loss on extinguishment of debt | (210) | - | (210) | - |
| LOSS BEFORE INCOME TAX PROVISION | \$ (45) | \$ (727) | \$ (3,452) | \$ (954) |
| Provision for income tax | - | - | - | - |
| NET LOSS | \$ (45) | \$ (727) | \$ (3,452) | \$ (954) |
| PREFERRED STOCK DIVIDEND | (37) | - | (37) | - |
| NET LOSS ATTRIBUTABLE TO COMMON | \$ (82) | \$ (727) | \$ (3,489) | \$ (954) |

STOCKHOLDERS

| | | | | |
|--|------------|------------|------------|------------|
| BASIC & DILUTED LOSS PER SHARE |) (0.00 |) (0.03 |) (0.13 |) (0.04 |
| WEIGHTED AVERAGE NUMBER OF SHARES - BASIC & DILUTED | 28,552 | 22,895 | 27,204 | 22,847 |

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

GENERAL EMPLOYMENT ENTERPRISES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)
(In Thousands)

| | Common Stock Shares | Additional Paid In Capital | Preferred Stock Shares | Preferred Stock | Accumulated Deficit | Total Shareholders' Equity |
|--|------------------------------------|---|---------------------------------------|----------------------------|--------------------------------|---------------------------------------|
| Balance, September 30, 2013 | 22,799 | \$ 10,851 | - | \$ - | \$ (8,238) | \$ 2,613 |
| Stock compensation expense | - | 98 | - | - | - | 98 |
| Issuance of warrants related to debt | - | 219 | - | - | - | 219 |
| Issuance of common stock, net | 3,000 | 470 | - | - | - | 470 |
| Stock issued for services | 100 | 20 | - | - | - | 20 |
| Net loss | - | - | - | - | (1,355) | (1,355) |
| Balance, September 30, 2014 | 25,899 | \$ 11,658 | - | \$ - | \$ (9,593) | \$ 2,065 |
| Issuance of preferred stock, net of fees | | | 200 | 1,961 | - | 1,961 |
| Conversion of note payable | 2,500 | 2,350 | - | - | - | 2,350 |
| Issuance of stock to board of directors | 344 | 258 | - | - | - | 258 |
| Issuance of stock for warrants and options, cashless | 1,489 | - | - | - | - | - |
| Stock compensation expense | - | 136 | - | - | - | 136 |
| Net loss | - | - | - | - | (3,452) | (3,452) |
| Balance, March 31, 2015 | 30,232 | \$ 14,402 | 200 | \$ 1,961 | \$ (13,045) | \$ 3,318 |

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

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GENERAL EMPLOYMENT ENTERPRISES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(In Thousands)

Six Months Ended
March 31,
2015 2014

CASH FLOWS FROM
OPERATING ACTIVITIES:

| | | |
|---|------------|----------|
| Net loss | \$ (3,452) | \$ (954) |
| Adjustments to reconcile net loss to cash used in operating activities: | | |
| Depreciation and amortization | 246 | 238 |
| Stock compensation expense | 136 | 32 |
| Provision for doubtful accounts | 30 | 23 |
| Stock issued for services | 189 | 10 |
| Loss on abandonment of fixed assets | - | 44 |
| Change in fair value of derivative liability | 2,319 | - |
| Loss on extinguishment of debt | 210 | - |
| Changes in operating assets and liabilities - | | |
| Accounts receivable | (715) | 670 |
| Accounts payable | (427) | 299 |
| Accrued compensation | (900) | 16 |
| Other current items, net | 991 | (476) |
| Derivative liability | (340) | - |
| Long-term liabilities | - | (33) |
| Net cash used in operating activities - Continuing Operations | (1,713) | (131) |
| Net cash used in operating activities - Discontinued Operations | - | (21) |
| Net cash used in operating activities | (1,713) | (152) |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | | |
|---------------------------------------|-------|-------|
| Acquisition of property and equipment | (21) | (24) |
| Partial payment of earn-out | (150) | (133) |
| Net cash used in investing activities | (171) | (157) |

CASH FLOWS FROM FINANCING ACTIVITIES:

| | | |
|--|-------|-------|
| Proceeds from short-term debt, net | 669 | (133) |
| Proceeds from sale of preferred stock, net | 1,961 | - |
| Payments on capital lease | (26) | (41) |
| Proceeds from related party | - | 185 |
| Proceeds from sale of common stock | - | 431 |
| Net cash provided by financing activities | 2,604 | 442 |

| | | |
|--|-----|------|
| Net change in cash - Continuing Operations | 720 | 154 |
| Net change in cash - Discontinued Operations | - | (21) |

| | | |
|---|-----|-----|
| Cash and cash equivalents at beginning of period | 168 | 361 |
|---|-----|-----|

| | | |
|---|--------|--------|
| Cash and cash equivalents at end of period | \$ 888 | \$ 494 |
|---|--------|--------|

SUPPLEMENTAL CASH FLOW INFORMATION:

| | | |
|---|----------|--------|
| Cash paid for interest | \$ 183 | \$ 163 |
| Cash paid for taxes | \$ - | \$ - |
| Non-cash financing activities | | |
| Conversion of note payable | \$ 2,350 | \$ - |
| Issuance of shares for accrued board fees | \$ 69 | \$ - |

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Description of Business

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 and 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.

2. Significant Accounting Policies and Estimates

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three and six month period ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending September 30, 2015. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2014 as filed on December 22, 2014.

Liquidity

The Company has experienced significant losses and negative cash flows from operations in the past. Management has implemented a strategy which included cost reduction efforts, consolidation of certain back office activities to gain efficiencies as well as identifying strategic acquisitions, financed primarily through the issuance of stock and convertible debt, to improve the overall profitability and cash flows of the Company. In 2013, the Company entered into a three year revolving credit agreement with ACF Finco I LP (formerly Keltic) to provide working capital financing. The agreement allows ACF Finco I LP to advance the Company funds based on a percentage of eligible invoices. Management believes with current cash flow from operations, the preferred offering below and the availability under the ACF Finco I LP loan agreement, the Company will have sufficient liquidity for the next 12 months.

On January 8, 2015, the Company completed a Securities offering with 18 individuals who collectively have purchased a total of 200,000 shares of Preferred Stock from the Company for a total purchase price of \$2,000,000. The Company netted approximately \$1,960,000, with approximately \$1,000,000 to be used as working capital and the remaining \$1,000,000 for marketing, acquisitions, expansion and to further the operations of the Company. The Preferred Stock was designated by the Company on December 15, 2014 through the filing of a Certificate of Designation of Series A Convertible Preferred Stock with the Illinois Secretary of State. Each share of Preferred Stock is initially convertible, at the election of the holder, into 50 shares of the Company's Common Stock. The foregoing conversion ratio is subject to standard adjustment mechanisms, as set forth in the Designation.

On August 7, 2014, the Company issued a Convertible Note (the "Note") with an original principal balance of \$632,500 to Brio Capital Master Fund LTD ("Brio"), for a purchase price of \$550,000. The Note matures on February 6, 2016, and is payable in thirteen monthly installments of \$48,654, commencing in the sixth month post-closing. Brio had the right, however not the obligation, six months after closing, to convert all or any part of the outstanding Note into the Company's common stock at an initial conversion price of \$0.20 per share. As of March 31, 2015, 2,500,000 shares of common stock have been issued and as of May 5, 2015, Brio has converted the entire note into 3,162,500 shares of common stock.

Principles of Consolidation

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

Estimates and Assumptions

Management makes estimates and assumptions that can affect the amounts of assets and liabilities reported as of the date of the condensed consolidated financial statements, as well as the amounts of reported revenues and expenses during the periods presented. Those estimates and assumptions typically involve expectations about events to occur subsequent to the balance sheet date, and it is possible that actual results could ultimately differ from the estimates. If differences were to occur in a subsequent period, the Company would recognize those differences when they became known. Significant matters requiring the use of estimates and assumptions include, but may not be limited to, deferred income tax valuation allowances, accounts receivable allowances, accounting for acquisitions, accounting for derivatives and evaluation of impairment. Management believes that its estimates and assumptions are reasonable, based on information that is available at the time they are made.

Revenue Recognition

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

Falloffs and refunds during the period are reflected in the unaudited condensed consolidated statements of operations as a reduction of placement service revenues and was \$90,000 and \$113,000 as of March 31, 2015 and September 30, 2014 respectively.

Cost of Contract Staffing Services

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

Cash and Cash Equivalents

Highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. At March 31, 2015 and September 30, 2014, 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. Beginning in 2013, insurance coverage reverted to \$250,000 per depositor at each financial institution, and our non-interest bearing cash balances may from time to time 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 \$425,000 and \$395,000 is considered necessary as of March 31, 2015 and September 30, 2014, 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 six month periods ended March 31, 2015 and 2014.

Goodwill

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

Fair Value Measurement

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

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

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

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

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

The fair value of the Company's current assets and current liabilities, excluding the derivative liability, approximate their carrying values due to their short term nature. The carrying value of the Company's derivative liability is measured at fair value on a recurring basis based on level 3 inputs, as further discussed in note 8. The Company's goodwill and other intangible assets are measured at fair value on a non-recurring basis using level 3 inputs.

Derivative Financial Instruments

The Company does not use derivative instruments to hedge exposure to cash flow, market or foreign currency risk. Terms of convertible promissory note instruments are reviewed to determine whether or not they contain embedded derivative instruments that are required under ASC 815 "*Derivative and Hedging*" (ASC 815) to be accounted for separately from the host contract, and recorded on the balance sheet at fair value. The fair value of derivative liabilities is required to be revalued at each reporting date, with corresponding changes in fair value recorded in current period operating results.

Freestanding warrants issued by the Company in connection with the issuance or sale of debt and equity instruments are considered to be derivative instruments and are evaluated and accounted for in accordance with the provisions of ASC 815. Pursuant to ASC 815, an evaluation of specifically identified conditions is made to determine whether fair value of warrants issued is required to be classified as equity or as a derivative liability.

Intangible Assets

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

Loss per Share

Basic loss per share is computed by dividing net loss attributable to common stockholders by the weighted average common shares outstanding for the period. Diluted loss per share is computed giving effect to all potentially dilutive common shares. Potentially dilutive common shares may consist of incremental shares issuable upon the exercise of stock options and warrants and the conversion of notes payable to common stock. In periods in which a net loss has been incurred, all potentially dilutive common shares are considered anti-dilutive and thus are excluded from the calculation. There were approximately 6,776,000 and 3,550,000 of common stock equivalents for three and six months ended March 31, 2015, respectively. There were no common stock equivalents for three and six months ended March 31, 2014, respectively.

Advertising Expenses

The majority of the Company's advertising expense budget is used to support the Company's business. Most of the advertisements are in print or internet media, with expenses recorded as they are incurred. For the three and six months ended March 31, 2015 and 2014, included in selling, general and administrative expenses was advertising expense totaling approximately \$143,000 and \$350,000, and approximately \$210,000 and \$372,000, respectively.

Impairment of Long-lived Assets

The Company records an impairment of long-lived assets used in operations, other than goodwill, when events or circumstances indicate that the asset might be impaired and the estimated undiscounted cash flows to be generated by

those assets over their remaining lives are less than the carrying amount of those items. The net carrying value of assets not recoverable is reduced to fair value, which is typically calculated using the discounted cash flow method. The Company did not record any impairment during the six months ended March 31, 2015 and 2014.

Stock-Based Compensation

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

Options awarded to purchase shares of common stock issued to non-employees in exchange for services are accounted for as variable awards in accordance with applicable accounting principles. Such options are valued using the Black-Scholes option pricing model. There were no stock options granted during the six month period ended March 31, 2015.

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.

Reclassification

Certain reclassifications have been made to the financial statements as of and for the three and six months ended March 31, 2014 to conform to the current year presentation.

Segment Data

The Company has two operating business segments a) Contract staffing services, and b) Direct hire placement. 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 February 2015, the FASB issued ASU 2015-02, *Consolidation: Amendments to the Consolidation Analysis*. This new standard changes the consolidation evaluation for entities that are required to evaluate whether they should consolidate certain legal entities. We are required to adopt this standard in the first quarter of 2016. Early adoption is permitted. The standard permits the use of a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption, or a reporting entity may also apply the amendments retrospectively. We are evaluating the effect that ASU 2015-02 will have on our consolidated financial statements. We have not yet completed the assessment to determine the effect of the standard on our ongoing financial reporting.

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 | March 31, 2015 | September 30, 2014 |
|---|------------------|-------------------|--------------------------|
| Computer software | 5 years | \$ 1,447 | \$ 1,447 |
| Office equipment, furniture and fixtures and leasehold improvements | 2 to 10 years | 1,413 | 1,413 |
| Total property and equipment, at cost | | 2,860 | 2,860 |
| Accumulated depreciation and amortization | | (2,464) | (2,407) |
| Property and equipment, net | | \$ 396 | \$ 453 |

Leasehold improvements are amortized over the term of the lease.

Depreciation expense for the three and six month periods ended March 31, 2015 and 2014 was approximately \$35,000 and \$78,000, and \$37,000 and \$75,000, respectively.

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. There was no impairment recorded during the three and six month periods ended March 31, 2015 and 2014.

Intangible Assets*As of March 31, 2015*

| (In Thousands) | Cost | Accumulated Amortization | Net Book Value |
|------------------------|----------|-----------------------------|-------------------|
| Customer Relationships | \$ 2,690 | \$ 1,303 | \$ 1,387 |
| Trade Name | 17 | 12 | 5 |
| | \$ 2,707 | \$ 1,315 | \$ 1,392 |

As of September 30, 2014

| (In Thousands) | Cost | Accumulated Amortization | Net Book Value |
|------------------------|----------|-----------------------------|-------------------|
| Customer Relationships | \$ 2,690 | \$ 1,137 | \$ 1,553 |
| Trade Name | 17 | 10 | 7 |
| | \$ 2,707 | \$ 1,147 | \$ 1,560 |

Amortization expense was approximately \$81,000 and \$168,000 for the three and six months ended March 31, 2015, respectively and was approximately \$82,000 and \$163,000 for the three and six months ended March 31, 2014, respectively.

The trade names are amortized on a straight – line basis over the estimated useful life of five years. Customer relationships are amortized based on the future undiscounted cash flows over estimated remaining useful lives of three to ten years. Over the next five years, annual amortization expense for these finite life intangible assets will be approximately \$320,000 through 2018 and \$112,000 in 2019.

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

flows. The Company uses an estimate of the future undiscounted net cash flows of the related asset or asset group over the remaining life in measuring whether the assets are recoverable.

6. Short-term Debt

On September 27, 2013, the Company (“Borrower”) entered into agreements with ACF FINCO I LP (successor-in-interest to Keltic Financial Partners II, LP) (“ACF”) (“Lender”), that 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%), with the interest paid on a monthly basis. At March 31, 2015 and 2014 the interest rate was 6.5%. Loan advances pursuant to the Note are based on the accounts receivable balance and other assets. The Company incurred certain cash expense and commitment fees related to obtaining the agreement of approximately \$170,000, which has been paid. 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. On April 21, 2014, the Company entered into the First Amendment and Waiver to the Loan and Security Agreement with ACF to adjust the covenants. On December 3, 2014, the Company entered into a Second Amendment and Waiver to the Loan and Security Agreement with ACF. On April 1, 2015 the Company entered into a third Amendment and Waiver to the Loan and Security Agreement with ACF to adjust the future covenants as outlined below and update the overall document to reflect changes to the business. As of the date of this report, the Company was in compliance with all such covenants or had received waivers related thereto.

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

The Company must maintain the following EBITDA:

- (a) The three (3) consecutive calendar month period ending on December 31, 2014, to be a negative number exceeding negative Two Hundred Fifty Thousand and 00/100 Dollars (\$250,000);
- (b) The six (6) consecutive calendar month period ending on March 31, 2015, to be a negative number exceeding negative Five Hundred Thousand and 00/100 Dollars (\$500,000);
- (c) The nine (9) consecutive calendar month period ending on June 30, 2015, to be a negative number exceeding negative Four Hundred Sixteen Thousand and 00/100 Dollars (\$416,000);
- (d) The twelve (12) consecutive calendar month period ending on September 30, 2015, to be a negative number exceeding negative Two Hundred Forty Thousand Five Hundred and 00/100 Dollars (\$240,500); and

(e) For any period commencing on or after October 1, 2015, no less than such amounts as are established by Lender for such period in Lender's permitted discretion based on the annual financial projections including such period delivered by Borrower.

As of March 31, 2015, the Company was in compliance with the EBITDA covenant and all other administrative covenants. At March 31, 2015, there was approximately \$800,000 available on the line of credit. The interest expense related to the lines of credit for the three and six months ended March 31, 2015 and 2014 approximated \$122,000 and \$201,000, and \$68,000 and \$141,000, respectively.

7. Accrued Compensation

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

In connection with the completion of the sale of shares of common stock to PSQ in fiscal year 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 consulting agreement. On January 31, 2013, he retired from all positions with the Company, however he continued to receive his monthly payments required under his consulting agreement. As of March 31, 2015, the liability has been fully paid.

8. Convertible Note

On August 7, 2014, the Company issued a Convertible Note (the "Note") with an original principal balance of \$632,500 to Brio Capital Master Fund LTD ("Brio"), for a purchase price of \$550,000. The Note matures on February 6, 2016, and is payable in thirteen monthly installments of \$48,654, commencing in the sixth month post-closing. Brio had the right, however not the obligation, six months after closing, to convert all or any part of the outstanding Note into the Company's common stock at an initial conversion price of \$0.20 per share. After six months from closing, the conversion price had a one-time reset to the lower of \$0.20 or 90% of the average of the 3 lowest closing prices for the previous 10 trading days, subject to a floor of \$0.14 per share. The Company was allowed to force conversion if the Company's common stock trades at 250% greater than the conversion price for 20 consecutive trading days (see Note 12).

In addition to the Note, the Company issued a warrant to purchase up to 2,371,875 shares of the Company's common stock. The warrant is exercisable at \$0.25 per share, vests 6 months after the closing, and expires 5 years thereafter.

The Convertible Note contains an embedded conversion feature requiring bifurcation and liability treatment. The Company accounted for this conversion feature and the detachable warrants by allocating the proceeds from issuance of the convertible notes to the conversion feature and the warrants. These were based on a relative fair value and the conversion feature was valued by a third party.

To recognize the fair value of the warrants, the Company discounted the note and increased additional paid in capital. The fair value of the conversion feature was approximately \$178,000 at inception, the Company discounted the note and created a derivative liability, which is evaluated each quarter and adjusted for any change in value.

During the period, Brio converted \$500,000 of its outstanding loan into 2,500,000 shares of the Company's common stock. Based on the closing stock price of \$0.85 and \$1.03 per common share, the 2,500,000 shares were valued at approximately \$2,350,000 and the Company has recognized a loss on the extinguishment of debt of approximately \$210,000. Included in the loss in extinguishment was the fair value of the derivative liability at the date of conversion.

At March 31, 2015, \$132,500 was still outstanding under the original convertible note, with approximately \$70,000 of unamortized debt discount, resulting in a net carrying value of approximately \$63,000. A derivative liability of approximately \$470,000 was remaining related to the conversion feature at March 31, 2015 (see note 12).

9. Equity

On March 31, 2014, the Company entered into a Securities Purchase Agreement (the “SPA”) with Aracle SPF I, LLC (“Aracle”) pursuant to which Aracle and or other subscribed investors had the right to acquire up to 12 units (the “Units”), for \$50,000 per Unit, with each Unit consisting of 250,000 shares of common stock (the “Shares”) of the Company and 125,000 common stock purchase warrants (the “Warrants”). The Warrants were exercisable 6 months after issuance, had a term of 4 years, and had an exercise price of \$0.25 per warrant share. The SPA contained standard representations, warranties, and covenants. In addition, the SPA contained a price adjustment mechanism that requires the Company, with certain exceptions, to issue additional shares of common stock to the investor in the event the Company, within 12 months of the initial closing under the SPA, issue certain equity securities at a price per share less than \$0.20, provided, however, as long as the Company was listed on the NYSE MKT the total number of shares issuable under the foregoing adjustment provision may not exceed 19.9% of the Company’s outstanding shares of common stock on March 30, 2014. Further, in the event the Company was delisted from the NYSE MKT while Aracle owns at least 51% of the Shares issued to it under the SPA, the Company would be required to issue an additional 3,000,000 shares to Aracle, and the 12 month price adjustment period shall be extended to 36 months. The Company agreed to appoint two new members to the Company’s Board of Directors within 60 days of the initial closing, which new members are subject to the prior approval of Aracle. The Company granted Aracle piggyback registration rights with respect to the Shares and the shares of common stock underlying the Warrants.

Concurrently with entering into the SPA, the Company and Aracle conducted an initial closing thereunder, in which Aracle purchased 9.5 Units for \$475,000. The Company incurred certain expenses related to the SPA of approximately \$88,000, which were paid from the proceeds.

On April 16, 2014, the Company, Aracle and a second institutional investor (both companies referred to as “Investors”), entered into certain Securities Purchase Agreements (“SPA”) pursuant to which the Investors purchased 2.5 Units for \$125,000. The Company incurred certain expenses related to the SPA of approximately \$7,250, which were paid from the proceeds of this closing.

On January 8, 2015, the Company completed a Securities offering with 18 individuals who collectively have purchased a total of 200,000 shares of Preferred Stock from the Company for a total purchase price of \$2,000,000. The Company netted approximately \$1,960,000, with approximately \$1,000,000 to be used as working capital and the remaining \$1,000,000 for marketing, acquisitions, expansion and to further the operations of the Company. The Preferred Stock was designated by the Company on December 15, 2014 through the filing of a Certificate of Designation of Series A Convertible Preferred Stock with the Illinois Secretary of State. Each share of Preferred Stock is initially convertible, at the election of the holder, into 50 shares of the Company’s Common Stock. The foregoing conversion ratio is subject to standard adjustment mechanisms, as set forth in the Designation.

Holders of Series A convertible preferred stocks vote on a converted basis with the common stockholders on all matters to be brought to a vote of the stockholders. Each share of Series A convertible preferred stock can be

converted into 10,000,000 shares of common stock. Dividends are payable in kind at the Company's option at a rate of eight percent (8%) annually. Payments of annual dividends have not been declared by the Company's Board of Directors on the outstanding Series A shares because of losses sustained by the Company. As of March 21, 2014, preferred dividends in arrears amounted to approximately \$37,000 or approximately \$0.185 per share.

During the second quarter ended March 31, 2015, a total of 4,331,839 shares of common stock were issued, however no cash was received for these issuances.

1,224,119 shares of common stock were issued related to several cashless warrant conversions.

344,021 shares of common stock were issued to the Board of Directors for services. A portion of these were issued by the Company to settle approximately \$69,000 of accrued board fees from December 31, 2014.

263,669 shares of common stock were issued to employees of the Company who exercised their stock options on a cashless basis.

Brio converted \$500,000 of its outstanding loan into 2,500,000 shares of the Company's common stock. Based on the closing stock prices of \$0.85 and \$1.03 per common share, the 2,500,000 shares were valued at approximately \$2,350,000.

Stock Options

The Company has recognized compensation expense in the amount of approximately \$83,000 during the quarter ended March 31, 2015, related to the issuance of stock options.

10. Commitments and Contingencies

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.

The Company agreed to pay Sellers additional cash consideration of between \$550,000 and \$650,000 depending on the length of payments 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. The Company elected to pay the amount over two years. To date, the Company paid \$333,000 of the cash consideration noted above. The Company has approximately \$102,000, which is included in other current liabilities on the condensed consolidated balance sheet at March 31, 2015, for the liability. There was approximately \$17,000 and \$35,000 of interest recorded for the three and six month periods ended March 31, 2015 and approximately \$20,000 and \$46,000 of interest recorded for the three and six months periods ended March 31, 2014, respectively.

During 2013, the Company sold vehicles with a value of approximately \$225,000 and leased them back under a 30 month agreement at an interest rate of approximately 23%. At March 31, 2015, approximately \$45,000 is included in other current liabilities related to this transaction.

Lease

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

Rent expense was \$181,000 and \$386,000 and \$220,000 and \$457,000 for the three and six month periods ended March 31, 2015 and 2014, respectively. As of March 31, 2015, future minimum lease payments due under non-cancelable lease agreements having initial terms in excess of one year, including certain closed offices, totaled approximately \$800,000, as follows: fiscal 2015 - \$197,000, fiscal 2016 - \$323,000, fiscal 2017 - \$164,000, fiscal 2018 - \$89,000 and thereafter - \$27,000.

11. Segment Data

The Company provides the following distinctive services: (a) direct hire placement services, (b) temporary professional services staffing in the fields of information technology, engineering, and accounting, and (c) temporary light industrial staffing. Intersegment net service revenues are not significant. Revenues generated from the temporary professional services staffing 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 professional services or industrial staffing services within the contract staffing services sector for internal reporting purposes.

Unallocated corporate expenses primarily include, corporate legal expenses, consulting expenses, corporate payroll, audit fees, corporate rent and facility costs, board fees and interest expense.

| (In Thousands) | Three Months Ended | | Six Months Ended | |
|---|--------------------|----------|------------------|-----------|
| | March 31, | | March 31, | |
| | 2015 | 2014 | 2015 | 2014 |
| Direct Hire Placement Services | | | | |
| Revenue – net | \$ 1,482 | \$ 1,776 | \$ 2,932 | \$ 3,514 |
| Placement services gross margin | 100% | 100% | 100% | 100% |
| Operating (loss) income | \$ (216) | \$ 211 | \$ (396) | \$ 494 |
| Depreciation & amortization | 56 | 51 | 112 | 109 |
| Accounts receivable – net | 754 | 940 | 754 | 940 |
| Intangible assets – net | 168 | 287 | 168 | 287 |
| Goodwill | 24 | 24 | 24 | 24 |
| Total assets | \$ 2,905 | \$ 4,616 | \$ 2,905 | \$ 4,616 |
| Contract Staffing Services | | | | |
| Industrial services revenue – net | \$ 6,457 | 6,194 | \$ 12,984 | \$ 13,087 |
| Professional services revenue – net | 1,857 | 1,664 | 3,562 | 3,840 |
| Industrial services gross margin | 11.35% | 10.0% | 13.27% | 10.6% |
| Professional services gross margin | 30.35% | 31.6% | 32.00% | 31.6% |
| Operating (loss) income | \$ 225 | \$ (320) | \$ 737 | \$ (212) |
| Depreciation and amortization | 74 | 61 | 134 | 129 |
| Accounts receivable net – industrial services | 3,978 | 4,234 | 3,978 | 4,234 |
| Accounts receivable net – professional services | 860 | 830 | 860 | 830 |
| Intangible assets – net | 1,224 | 1,434 | 1,224 | 1,434 |
| Goodwill | 1,082 | 1,082 | 1,082 | 1,082 |
| Total assets | \$ 7,205 | \$ 5,748 | \$ 7,205 | \$ 5,748 |
| Unallocated Expenses | | | | |
| Corporate administrative expenses | \$ 252 | \$ 419 | \$ 651 | \$ 785 |
| Corporate facility expenses | 37 | 91 | 88 | 200 |
| Board related expenses | 225 | 20 | 252 | 43 |
| Total unallocated expenses | \$ 514 | \$ 530 | \$ 991 | \$ 1,028 |
| Consolidated | | | | |
| Revenue –net | \$ 9,796 | \$ 9,634 | \$ 19,478 | \$ 20,441 |
| Operating loss | (505) | (639) | (650) | (746) |

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| | | | | |
|-------------------------------------|-----------|-----------|-----------|-----------|
| Depreciation and amortization | 130 | 112 | 246 | 238 |
| Total accounts receivable – net | 5,592 | 6,004 | 5,592 | 6,004 |
| Intangible assets – net | 1,392 | 1,721 | 1,392 | 1,721 |
| Goodwill | 1,106 | 1,106 | 1,106 | 1,106 |
| Assets from continuing operations | 10,110 | 10,364 | 10,110 | 10,364 |
| Assets from discontinued operations | 0 | 229 | 0 | 229 |
| Total assets | \$ 10,110 | \$ 10,593 | \$ 10,110 | \$ 10,593 |

12. Subsequent Events

On May 5, 2015, Brio converted the remaining \$132,500 of its outstanding loan into 662,500 shares of the Company's common stock. Based on the closing stock price of \$0.78 per common share, the 662,500 shares will convert into approximately \$517,000 of equity and the Company will recognize a gain on the conversion on the derivative liability of approximately \$68,000 and a loss on extinguishment of debt of approximately \$25,000 during the quarter ended June 30, 2015.

As of May 5, 2015, the Company received approximately \$517,000 in net cash that was converted by Brio into 3,162,500 shares of the Company's common stock. Related to this transaction the Company recorded approximately \$3,086,000 in equity, \$2,218,500 in a derivative loss, \$235,000 extinguishment of debt and interest expense of \$115,500 over the past 12 months. In addition, Brio received a warrant to purchase 2,371,875 common shares at \$0.25 per common share.

On December 11, 2014, the Company entered into a Stock Exchange Agreement (the "SCRIBE Agreement") with Brittany M. Dewan as Trustee of the Derek E. Dewan Irrevocable Living Trust II dated the 27th of July, 2010, Brittany M. Dewan, individually, Allison Dewan, individually, Mary Menze, individually, and Alex Stuckey, individually (collectively, the "Scribe Shareholders"). The transaction was unanimously approved by written consent of the board of directors of the Company (the "Board") and the holders of a majority of the Company's outstanding stock. The Scribe transaction closed on April 1, 2015. Pursuant to the terms of the SCRIBE Agreement the Company acquired 100% of the outstanding stock of Scribe Solutions Inc., ("Scribe") from the Scribe Shareholders for 640,000 shares of Series A Preferred Stock (the "Preferred Stock") of the Company. In addition, the Company exchanged warrants to purchase up to 6,350,000 shares of the Company's common stock, for \$0.20 per share, with a term of 5 years (the "Warrants"), for Scribe warrants held by two individuals. The issuances of Preferred Stock and Warrants by the Company was effected in reliance on the exemptions from registration afforded by Section 4(a)(2) of the Securities Act of 1933, (the "Securities Act"), and Rule 506 of Regulation D promulgated thereunder.

Under the purchase method of accounting, the transaction was valued for accounting purposes at an estimated \$7.5 million, which was the estimated fair value of the Company at the date of acquisition. The estimate was based on the consideration paid of 640,000 preferred shares and the 6,350,000 warrants granted. The 640,000 preferred shares are valued at approximate \$6,400,000 and the 6,350,000 warrants are valued at approximately \$1,100,000. The Black-Scholes option pricing model was used to value the warrants based upon an expected stock price volatility of 81.4%, a 10 year expected life of the warrant and a risk free interest rate of approximately 1.5%.

The assets and liabilities of Scribe will be recorded at their respective fair values as of the closing date of the Scribe Agreement, and the following table summarizes these values based on the estimated balance sheet at April 1, 2015, the closing date.

The intangibles will be recorded, based on the Company's estimate of fair value, which are expected to consist primarily of customer lists with an estimated life of five to ten years and goodwill. Upon completion of an independent purchase price allocation and valuation, the allocation intangible assets will be adjusted accordingly.

| | | |
|----|-------|-----------------------|
| \$ | 843 | Assets Purchased |
| | 426 | Liabilities Assumed |
| | 417 | Net Assets Purchased |
| | 7,500 | Purchase Price |
| | | Intangible Asset from |
| \$ | 7,083 | Purchase |

The following unaudited pro forma combined financial information is based on the historical financial statements of the Company and Scribe, after giving effect to the Company's acquisition of Scribe. The notes to the unaudited pro forma financial information describe the reclassifications and adjustments to the financial information presented.

The unaudited pro forma combined balance sheet for the period ended March 31, 2015 and statement of operations for the periods ended March 31, 2015 and March 31, 2014 is presented as if the acquisition of Scribe had occurred on October 1, 2013 and were carried forward through each of the periods presented.

The allocation of the purchase price used in the unaudited pro forma combined financial information is based upon the respective fair values of the assets and liabilities of Scribe as of the date on which the SCRIBE Agreement was signed.

The unaudited pro forma combined financial information is not intended to represent or be indicative of the Company's consolidated results of operations or financial position that the Company would have reported had the Scribe acquisition been completed as of the dates presented, and should not be taken as a representation of the Company's future consolidated results of operation or financial position.

The unaudited pro forma combined financial information should be read in conjunction with the historical consolidated financial statements and accompanying notes of the Company included in the annual report on form 10-K for the year ended September 30, 2014.

GENERAL EMPLOYMENT ENTERPRISES, INC.

UNAUDITED PRO FORMA COMBINED BALANCE SHEET

AS OF MARCH 31, 2015

(UNAUDITED)

(in thousands)

| | GENERAL EMPLOYMENT | SCRIBE | PROFORMA ADJUSTMENTS | PROFORMA |
|-----------------------------------|-----------------------|--------|-------------------------|----------|
| ASSETS | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | \$ 888 | \$ 221 | | \$ 1,109 |
| Accounts receivable | 5,592 | 602 | | 6,194 |
| Other current assets | 736 | 16 | | 752 |
| Notes receivable | - | - | | - |
| Assets of discontinued operations | - | - | | - |
| Total current assets | 7,216 | 839 | | 8,055 |

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| | | | | |
|---|------------------|---------------|-----------|------------------|
| Property and equipment, net | 396 | 3 | | 399 |
| Goodwill | 1,106 | - | 5,951 (4) | 7,057 |
| Intangible assets, net | 1,392 | - | 1,132 (3) | 2,524 |
| Other assets | - | 1 | | 1 |
| TOTAL ASSETS | \$ 10,110 | \$ 843 | | \$ 18,036 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| CURRENT LIABILITIES: | | | | |
| Short-term debt | \$ 3,380 | \$ 426 | | \$ 3,806 |
| Accounts payable | 483 | - | | 483 |
| Accrued compensation | 1,664 | - | | 1,664 |
| Convertible note payable - current portion, net of discount | 63 | - | | 63 |
| Derivative liability | 470 | - | | 470 |
| Other current liabilities | 732 | - | | 732 |
| Total current liabilities | 6,792 | 426 | | 7,218 |
| Commitments and contingencies | | | | |
| SHAREHOLDERS' EQUITY | | | | |
| Preferred stock; no par value; authorized - 20,000 shares; issued and outstanding - 200 shares | 1,961 | - | 6,400 (1) | 8,361 |
| Common stock, no-par value; authorized - 200,000 shares; issued and outstanding - 30,232 shares | - | - | - | - |
| Additional paid in capital | 14,402 | 12 | 1,088 (2) | 15,502 |
| (Accumulated deficit) retained earnings | (13,045) | 405 | (405) (2) | (13,045) |
| Total shareholders' equity | 3,318 | 417 | | 10,818 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 10,110 | \$ 843 | | \$ 18,036 |

GENERAL EMPLOYMENT ENTERPRISES, INC.
UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED, MARCH 31, 2015
(UNAUDITED)

(in thousands, except for per share data)

| | GENERAL EMPLOYMENT | SCRIBE | PROFORMA ADJUSTMENTS | PROFORMA |
|--|-------------------------------|---------------|---------------------------------|-------------------|
| NET REVENUES: | | | | |
| Contract staffing services | \$ 16,546 | \$ 1,918 | | \$ 18,464 |
| Direct hire placement services | 2,932 | - | | 2,932 |
| | 19,478 | 1,918 | | 21,396 |
| Cost of contract services | 13,685 | 1,008 | | 14,693 |
| Selling, general and administrative expenses | 6,277 | 521 | | 6,798 |
| Amortization of intangible assets | 166 | - | | 166 |
| (LOSS) INCOME FROM OPERATIONS | (650) | 389 | | (261) |
| Change in fair value of derivative liability | (2,319) | - | | (2,319) |
| Interest expense | (273) | - | | (273) |
| Loss on extinguishment of debt | (210) | - | | (210) |
| (LOSS) INCOME BEFORE INCOME TAX PROVISION | \$ (3,452) | \$ 389 | | \$ (3,063) |
| Provision for income tax | - | - | | - |
| NET (LOSS) INCOME | \$ (3,452) | \$ 389 | | \$ (3,063) |
| PREFERRED STOCK DIVIDEND | (37) | - | | (37) |
| NET (LOSS) INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS | \$ (3,489) | \$ 389 | | \$ (3,100) |
| BASIC & DILUTED LOSS PER SHARE | (0.13) | | | (0.11) |
| WEIGHTED AVERAGE NUMBER OF SHARES - BASIC & DILUTED | 27,204 | | | 27,204 |



GENERAL EMPLOYMENT ENTERPRISES, INC.
UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED, MARCH 31, 2015
(UNAUDITED)

(in thousands, except for per share data)

| | GENERAL EMPLOYMENT | SCRIBE | PROFORMA ADJUSTMENTS | PROFORMA |
|--|-------------------------------|---------------|---------------------------------|-----------------|
| NET REVENUES: | | | | |
| Contract staffing services | \$ 8,314 | \$ 955 | | \$ 9,269 |
| Direct hire placement services | 1,482 | - | | 1,482 |
| | 9,796 | 955 | | 10,751 |
| Cost of contract services | 7,017 | 463 | | 7,480 |
| Selling, general and administrative expenses | 3,203 | 299 | | 3,502 |
| Amortization of intangible assets | 81 | - | | 81 |
| (LOSS) INCOME FROM OPERATIONS | (505) | 193 | | (312) |
| Change in fair value of derivative liability | 796 | - | | 796 |
| Interest expense | (126) | - | | (126) |
| Loss on extinguishment of debt | (210) | - | | (210) |
| (LOSS) INCOME BEFORE INCOME TAX PROVISION | \$ (45) | \$ 193 | | \$ 148 |
| Provision for income tax | - | - | | - |
| NET (LOSS) INCOME | \$ (45) | \$ 193 | | \$ 148 |
| PREFERRED STOCK DIVIDEND | (37) | - | | (37) |
| NET (LOSS) INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS | \$ (82) | \$ 193 | | \$ 111 |
| BASIC & DILUTED LOSS PER SHARE | (0.00) | | |) (0.00) |

**WEIGHTED AVERAGE
NUMBER OF SHARES -
BASIC & DILUTED**

28,552

28,552

23

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GENERAL EMPLOYMENT ENTERPRISES, INC.
UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED, MARCH 31, 2014
(UNAUDITED)

(in thousands, except for per share data)

| | GENERAL EMPLOYMENT | SCRIBE | PROFORMA ADJUSTMENTS | PROFORMA |
|--|-------------------------------|---------------|---------------------------------|-----------------|
| NET REVENUES: | | | | |
| Contract staffing services | \$ 16,927 | \$ 1,823 | | \$ 18,750 |
| Direct hire placement services | 3,514 | - | | 3,514 |
| | 20,441 | 1,823 | | 22,264 |
| Cost of contract services | 14,325 | 1,037 | | 15,362 |
| Selling, general and administrative expenses | 6,699 | 281 | | 6,980 |
| Amortization of intangible assets | 163 | - | | 163 |
| (LOSS) INCOME FROM OPERATIONS | (746) | 505 | | (241) |
| Change in fair value of derivative liability | - | - | | - |
| Interest expense | (208) | - | | (208) |
| Loss on extinguishment of debt | - | - | | - |
| (LOSS) INCOME BEFORE INCOME TAX PROVISION | \$ (954) | \$ 505 | | \$ (449) |
| Provision for income tax | - | - | | - |
| NET (LOSS) INCOME | \$ (954) | \$ 505 | | \$ (449) |
| PREFERRED STOCK DIVIDEND | - | - | | (37) |
| NET (LOSS) INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS | \$ (954) | \$ 505 | | \$ (486) |
| BASIC & DILUTED LOSS PER SHARE | (0.04) | | | (0.02) |

**WEIGHTED AVERAGE
NUMBER OF SHARES -
BASIC & DILUTED**

22,847

22,847

24

—

GENERAL EMPLOYMENT ENTERPRISES, INC.
UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED, MARCH 31, 2014
(UNAUDITED)

(in thousands, except for per share data)

| | GENERAL EMPLOYMENT | SCRIBE | PROFORMA ADJUSTMENTS | PROFORMA |
|--|-------------------------------|---------------|---------------------------------|-----------------|
| NET REVENUES: | | | | |
| Contract staffing services | \$ 7,858 | \$ 915 | | \$ 8,773 |
| Direct hire placement services | 1,776 | - | | 1,776 |
| | 9,634 | 915 | | 10,549 |
| Cost of contract services | 6,713 | 520 | | 7,233 |
| Selling, general and administrative expenses | 3,478 | 155 | | 3,633 |
| Amortization of intangible assets | 82 | - | | 82 |
| (LOSS) INCOME FROM OPERATIONS | (639) | 240 | | (399) |
| Change in fair value of derivative liability | - | - | | - |
| Interest expense | (88) | - | | (88) |
| Loss on extinguishment of debt | - | - | | - |
| (LOSS) INCOME BEFORE INCOME TAX PROVISION | \$ (727) | \$ 240 | | \$ (487) |
| Provision for income tax | - | - | | - |
| NET (LOSS) INCOME | \$ (727) | \$ 240 | | \$ (487) |
| PREFERRED STOCK DIVIDEND | - | - | | (37) |
| NET (LOSS) INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS | \$ (727) | \$ 240 | | \$ (524) |
| BASIC & DILUTED LOSS PER SHARE | (0.03) | | | (0.02) |

**WEIGHTED AVERAGE
NUMBER OF SHARES -
BASIC & DILUTED**

22,895

22,895

PRO FORMA ADJUSTMENTS

(1) Represents the issuance of 640,000 shares of preferred stock for acquisition.

(2) Elimination of Scribe's Capital Stock and retained earnings as part of purchase accounting and the estimated value of the 6,350,000 warrants issued in connection with the purchase.

Represents the management estimated intangible asset as of closing date, to be verified post acquisition with full

(3) purchase price allocation.

Represents the management estimated goodwill as of closing date, to be verified post acquisition with full

(4) purchase price allocation.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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, and (b) 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.

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

Results of Operations – Three Months Ended March 31, 2015 Compared to the Three Months Ended March 31, 2014

Results of Operations

Net Revenues

Consolidated net revenues are comprised of the following:

| | Three Months Ended March 31, | | | |
|-------------------|---|-------------|------------------|-----------------|
| (In thousands) | 2015 | 2014 | \$ change | % change |

| | | | | | | | |
|--------------------------------|----|-------|----|-------|----|-------|------|
| Placement Services | \$ | 1,482 | \$ | 1,776 | \$ | (294) | (17) |
| Professional Contract Services | | 1,857 | | 1,664 | | 193 | 12 |
| Industrial Contract Services | | 6,457 | | 6,194 | | 263 | 4 |
| Consolidated Net Revenues | \$ | 9,796 | \$ | 9,634 | \$ | 162 | 2% |

Consolidated net revenues increased approximately \$162,000 or 2% compared with the same period last year. The Company closed two offices in the industrial contract services division, however this was done as the revenue was determined to be unprofitable and these changes increased the overall profitability of the division and management has focused on revenue growth in the division. Overall the professional services division had less experienced recruiters working during the period ended March 31, 2015 compared to the prior year, which resulted in the overall decrease in placement revenue. As of October 1, 2014 management changed the professional service compensation plan to increase professional contract services revenue. Management has taken several actions during the course of the year to increase revenue and management expects to see results during the remainder of the year.

Cost of Contract Services

Cost of services includes wages and the related payroll taxes and employee benefits of the Company's employees while they work on contract assignments. Cost of contract services for the three month period ended March 31, 2015 increased by approximately \$304,000 to approximately \$7,017,000 compared with the prior period of approximately \$6,713,000. Cost of contract services, as a percentage of contract revenue, for the three month period ended March 31, 2015 increased approximately 2% to 72% compared with the prior period of approximately 70%. The change in the gross margin is related to several factors, including the significant decrease in placement services revenue and increase in the industrial contract services revenue, which historically is a lower gross margin. In addition, there was a significant decrease in our workers compensation rates for the state of Ohio, as the rate was decreased by approximately 25% as of July 1, 2014.

Gross Profit percentage by segment:

| Gross Profit Margin % | Three Months Ended March 31, 2015 | Three Months Ended March 31, 2014 |
|------------------------------------|--|--|
| Direct hire placement services | 100% | 100% |
| Industrial contract services | 11.35% | 10.0% |
| Professional contract services | 30.35% | 31.6% |
| Combined Gross Profit Margin % (1) | 28.37% | 30.3% |

- (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 three months ended March 31, 2015 decreased by approximately \$275,000 or 8% compared to the same period last year. The decrease was primarily related to the decrease in sales and management's efforts to reduce costs and eliminate unnecessary expenses. Overall expenses are expected to stabilize during the fiscal year 2015 and slightly decrease as the Company is able to capitalize on the consolidation of the acquisitions.

Interest Expense

Interest expense for the three months ended March 31, 2015, increased \$38,000 or 43% compared with the same period last year primarily as a result of higher average borrowings.

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.

Results of Operations – Six Months Ended March 31, 2015 Compared to the Six Months Ended March 31, 2014

Results of Operations

Net Revenues

Consolidated net revenues are comprised of the following:

**Six Months Ended
March 31,**

| (In thousands) | 2015 | 2014 | \$ change | % change |
|--------------------------------|-------------|-------------|------------------|-----------------|
| Placement Services | \$ 2,932 | \$ 3,514 | \$ (582) | (17) |
| Professional Contract Services | 3,562 | 3,840 | (278) | (7) |
| Industrial Contract Services | 12,984 | 13,087 | (103) | (1) |
| Consolidated Net Revenues | \$ 19,478 | \$ 20,441 | \$ (963) | (5) |

Consolidated net revenues decreased approximately \$963,000 or 5% compared with the same period last year. The Company closed two offices in the industrial contract services division, however this was done as the revenue was determined to be unprofitable and these changes increased the overall profitability of the division. Overall the professional services division had less experienced recruiters working during the period ended March 31, 2015 compared to the prior year, which resulted in the overall decrease in revenue. Management has taken significant action during the course of the year to increase the number of experienced recruiters and improve the profitability of both divisions.

Cost of Contract Services

Cost of services includes wages and the related payroll taxes and employee benefits of the Company's employees while they work on contract assignments. Cost of contract services for the six month period ended March 31, 2015 decreased by approximately 5% to approximately \$13,685,000 compared with the prior period of approximately \$14,325,000. Cost of contract services, as a percentage of contract revenue, for the six month period ended March 31, 2015 remained approximately 70% compared with the prior period. The change in the gross margin is related to several factors, including the significant decrease in placement services revenue. The overall decrease in costs of contract services was the result of the decrease in contract revenue. In addition, there was a significant decrease in our workers compensation rates for the state of Ohio, as the rate was decreased by approximately 25% as of July 1, 2014.

Gross Profit percentage by segment:

| Gross Profit Margin % | Six Months Ended March 31, 2015 | Six Months Ended March 31, 2014 |
|------------------------------------|--|--|
| Direct hire placement services | 100% | 100% |
| Industrial contract services | 13.3% | 10.6% |
| Professional contract services | 32.0% | 31.6% |
| Combined Gross Profit Margin % (1) | 29.7% | 29.9% |

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

Selling, General and Administrative Expenses

Selling, general and administrative expenses include the following categories:

- Compensation 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 six months ended March 31, 2015 decreased by approximately \$422,000 or 6% compared to the same period last year. The decrease was primarily related to the decrease in sales and management's efforts to reduce costs and eliminate unnecessary expenses. Overall expenses are expected to stabilize during the fiscal year 2015 and slightly decrease as the Company is able to capitalize on the consolidation of the acquisitions.

Interest Expense

Interest expense for the six months ended March 31, 2015, increased \$65,000, or 31% compared with the same period last year primarily as a result of higher average borrowings.

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 six months ended March 31, 2015 | For the six months ended March 31, 2014 |
|--|--|
| \$ (1,713) | \$ (152) |

| | | | | |
|---|----|-------|----|-------|
| Cash flows used in operating activities | | | | |
| Cash flows used in investing activities | \$ | (171) | \$ | (157) |
| Cash flows provided by financing activities | \$ | 2,604 | \$ | 442 |

As of March 31, 2015, the Company had cash and cash equivalents of approximately \$888,000, which was an increase of approximately \$720,000 from approximately \$168,000 at September 30, 2014. Working capital at March 31, 2015 was approximately \$424,000, as compared to negative net working capital of approximately \$909,000 for September 30, 2014. Shareholders' equity at March 31, 2015 was approximately \$3,318,000.

Net cash used in operating activities for the six months ended March 31, 2015 and 2014 was (\$1,713,000) and (\$152,000), respectively. The fluctuation is due to the increase in account receivable, acceleration of accounts payable payments to avoid additional late fee expenses, net losses and payments of certain compensation related accruals.

Net cash used in investing activities for the six months ended March 31, 2015 and 2014 was \$171,000 and \$157,000 respectively. These uses related primarily to acquisition payments and purchasing of fixed assets.

Net cash flow provided by financing activities for the six months ended March 31, 2015 was \$2,604,000 compared to \$442,000 in the six months ended March 31, 2014. Fluctuations in financing activities are attributable to the level of borrowings and financing.

All of the Company's office facilities are leased. As of March 31, 2015, future minimum lease payments under non-cancelable lease commitments having initial terms in excess of one year, including closed offices, totaled approximately \$800,000.

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.

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 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. During the year ended September 30, 2014, the Company paid approximately \$225,000 to the Sellers, \$150,000 of principle and approximately \$75,000 of interest. The Company has approximately \$102,000 accrued at March 31, 2015 related to the remaining liability.

On September 27, 2013, the Company ("Borrower") entered into agreements with ACF FINCO I LP (successor-in-interest to Keltic Financial Partners II, LP) ("ACF") ("Lender"), that 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%), with the interest paid on a monthly basis. At March 31, 2015 and 2014 the interest rate was 6.5%. Loan advances pursuant to the Note are based on the accounts receivable balance and other assets. The Company incurred certain cash expense and commitment fees related to obtaining the agreement of approximately \$170,000, which has been paid. 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. On April 21, 2014, the Company entered into the First Amendment and Waiver to the Loan and Security Agreement with ACF to adjust the covenants. On December 3, 2014, the Company entered into a Second Amendment and Waiver to the Loan and Security Agreement with ACF. On April 1, 2015 the Company entered into a third Amendment and Waiver to the Loan and Security Agreement with ACF to adjust the future covenants as outlined below and update the overall document to reflect changes to the business. As of the date of this report, the Company was in compliance with all such covenants or had received waivers related thereto.

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

The Company must maintain the following EBITDA:

- (a) The three (3) consecutive calendar month period ending on December 31, 2014, to be a negative number exceeding negative Two Hundred Fifty Thousand and 00/100 Dollars (\$250,000);
- (b) The six (6) consecutive calendar month period ending on March 31, 2015, to be a negative number exceeding negative Five Hundred Thousand and 00/100 Dollars (\$500,000);
- (c) The nine (9) consecutive calendar month period ending on June 30, 2015, to be a negative number exceeding negative Four Hundred Sixteen Thousand and 00/100 Dollars (\$416,000);
- (d) The twelve (12) consecutive calendar month period ending on September 30, 2015, to be a negative number exceeding negative Two Hundred Forty Thousand Five Hundred and 00/100 Dollars (\$240,500); and
- (e) For any period commencing on or after October 1, 2015, no less than such amounts as are established by Lender for such period in Lender's permitted discretion based on the annual financial projections including such period delivered by Borrower.

As of March 31, 2015, the Company was in compliance with the EBITDA covenant and all other administrative covenants. At March 31, 2015, there was approximately \$800,000 available on the line of credit. The interest expense related to the lines of credit for the three and six months ended March 31, 2015 and 2014 approximated \$122,000 and \$201,000, and \$68,000 and \$141,000, respectively.

On March 31, 2014, the Company entered into a Securities Purchase Agreement (the “SPA”) with Aracle SPF I, LLC (“Aracle”) pursuant to which Aracle has the right to acquire up to 12 units (the “Units”), for \$50,000 per Unit, with each Unit consisting of 250,000 shares of common stock of the Company and 125,000 common stock purchase warrants. The warrants are exercisable 6 months after issuance, have a term of 4 years, and have an exercise price of \$0.25 per warrant share. The SPA contains standard representations, warranties, and covenants. In addition, the SPA contains a price adjustment mechanism that requires the Company, with certain exceptions, to issue additional shares of common stock to the investor in the event the Company, within 12 months of the initial closing under the SPA, issues certain equity securities at a price per share less than \$0.20, provided, however, as long as the Company is listed on the NYSE MKT the total number of shares issuable under the foregoing adjustment provision may not exceed 19.9% of the Company’s outstanding shares of common stock on March 30, 2014. Further, in the event the Company is delisted from the NYSE MKT while Aracle owns at least 51% of the shares issued to it under the SPA, the Company shall issue an additional 3,000,000 shares to Aracle, and the 12 month price adjustment period shall be extended to 36 months. The Company agreed to appoint two new members to the Company’s Board of Directors within 60 days of the initial closing, which new members are subject to the prior approval of Aracle. The Company granted Aracle piggyback registration rights with respect to the shares and the shares of common stock underlying the warrants. The warrants do not include any price protection clause.

Concurrent with the execution of the SPA, the Company and Aracle conducted an initial closing thereunder, in which Aracle purchased 9.5 Units for \$475,000.

On April 16, 2014, the Company, Aracle and a second institutional investor entered into certain Securities Purchase Agreements (“SPA”) pursuant to which the investors purchased 2.5 Units for \$125,000.

The Company incurred certain expenses related to the SPA’s and the closings thereunder of approximately \$130,000, which were paid from the proceeds for net proceeds of approximately \$470,000.

On August 7, 2014, the Company issued a Convertible Note (the “Note”) with an original principal balance of \$632,500 to Brio Capital Master Fund LTD (“Brio”), for a purchase price of \$550,000. The Note matures on February 6, 2016, and is payable in thirteen monthly installments of \$48,654, commencing in the sixth month post-closing. Brio has the right, however not the obligation, six months after closing, to convert all or any part of the outstanding Note into the Company’s common stock at an initial conversion price of \$0.20 per share. After six months from closing, the conversion price will have a one-time reset to the lower of \$0.20 or 90% of the average of the 3 lowest closing prices for the previous 10 trading days, subject to a floor of \$0.14 per share. The Company can force conversion if the Company’s common stock trades at 250% greater than the conversion price for 20 consecutive trading days.

During the six months ended, March 31, 2015, Brio converted \$500,000 of its outstanding loan into 2,500,000 shares of the Company's common stock. Based on the closing stock prices of \$0.85 and \$1.03 per common share, the 2,500,000 shares were valued at approximately \$2,350,000 and the Company has recognized a loss on the extinguishment of debt of approximately \$210,000. Included in the loss in extinguishment was the fair value of the derivative liability at the date of conversion.

At March 31, 2015, \$132,500 was still outstanding under the original convertible note, with approximately \$70,000 of unamortized debt discount, resulting in a net carrying value of approximately \$63,000. A derivative liability of approximately \$470,000 was remaining related to the conversion feature at March 31, 2015 (see note 12).

On May 5, 2015, Brio converted the remaining \$132,500 of its outstanding loan into 662,500 shares of the Company's common stock. Based on the closing stock price of \$0.78 per common share, the 662,500 shares will convert into approximately \$517,000 of equity and the Company will recognize a gain on the conversion on the derivative liability of approximately \$68,000 and a loss on extinguishment of debt of approximately 25,000 during the quarter ended June 30, 2015.

On January 8, 2015, the Company completed a Securities offering with 18 individuals who collectively have purchased a total of 200,000 shares of Preferred Stock from the Company for a total purchase price of \$2,000,000. The Company netted approximately \$1,960,000, with approximately \$1,000,000 to be used as working capital and the remaining \$1,000,000 for marketing, acquisitions, expansion and to further the operations of the Company. The Preferred Stock was designated by the Company on December 15, 2014 through the filing of a Certificate of Designation of Series A Convertible Preferred Stock with the Illinois Secretary of State. Each share of Preferred Stock is initially convertible, at the election of the holder, into 50 shares of the Company's Common Stock. The foregoing conversion ratio is subject to standard adjustment mechanisms, as set forth in the Designation.

Holders of Series A convertible preferred stocks vote on a converted basis with the common stockholders on all matters to be brought to a vote of the stockholders. Each share of Series A convertible preferred stock can be converted into 10,000,000 shares of common stock. Dividends are payable in kind at the Company's option at a rate of eight percent annually. Payments of annual dividends have not been declared by the Company's Board of Directors on the outstanding Series A shares because of losses sustained by the Company. As of March 31, 2015, preferred dividends in arrears amounted to approximately \$37,000 or approximately \$0.185 per share.

On April 1, 2015, the Company completed an acquisition of Scribe. No cash was used for the purchase of Scribe and Scribe has positive working capital and management does not believe that there will be any negative impact to cash flow from the acquisition.

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, the preferred offering and the availability under the ACF facility, the Company will have sufficient liquidity for the next 12 months.

Off-Balance Sheet Arrangements

As of March 31, 2015, there were no transactions, agreements or other contractual arrangements to which an unconsolidated entity was a party, under which the Company (a) had any direct or contingent obligation under a guarantee contract, derivative instrument or variable interest in the unconsolidated entity, or (b) had a retained or contingent interest in assets transferred to the unconsolidated entity.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.



**Item 4.
Controls
and
Procedures.**

Disclosure Controls and Procedures

As of March 31, 2015, the Company's management evaluated, with the participation of its principal executive officer and its principal financial officer, the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act"). Based on that evaluation, the Company's principal executive officer and its principal financial officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2015.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting or in any other factors that could significantly affect these controls, during the Company's second quarter ended March 31, 2015, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION.

Item 1. Legal Proceedings.

As of March 31, 2015, there were no material legal proceedings pending against the Company.

Item 1A. Risk Factors.

Not required.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

A total of 4,331,839 shares of common stock were issued, however no cash was received for these issuances.

1,224,119 shares of common stock were issued related to Aracle cashless warrant conversions.

344,021 shares of common stock were issued to the Board of Directors for services. A portion of these were issued by the Company to settle approximately \$69,000 of accrued board fees from December 31, 2014.

263,669 shares of common stock were issued to employees of the Company who exercised their stock options on a cashless basis.

Brio converted \$500,000 of its outstanding loan into 2,500,000 shares of the Company's common stock.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable

Item 5. Other Information.

None.

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Item 6. Exhibits

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

| No. | Description of Exhibit |
|------------|---|
| 3.01 | Articles of Incorporation and amendments thereto. Incorporated by reference to Exhibit 3 to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 1996, Commission File No. 1-05707. |
| 3.02 | Amended and Restated Articles of Incorporation. Incorporated by reference to Exhibit 3(i) to the Company's Form 8-K filed with the Commission on December 6, 2013. |
| 3.03 | By-Laws of General Employment Enterprises, Inc., as amended June 30, 2009. Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated March 30, 2009, Commission File No. 1-05707 |
| 3.04 | Certificate of designation of series a convertible preferred stock of General Employment Enterprises, Inc., incorporated by reference to Exhibit 3.04 of Form 10-K filed on December 22, 2014 |
| 31.01 | Certifications of the principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act. |
| 31.02 | Certifications of the principal financial officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act. |
| 32.01 | Certifications of the principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act and Section 1350 of Title 18 of the United States Code. |
| 32.02 | Certifications of the principal financial officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act and Section 1350 of Title 18 of the United States Code. |
| 101.INS | Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |



SIGNATURES

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

**GENERAL EMPLOYMENT
ENTERPRISES, INC.**

(Registrant)

Date : May 15, 2015

By: */s/ Derek Dewan*

Derek Dewan

Chief Executive Officer

(Principal Executive Officer)

By: */s/ Andrew J. Norstrud*

Andrew J. Norstrud

Chief Financial Officer

(Principal Financial and Accounting
Officer)